



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

21.6.4

SEPTEMBER 3, 2024

## EFFECTIVE DATE

(10-01-2024)

## PURPOSE

- (1) This transmits a revised IRM 21.6.4, Individual Tax Returns, Tax Computation / Accounting Period Changes.

## MATERIAL CHANGES

- (1) IRM 21.6.4.3 Updated language for TAS in paragraph 4 to match the approved TAS standard language for IRMs.
- (2) IRM 21.6.4.4.1.6.1 (IPU 24U0310 issued 02-29-2024) Added link to Instructions for Form 8283, Noncash Charitable Contribution in paragraph 1 for clarification on specific allowable donations.
- (3) IRM 21.6.4.4.2 Updated standard deduction amounts for tax year 2024.
- (4) IRM 21.6.4.4.7 Added that if taxpayer receives Form 1099-S, Proceeds From Real Estate Transactions, they must report on Form 8949 even if the gain is excluded.
- (5) IRM 21.6.4.4.8 Added amount of wages paid to household employee for tax year 2024.
- (6) IRM 21.6.4.4.8.5 (IPU 23U1051 issued 10-25-2023) Updated paragraph 2, reference numbers 907/007 to show correct line numbers for tax year 2020 and later.
- (7) IRM 21.6.4.4.8.5 (IPU 24U0310 issued 02-29-2024) Added note after chart in paragraph 2 to use the REQ54 Tool when xMend cannot be used.
- (8) IRM 21.6.4.4.8.5 Updated income amount for household employees subject to self-employment tax for 2024.
- (9) IRM 21.6.4.4.8.5.3 (IPU 24U0310 issued 02-29-2024) Added note after chart in paragraph 5 to use the REQ54 Tool when xMend cannot be used.
- (10) IRM 21.6.4.4.8.10 (IPU 24U0310 issued 02-29-2024) Added scenario when Schedule H Part III and Part IV are both blank in paragraph 1 and added link in paragraph 4 to IRM 21.6.4.4.8(8).
- (11) IRM 21.6.4.4.9 Added base years for averaging Schedule J income in tax year 2024.
- (12) IRM 21.6.4.4.10 (IPU 24U0310 issued 02-29-2024) Updated paragraph 6 with reference to Pub. 929 since it is no longer used.
- (13) IRM 21.6.4.4.10 Added unearned income amounts for children for Form 8615 for tax year 2024 and removed references to tax year 2018 and 2019.
- (14) IRM 21.6.4.4.10.2 Added unearned income amounts for children for Form 8615 for tax year 2024.
- (15) IRM 21.6.4.4.10.3 Added unearned income amounts for children for Form 8615 for tax year 2024.
- (16) IRM 21.6.4.4.11 Added amount of child's gross income for Form 8814 for tax year 2024.
- (17) IRM 21.6.4.4.12 Updated amounts for 2024.

- (18) IRM 21.6.4.4.14 - Removed references to the short and long form Schedule SE since they were for tax year 2019 and prior.
- (19) IRM 21.6.4.4.14.2 Added link to IRM 3.11.6.14.2.4.2, Self-Employment (SE) Tax (Line 10), to reference when no reply is received to request for Schedule SE and added self-employment limitation for tax year 2024.
- (20) IRM 21.6.4.4.14.4 (IPU 24U0544 issued 04-22-2024) Added information about SSA timely filing.
- (21) IRM 21.6.4.4.14.4 (IPU 24U0863 issued 07-23-2024) Added If/Then chart with specific directions when there is an IRS and SSA discrepancy on self-employment income.
- (22) IRM 21.6.4.4.14.4 Removed that employees can give information verbally if there is no open account issue.
- (23) IRM 21.6.4.4.14.5.1 Added tip income limitation for tax year 2024.
- (24) IRM 21.6.4.4.15.5 Added social security income limitation for tax year 2024.
- (25) IRM 21.6.4.4.17.4.1 Added IRC 6213(b)(1) and (g)(2)(N) as the legal basis for making an assessment,
- (26) Various editorial updates throughout the IRM to update grammar, spelling, plain language, tax years, money amounts, weblinks, etc. This includes updates to organizational title Wage and Investment to Taxpayer Services where applicable.

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

IRM 21.6.4, Tax Computation / Accounting Period Changes, dated August 28, 2023 (effective Oct. 2, 2023), is superseded. This incorporates IRM Procedural Updates (IPU): IPU 23U1051 (effective 10-25-2023), IPU 24U0310 (effective 02-29-2024), IPU 24U0544 (effective 04-22-2024), and IPU 24U0863 (effective 07-23-2024).

#### **AUDIENCE**

Employees in Customer Assistance, Relationships and Education (CARE), Small Business/Self-Employed (SB/SE), and Taxpayer Services (TS) who respond to taxpayer inquiries and perform account adjustments related to tax computation.

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Taxpayer Services Division

21.6.4

Tax Computation / Accounting Period Changes

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21.6.4.1  
(10-01-2019)  
**Program Scope and Objectives**

- (1) **Purpose:** This IRM provides information on computing tax, inclusions in tax, and determining deductions allowed before the tax is computed. The following subjects are covered in this chapter:

- Itemized Deductions
- Standard Deductions
- Tax Computation
- Capital Gains
- Sale of Home
- Schedule H, Household Employment Taxes
- Farmers and Fishermen
- Tax on Children
- Parents Election to Report Child's Income
- Alternative Minimum Tax
- Self-Employment Income and Tax
- Misclassified Workers
- Accounting Period Changes
- First-Time Homebuyer Credit Recapture
- Additional Medicare Tax
- Net Investment Income Tax
- Shared Responsibility Provision

For other types of taxes not covered in this IRM, see the *Instructions for Form 1040 (and Form 1040-SR)*.

- (2) **Audience:** The primary users of this IRM are all IRS employees in Business Operating Divisions (BODs) who are in contact with taxpayers by telephone, correspondence, or in person.
- (3) **Policy Owner:** The Director of Accounts Management.
- (4) **Program Owner:** Accounts Management, Policy and Procedures IMF (PPI).
- (5) **Primary Stakeholders:** The primary stakeholders are organizations Accounts Management collaborates with; for example, Return Integrity & Compliance Systems (RICS), Compliance and Submission Processing.
- (6) **Program Goals:** Program goals for this type of work are included in the *FY2024 Program Letter and Operating Guidelines* as well as IRM 1.4.16, Accounts Management Guide for Managers.

21.6.4.1.1  
(05-15-2017)  
**Background**

- (1) Employees in the Accounts Management (AM) organization respond to taxpayer inquiries and phone calls as well as process claims and other internal adjustment requests.

21.6.4.1.2  
(05-15-2017)  
**Authority**

- (1) Refer to IRM 1.2.1, Servicewide Policy Statements, for information.
- (2) Authority granted by the United States Code, Title 26, Internal Revenue Code, Subtitle A, Income Taxes.

21.6.4.1.3  
(10-01-2021)  
**Roles and Responsibilities**

- (1) The Accounts Management Director oversees the guidance provided to employees.
- (2) A tax analyst in Accounts Management, Policy and Procedures, provides the content of this IRM.

- (3) Managers and leads ensure employees follow the guidance provided in this IRM.
- (4) Employees resolve taxpayers' tax issues following procedures in this IRM.

21.6.4.1.4  
(10-01-2021)  
**Program Management and Review**

- (1) **Program Reports:** The program reports provided in this IRM are for identification purposes for the Accounts Management Contact Representatives (CRs) and Tax Examiners (TEs). For reports concerning quality, inventory, aged listing, refer to IRM 1.4.16, Accounts Management Guide for Managers, for Accounts Management managers. You can also view aged listings by accessing Control Data Analysis on the Control-D/Web Access server, which has a login program control.
- (2) **Program Effectiveness:** Program effectiveness is measured and controlled through managerial and quality reviews.

21.6.4.1.5  
(10-01-2021)  
**Program Controls**

- (1) Goals, measures and operating guidelines are listed in the yearly Program Letter. Quality data and guidelines for measurement is referenced in IRM 21.10.1, Embedded Quality (EQ) Program for Accounts Management, Campus Compliance, Field Assistance, Tax Exempt/Government Entities, Return Integrity and Compliance Services (RICS), and Electronic Products and Services Support.

21.6.4.1.6  
(11-06-2019)  
**Acronyms**

- (1) For a comprehensive listing of any IRS acronyms, refer to the *Acronym Database*. Below are acronyms currently not listed in the database.

| Acronym | Definition  |
|---------|---|
| ACAX    | Affordable Care Act Amended Return                |
| ACA7    | Affordable Care Act Shared Responsibility Payment |
| AdMT    | Additional Medicare Tax                           |

21.6.4.1.7  
(10-01-2020)  
**Related Resources**

- (1) Listed below are the related resources commonly shown in this IRM (list is not all inclusive):
  - IRM 21, Customer Account Services
  - Document 6209, IRS Processing Codes and Information
  - United States Code, Title 26, Internal Revenue Code, Subtitle A, Income Taxes

21.6.4.2  
(02-04-2022)  
**Tax Computation Procedures**

- (1) Various schedules and forms are used in computing tax. The schedules and forms covered in this section are:
  - *Schedule A*, Itemized Deductions
  - *Schedule D*, Capital Gains and Losses
  - *Schedule H*, Household Employment Taxes
  - *Schedule J*, Income Averaging for Farmers and Fishermen
  - *Schedule SE*, Self-Employment Tax
  - Form 1128, Application to Adopt, Change, or Retain a Tax Year



- Form 4137, Social Security and Medicare Tax on Unreported Tip Income
- Form 5405, Repayment of the First-Time Homebuyer Credit
- Form 6251, Alternative Minimum Tax - Individuals
- Form 8615, Tax for Certain Children Who Have Unearned Income
- Form 8814, Parents' Election to Report Child's Interest and Dividends
- Form 8919, Uncollected Social Security and Medicare Tax on Wages
- Form 8959, Additional Medicare Tax
- Form 8960, Net Investment Income Tax - Individuals, Estates, and Trusts

- (2) The taxes are reported on Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, *Schedule 2, Additional Taxes*.

**Note:** Excess Advance Child Tax Credit Repayment is a tax reported on Schedule 2, Additional Taxes, but is not covered in this IRM. See IRM 21.6.3.4.1.24.2.1, Reconciling Advance Child Tax Credit (AdvCTC) Payments.

**Note:** Excess Advance Premium Tax Credit Repayment (APTC) is a tax reported on Schedule 2, Additional Taxes, but is not covered in this IRM. See IRM 21.6.3.4.2.12, Premium Tax Credit (PTC).

21.6.4.3  
(10-01-2024)  
**Tax Computation /  
Accounting Period  
Changes Research**

- (1) Refer to IRM 21.5.1, General Adjustments, IRM 21.5.2, Adjustment Guidelines, and each topic in this section for research requirements.
- (2) To help with improving quality and timeliness of the work process, Accounts Management employees who have access, are required to use the Integrated Automation Technologies (IAT) tools, such as xMend and REQ54, when adjusting the tax on accounts. See *EXHIBIT 21.2.2-2, Accounts Management Mandated IAT Tools*.
- (3) 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 more information about the TBOR, see <https://www.irs.gov/taxpayer-bill-of-rights>.
- (4) The Taxpayer Advocate Service is an independent organization within the Internal Revenue Service (IRS), led by the National Taxpayer Advocate, that helps taxpayers and protects taxpayer rights. TAS offers free help to taxpayers when a tax problem is causing a financial difficulty, when they've tried and been unable to resolve their issue with the IRS, or when they believe an IRS system, process, or procedure just isn't working as it should. TAS strives to ensure that every taxpayer is treated fairly and knows and understands their rights under the Taxpayer Bill of Rights. TAS has at least one taxpayer advocate office located in every state, the District of Columbia, and Puerto Rico.
- (5) Refer taxpayers to TAS when the contact meets TAS criteria (IRM 13.1.7, Taxpayer Advocate Service (TAS) Case Criteria) and you can't resolve the taxpayer's issue the same day. The definition of "same day" is within 24 hours. "Same day" cases include cases you can completely resolve in 24 hours, as well as cases in which you have taken steps within 24 hours to begin resolving the taxpayer's issue. Do not refer these cases to TAS unless they meet TAS

criteria. Refer to IRM 13.1.7.5, Same Day Resolution by Operations. When you refer cases to TAS, prepare Form e-911, Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order), via AMS (or Form 911 if AMS is not available) and forward to TAS. For more information about TAS, see IRM 21.1.3.18, Taxpayer Advocate Service (TAS) Guidelines.

21.6.4.4  
(02-08-2013)  
**Working Tax  
Computation /  
Accounting Period  
Changes**

- (1) This section has procedures for computing tax and for accounting period changes.
- (2) Refer to IRM 21.5.1, General Adjustments, IRM 21.5.2, Adjustment Guidelines, and IRM 21.5.3, General Claims Procedures, for specific guidance on adjustment input and claim processing.
- (3) If a fraudulent claim is identified that does not have an existing treatment stream, see IRM 21.5.3-4, Fraud Referral Claims.

21.6.4.4.1  
(10-01-2016)  
**Itemized Deductions**

- (1) Taxpayers may claim itemized deductions on *Schedule A* (subject to a limitation), or the standard deduction, whichever is larger, on Form 1040, U.S. Individual Income Tax Return or Form 1040-SR, U.S. Income Tax Return for Seniors.
- (2) A taxpayer who files as married filing separately **must** itemize deductions on Schedule A if their spouse itemizes deductions. They cannot claim the standard deduction.
- (3) See the following sub-sections for information about itemized deductions. See IRM 21.6.4.4.2, Standard Deduction, for standard deduction procedures.

21.6.4.4.1.1  
(10-01-2019)  
**Procedures for Schedule  
A Itemized Deductions**

- (1) This section provides procedures for checking *Schedule A*, Itemized Deductions. Schedule A changes affect the taxable income amount.
  1. Math verify Schedule A.
  2. Input the increase or decrease.
 

**Caution:** Do not decrease taxable income below zero. This causes an unpostable 189 Reason Code (RC) 1 condition. See IRM 21.5.5, Unpostables, for more information.
  3. Use Reason Code (RC) 076, the correct *blocking series (BS)* and *source code (SC)*.
- (2) Update the Return Processable Date (RPD) if the Schedule A is a late reply to a "U" coded return. The RPD is the received date of the Schedule A. Refer to IRM 21.5.1.4.2.10, Late Replies, for more information.

21.6.4.4.1.2  
(10-01-2018)  
**Schedule A Itemized  
Deductions**

- (1) The taxpayer **must** attach *Schedule A*, Itemized Deductions, to Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, if the taxpayer itemizes deductions. The taxpayer must also attach Schedule A to Form 1040-X, Amended U.S. Individual Income Tax Return, if the taxpayer is amending the return and a Schedule A was not previously filed with the original return.
- (2) Schedule A is divided into the following sections:

- Medical and Dental Expenses
- Taxes You Paid
- Interest You Paid
- Gifts to Charity
- Casualty and Theft Losses
- Job Expenses and Certain Miscellaneous Deductions

**Note:** Suspended for tax years 2018 - 2025.

- Other Itemized Deductions
- Total Itemized Deductions

**Note:** See the subsequent subsections for detailed information about each section of the Schedule A.

- (3) When correcting a previously filed Schedule A, taxpayers are advised to attach a corrected Schedule A to their Form 1040-X, Amended U.S. Individual Income Tax Return. Only reject claims for a missing Schedule A if you are unable to verify the change.
- (4) Changes to a Schedule A have different CAT-A criteria depending on the type of itemized deduction claimed. The following table provides the correct referral criteria. See Exhibit 21.5.3-2, Examination Criteria (CAT-A) — General.

| If   | Then  |             |
|--|---|-------------|
| Basic criteria – Applies to new or amended Schedule A changes, unless one of the separate criteria below applies.                          | <b>Exception:</b> Do not refer to CAT-A, if the only change or deduction on Schedule A is due to mortgage interest or property tax and the deduction is verified with CC IRPTR. | #<br>#<br># |
| The only change to Schedule A involves medical expenses and the taxpayer's age is 70 or greater (either taxpayer if married filing joint). |   | #<br>#      |
| The only change to Schedule A involves Investment Interest Expense.  |   | #<br>#<br># |

21.6.4.4.1.3  
(10-02-2023)  
**Medical and Dental  
Expenses**

- (1) An individual reports medical and dental expenses on *Schedule A*, Itemized Deductions. Taxpayers can deduct medical and dental expenses to the extent the expenses exceed 7.5% of the AGI.
- (2) See Publication 502, Medical and Dental Expenses (Including the Health Coverage Tax Credit), for deductible expenses.

Reference: IRC 213

21.6.4.4.1.4  
(10-01-2021)  
**Taxes and Fees -  
Deductible and  
Nondeductible**

- (1) For tax years 2018 - 2025, the following taxes paid are deductible but are subject to an aggregate limit of \$10,000 (\$5,000 for married taxpayers filing separately):
- State and local property taxes that are not business related
  - State and local income taxes
  - State and local war profits and excess profits taxes
  - State and local sales taxes, if the taxpayer chooses to deduct them in lieu of state and local income taxes
- (2) For tax years 2018 - 2025, the following taxes paid are deductible and are **not** subject to an aggregate limit of \$10,000 (\$5,000 for married taxpayers filing separately):
- Foreign income taxes
  - Foreign war profits and excess profits taxes
  - Generation Skipping Transfer tax imposed on income distributions
  - Other state, local, and foreign taxes, not described above, paid or incurred as an expense of carrying on a trade or business or an income producing activity (including real property taxes and personal property taxes paid or incurred as an expense of carrying on a trade or business or an income producing activity)
- (3) Taxpayers cannot deduct taxes and fees unless they fall into one of the specifically allowable categories stated above. Nondeductible taxes and fees include, but are not limited to:
- Federal income taxes
  - Social security, Medicare, and Additional Medicare taxes
  - Estate, inheritance, legacy, or succession taxes
  - Fines (e.g., parking and speeding)
  - Tax on gasoline, car inspection fees, etc.
  - Gift taxes
  - License fees for personal purposes (e.g., marriage, driver's, dog, etc.)
- (4) For more information, see the *Instructions for Schedule A*.

Reference: IRC 164

21.6.4.4.1.5  
(10-02-2023)  
**Deductible and  
Nondeductible Interest  
Paid**

- (1) The types of deductible interest are:
- Home mortgage interest on up to two qualified residences.  
For tax years 2018 - 2025 the deduction is limited to interest on up to \$750,000 of indebtedness incurred after December 15, 2017 (\$375,000 if married filing separately) used to buy, build, or substantially improve a qualified residence and secured by that residence.
- Note:** The tax year 2018 - 2025 limitation does not apply if the taxpayer entered into a written binding contract before December 15, 2017, to close on a home before January 1, 2018, and purchased the home before April 1, 2018.
- Note:** Special rules apply to keep these higher limits if the homeowner refinances the debt if such refinancing does not exceed the amount of the refinanced indebtedness and does not exceed the limitation on period of refinancing.

- Points paid to obtain a home mortgage may be fully or partially deductible as home mortgage interest in certain situations. The taxpayer may report points on Form 1098, Mortgage Interest Statement, but all points claimed on Schedule A must meet the criteria for deductibility. For more information, see *Tax Topic 504 - Home Mortgage Points*.
- Home refinancing interest and home equity loan interest is limited.
- Qualified mortgage insurance premiums paid under a mortgage insurance contract issued after December 31, 2006, in connection with home acquisition debt that was secured by the qualified residence. Premiums must have been paid or accrued on or before December 31, 2021. No deduction is allowed if AGI exceeds \$109,000 (\$54,500 if married filing separately). The deduction is limited if AGI exceeds \$100,000 (\$50,000 if married filing separately).
- Investment interest—limited to the amount of net investment income. The taxpayer may be required to file Form 4952, Investment Interest Expense Deduction.
- Annual or periodic rental payments on a redeemable ground rent is treated as interest on an indebtedness secured by a mortgage.
- Interest on indebtedness properly allocable to a trade or business.

**Note:** For tax years beginning after December 31, 2017, business interest expense deduction limitations may apply. See the *Instructions for Form 8990* for more information.

Refer to Publication 936, Home Mortgage Interest Deduction, Publication 17, Your Federal Income Tax for Individuals, and the *Instructions for Form 1040 Schedule A* for more information.

(2) The following types of interest and fees are **NOT** deductible:

- Interest paid on home equity loans not used for buying, building, or substantially improving the qualified residence secured by the loan.
- Loan fees.
- Credit investigation fees.
- Interest paid or incurred to acquire or carry tax-exempt securities.
- Interest to purchase or carry certain straddle positions.
- Finance charges on personal credit cards and interest on personal car loans.
- Interest paid to IRS.

Reference: IRC 163

21.6.4.4.1.6  
(05-12-2022)  
**Gifts to Charity**

(1) A charitable contribution is deductible only if it:

- is a donation or gift to, or for the use of, a qualified organization.
- is voluntarily made without receiving, or expecting to receive, anything of equal or greater value in return. If something of value is received in return and is of lesser value than the amount given to charity, a deduction is allowed for the excess of the amount given over the value of what was received.
- is properly substantiated. For any cash donation made, taxpayers must obtain and keep either a bank record showing the name of the charity, the date and amount of the contribution (including, for example, a cancelled check), or a receipt from the qualified organization showing the name of the charity, the date and amount of the contribution. For

cash or noncash gifts of \$250 or more, taxpayers must obtain a written acknowledgement on or before the earlier of the date the return is filed or the due date, including extensions.

- does not exceed the percentage limitations specified in IRC 170(b).
- meets all other charitable contribution requirements as shown in the publications below.

(2) Various laws provide a temporary suspension of limitations on charitable contributions if the contribution was:

- paid during the period beginning Aug. 23, 2017, ending Dec. 31, 2017, and made for relief efforts in the Hurricanes Harvey, Irma, or Maria disaster areas.
- paid during the period beginning Oct. 8, 2017, ending Dec. 31, 2018, and made for relief efforts in the California wildfire disaster area (2017 and January 2018 wildfires only).
- paid during the period beginning on January 1, 2018, and ending February 18, 2020, and made for relief efforts in one or more Presidentially declared disaster areas that occurred in 2018 or 2019 but before December 21, 2019.
- paid during the period beginning January 1, 2020, but before February 26, 2021, and made for relief efforts in one or more Presidentially declared disaster areas.
- paid during the period beginning August 28, 2021, ending December 31, 2021, and made for relief efforts in the Hurricane Ida disaster area.

The taxpayer must obtain written acknowledgement the contribution was used for relief efforts described above.

- (3) Qualified cash contributions paid in cash or check after December 31, 2019, to an organization listed as a qualified organization in Pub. 526, are limited to 100% of the taxpayer's AGI. To make the election apply to the 100% AGI limitation for qualified cash contributions for 2020 and 2021 **only**, the taxpayer enters the amount of qualified contributions on the dotted line next to the Schedule A line 11 entry space.
- (4) See Publication 526, Charitable Contributions, and Pub. 976, Disaster Relief, for more information on limitations, substantiation, reporting, requirements for written acknowledgement, and claiming standard mileage rates for charitable contributions.

21.6.4.4.1.6.1  
(02-29-2024)

#### Noncash Charitable Contributions

- (1) For noncash charitable contributions over \$500, but not more than \$5,000, taxpayers **must** complete and submit Section A of Form 8283, Noncash Charitable Contributions. For clarification on specific allowable donations and proper completion of the form, refer to *Instructions for Form 8283, Noncash Charitable Contribution*.

**Note:** For publicly traded securities and certain other readily valued property, taxpayers must complete and submit Section A regardless of the deduction amount.

- (2) For noncash charitable contributions over \$5,000, taxpayers generally must obtain a qualified appraisal and must complete Section B of Form 8283. The appraiser must sign the Declaration of Appraiser (Part IV), and an authorized



official of the donee must complete and sign the Donee Acknowledgement (Part V). The appraisal date must **not** be:

- **Earlier** than 60 days before the date of the contribution of the property, or
- **Later** than the due date of the return, including extensions, unless the deduction is first claimed on an amended return, in which case the appraisal date must not be later than the date the amended return is filed. See Treas. Reg. § 1.170A-13(c)(3)(i)(A).

- (3) For contributions over \$500,000, or a contribution of art over \$20,000, the taxpayer must attach a qualified appraisal to the return. See IRC 170(f)(11)(D).
- (4) If you receive a taxpayer inquiry about balances due and disallowance notices relating to a missing or incomplete Form 8283, Noncash Charitable Contributions, follow these procedures:
  - a. Determine the reason for issuance of the notice.
  - b. Advise the taxpayer to submit a complete and correct Form 8283, Noncash Charitable Contributions, within 90 days of the request.

**Exception:** If a deduction over \$5,000 is disallowed because the appraisal was not completed within the time frames stated in (2) above, the deduction cannot be allowed.

- c. Recompute the tax if a properly completed Form 8283 is received.

21.6.4.4.1.6.2  
(10-01-2017)

#### Standard Mileage Rate for Charitable Services

- (1) The standard mileage rate for use of the taxpayer's car in providing services to a charitable organization is 14 cents per mile.
- (2) See Publication 526, Charitable Contributions, for more information on reporting and claiming standard mileage rates for charitable services.

21.6.4.4.1.7  
(02-04-2022)

#### Casualty and Theft Losses

- (1) A casualty is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual, such as a fire, shipwreck or storm, that is not compensated for by insurance or otherwise. Taxpayers **must** file Form 4684, Casualties and Thefts, to support the deduction.
- (2) A theft is the unlawful taking and removing of property or money with the intent to deprive the owner of it. The loss is allowable to the extent not compensated for by insurance or otherwise; the taxpayer must file Form 4684, to support the loss.
- (3) Taxpayers filing or amending tax returns with additional casualty and theft losses must complete Form 4684 following normal procedures. If not attached, reject as an incomplete claim, see IRM 21.5.1.5.6, Incomplete CII Claims.
- (4) Taxpayers generally must deduct a casualty or theft loss in the year it occurred. However, if the loss occurred in a federally declared disaster area, taxpayers can elect to deduct the loss for the year immediately preceding the year in which the disaster occurred (example: a 2023 loss can be allowed on a 2022 return).
- (5) See Publication 547, Casualties, Disasters, and Thefts; Publication 584, Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property), and Pub. 976, Disaster Relief, for more information.

- (6) Losses of personal-use property are generally subject to the following limitations:
- \$100 rule - The taxpayer must reduce each casualty or theft loss by this amount after the loss amount is figured.
  - 10% rule - The taxpayer must reduce the total casualty and theft losses for a tax year by 10% of the taxpayer's AGI after the \$100 rule is applied.
- (7) For tax years 2018 - 2025, net personal casualty and theft losses are allowed only when caused by a Presidentially declared disaster. Verify the taxpayer had a loss in the disaster area via the *IRS Disaster Assistance Program*.
- (8) For tax years 2016 through 2022, limitations on **personal casualty and theft losses** were changed for disaster areas:
- \$100 rule changed to \$500 rule
  - 10% rule does not apply

Qualified individuals are those individuals who suffered a personal casualty or theft loss on or after the first day of the disaster incident period caused by:

- A Presidentially declared disaster in 2016
- Hurricane Harvey or Tropical Storm Harvey disaster after August 22, 2017
- Hurricane Irma disaster after September 3, 2017
- Hurricane Maria disaster after September 15, 2017
- California wildfires disaster after October 7, 2017, and before February 1, 2018
- A Presidentially declared disaster that occurred in 2018 or 2019, but before December 21, 2019
- A Presidentially declared disaster that occurred beginning January 1, 2020, but before February 26, 2021
- Hurricane Ida disaster after August 28, 2021

**Note:** Verify the taxpayer had a loss in a qualified disaster area via the *IRS Disaster Assistance Program*.

These taxpayers are also entitled to an increased standard deduction. See IRM 21.6.4.4.2, Standard Deduction. If the total itemized deduction is less than the increased standard deduction, send Letter 474C or Letter 4364C with the following paragraph if changing the taxpayer's refund amount: *We changed your itemized deductions. Disaster relief legislation allows you to increase your standard deduction by the amount of your casualty loss. The standard deduction plus the net disaster loss of \$XXXX was more than your itemized deductions. For more information about the legislation, visit our website at IRS.gov*

**Example:** Total itemized deductions shown on Schedule A is \$20,000. Standard deduction is \$14,600, plus \$15,000 loss reported on Form 4684. The taxpayer is entitled to a standard deduction of \$29,600.

- (9) Disaster casualty loss claims for those disasters listed in (8) are centralized in Austin and Philadelphia (International). Reassign the case per the *AM Site Specialization Temporary Holding Numbers*.



- (10) Control disaster loss claims shown in (8) using category code KATX, Priority Code 1, program code 710-82365. For all other disaster areas, control the case using category code DSTR.
- (11) Input RC 076, if the adjustment is input to adjust Schedule A, RC 092 if the adjustment is input to adjust the standard deduction.

21.6.4.4.1.8  
(10-01-2021)

**Job Expenses and Other  
Miscellaneous Itemized  
Deductions Subject to  
2% AGI Limitation**

- (1) For tax years 2018 - 2025, itemized deductions subject to the 2% AGI limitation are not allowed, and have been removed from Schedule A.

21.6.4.4.1.9  
(10-01-2014)

**Other Itemized  
Deductions Not Subject  
to 2% Reduction**

- (1) Some other expenses that are miscellaneous deductions are not subject to the 2 % limit. These expenses include, but are not limited to:
  - Gambling losses (to the extent of gambling winnings)
  - Impairment-related work expenses of a disabled individual
- (2) See Pub. 529, Miscellaneous Deductions, for more information about miscellaneous deductions not subject to the 2% limitation.

21.6.4.4.1.10  
(10-02-2023)

**Limitation on Itemized  
Deductions**

- (1) For tax years 2018 - 2025, there is no longer an overall limitation on itemized deductions.

21.6.4.4.2  
(10-01-2024)

**Standard Deduction**

- (1) The amount of standard deduction depends on the taxpayer's filing status, age, if they're blind and whether or not they can be claimed as a dependent on another return.

**Note:** If the taxpayer, or their spouse if filing jointly, can be claimed as a dependent on someone else's return, see the *Instructions for Form 1040 (and Form 1040-SR)* for more information.

- (2) A taxpayer and/or spouse who is age 65 or older (for tax year 2024, born before January 2, 1958) and/or blind is entitled to a higher standard deduction. The taxpayer checks a box on the Form 1040 to select the reason for the additional standard deduction(s). Refer to the table below to determine the correct standard deduction amount.

| Filing Status                                  | Number of Boxes Checked | Standard Deduction 2024 | Standard Deduction 2023 | Standard Deduction 2022 | Standard Deduction 2021 | Standard Deduction 2020 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Single   | 0                       | \$14,600                | \$13,850                | \$12,950                | \$12,550                | \$12,400                |
|  | 1                       | \$16,550                | \$15,700                | \$14,700                | \$14,250                | \$14,050                |
|  | 2                       | \$18,500                | \$17,550                | \$16,450                | \$15,950                | \$15,700                |
| Married Filing Jointly or Qualifying Widow(er) | 0                       | \$29,200                | \$27,700                | \$25,900                | \$25,100                | \$24,800                |
|  | 1                       | \$30,750                | \$29,200                | \$27,300                | \$26,450                | \$26,100                |
|  | 2                       | \$32,300                | \$30,700                | \$28,700                | \$27,800                | \$27,400                |
|  | 3                       | \$33,850                | \$32,200                | \$30,100                | \$29,150                | \$28,700                |
|  | 4                       | \$35,400                | \$33,700                | \$31,500                | \$30,500                | \$30,000                |
| Married Filing Separately                      | 0                       | \$14,600                | \$13,850                | \$12,950                | \$12,550                | \$12,400                |
|  | 1                       | \$16,150                | \$15,350                | \$14,350                | \$13,900                | \$13,700                |
|  | 2                       | \$17,700                | \$16,850                | \$15,750                | \$15,250                | \$15,000                |
|  | 3                       | \$19,250                | \$18,350                | \$17,150                | \$16,600                | \$16,300                |
|  | 4                       | \$20,800                | \$19,850                | \$18,550                | \$17,950                | \$17,600                |
| Head of Household                              | 0                       | \$21,900                | \$20,800                | \$19,400                | \$18,800                | \$18,650                |
|  | 1                       | \$23,850                | \$22,650                | \$21,150                | \$20,500                | \$20,300                |
|  | 2                       | \$25,800                | \$24,500                | \$22,900                | \$22,200                | \$21,950                |

- (3) Disaster relief legislation allows for an additional standard deduction for those taxpayers impacted by certain disasters. The standard deduction is increased by the net personal casualty loss.

Taxpayers must complete Form 4684, Casualties and Thefts, to report the loss on *Schedule A*, line 28, and report their regular standard deduction on Line 28. The two amounts are combined into the total standard deduction for the tax year. Taxpayers are instructed to notate the disaster area at the top of their Form 1040, Form 1040-SR or Form 1040-X.

Eligible individuals are those individuals who suffered a personal casualty or theft loss caused by:

- A Presidentially declared disaster that occurred in 2016
- Hurricane Harvey or Tropical Storm Harvey disaster after August 22, 2017
- Hurricane Irma disaster area after September 3, 2017
- Hurricane Maria disaster area after September 15, 2017
- California wildfires disaster area after Oct. 7, 2017, and before February 1, 2018
- A Presidentially declared disaster that occurred in 2018 or 2019, but before December 21, 2019
- A Presidentially declared disaster that occurred beginning January 1, 2020, but before February 26, 2021
- Hurricane Ida disaster after August 28, 2021

Verify the taxpayer had a loss in a qualified disaster area via the *IRS Disaster Assistance Program*.

See IRM 21.6.4.4.1.7, Casualty and Theft Losses, for more information on Form 4684.

21.6.4.4.3  
(10-01-2017)  
**Tax Computation**

- (1) To compute tax, taxpayers use the following:
- The Tax Table when taxable income is under \$100,000
  - The Tax Computation Worksheet when taxable income is \$100,000 or more

You can use CC TXCMP to calculate tax for all taxable incomes.

- (2) Consider the following when computing tax:
- Schedule D*, Capital Gains and Losses
  - Schedule D, Tax Worksheet
  - Schedule J*, Income Averaging for Farmers and Fishermen
  - Form 4972, Tax on Lump Sum Distributions
  - Form 6251, Alternative Minimum Tax—Individuals
  - Form 8615, Tax for Certain Children Who Have Unearned Income
  - Form 8814, Parents' Election to Report Child's Interest and Dividends
  - Foreign Earned Income Tax Worksheet
  - Qualified Dividends and Capital Gain Tax Worksheet
  - Tax Computation Worksheet for Certain Dependents

**Note:** Use the Capital Gains worksheet from *Instructions for Form 1040 (and Form 1040-SR)* if applicable.

- (3) Self-employment tax rules usually apply if the taxpayer had net earnings from self-employment of \$400.00 or more. See Publication 17, Your Federal Income Tax, and Publication 334, Tax Guide for Small Business (For Individuals Who Use Schedule C), for exceptions.

21.6.4.4.4  
(10-01-2017)  
**Applying Capital Gains and Losses Provisions for Sales**

- (1) For sales:
- The capital gain tax rates vary from 0% to 28%, depending on the year of gain, holding period, type of property sold, and the taxpayer's taxable income. See Publication 544, Sales and Other Dispositions of Assets, and Publication 550, Investment Income and Expenses, for more information.
  - Taxpayers receiving capital gain distributions from mutual funds or real estate investment trust may be able to use the Capital Gain Tax Worksheet from *Instructions for Form 1040 (and Form 1040-SR)*.
  - Schedule D filers use Form 8949, Sales and Other Dispositions of Capital Assets, to report sales and other dispositions of capital assets.
- (2) Command Code TRDBV may not display Schedule D in its entirety. If you need the complete schedule and the return was filed electronically, use Return Request Display (RRD) located through the Employee User Portal (EUP). See IRM 21.2.2.4.4.9, Modernized e-file Return Request Display (RRD).
- (3) AMS provides a Schedule D and Qualified Dividends Capital Gain Tax Worksheet to help with computing tax on Schedule D.
- (4) Use RC 013 for changes to Schedule D, investment gains or losses. Use RC 043 for changes to Schedule D tax computation from another tax computation method.

21.6.4.4.5  
(10-01-2021)

**Taxes on Dividends and  
Capital Gains**

- (1) The top rate for capital gains and dividends is 20%. The rate applies to taxpayers whose income exceeds the thresholds set for the 39.6% tax rate. All other taxpayers are taxed at the rates below.
- (2) Taxpayers report capital gains (including capital gain distributions) on Form 1040 or Form 1040-SR:
  - a. Taxpayers with 25% or 28% rate gain are required to use the Schedule D, Tax Worksheet in the *Instructions for Schedule D (Form 1040), Capital Gains and Losses*.
  - b. Taxpayers with a capital loss carryover must use the Capital Loss Carryover Worksheet in the Schedule D instructions to compute their capital loss carryover.
  - c. See *Instructions for Schedule D (Form 1040), Capital Gains and Losses* for more information on when the Schedule D must be attached to Form 1040 or Form 1040-SR. More information is available in Publication 544, Sales and Other Disposition of Assets, and Publication 550, Investment Income and Expenses.

21.6.4.4.6  
(10-01-2015)

**Allowing Constructive  
Sales**

- (1) Constructive Sales — Generally, taxpayers must recognize gain (but not loss) on the date the taxpayers made a constructive sale of any appreciated financial position (with respect to any stock, a partnership interest, or debt instruments, with certain exceptions) as if the position were sold, assigned, or otherwise terminated at fair market value on that date. A taxpayer is generally treated as having made a constructive sale of an appreciated financial position if the taxpayer offsets that position by entering into one of several specified transactions, including a short sale, involving the same or substantially identical property.

Reference: IRC 1259

21.6.4.4.7  
(10-01-2024)

**Sale of Your Home**

- (1) The sale of a home is reported if there is a gain and the taxpayer does not qualify to exclude all the gain, or elects not to exclude any gain. The taxpayer reports the gain on *Schedule D*. If the taxpayer received Form 1099-S, Proceeds From Real Estate Transactions, for the proceeds from the sale of the home, the taxpayer reports the transaction on Form 8949, even if the gain is excluded.

**Reminder:** Refer to Publication 17, *Your Federal Income Tax*, and Publication 523, *Selling Your Home*, for specific information.

- (2) Different tax rules apply to personal residence sales:
  - All taxpayers, regardless of age, can exclude up to \$250,000 (\$500,000 on certain joint returns) from capital gains taxation on Schedule D
  - The provision only applies to one sale or exchange every two years:

| If  | And  | Then  |
|---|--|---|
| Taxpayer owned the home for two out of five years                                 | Used it as a principal residence for two out of five years | Taxpayer qualifies for exclusion.   |
| Taxpayer sold home due to job move, health problems, or unforeseen circumstances. |  | The taxpayer may be eligible for a reduced maximum exclusion more often than every two years. Refer to Publication 523 for ratio to figure exclusion. |

**Note:** Special rules apply in cases of transfer due to divorce, joint filers not sharing a principal residence, and a deceased spouse. See IRC 121(d) for more information.

## 21.6.4.4.8

(10-01-2024)

**Schedule H, Household Employment Taxes**

- (1) Employment taxes for household employees are reported annually on *Schedule H, Household Employment Taxes*, and reported on Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, *Schedule 2, Additional Taxes*.

- (2) Taxpayers are required to file Schedule H if any of the following apply:

- Paid any one household employee cash wages of \$2,700 or more in 2024 (\$2,600 or more in 2023, \$2,400 or more in 2022, or \$2,300 or more in 2021).
- Federal income tax was withheld.
- Total cash wages of \$1,000 or more were paid in any calendar quarter, not including wages paid to a spouse, child under age 21, or parent.

For a full explanation of the rules about reporting on Schedule H, see IRM 4.23.10.10.5, Household Employment Taxes, and Publication 926, *Household Employer's Tax Guide*.

- (3) Refer Schedule H calls to the correct extension using the *Telephone Transfer Guide* as employment tax calls.
- (4) Household employers must file Schedule H, Household Employment Taxes, to report wages paid.
- The primary or secondary taxpayer may file the Schedule H, but they must file it with Form 1040, U.S. Individual Income Tax Return, if they are required to file a return.

**Note:** The taxpayer may file Schedule H with Form 1040–SR, U.S. Tax Return for Seniors, Form 1040–NR, U.S. Nonresident Alien Income Tax Return, Form 1040–SS, U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico), or Form 1041, U.S. Income Tax Return for Estates and Trusts.

- Household employers must file a Schedule H by itself even if they are not required to file an income tax return.
- If an employer has other employees besides household employees, the employer may report their household employment taxes on Form 941, Employer's QUARTERLY Federal Tax Return, (or Form 943, Employer's Annual Federal Tax Return for Agricultural Employees, or Form 944,

Employer's ANNUAL Federal Tax Return) and Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return.

- (5) When a loose Schedule H is received in Submission Processing, Code and Edit prepares a "dummy" Form 1040 with Return Processing Code (RPC) "Y" entered.
  - A posted "dummy" Form 1040 with RPC "Y" sets the Filing Requirements (FR) to "0".
  - If the taxpayer files a subsequent return, establish the FR.
- (6) The household employment tax is reported on the Form 1040 and included in the transaction code TC 150 amount.
- (7) A Schedule H carries its own Assessment Statute Expiration Date (ASED) that is **not** based on the filing requirements of the taxpayer's Form 1040. See IRM 25.6.1.9.4.3, Forms Reporting More Than One Item of Tax, for more information.
- (8) If the Schedule H was not filed with the original return, the IRS can assess Schedule H taxes even if the original return's ASED has expired. You must use Priority Code 1 on the TC 29X adjustment with reference numbers 003/903, 004/904, 007/907, 073/973, 074/974 and/or 993/994 to bypass Unpostable code 150, reason code 3.

21.6.4.4.8.1  
(10-02-2023)

**Schedule H, Household  
Employment Taxes -  
Employer Identification  
Numbers**

- (1) An Employer Identification Number (EIN) is required on Schedule H, Household Employment Taxes.

| If  | Then  |
|---|---|
| Adjusting a previously filed Schedule H (no EIN change) | You do not need to input the EIN.   |
| Schedule H was not filed with the original return.      | You must input the EIN on the adjustment record.<br><b>Caution: An EIN from Schedule C may be displayed in the "XREF—TIN" field. This does not prevent an unpostable condition.</b> |

- (2) To establish, change, or correct the primary or secondary EIN, use CC ADJ54 — "XREF-TIN" field.
  - Enter the correct Schedule H EIN in this field, when a change is needed, along with the correct reference code.
  - For the primary taxpayer's EIN enter **993 .00**.
  - For the secondary taxpayer's EIN enter **994 .00**.
- (3) If the taxpayer does not have an EIN, prepare a Form 4442/e-4442, Inquiry Referral, to request an EIN be assigned, attach a copy of the Schedule H, and fax to Entity. Include your fax number to receive a response when the EIN is assigned.

**Note:** Suspend case for 30 days to allow for the Entity Team to assign and provide the EIN.

#  
#

21.6.4.4.8.2  
(11-26-2008)  
**Schedule H, Household  
Employment Taxes - EIN  
Corrections**

- (1) You must manually process all EIN changes on *Schedule H*, Household Employment Taxes, reporting social security and/or Medicare tax, to prevent erroneous Combined Annual Wage Reporting (CAWR) records. Individual Master File (IMF) systemically forwards a record to the Business Master File (BMF) containing the Schedule H social security and Medicare tax information.

**Note:** An employee staffing the phone lines can make changes to Schedule H only if the Schedule H was previously filed and processed.

- a. Zero out the social security and Medicare tax fields posted under the incorrect EIN.
- b. Use the correct reference number(s).
- c. Use hold code "4" to prevent refund of the credit.
- d. Input a second adjustment with posting delay code "1" to change the EIN and adjust the correct Schedule H tax and reference number fields to the correct value.

- (2) Input reference number 993/994 .00 in the item reference code field on CC ADJ54.

- The EIN and reference numbers are visible as pending transactions.
- The Taxpayer Information File (TIF) does not show the EIN however, Master File (MF) records the EIN.

21.6.4.4.8.3  
(10-01-2011)  
**Schedule H, Household  
Employment Taxes -  
Fiscal Year Filers**

- (1) Fiscal year filers must report wages paid to household employees on a calendar year basis.
- The taxpayer must file Schedule H for the calendar year during which the employer's fiscal year begins.
  - The due date for Schedule H for fiscal year filers is the due date of the fiscal year return, including extensions.

21.6.4.4.8.4  
(10-01-2019)  
**Schedule H, Household  
Employment Taxes -  
Components**

- (1) *Schedule H*, Household Employment Taxes, has four parts:

- Part I — Social Security, Medicare, and Federal Income Taxes
- Part II — Federal Unemployment (FUTA) Tax
- Part III — Total Household Employment Taxes
- Part IV — Address and Signature

**Note:** The only time the employer completes Part IV is if they are not required to file Form 1040, U.S. Individual Income Tax Return, Form 1040-SR, U.S. Tax Return for Seniors, Form 1040-NR, U.S. Nonresident Alien Income Tax Return, Form 1040-SS, U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico), or Form 1041, U.S. Income Tax Return for Estates & Trusts.



21.6.4.4.8.5  
(10-01-2024)

**Schedule H, Household  
Employment Taxes -  
Social Security,  
Medicare, and Income  
Taxes Part I**

- (1) Either the primary or secondary taxpayer may file *Schedule H*, Household Employment Taxes. IDRS allows the input and adjustment of either or both taxpayer's employment taxes.
- (2) The reference numbers for adjusting Schedule H, Part I are:

| Title   | Primary Taxpayer | Secondary Taxpayer |
|---|------------------|--------------------|
| Total Social Security Wages (line 1/ 1a)  | 004              | 904                |
| Qualified Sick and Family Wages (line 1b) for leave taken April 1, 2020, through March 31, 2021   | 200              | 900                |
| Total Medicare Wages (line 3)   | 073              | 973                |
| Federal Income Tax Withheld (if requested by employee) (line 7)   | 003              | 903                |
| Social Security and Medicare Tax (line 2 plus line 4, tax year 2019 and prior, line 2c plus line 4, minus line 8b, tax year 2020 and later) | 007              | 907                |
| Additional Medicare Tax (AdMT) Withholding (line 6)   | 074              | 974                |
| Nonrefundable Portion of Credit for Qualified Sick and Family Leave (line 8b) for leave taken April 1, 2020, through March 31, 2021         | 202              | 902                |
| Nonrefundable Portion of Credit for Qualified Sick and Family Leave (line 8c) for leave taken April 1, 2021, through September 30, 2021     | 281              | 981                |
| Deferred Social Security Tax (tax year 2020, line 8d)   | 211              | 211                |
| Refundable Portion of Credit for Qualified Sick and Family Leave (line 8e) for leave taken April 1, 2020, through March 31, 2021            | 299              | 299                |
| Refundable Portion of Credit for Qualified Sick and Family Leave (line 8f) for wages paid April 1, 2021, through September 30, 2021         | 271              | 271                |

**Note:** Refer to IRM 21.7.2.3.3, FICA Taxes (including Additional Medicare Tax), for the applicable wage limitations and tax rates.

**Note:** If you are unable to use xMend to input all reference numbers for Qualified Sick and Family Leave, use the IAT REQ54 Tool.

- (3) The employer is instructed to report social security and Medicare wages, with respect to any single household employee, for an amount equal to or more than \$2,700 in 2024 (\$2,600 in 2023, \$2,400 in 2022, or \$2,300 in 2021). Delete total social security and Medicare wages if less than those amounts.



| If total cash wages subject to   | And   | Then   |
|--|---|--|
| Social security taxes (line 1a, reference number 004/904) are not present                            | social security taxes (line 2a) are entered             | Divide the line 2a amount by .124 (12.4%).   |
| Medicare taxes (line 3, reference number 073/973) are not present                                    | Medicare taxes (line 4) are entered                     | Divide the line 4 amount by .029 (2.9%).   |
| Additional Medicare Tax withholding (line 5, reference number 074/974) are not present               | Additional Medicare Tax withholding (line 6) is entered | Divide the line 6 amount by .009 (0.9%).   |
| Social security taxes (line 1a) are greater than total cash wages subject to Medicare taxes (line 3) |   | <ol style="list-style-type: none"> <li>1. Try to determine the correct amounts.</li> <li>2. Increase the Total cash wages subject to Medicare taxes (line 3) to equal the Total cash wages subject to social security taxes, if unable to determine the correct amounts.</li> <li>3. Treat as a "math error" if the tax is more than the taxpayer reported.</li> </ol> |

(4) Use RC 050 when adjusting Schedule H.

21.6.4.4.8.5.1  
(10-01-2015)

**Social Security and  
Medicare Tax  
Erroneously Withheld -  
Employee Claims for  
Refund — Schedule H**

- (1) IRC 6402 and Reg. 31.6402(a)-2(b) provide that employees may file claims for refund of excess social security and Medicare tax collected in error when (a and b and either c or d) apply:
- a. The employer has not reimbursed the employee.
  - b. The employee has not authorized the employer to file a claim for refund.
  - c. The employee has not taken the over-collection into account in claiming a credit against or refund of income tax.
  - d. The claim has been rejected.

See IRM 21.6.3.4.2.4, Excess Social Security and RRTA Tier I Tax Credits.  
Upon receipt of a claim:

1. Review the employer's *Schedule H* (Form 1040) account for the last year in which FICA wages were paid to the employee. If necessary, secure the household employee's individual Form 1040, to verify claim information.
2. Check for a signed statement from the employer indicating household employee had not authorized employer to file a claim, nor had household employee been reimbursed for amount over withheld.
3. Check for a signed statement from the employee with an explanation of why they were unable to obtain a statement from their employer.

(2) Continue processing the claim using the table below:

| Row Number | If  | Then  |
|------------|---|---|
| 1          | No statement is received  | Return claim to taxpayer using Letter 916C, Claim Incomplete for Processing; No Consideration, requesting they submit required statement. See (1) step (2) above. See IRM 21.5.3.4.6.3, No Consideration Procedures.  |
| 2          | No indication household employee has contacted employer   | Instruct household employee to ask for refund from employer.  |
| 3          | Household employee is unable to obtain statement from employer  | Household employee must make a statement to the best of their knowledge and belief.<br><b>Note:</b> Statement must include explanation of household employee's inability to obtain the statement from employer.   |
| 4          | Claim is correctly filed with statement attached  | <ol style="list-style-type: none"> <li>1. Input TC 291 with a <b>HC 2</b> on employer's Schedule H (Form 1040) account for amount of decrease using IRNs 004/904 for wages and 007/907 for tax.</li> <li>2. Prepare Form 5792, Request for IDRS Generated Refund, and compute interest from the Schedule H (Form 1040) due date or payment date, whichever is later. Enter TC 770 for amount of allowable interest. See IRM 21.4.4.5.1, Preparation of Form 5792, IDRS Generated Refund, for more information.<br/><b>Reminder:</b> Make out Form 5792 to the household employee filing the claim.</li> <li>3. Attach a copy of claim to refund document and route to Accounting Function.</li> <li>4. Attach taxpayer's claim to adjustment document.</li> </ol> |
| 5          | Claim must be disallowed. See IRM 21.5.3.4.6, No Consideration and Disallowance of Claims and Amended Returns | <ol style="list-style-type: none"> <li>1. Input TC 290 .00 using BS 98/99 (99 if electronically filed with a CC IMFOLR or CC TRPRT print) on household employee's IMF account which has period for which claim is filed.</li> <li>2. Send Letter 105C. See IRM 21.5.3.4.6.1, Disallowance and Partial Disallowance Procedures.</li> </ol>   |

| Row Number | If   | Then   |
|------------|--|--|
| 6          | Claim must be disallowed and return has not yet posted | Write claim disallowance letter. Push code document and copy of denial letter using TC 930. After return posts, the disallowance claim and original return is returned to the originator for input of the TC 290 .00, BS 98/99 (99 if electronically filed with an IMFOLR or TRPRT print). |

21.6.4.4.8.5.2  
(10-03-2022)

**Deferred Payment of Social Security Taxes for Employers and Self-Employed Individuals**

- (1) The Coronavirus Aid, Relief, and Economic Security (CARES) Act allowed employers to defer the payment of the employer's share of social security taxes. It also allows self-employed individuals to defer their portion of social security taxes. The deferral is applicable to tax year 2020.
- (2) Generally, the employer's share of social security is 50% of the amount on the 2020 *Schedule H*, line 2a. The maximum amount that can be deferred is captured on the 2020 Schedule H, line 8d, which is the amount on line 2a reduced by the amount on line 2b (employer share of qualified sick and family leave wages). For more information on qualified sick and family leave wages, see IRM 21.6.4.4.8.5.3, Credit for Qualified Sick and Family Leave Wages.
- (3) The maximum amount that can be deferred for self-employed individuals is the amount reported on line 26 of the 2020 Schedule SE, Self-Employment Tax.
- (4) The deferred amount is included in the total tax (TC 150). To reduce the amount of tax owed, the deferred amount is carried to *Form 1040, Schedule 3*, Additional Credits and Payments, line 12e, and posted with a TC 766 Credit Reference Number (CRN) 280. CRN 280 acts as a false credit.

**Note:** Any overpayment offsets to the deferred amount prior to refunding. Generally, the taxpayer only benefits if filing a balance due return. When deferred and recaptured at the same time, IDRS shows the deferred amount (CRN 280), a refundable credit such as the Earned Income Tax Credit or the Additional Child Tax Credit, and a reversal of the deferred amount (TC 767 CRN 280).

- (5) The deferred amount, which is displayed on CC IMFOLM, had to be paid by the following dates:
  - 50% of the deferred amount was due on or before December 31, 2021.
  - The remaining deferred amount was due on or before December 31, 2022.

Subsequent payments made, or overpayments arising on the module, trigger CRN 280 reversals (TC 767) for correct amounts and dates. If the taxpayer does not pay the amount owed, the computer reverses the correct amount as of the payment due date and penalties and interest begin to accrue.

- (6) Taxpayer notice code 601 applies to deferred tax payments and reads as follows: "We changed the amount claimed on Schedule 3 as Deferral of tax

payments from Schedule H or Schedule SE because the amount cannot exceed maximum amounts of deferred tax payments reported on Schedule H and/or Schedule SE”.

- (7) To adjust the maximum deferred amount for Schedule H filers, input the following:

- IRN 211 - *Schedule H*, line 8d
- CRN 280 - Form 1040, *Schedule 3*, line 12e
- RC 050

- (8) To adjust the maximum deferred amount for self-employed individuals, input the following:

- IRN 211 - Schedule SE, line 26
- CRN 280- Form 1040, *Schedule 3*, line 12e
- RC 044

21.6.4.4.8.5.3  
(02-29-2024)

**Credit for Qualified Sick  
and Family Leave Wages**

- (1) The Families First Coronavirus Response Act provides household employers tax credits that reimburse them for the cost of providing paid sick and family leave wages to their employees for leave related to COVID-19.
- (2) The credit applies to qualified sick and family leave wages paid for leave taken during the period beginning April 1, 2020, and ending March 31, 2021. The American Rescue Plan Act of 2021 provided a similar credit for leave taken during the period beginning April 1, 2021, and ending September 30, 2021.
- (3) The following table summarizes employee eligibility, benefits, and associated eligible tax credit provisions:

| Row Number | Type of Credit   | If an employee is unable to work because:   | Then  |
|------------|--|---|---|
| 1          | Paid sick leave credit (for the period beginning April 1, 2020, and ending March 31, 2021) | <ul style="list-style-type: none"> <li>• They're subject to a COVID-19 quarantine or isolation order.</li> <li>• They're advised to self-quarantine because of COVID-19.</li> <li>• They have COVID-19 symptoms and are seeking a medical diagnosis.</li> </ul> | The credit is at the employee's regular rate of pay, up to \$511 per day and \$5,110 in total (80 hours max). The employer is also eligible for credits for qualified health plan expenses for the employee and the employer's portion of Medicare tax expenses for the employee. |

| Row Number | Type of Credit   | If an employee is unable to work because:  | Then   |
|------------|--|--|--|
| 2          | Paid sick leave credit (for the period after March 31, 2021, and before October 1, 2021)   | <ul style="list-style-type: none"> <li>They're experiencing symptoms of COVID-19 and seeking a medical diagnosis.</li> <li>They're seeking or awaiting the results of a diagnostic test for, or a medical diagnosis of COVID-19, and the employee has been exposed or the employee's employer has requested the test or diagnosis.</li> <li>They are obtaining immunization related to COVID-19 or recovering from any injury, disability, illness, or condition related to the immunization.</li> </ul> | The credit is at the employee's regular rate of pay, up to \$511 per day and \$5,110 in total (80 hours max). The employer is also eligible for credits for qualified health plan expenses for the employee and the employer's portion of Medicare tax expenses for the employee. The employer is also eligible for credits for the employer's portion of social security taxes. |
| 3          | Paid sick leave credit (for the period beginning April 1, 2020, and ending March 31, 2021) | <ul style="list-style-type: none"> <li>They're caring for someone who is subject to a quarantine or isolation order, or for someone advised to self-quarantine due to COVID-19.</li> <li>They're caring for a child whose school or childcare provider is closed or unavailable due to COVID-19.</li> </ul>  | The credit is for two-thirds of the employee's regular rate of pay, up to \$200 per day and \$2,000 in total, for up to 80 hours. The employer is also eligible for credits for qualified health plan expenses for the employee and the employer's portion of Medicare tax.  |

| Row Number | Type of Credit   | If an employee is unable to work because:  | Then  |
|------------|--|--|---|
| 4          | Paid sick leave credit (for the period after March 31, 2021, and before October 1, 2021) | <ul style="list-style-type: none"> <li>They're caring for someone who is subject to a quarantine or isolation order, or for someone advised to self-quarantine due to COVID-19.</li> <li>They're caring for a child whose school or childcare provider is closed or unavailable due to COVID-19.</li> <li>They're going with an individual to obtain immunization related to COVID-19 or caring for an individual who is recovering from any injury, disability, illness, or condition related to the immunization.</li> </ul> | The credit is for two-thirds of the employee's regular rate of pay, up to \$200 per day and \$2,000 in total, for up to 80 hours. The employer is also eligible for credits for qualified health plan expenses for the employee and the employer's portion of Medicare tax. The employer is also eligible for credits for the employer's portion of social security taxes.  |
| 5          | Family Leave Credit (for the period beginning April 1, 2020, and ending March 31, 2021)  | They're caring for a child whose school or childcare provider is closed or unavailable due to COVID-19.  | <ul style="list-style-type: none"> <li>The credit is for two-thirds of the employee's regular rate of pay, capped at \$200 per day or \$10,000 in total</li> <li>Up to 10 weeks of qualifying leave can be counted towards the Family Leave Credit. This can be combined with the sick leave credit, so the employer could be entitled to a credit for pay for up to 12 weeks; 2 weeks of sick leave; and 10 weeks of family leave.</li> <li>The employer is also eligible for credits for qualified health plan expenses for the employee and the employer's portion of Medicare tax.</li> </ul> |

| Row Number | Type of Credit  | If an employee is unable to work because:   | Then   |
|------------|---|---|--|
| 6          | Family Leave Credit (for the period after March 31, 2021, and before October 1, 2021) | They're caring for a child whose school or childcare provider is closed or unavailable due to COVID-19, or unable to work because of any of the circumstances for which they could have received paid sick leave for those periods. | <ul style="list-style-type: none"> <li>The credit is for two-thirds of the employee's regular rate of pay, capped at \$200 per day or \$12,000 in total</li> <li>Up to 12 weeks of qualifying leave can be counted towards the Family Leave Credit. This can be combined with the sick leave credit, so the employer could be entitled to a credit for pay for up to 14 weeks; 2 weeks of sick leave; and 12 weeks of family leave.</li> <li>The employer is also eligible for credits for qualified health plan expenses for the employee and the employer's portion of Medicare tax. The employer is also eligible for credits for the employer's portion of social security taxes.</li> </ul> |

(4) The Credit for Qualified Sick and Family Leave Wages can be a nonrefundable credit, a refundable credit, or both depending on the amount of any other non-refundable credit(s) claimed.

(5) Qualified sick and family leave wages and credits are reported and adjusted as follows:

**Note:** The table below applies to Schedule H. For self-employed, see IRM 21.6.4.4.14.2, Self-Employment Tax Adjustments.

| Row Number | Item  | Schedule H line number | Reference Number   | Reason Code |
|------------|---|------------------------|--|-------------|
| 1          | Qualified sick and family wages (for leave taken April 1, 2020, through March 31, 2021) | 1b                     | <ul style="list-style-type: none"> <li>IRN 200 - primary taxpayer</li> <li>IRN 900 - secondary taxpayer</li> </ul> | 050         |

| Row Number | Item  | Schedule H line number                 | Reference Number   | Reason Code |
|------------|---|--|--|-------------|
| 2          | Nonrefundable portion of Credit for Qualified Sick and Family Leave Wages (for leave taken April 1, 2020, through March 31, 2021)       | 8b                                     | <ul style="list-style-type: none"> <li>• IRN 202 - primary taxpayer</li> <li>• IRN 902 - secondary taxpayer</li> </ul> | 036         |
| 3          | Nonrefundable Portion of Credit for Qualified Sick and Family Leave (line 8c) for leave taken April 1, 2021, through September 30, 2021 | 8c                                     | <ul style="list-style-type: none"> <li>• IRN 281 - primary taxpayer</li> <li>• IRN 981 - secondary taxpayer</li> </ul> | 036         |
| 4          | Refundable portion of Credit for Qualified Sick and Family Leave Wages (for leave taken April 1, 2020, through March 31, 2021)          | 8e<br>Carried to Form 1040, Schedule 3 | CRN 299  | 061         |
| 5          | Refundable portion of Credit for Qualified Sick and Family Leave Wages (for leave paid April 1, 2021, through September 30, 2021)       | 8f<br>Carried to Form 1040, Schedule 3 | CRN 271  | 061         |

**Note:** Wages do not need to be captured for the period of April 1, 2021, through September 30, 2021, therefore, no reference number was created for those wages.

**Note:** If you are unable to use xMend to input all reference numbers for Qualified Sick and Family Leave, use the IAT REQ54 Tool.

(6) Prior to adjusting the account, review Schedule H for completeness and accuracy.

- Follow IRM 21.5.3.4.5, Math and Master File Verification of Claims and Amended Returns, to verify the wages paid to claim the credit.
- If the Schedule H is incomplete, follow procedures in IRM 21.5.3.4.2, Tax Decrease or Credit Increase Processing.
- If the taxpayer is claiming the credit for wages paid in a prior year and there is no Schedule H for the prior year, disallow claim per IRM 21.5.3.4.6.1, Disallowance and Partial Disallowance Procedures.



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- (8) Due to space limitations on the CC IMFOLR Schedule H screen, qualified sick and family leave wages and credits are not displayed on IDRS like other Schedule H data elements. Instead, the field names and values are displayed on CC TXMOD and CC IMFOLT with a TC 970 Action Code 002.

21.6.4.4.8.6  
(01-19-2011)

**Schedule H, Household  
Employment Taxes -  
Interest-Free Provisions  
- Underpayments**

- (1) The interest-free provisions for underpayment adjustments on BMF taxes (IRC 6205) apply to errors discovered on IMF, Schedule H, Household Employment Taxes. Taxes imposed under the Federal Unemployment Tax Act (FUTA) are not eligible for the interest-free adjustment provision.
- (2) Household employers who discover (ascertain) they have reported and paid less FICA tax or income tax withholding than was due on an original tax return may qualify for an interest-free tax adjustment under Reg 31.6205-1(a).
- (3) To qualify for an interest-free tax adjustment, the employer must file an amended return reporting the correction by the due date of the tax return for the tax period in which the error was discovered. An error is considered discovered when the employer has sufficient knowledge of the error and can correct it.

**Example:** On June 1, 2022, an employer discovers an error made on Schedule H filed with their 2021 Form 1040. The employer must file an amended return by April 15, 2023, in order to qualify for an interest-free tax adjustment.

- (4) Although employers have until the due date of the tax return for the tax period in which the error was discovered to file an amended return reporting an underpayment adjustment, **regulations require employers to pay any underpayment of tax by the time the amended return is filed.** Otherwise, the correction does not qualify for a completely interest-free tax adjustment. See the table below for more information.

| If   | And | Then   |
|--|-----|--|
| The employer does not file an amended return by the due date of the tax return for the tax period in which the error was discovered. |     | Input a TC 290 with the correct reference number for the increase. Interest is due per normal underpayment interest rules. |

| If   | And  | Then  |
|--|--|---|
| The employer files an amended return by the due date of the tax return for the tax period in which the error was discovered. | Fully pays the underpayment owed when the amended return is filed.         | Input a TC 298 with the correct reference number for the increase. No interest is due on the amount of the underpayment reported and paid with the amended return.                                |
| The employer files an amended return by the due date of the tax return for the tax period in which the error was discovered. | Does not fully pay the underpayment owed when the amended return is filed. | Input a TC 298 with the correct reference number for the increase. Interest is due on the amount of the underpayment reported from the interest computation date to the date the payment is made. |

- (5) When inputting a TC 298, the interest computation date is the IRS received #
- (6) Employers do not need to withhold income tax on amounts paid to household employees unless the employee requests and the employer agrees.
- (7) Generally, adjustments to income tax and Additional Medicare Tax withholding errors are only made for errors discovered during the calendar year in which wages were paid. Since household employees' employment taxes are reported annually on Schedule H, no quarterly adjustments are necessary. Adjustments to amounts reported as income tax or Additional Medicare Tax withheld in a prior calendar year may only be made to correct an administrative error or if section 3509 applies. An administrative error occurs if the amount entered on Schedule H is not the amount the employer withheld. An example of an administrative error is an erroneous mathematical computation or a transposition error. See IRM 21.6.4.4.8.13, Schedule H, Household Employment Taxes, Claims Citing IRC 3509, for provisions about use of Section 3509 when the taxpayer incorrectly classified the worker.
- (8) When an adjustment includes a Schedule H (FICA or Income Tax Withholding; not FUTA) assessment AND another IMF issue(s), assure ONLY the FICA tax and any income tax withholding (not FUTA) of the Schedule H assessment receives the interest-free treatment.
- To input the Schedule H adjustment, see IRM 21.6.4.4.8.5, Schedule H, Household Employment Taxes, - Social Security, Medicare, and Income Taxes Part I. Attach the Schedule H and a copy of the Form 1040-X, DUPF or Correspondence noting the original signature is available by pulling the later adjustment.
  - Input the adjustment for the other IMF issue(s) following normal procedures. Attach Form 1040-X, DUPF or Correspondence and a copy of the Schedule H noting the adjustment was input separately.
- (9) A taxpayer can file a corrected Schedule H with a Form 1040-X or an amended Form 1041. The taxpayer explains the correction on the Schedule H in Part III of the Form 1040-X or on the required attached statement with the amended Form 1041. If a corrected Schedule H is filed by itself, the corrected

Schedule H should include the date the error was discovered in the top margin. See Publication 926, Household Employer's Tax Guide, for more information.

21.6.4.4.8.7  
(10-01-2021)

**Schedule H, Household  
Employment Taxes -  
Overpayments**

- (1) The interest-free provisions for overpayment adjustments on BMF taxes (IRC 6413) apply to errors discovered on IMF, Schedule H, Household Employment Taxes. Taxes imposed under the Federal Unemployment Tax Act (FUTA) are not eligible for the interest-free adjustment provision. See IRM 20.2.10.6, Federal Unemployment Tax, for special rules for reductions in FUTA tax due to increased state credits.
- (2) Process an overpayment of social security and Medicare taxes (and any overpayment of income tax or Additional Medicare Tax withholding made as an administrative error) on a corrected Schedule H as an interest-free adjustment if there is any indication the taxpayer wants the overpayment applied as a credit to the period in which the Schedule H reporting the overpayment is filed.

**Example:** Taxpayer files a Form 1040-X with an attached corrected Schedule H requesting the overpayment be applied to estimated tax for the current year. In this case the overpayment on the Schedule H is treated as an interest-free adjustment.

- (3) Process an overpayment of social security and Medicare taxes (and any overpayment of income tax or Additional Medicare Tax withholding made as an administrative error) on Schedule H as a refund with interest if there is no indication the taxpayer wants the overpayment applied as a credit.

**Note:** Refer to IRM 20.2.10.5, Employment Taxes, for more information on the application of interest and interest-free provisions.

- (4) Interest-free adjustments to overpayments of social security and Medicare taxes are made at any time after the error is discovered within the applicable IRC 6511 period of limitations for the period in which the error occurred. However, an employer cannot make an interest-free adjustment in the last 90 days of the period of limitation.
- (5) A taxpayer can file a corrected Schedule H with a Form 1040-X or an amended Form 1041. The taxpayer explains the correction on the Schedule H in Part III of the Form 1040-X or on the required attached statement with the amended Form 1041. If a corrected Schedule H is filed by itself, the corrected Schedule H should include the date the error was discovered in the top margin. See Publication 926, Household Employer's Tax Guide, for more information.
- (6) Interest-free adjustments to overpayments for the employee share of social security and Medicare tax are only made once the employer has repaid or reimbursed the employee for the over collection of employee tax. An employer reimburses an employee by applying the over withheld amount against taxes to be withheld on future wages. Publication 926 instructs the employer to include a statement in their explanation in Part III of Form 1040-X, or in the attached statement to an amended Form 1041, that it has repaid or reimbursed its employee, except where taxes were not withheld from the employee or where, after reasonable efforts, the employer cannot locate the employee.

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- (7) As part of the claim process, the employer must repay or reimburse the employee for the over collection or secure the employee's consent to the allowance of the claim for refund. Publication 926 instructs the employer to include a statement in their explanation in Part III of Form 1040-X, or in the attached statement to an amended Form 1041, that it has repaid or reimbursed its employee or has secured the employee's written consent to the allowance of the filing of the claim, except to the extent the taxes were not withheld from the employee.

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**Note:** The taxpayer cannot make a claim for refund of income tax and Additional Medicare Tax withholding if the income tax or Additional Medicare Tax overpaid was withheld from the employee.

- (8) Generally, interest-free adjustments to income tax or Additional Medicare Tax withholding errors are only made for errors discovered during the same calendar year. Since household employees' employment taxes are reported annually on Schedule H, no quarterly adjustments are necessary. Interest-free adjustments to amounts reported as income tax or Additional Medicare Tax withheld in a prior calendar year are only made to correct an administrative error. An administrative error occurs if the amount entered on Schedule H is not the amount the employer withheld. An example of an administrative error is an erroneous mathematical computation or a transposition error.
- (9) When a Form 1040-X, Amended U.S. Individual Income Tax Return, includes an overpayment on the Schedule H (FICA or Income Tax Withholding; not FUTA) **and** another IMF issue(s), and indicates that it wants the overpayment applied as a credit, assure **only** the Schedule H overpayment receives interest-free treatment.
- (10) As part of the adjustment or claim process, an employer may not receive a refund of the employer share of overpaid social security and Medicare taxes without making reasonable efforts to protect the employees' interests - to recover for its employees the corresponding employee share. An employer has a duty to assure that its employee's rights to recover over-collected social security and Medicare taxes are protected by repaying or reimbursing over-collected amounts. Alternatively, an employer may obtain the employee's consent to the filing of a refund claim. However, these requirements do not apply
1. to the extent the overpayment does not include taxes withheld from the employee.
  2. if, after reasonable efforts, the employer cannot locate the employee.
  3. if the employee, once contacted, does not provide the requested consent.

In cases where the employer cannot locate the employee, or if the employee does not provide the requested consent, the employer may file a claim for refund for only the employer's share of the FICA taxes.

Reference: Rev. Proc. 2017-28

21.6.4.4.8.8  
(01-24-2020)

**Schedule H, Household  
Employment Taxes, Part  
II Federal Unemployment  
Tax Act (FUTA)**

- (1) The FUTA tax rate is 6% of the employee's FUTA wages. However, the employer may be able to take a credit of up to 5.4% against the FUTA tax, resulting in a net tax rate of 0.6%. The 5.4% credit is reduced for wages paid in a credit reduction state.
- (2) Taxpayers are subject to FUTA tax on the first \$7,000 of wages paid to each household employee if wages of \$1,000 or more are paid to all household employees in any calendar quarter of the prior year or current year.
- (3) For more information on FUTA tax and FUTA wages, see Publication 926, Household Employer's Tax Guide.
- (4) For responses to FUTA discrepancy assessments, which is identified by a TC 290 assessed by IDRS number beginning with 02642, see IRM 21.7.3.4.2, Federal Unemployment Tax Act (FUTA) Certification Program - Discrepancy Cases.
- (5) FUTA State Codes must be input for adjusting both the primary and secondary taxpayer information.
- (6) The FUTA State Code is a three-character code comprised of a single Alpha letter followed by the two-character state code used by the U.S. Postal Service.
- (7) The FUTA State Code Alpha is used as follows:
  - "T" — Primary taxpayer (refers to tax)
  - "Y" — Secondary taxpayer (refers to tax)
  - "W" — Primary taxpayer (refers to wages)
  - "Z" — Secondary taxpayer (refers to wages)
- (8) The three-character code is systemically converted to the applicable item reference number (IRN) for Master File (MF).
  - "T" converts to IRN 997
  - "Y" converts to IRN 995
  - "W" converts to IRN 998
  - "Z" converts to IRN 996

**Note:** When adjusting FUTA tax, the tax amount from line 16 or line 24 of *Schedule H* is included in the TC 29X.

- (9) For taxpayers reporting wages in multiple states, see IRM 21.7.3.4.5, Multiple State Cases.

**Caution:** Programming only allows for one adjustment to the primary or secondary. If multiple states are required, you must input separate adjustments.

- (10) The reference number is not displayed on tax modules.

**Example:** The primary taxpayer reports \$1,000 unemployment tax paid to Ohio. State code input is "TOH" — 1,000. The computer converts to TC 997 at MF.

- (11) Use RC 050 when adjusting Schedule H.

21.6.4.4.8.9  
(10-01-2006)

**Schedule H, Household  
Employment Taxes -  
Unpostables**

- (1) Following is a list of Unpostable Codes (UPC) applicable to Schedule H, Household Employment Taxes.

| UPC Code | Reason Code | Description   |
|----------|-------------|---|
| UPC 189  | RC 1        | Reference codes 003, 004, 007, 073, 903, 904, 907, 973, 995, 996, 997, and 998 are valid for MFT 30. This UPC occurs if the input reference number attempts to reduce the related field below zero. |
| UPC 291  | RC 3-1      | Input must be for a significant money amount. This unpostable occurs if the input attempts to post without a significant money amount.  |
| UPC 290  | RC 4 j      | This UPC occurs if the input attempts to post to an invalid period.   |
| UPC 169  | RC 8        | This UPC occurs if reference numbers 903, 904, 907, 973, 994, 995, or 996 are input to a module not controlled by a joint name line or not containing a spousal TIN.                                |
| UPC 169  | RC 0        | This UPC occurs if an adjustment is input to Schedule H and no EIN is present for the primary or secondary taxpayer.  |
| UPC 150  | RC 3        | This UPC occurs if a Schedule H tax assessment is input to a module where the ASER is expired and Priority Code 1 is not used.  |

21.6.4.4.8.10  
(02-29-2024)

**Schedule H, Household  
Employment Taxes,  
Received Without Form  
1040, U.S. Individual  
Income Tax Return**

- (1) A loose *Schedule H* requires research to determine the right action.

- If the module has a posted TC 150, adjust the module using the correct reference number(s) and RC 050.
- If the module does not contain a TC 150 and it's **prior** to the due date of the return, follow the table below.
- If the module does not contain a TC 150 and it's **after** the due date of the return, prepare a dummy Form 1040 as shown in (3) and route the Schedule H for processing.

**Note:** Make sure the Schedule H is complete prior to sending for processing. If there is no EIN on the Schedule H, follow procedures in IRM 21.6.4.4.8.1(3), Schedule H, Household Employment Taxes - Employer Identification Numbers.

| If   | Then  |
|--|---|
| The question in Part III, "Are you required to file Form 1040?" is answered <b>"Yes."</b>                        | <ul style="list-style-type: none"> <li>Return the Schedule H to the taxpayer following (2) below.</li> <li>Push code the Schedule H following procedures in IRM 21.5.1.5.7, CII Push Codes. Assess the tax on Schedule H when the push code expires if the taxpayer doesn't file or report the tax on Form 1040.</li> </ul> |
| The question in Part III, "Are you required to file Form 1040?" is answered <b>"No"</b> and Part IV is blank.    | <ul style="list-style-type: none"> <li>Return the Schedule H to the taxpayer following (2) below.</li> <li>Push code the Schedule H following procedures in IRM 21.5.1.5.7, CII Push Codes. Assess the tax on Schedule H when the push code expires if the taxpayer doesn't file or report the tax on Form 1040.</li> </ul> |
| The question in Part III, "Are you required to file Form 1040?" is answered <b>"No"</b> and Part IV has entries. | Prepare a "dummy" Form 1040 as shown in (3) and route the Schedule H for processing.  |
| The question in Part III, "Are you required to file Form 1040?" is <b>not answered</b> , Part IV has entries.    | <ul style="list-style-type: none"> <li>Return the Schedule H to the taxpayer following (2) below.</li> <li>Push code the Schedule H following procedures in IRM 21.5.1.5.7, CII Push Codes. Assess the tax on Schedule H when the push code expires if the taxpayer doesn't file or report the tax on Form 1040.</li> </ul> |
| The question in Part III, "Are you required to file Form 1040?" is <b>not answered</b> and Part IV is blank.     | <ul style="list-style-type: none"> <li>Return the Schedule H to the taxpayer following (2) below.</li> <li>Push code the Schedule H following procedures in IRM 21.5.1.5.7, CII Push Codes. Assess the tax on Schedule H when the push code expires if the taxpayer doesn't file or report the tax on Form 1040.</li> </ul> |

## (2) When returning the Schedule H, tell the taxpayer:

- The Schedule H entries indicate they will file an income tax return.
- The Schedule H is being returned for inclusion with the Form 1040.
- To file a Form 1040-X if a Form 1040 was filed without reporting the Schedule H tax.
- To resubmit a Schedule H, after verifying all Schedule H entries, if they are not required to file Form 1040 (if they answered "No" to "Are you required to file Form 1040").

Include Notice 1207, File Schedule H (Household Employment Taxes) With Your Individual Income Tax Return, when returning Schedule H to the taxpayer.

## (3) When preparing a "dummy" Form 1040 for processing:

- Dummy *Form 1040, Schedule 2*, by entering the total tax shown on Schedule H as follows:



Schedule 2, lines 9 and 21 (for tax year 2021 and later).

Schedule 2, lines 7a and 10 (for tax years 2019 and 2020).

2. Dummy Form 1040 by entering the name and address from Schedule H.
3. Enter filing status 1 or 2 based on the Schedule H name line.
4. Enter Computer Condition Code 3 as shown in IRM 3.11.3.3.7.3, Computer Condition Code (CCC).
5. Enter the Schedule 2 tax amount to Form 1040 lines 15, 16, and 23.
6. Enter Return Processing Code Y as shown in IRM 3.11.3.3.7.5, Return Processing Code (RPC).

See IRM 21.5.1.5.5, *Processing/Reprocessing CII Tax Returns*, for more edits and routing instructions.

- (4) See IRM 21.6.4.4.8(8), Schedule H, Household Employment Taxes, for information about the ASED on a loose Schedule H.

21.6.4.4.8.11  
(10-01-2019)

**Duplicate Filing  
Conditions (Dummy  
Form 1040, U.S.  
Individual Income Tax  
Return, with Schedule H,  
Household Employment  
Taxes)**

- (1) *Schedule H*, Household Employment Taxes, received without Form 1040 or Form 1040-SR, are processed with a “dummy” Form 1040. A duplicate filing condition results if the taxpayer files an original return.

| If  | And  | Then  |
|---|--|---|
| The “dummy” Form 1040 posted as an original (TC 150). | The taxpayer’s original return posted as a duplicate and bypassed Discriminant Function (DIF) scoring. | <ol style="list-style-type: none"> <li>1. Math verify the taxpayer’s original return.</li> <li>2. Adjust the account to reflect the income and tax shown on the taxpayer’s original return.</li> <li>3. Refer to IRM 21.5.2.4.23.6, Discriminant Index Function (DIF) SCORE or CLASSIFICATION “Send Return(s) to Examination for Review”. Route to Examination if necessary. Use local routing procedures.</li> </ol> |
| The taxpayer’s original return posted as the TC 150.  | Schedule H, processed with a “dummy” Form 1040, posted as a duplicate.                                 | Adjust the account, using the right EIN and reference numbers.  |



21.6.4.4.8.12  
(11-21-2014)  
**BMF Form 941,  
Employer's QUARTERLY  
Federal Tax Return,  
Filed Instead of IMF  
Schedule H, Household  
Employment Taxes**

- (1) If the taxpayer filed Form 941, Employer's QUARTERLY Federal Tax Return, Form 943, Employer's Annual Federal Tax Return for Agricultural Employees, or Form 944, Employer's ANNUAL Federal Tax Return, instead of Schedule H, Household Employment Taxes, (with or without Form 1040, U.S. Individual Income Tax Return), remove the tax from the BMF Form 941 (or Form 943 or Form 944) account and assess on the IMF Form 1040 account.

**Reminder:** **ONLY** follow these procedures when **ALL** the employees reported on Form 941 are household employees. If the taxpayer has both household and other employees, the employer has the option to report both types of employees on Form 941, (or Form 944, or Form 943, if applicable).

**Note:** If an adjustment is required on both the IMF and BMF side, the individual campus adjusts the issue specific to their campus and routes the case to the sister site to finish the processing. See IRM 3.13.6.2.4, Batch Cover Sheet - Outside the Scope Of The Campus Work Type, for procedures and correct site to refer to.

- (2) Take the following action on the Form 941 (MFT 01) account, the Form 944 (MFT 14) account, or Form 943 (MFT 11).
- a. Delete the tax; use HC 4 if you have to transfer payments.
  - b. Transfer payments to the IMF account.
  - c. Delete the Form 941, Form 943, or Form 944 filing requirements. (Also, delete the Form 940 filing requirement, if present.)
  - d. Use a copy of the taxpayer's correspondence as the adjustment source document. Attach a copy of Form 941, Form 943, or Form 944, if available, but DO NOT request the return from Files.
- (3) Take the following action on the Form 1040 (MFT 30) account:
- a. Assess the tax originally reported on Form 941, Form 943, or Form 944.
  - b. Use a copy of the taxpayer's correspondence as the adjustment source document. Attach a copy of Form 941, Form 943, or Form 944, if available, but DO NOT request the return from Files.
- (4) If the taxpayer also erroneously reports FUTA on Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, (MFT 10) for household employees:
- a. Use the procedures in (2) above to delete the FUTA tax and make any necessary credit transfers on MFT 10.
  - b. Follow the procedures in (3) above to assess the FUTA portion on MFT 30. (If you have to assess both FICA and FUTA tax, assess on the same adjustment document, whenever possible.)

**Reminder:** If the taxpayer has both household and other employees, the employer has the option to report taxes for both types of employees on Form 940.

- (5) Provide the taxpayer a complete explanation of the adjustments to the IMF and BMF accounts.
- a. Include information concerning credit transfers or potential refund, if applicable.

- b. Instruct the taxpayer to report the taxes for household employees on Schedule H.
- c. Advise the taxpayer to file Form 941 or Form 940 to include household employees only when they have to report taxes for other employees.

**Note:** Employers whose total liability was \$1,000 or less may be required to file Form 944, Employers ANNUAL Federal Tax Return, if they were notified to do so and did not opt out of the Form 944 filing requirement as permitted under certain conditions. See IRM 21.7.2.4.7, Form 944, Employers ANNUAL Federal Tax Return, for more filing information.

21.6.4.4.8.13  
(10-01-2014)  
**Schedule H, Household  
Employment Taxes -  
Claims Citing IRC 3509**

- (1) IRC 3509 provides for reduced rates for calculating employer liability for employment tax if a worker is reclassified from an independent contractor to an employee.
- (2) The taxpayer may submit Form 1040-X, U.S. Amended Individual Income Tax Return, with a Schedule H, Household Employment Taxes, if they discover the worker was incorrectly classified. If the taxpayer does not have a Form 1040 filing requirement, they may file the Schedule H by itself.
- (3) IMF handles IRC 3509 claims the same way BMF handles Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund, citing IRC 3509.
- (4) To process the claim, refer to and use BMF instructions in IRM 21.7.2.5.4, IRC Section 3509.
- (5) Use IMF reference numbers, as shown in IRM 21.6.4.4.8.5, Schedule H, Household Employment Taxes, - Social Security, Medicare, and Income Taxes Part I.
- (6) If the discovered date is not given, contact the taxpayer. If no answer is received, input a TC 290 for the increase. IRM 21.6.4.4.8.6, Schedule H, Household Employment Taxes - Interest - Free Provisions - Underpayments.

21.6.4.4.9  
(10-01-2024)  
**Schedule J, Income  
Averaging for Farmers  
and Fishermen**

- (1) Farmers and fisherman may use *Schedule J*, Income Averaging for Farmers and Fishermen, to elect to average all or part of taxable income over the previous 3 years. Farmers may benefit from this election in a year when farm income is high and income in one or more of the previous three years was low.
- (2) Taxpayers enter income amounts on Schedule J from the appropriate line of the prior year(s) income tax return(s).
  - If the taxpayer filed a Schedule J for the previous year, then the taxpayer enters income amounts from the previous year's Schedule J on their current year Schedule J.
  - If the taxpayer did not file a Schedule J for the previous year, then the taxpayer enters income amounts on its current year Schedule J from the appropriate line of the prior year(s) income tax return(s).
  - If deductions exceed gross income for any year that is a base year, there may be negative taxable income for that base year. However, any amount that may provide a benefit in another taxable year is added

back in to determine the base year taxable income. See the worksheet in the *Instructions for Schedule J (Form 1040), Income Averaging for Farmers and Fishermen*.

The base years are determined as follows:

| If Tax Year is | Then Base Years are |
|----------------|---------------------|
| 2024           | 2023, 2022, 2021    |
| 2023           | 2022, 2021, 2020    |
| 2022           | 2021, 2020, 2019    |
| 2021           | 2020, 2019, 2018    |

- (3) If a farmer or fisherman did not file a return for any of the three previous years, the amount entered on Schedule J for that year(s) is the amount that would have been reported if the taxpayer had filed a return.
- (4) The Taxpayer Notice Code explanation for Schedule J is: "Your Schedule J tax was figured incorrectly. We adjusted your account accordingly."
- (5) A farmer's or fisherman's regular tax liability for purposes of computing Alternative Minimum Tax (AMT) is determined without reduction for income averaging. Those taxpayers receive the full benefit of income averaging because it reduces the regular tax while the AMT (if any) remains unchanged.
- (6) With respect to base years, minor children who had unearned income and were taxed based on their parents' rates in those earlier years do not recompute their tax liability when a parent makes an election to average income in a later year. With respect to an election year, if minor children have unearned income and are taxed based on their parents' rates, the applicable tax rate is the rate determined after the parent makes an income averaging election.
- (7) For more information, see Pub. 225, Farmer's Tax Guide, Pub. 17, Your Federal Income Tax (For Individuals), or *Instructions for Schedule J (Form 1040), Income Averaging for Farmers and Fishermen*.

#### 21.6.4.4.9.1 (10-01-2009)

#### **Taxable Income from Farming or Fishing and Elected Farm Income**

- (1) Taxable income from a farming business, as defined in IRC 263A(e)(4), or fishing includes all of the items listed below that are attributable to any farming or fishing business:
  - Income
  - Gains
  - Losses
  - Deductions
  - Compensation received by a shareholder from an S corporation engaged in a farming or fishing business
  - A landlord's crop share income reported on Form 4835, Farm Rental Income and Expenses, is eligible for income averaging under certain circumstances
- (2) Taxable income from farming does not include gains or losses from the sale or other disposition of land.

- (3) Elected farm income is the amount of taxable income attributable to a farming or fishing business that the taxpayer elects to include on line 2 of the Schedule J.

21.6.4.4.9.2  
(10-01-2009)  
**Adjusting Schedule J**

- (1) Math verify *Schedule J*, Income Averaging for Farmers and Fishermen.  
(2) Input the adjustment to tax with a TC 290 or TC 291.  
(3) Use Reason Code 046 and correct *source code* and *blocking series*.

21.6.4.4.9.3  
(10-02-2023)  
**USDA Discrimination Settlement Payments**

- (1) The United States Department of Agriculture (USDA) paid cash settlements and granted loan cancellations to various groups of farmers pursuant to settlements approved throughout the years. The settlements resulted from discrimination suits brought against the USDA by farmers.  
(2) Taxpayers may use terms other than “USDA” when communicating about these claims. Some of the other terms frequently used are:
- Pigford vs. Glickman
  - Pigford vs. Veneman
  - Black Farmers Suit / Settlement cases
  - Keepseagle
  - Native Americans
  - Pigford II
  - Hispanics and Women Farmers and Ranchers Claim

**Note:** These are NOT Group or Class-Based Reparation Claims. See IRM 21.6.6.2.1, Group or Class-Based Reparation Claims, for more information.

- (3) For 99% of the Pigford claimants, the settlement amounts fell into three categories:
- \$50,000 cash payment.
  - Forgiveness of the principal and interest on certain debts (amounts varied by claimant).
  - A payment toward tax equal to 25% of the total of the \$50,000 payment and the forgiveness of the debt principal (but not the interest).

**Note:** For Keepseagle / Native American, Hispanics / Women, and Pigford II claims, see (6) and (7).

- (4) Most taxpayers received these payments over a period of two years. The cash payment and the debt forgiveness occurred in one year, and the tax payment was remitted to IRS in the following year. The cash payment and the tax payment (the 25% amount) are taxable income. The forgiveness of debt is generally taxable income but may be excludable under certain circumstances. If the taxpayer uses the cash method of accounting, the taxpayer must report the tax payment (the 25% payment) as taxable income for the year when the payment was applied to the taxpayer’s account.  
(5) The payment of tax (25% payment):
- a. Must be claimed as an estimated tax payment for the tax year the settlement/debt forgiveness was received.

- b. The estimated tax payment is made directly to IRS by the USDA on behalf of the taxpayer.
  - c. Since the taxpayers did not make this payment, they may forget to claim the credit on their return.
  - d. Identify the payment by the unique Document Locator Number (DLN) of 52217 or 43217 (013/014) 9XX.
  - e. If the farmer does not claim the estimated tax payment, the tax module shows a J- Freeze. See IRM 21.5.6.4.19, J- Freeze.
  - f. Must be reported as taxable income for the year the payment was applied to the taxpayer's account.
- (6) Keepseagle, Hispanics / Women, and Pigford II settlements were divided into two categories:
- Track A - claimants received an award of up to \$50,000 plus an additional 25% in withholding (for a total of up to \$62,500).
  - Track B - claimants received up to \$250,000 with no income tax withheld.
  - Track A and Track B - claimants may have also received debt forgiveness.
- (7) Both Track A and Track B claimants were issued a Form 1099-MISC, Miscellaneous Income, along with an instructional notice prepared by a third party (not the IRS) advising the farmer how to correctly report the settlement.
- (8) Farmers who had debt forgiveness received a Form 1099-C, Cancellation of Debt.
- (9) Farmers must file a return to receive a refund.
- (10) Refer to the table below to work settlement cases:

| Row Number | If   | And  | Then  |
|------------|--|--|---|
| 1          | This is a USDA Cash Settlement payment.  | The taxpayer reports only the settlement income (no expenses) on the "Other Income" line of Schedule F or Form 1040.<br><b>Note:</b> If the taxpayer has excess farm losses, the taxpayer should use Schedule F. | This amount is <b>not</b> subject to self-employment tax.   |
| 2          | This is a USDA Cash Settlement payment.  | The farmer is engaged in the business of farming.  | This amount is subject to self-employment tax, see IRM 21.6.4.4.14, Self-Employment Tax. Farmers receiving this payment may benefit from filing Schedule J, Income Averaging for Farmers and Fishermen.               |
| 3          | This is a loan cancellation of debt principal for cash or accrual taxpayers, or debt interest for accrual taxpayers. |  | This cancellation of debt is considered farm income. Report the amount on the "Other Income" line of Schedule F and identify as "USDA Settlement." Farmers receiving this payment may benefit from filing Schedule J. |
| 4          | This is a loan cancellation of debt principal for cash or accrual taxpayers, or debt interest for accrual taxpayers. | The taxpayer reports only the loan cancellation on Schedule F, "Other Income" line (no expenses).  | This amount is not subject to self-employment tax.  |
| 5          | This is a loan cancellation of debt principal for cash or accrual taxpayers, or debt interest for accrual taxpayers. | The farmer was engaged in the business of farming.   | This amount is subject to self-employment tax, see IRM 21.6.4.4.14, Self-Employment Tax.  |

| Row Number | If   | And   | Then  |
|------------|--|---|---|
| 6          | This is a loan cancellation of debt principal for cash or accrual taxpayers, or debt interest for accrual taxpayers. | The farmer was insolvent at the time the loan was cancelled or if the loan was qualified farm debt. | Loan cancellation amounts may qualify for exclusion. Refer to Publication 908, Bankruptcy Tax Guide, and Publication 225, Farmer's Tax Guide, for exclusion criteria. File Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment), with the Form 1040, U.S. Individual Income Tax Return, to claim the exclusion.   |
| 7          | <b>All claims</b><br>The taxpayer's account was not properly credited with the estimated tax payment or withholding. | You cannot verify the payment or withholding.   | <ol style="list-style-type: none"> <li>1. Reassign the CII case to employee number 0933578782. For phone calls, complete Form 4442, Inquiry Referral, and refer the case to Kansas City. Include a day and evening phone number for the taxpayer.<br/><br/>Enterprise Electronic Fax (EEFax) 888-981-6459.</li> <li>2. Input a STAUP if in a balance due status.</li> <li>3. Kansas City will open a control base, research the issue, and contact the taxpayer upon resolution.</li> </ol> |

#

21.6.4.4.10  
(10-01-2024)

**Form 8615, Tax for  
Certain Children Who  
Have Unearned Income**

- (1) For Form 8615, Tax for Certain Children Who Have Unearned Income, unearned income includes all income except earned income. Earned income includes:

- Wages
- Salaries
- Tips
- Professional fees
- Amounts received as pay for personal services
- Distributions for qualified disability trusts

- (2) Any child who meets all the following conditions, must file a Form 8615:

- The child's unearned income was more than the amount shown in (3).
- The child is required to file a tax return.
- The child meets the age as shown in the note in (4).
- At least one of the child's parents was alive at the end of the tax year.
- The child does not file a joint return.

- (3) Unearned income is the portion of adjusted gross income that is not earned income minus the larger of: \$2,600 for 2024 (\$2,500 for 2023, \$2,300 for 2022 or \$2,200 for tax years 2019 through 2021) or, if the child itemizes deductions, \$1,300 for 2024 (\$1,250 for 2023, \$1,150 for 2022 or \$1,100 for tax years 2019 through 2021) plus the amount of itemized deductions directly connected with the production of the child's unearned income.

- (4) A child's age is determined at the close of the taxable year.



**Note:** A child is under age 18, is age 18 and did not have earned income that exceeded 1/2 of the amount of the child's support **or** is over 18 and under age 24 and a full-time student and did not have earned income that was more than 1/2 of the child's support.

- (5) A child whose tax is figured on Form 8615 may be subject to the Net Investment Income Tax. See IRM 21.6.4.4.19, Net Investment Income Tax.
- (6) For more details, see Publication 929, Tax Rules for Children and Dependents, for tax years 2021 and prior or *Instructions for Form 8615*, for tax years 2022 and later.
- (7) If the taxpayer did **not** make an election to calculate their tax based on the tax rate of the parent, the child's tax is the greater of:
  - The tax at the child's tax rate on the child's taxable income, or
  - The total obtained by adding the tax computed in the bullet above (an amount of tax based on the child's taxable income minus the child's net unearned income), plus the child's share of (8) below.
- (8) The allocable parental tax is:
  - The tax that would be imposed if the parents' taxable income included the net unearned income of all the parents' children subject to this tax
  - Minus the tax that would otherwise be imposed on the parent

| If   | And  | Then   |
|--|--|--|
| The parents' tax rate is higher than the child's.  | The parent does not elect to report the child's income on Form 8814, Parents' Election to Report Child's Interest and Dividends. | The child's investment income is taxed at the parents' rate. Use Form 8615, Tax for Certain Children Who Have Unearned Income, and the related instructions to figure the child's tax. |
| The parent elects to report the child's income on Form 8814, Parents' Election to Report Child's Interest and Dividends. |  | See IRM 21.6.4.4.11, Form 8814, Parents' Election to Report Child's Interest and Dividends.  |

Refigure the child's tax if, after filing the return, the parents' taxable income, filing status, or the net investment income of the parents' other child or children changes.

- If the child's tax changes, they must file Form 1040-X, Amended U. S. Individual Income Tax Return.
- The child is not subject to penalties or under payments resulting from the additional tax.

21.6.4.4.10.1  
(01-08-2016)  
**Form 8615, Tax for  
Certain Children Who  
Have Unearned Income,  
Tax Adjustments**

- (1) Follow the procedures in IRM 21.5.3.4, General Claims Procedures, if Form 8615, Tax for Certain Children Who Have Unearned Income, is missing or incomplete. Address any correspondence, about this return, to the taxpayer (child), in care of the parent(s) or guardian(s).
- (2) Adjustment action required:

- a. Math verify the Form 8615.
- b. Update the entity to add "MINOR" to the taxpayer's (child) name if the child is still a minor.
- c. Add the parent's name(s), if available, as a second name line. Use the name(s) shown on Form 8615.
- d. Input the correct tax adjustment.
- e. Use reason code 099, the correct *blocking series* and *source code*.

21.6.4.4.10.2  
(10-01-2024)

**Form 8615, Parents' Tax  
Information Requested**

- (1) Information contained in this section applies to all tax years, excluding 2018 and 2019, that the taxpayer did **not** make an election to calculate their tax based on the tax rate of the parent.
- (2) A taxpayer (child) or a legal representative may request the parents' tax return information to complete Form 8615, Tax for Certain Children Who Have Unearned Income. The IRS will supply the information upon request. The request must be:
  - Signed by the taxpayer, or a legal representative. The request must include a valid Power of Attorney or proof of legal guardianship.
  - Submitted after the close of the parents' tax year.
- (3) The request must contain:
  - A statement of intent to comply with IRC 1(g)
  - A statement of an attempt to obtain the information from the parent(s)
  - An explanation of why the information is not available from the parent(s)
  - Proof the child is under age 18 (e.g., birth certificate)
  - Evidence of unearned income over \$2,600 for 2024 (\$2,500 for 2023, \$2,300 for 2022 or \$2,200 for tax years 2019 through 2021) (e.g., copies of current Forms 1099, or prior year return accompanied by an explanation of why Forms 1099 are not available)
  - The parents' return information (name, address, TIN, and filing status, if available) with sufficient information to identify the parents' account
- (4) Verify all information is present upon receipt of the request.

21.6.4.4.10.3  
(10-01-2024)

**Rejecting Form 8615,  
Tax for Certain Children  
Who Have Unearned  
Income**

- (1) Information contained in this section applies to all tax years, unless for tax years 2018 and 2019, the taxpayer did **not** make an election to calculate their tax based on the tax rate of the parent.
- (2) If the taxpayer submits an incomplete request, advise the taxpayer:
  - The request is not processable.
  - The specific information needed to process the request.
  - To resubmit the request with the required information.
- (3) Reject the request if the requester did not make a sufficient attempt to obtain the parents' information. Refer to the *Disclosure website* if unable to determine if the requester's attempt was sufficient.
- (4) Do not honor the request if the requester does not meet the requirements of IRC 1(g).
  - a. Close the case.
  - b. Send a Letter 105C and state the following: "We are unable to process your request since you did not establish you need the requested informa-

tion for filing your return. IRC 1(g) applies if you are under age 18 and you have unearned income of more than "\$2,600 for 2024 (\$2,500 for 2023, \$2,300 for 2022 or \$2,200 for tax years 2019 through 2021).

21.6.4.4.10.4  
(10-16-2018)  
**Processable Form 8615,  
Tax for Certain Children  
Who Have Unearned  
Income**

- (1) Information contained in this section applies to all tax years, unless for tax years 2018 and 2019, the taxpayer did **not** make an election to calculate their tax based on the tax rate of the parent.
- (2) Upon receipt of a processable request, take the following actions:
  - a. Tell the requester to file Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.
  - b. Initiate research for the parents' return.

| If the request  | And   | Then  |
|---|---|---|
| Is processable  | The return is posted                                      | Request the return.   |
| Is received prior to the return due date or there is a posted extension | The return is NOT posted                                  | <ol style="list-style-type: none"> <li>1. Input TC 930.</li> <li>2. Notify the requester of the reason for the delay and the approximate date we can supply the information.</li> </ol> |
| Is received after the return due date                                   | The return is NOT posted and there is no posted extension | Notify the requester we cannot satisfy the request and why.   |

- (3) Upon receipt of the parents' return, prepare a response to the taxpayer. The response **must** include the:
  - Parents' name, Social Security number, and filing status.
  - Parents' taxable income from Form 1040, U.S. Individual Income Tax Return.
  - Parents' tax from Form 1040, U.S. Individual Income Tax Return.
  - Names of other dependent children claimed on the return who may affect the preparation of the requester's Form 8615, Tax for Certain Children Who Have Unearned Income.
- (4) Advise taxpayer if the tax is from the Tax Table, Tax Rate Schedules, or Schedule D.

21.6.4.4.11  
(10-01-2024)  
**Form 8814, Parents'  
Election to Report  
Child's Interest and  
Dividends**

- (1) The parent of a child may elect to include the gross income of the child in the parents' gross income by filing Form 8814, Parents' Election to Report Child's Interest and Dividends. The child is not required to file a return if the parents make the election. The following conditions apply:
  - A child is under age 19 **or** under age 24, a full-time student, and did not have earned income that was more than 1/2 of the child's support.
  - The child's gross income was more than \$1,300 for 2024 (\$1,250 for 2023, \$1,150 for 2022 or \$1,100 for tax years 2019 through 2021) and less than \$13,000 for 2024 (\$12,500 for 2023, \$11,500 for 2022 or \$11,000 for tax years 2019 through 2021).

- The child's only income was from interest and dividends, including capital gain distributions and Alaskan Permanent Fund dividends.
- No estimated tax payments were made in the name or TIN of the child (including any credit elect from the previous year).
- No federal income tax was withheld in the name or TIN of the child.
- The child is required to file a return.
- The child does not file a joint return.

(2) The parents' tax is the total of:

- The income tax determined after adding the child's income in excess of \$2,500 for 2023 (\$2,300 for 2022 or \$2,200 for tax years 2019 through 2021) to the parent's income, plus
- The lesser of \$1,250 for 2023 (\$1,150 for 2022 or \$1,100 for tax years 2019 through 2021) or 10% of the child's income over \$1,250 for 2023 (\$1,150 for 2022 or \$1,100 for tax years 2019 through 2021).

(3) Treat any interest which is a tax preference item of the child as a tax preference item of the parent.

(4) For more information see the *Instructions for Form 8814*, Parents' Election to Report Child's Interest and Dividends.

21.6.4.4.11.1  
(12-09-2005)

**Form 8814, Parents' Election to Report Child's Interest and Dividends, Adjustments**

(1) Each child whose income is reported on the parents' return must submit a separate Form 8814, Parents' Election to Report Child's Interest and Dividends. If the return is missing or incomplete, refer to IRM 21.5.2, Adjustment Guidelines. Take the following action on complete forms:

- Math verify the Form 8814, Parents' Election to Report Child's Interest and Dividends, line by line.
- Input the adjustment (increase or decrease).
- Use reason code 033, the correct *blocking series* and *source code*.

21.6.4.4.12  
(10-01-2024)

**Alternative Minimum Tax (AMT) Changes**

(1) Alternative Minimum Tax is reported on Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, *Schedule 2*, Additional Taxes.

(2) The exemption amounts for the alternative minimum tax are subject to limitations based on the total alternative minimum taxable income. See the *Instructions for Form 6251*, Alternative Minimum Tax - Individuals, for details. The maximum exemption amounts for the alternative minimum tax are as follows:

| Filing Status                                | Tax Year 2024 | Tax Year 2023 | Tax Year 2022 | Tax Year 2021 |
|--|---------------|---------------|---------------|---------------|
| Married filing jointly / Qualified widow(er) | \$133,300     | \$126,500     | \$118,100     | \$114,600     |
| Single / Head of household                   | \$85,700      | \$81,300      | \$75,900      | \$73,600      |
| Married filing separately                    | \$66,650      | \$63,250      | \$59,050      | \$57,300      |

- (3) Taxpayers can offset the entire regular tax liability and AMT liability by personal nonrefundable credits.

21.6.4.4.13  
(10-01-2021)

**Alternative Minimum Tax (AMT), Certain Children Under Age 24**

- (1) Taxpayers must use Form 6251, Alternative Minimum Tax-Individuals, to figure alternative minimum tax (AMT) for certain children under age 24.
- (2) If the parent chooses to report a child's interest and dividends on the parents' return the child is not subject to AMT.
- (3) The alternative minimum tax exemption is figured the same way as any other taxpayer. See IRM 21.6.4.4.12, Alternative Minimum Tax (AMT) Changes.
- (4) Follow normal adjustment procedures if an amended return is received changing the AMT computation. See Publication 929, Tax Rules for Children and Dependents, for more information.

21.6.4.4.14  
(10-01-2024)

**Self-Employment Tax**

- (1) The Social Security Administration (SSA) determines social security benefits based, in part, on the tax reported on *Schedule SE*, Self-Employment Tax.
- Usually taxpayers must pay self-employment (SE) tax on all net earnings of \$400 or more, regardless of age, even if receiving social security or Medicare benefits (See Publication 17, Your Federal Income Tax, for exceptions).
  - The Medicare portion of the SE tax (2.9%) applies to all earnings from self-employment, even if the maximum amount to which social security tax applies is reached.
  - SE tax is entered on the appropriate line of Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, *Schedule 2*, Additional Taxes.
- (2) Taxpayers subject to SE tax must complete Schedule SE.
- a. It may be beneficial for the taxpayer to use the optional method for computing SE tax to obtain social security credit (Schedule SE, Part II).
  - b. Taxpayers filing jointly must file separate Schedules SE if they both have self-employment income.
  - c. Taxpayers electing to use the qualified joint venture option must file separate Schedules SE. See the *Instructions for Schedule SE*.
- (3) For tax year 2013 and later, taxpayers may be subject to the 0.9% Additional Medicare Tax. See IRM 21.6.4.4.18, Additional Medicare Tax, for more information.
- (4) For tax years 2020 and 2021, certain self-employed individuals may qualify for refundable credits for sick and family leave because of COVID-19 related circumstances. The credit is claimed on *Form 7202*, Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals, and reported on Form 1040, *Schedule 3*, line 12b for tax year 2020 and line 13b for tax year 2021. For more information, see IRM 21.6.3.4.2.15, Credits for Sick Leave and Family Leave, and IRM 21.6.4.4.8.5.3, Credit for Qualified Sick and Family Leave Wages. See IRM 21.6.4.4.14.2, Self-Employment Tax Adjustments, for the correct reference numbers and reason codes.

**Note:** For information on how *Form 7202* can be submitted, see *Alternative filing method for e-filed returns that include Form 8915-e and Form 7202*.

21.6.4.4.14.1

(10-01-2020)

**Who is Subject to Self-Employment Tax**

- (1) Taxpayers who have a trade or business must pay self-employment (SE) tax on net earnings of \$400 or more. **SE Tax does not apply to** amounts earned by:

- Nonresident aliens, unless an international social security agreement applies.
- Public officials, except for public officials compensated solely on a fee basis whose services are not covered by a Section 218 agreement.
- Members of certain religious sects who filed and had approved a Form 4029, Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits.
- Members of the clergy who filed and had approved Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners.

Review CC ENMOD **MIN-SE-TX-EXMPT**> field or CC IMFOLE **MINISTER SE CD**: field to determine if Form 4029 or Form 4361 was filed. If the value is:

- 0 - Neither form on file
- 1 - Form 4361 approved
- 2 - Form 4361 denied
- 4 - Form 4029 approved
- 8 - Form 4029 denied

- (2) The SE tax generally applies to the net earnings of self-employed persons (such as sole proprietors or partners), and not to earnings received by employees.
- (3) Income items included in computing SE tax are reported on *Schedule C*, Profit or Loss from Business (Sole Proprietorship), *Schedule E*, Supplemental Income and Loss, Part II, and *Schedule F*, Profit or Loss From Farming, or sometimes as “other income” on Form 1040, *Schedule 1*, Additional Income and Adjustments to Income.

**Note:** *Instructions for Form 1040 (and Form 1040-SR)*, specifically provide that income from self-employment should not be reported as “other income” or reported on Schedule E, Part I.

- (4) Changes in SE income may change the SE tax liability and related income tax deduction.
- (5) The best source of information for reporting SE tax are the *Instructions for Schedule SE* (Form 1040), Self-Employment Tax, for the applicable year. There are several special rules relating to SE tax other than the above.
- (6) For more details, see Publication 334, Tax Guide for Small Business (For Individuals Who Use Schedule C).

21.6.4.4.14.2

(10-01-2024)

**Self-Employment Tax Adjustments**

- (1) If the taxpayer files an amended return to correct self-employment (SE) income and SE tax originally reported.
- Verify the changes against the tax account information.
  - Research the returns and records of accounts as needed.



- (2) If married taxpayers combine their SE income onto one *Schedule SE*, or you are unable to determine which spouse the change applies to, send a Letter 324C requesting a correct Schedule SE and an explanation of the changes.

**Note:** If the result is a tax increase and there is no response to the correspondence, see IRM 3.11.6.14.2.4.2, Self-Employment (SE) Tax (Line 10), paragraph 4, for how to allocate the income.

- (3) Use the following to correct the SE income and SE tax:

| Input                           | Changes  |
|---------------------------------|--|
| TC 29X                          | the total tax, including SE tax  |
| Item Reference Number (IRN) 878 | the <b>primary SE income</b> (PRIM–SE–INCM> field) (line 4, Short Schedule SE, and the smaller of line 6 or 9, Long Schedule SE)   |
| IRN 879                         | the <b>secondary SE income</b> (SECND–SE–INCM> field) (line 4, Short Schedule SE, and the smaller of line 6 or 9, Long Schedule SE)  |
| IRN 886                         | the <b>taxable income</b> , when applicable  |
| IRN 888                         | the <b>AGI</b> , when applicable   |
| IRN 889                         | the <b>SE tax</b> (SET> field) (line 5, Short Schedule SE, and line 12, Long Schedule SE)  |
| IRN 895                         | the <b>primary Medicare income</b> (PMEI> field) (line 4, Short Schedule SE, and line 6, Long Schedule SE)   |
| IRN 896                         | the <b>secondary Medicare income</b> (SMEI> field) (line 4, Short Schedule SE, and line 6, Long Schedule SE)   |
| IRN 211                         | the <b>maximum deferral amount 2020 only</b> (line 26 of Schedule SE), see note below  |
| CRN 280                         | the <b>deferred social security tax 2020 only</b> (line 12e, Form 1040, <i>Schedule 3</i> ), see note below  |
| CRN 299                         | the <b>Qualified sick and family leave credits</b> for leave taken April 1, 2020, through March 31, 2021. <b>2020 or 2021 only.</b> Figured on <i>Form 7202</i> , Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals, and reflected on <i>Schedule 3</i> , Additional Credits and Payments. Use RC 061 when adjusting the credit. |
| CRN 271                         | the <b>Qualified sick and family leave credits</b> for leave taken April 1, 2021, through September 30, 2021. <b>2020 or 2021 only.</b> Figured on <i>Form 7202</i> , and reflected on <i>Schedule 3</i> . Use RC 061 when adjusting the credit.   |
| RC 044                          | N/A  |

**Note:** For more information on deferred Social Security tax, see IRM 21.6.4.4.8.5.2, Deferred Payment of Social Security Taxes for Employers and Self-Employed Individuals.



- (4) Generally, self-employment income cannot be adjusted after the statute of limitations. However, when income was reported under the wrong spouse, resulting in no tax change, and only requires moving income from the primary to the secondary, or secondary to the primary, the adjustment is allowable.
- (5) Combined wages, tips and net earnings, up to the amount shown in the table below, are subject to any combination of the 12.4% social security part of SE tax, social security tax or railroad retirement (tier 1) tax.
- (6) Combined wages, tips and net earnings are subject to any combination of the 2.9% Medicare part of SE tax, social security tax or railroad retirement (tier 1) tax. There is no income limit when computing Medicare tax.
- (7) If self-employment income exceeds the yearly limitation, or Medicare income is less than the self-employment income, the adjustment will result in an unpostable condition 189, reason code 8.

| If            | Then  |
|---------------|---|
| Tax Year 2024 | Item reference number 878 or 879 cannot exceed \$168,600. |
| Tax Year 2023 | Item reference number 878 or 879 cannot exceed \$160,200. |
| Tax Year 2022 | Item reference number 878 or 879 cannot exceed \$147,000. |
| Tax Year 2021 | Item reference number 878 or 879 cannot exceed \$142,800. |

21.6.4.4.14.3  
(04-20-2016)  
**Self-Employment Tax  
Not Reported**

- (1) **DO NOT** assess self-employment tax unless a taxpayer reports it on an amended, superseding or supplemental return or a late reply to a Submission Processing Error Resolution request is received, such as a Schedule SE.
  - a. Math error authority is not applicable to unreported SE tax.
  - b. Self-employment tax is **ONLY** assessed by Examination through statutory notice of deficiency procedures.

**Exception:** IRC 6213 allows for the assessment of self-employment tax up to the amount of EITC claimed on an original or amended return. For more information see IRM 21.6.3.4.2.7.7, Earned Income Tax Credit (EITC) and Self-Employment Tax.

tion Criteria (CAT-A) - General.

The Examination function determines if the income is subject to SE Tax and takes the following action:

#  
#

| If the income is      | Then  |
|-----------------------|---|
| not subject to SE tax | The case is returned to you.  |
| subject to SE tax     | The case is selected by examination and not returned to originator. |

21.6.4.4.14.4

(10-01-2024)

**Self-Employment Tax  
Adjustment Records  
Sent to Social Security  
Administration**

- (1) Data from adjustments to self-employment (SE) tax is sent to Social Security Administration (SSA) electronically. SSA notifies the Internal Revenue Service if there are discrepancies in adjustment data. Examples of possible discrepancies are:
  - SE tax incorrectly computed on SE tax earnings limit, less the taxpayer's net profit, rather than on the net profit.
  - SE tax reported on net earnings under \$400.
  - Reportable tax year incorrect.
  - Money amounts incorrect.
  - Invalid, insufficient, or missing data.
- (2) Taxpayers may contact the IRS due to a self-employment income discrepancy between the IRS and SSA records. If SSA does not have record of or an incorrect amount of self-employment income for the taxpayer, the taxpayer must be able to provide proof of the income **and** proof of timely filing. A transcript of the year in question provides the required information. A tax return is "timely filed" for SSA purposes if it is filed within SSA's statute of limitations (i.e., 3 years, 3 months and 15 days after the close of the taxable year (April 15)) in which the self-employment income is reported. SSA's definition of "timely filed" is controlling when determining if an SE tax return is "timely filed" for SSA's purposes and not the IRS's definition of "timely filed". The taxpayer must contact SSA to correct their records.

| If   | Then  |
|--|---|
| <p>The taxpayer calls stating SSA does not have record of or has an incorrect amount of self-employment income reported for them for a specific tax year.</p>                | <p>Research the tax year in question to determine whether the IRS records match the taxpayer's records.</p> <ul style="list-style-type: none"> <li>• If the IRS figures match the taxpayer's and not SSA's, the taxpayer needs an Account Transcript or Record of Account (depending on the year in question) to provide SSA with proof of the reported income and timely filing. Follow IRM 21.2.3.5.9.2, IMF Transcript Ordering, to provide the taxpayer with the best method of acquiring the transcript.</li> <li>• If the IRS figures do not match the taxpayer's figures, the taxpayer should verify their records against IRS records. Follow IRM 21.2.3.5.9.2, IMF Transcript Ordering, to provide the taxpayer with the best method of acquiring the transcript.</li> </ul> |
| <p>The taxpayer sends correspondence stating SSA does not have record of or has an incorrect amount of self-employment income reported for them for a specific tax year.</p> | <p>Research the tax year in question to determine whether the IRS records match the taxpayer's records. Follow IRM 21.2.3, Transcripts, and utilize the Transcript Delivery System (TDS) to send the taxpayer an Account Transcript or Record of Account (depending on the year in question). Correspond with the taxpayer advising them to contact SSA if there is a discrepancy between IRS and SSA records.</p>  |

21.6.4.4.14.5  
(10-02-2023)  
**Form 4137, Social Security and Medicare Tax on Unreported Tip Income**

- (1) Taxpayers earning \$20 or more in tips in a calendar month:
- Are required to report the income to their employer.

- b. Must file Form 4137, Social Security and Medicare Tax on Unreported Tip Income, if the tips are not reported to their employer or they have tips allocated to them by the employer (unless the taxpayer has adequate records to show their unreported tips are less than the amount of the allocated tips (Form W-2, box 8)).

**Note:** The \$20 rule applies separately to tips received while working for more than one employer.

- (2) Tax from Form 4137 is reported on Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, *Schedule 2*, Additional Taxes.
- (3) Taxpayer files an amended return reporting tip income and tax, without a Form 4137:

| If                                   | Then  |
|--------------------------------------|---|
| Sufficient information is provided   | Prepare Form 4137, Social Security and Medicare Tax on Unreported Tip Income. |
| Insufficient information is provided | Follow procedures in IRM 21.5.3.4, General Claims Procedures.                 |

- (4) If a loose Form 4137 is received and it cannot be determined if the tips and tax were included on the original return:
  - a. Research CC RTVUE.
  - b. Obtain the original return, if necessary.
- (5) Math verify the Form 4137 (either received from the taxpayer or a dummy prepared by Internal Revenue Service).
- (6) For tax year 2013 and later, taxpayers may be subject to the 0.9% Additional Medicare Tax. See IRM 21.6.4.4.18, Additional Medicare Tax, for more information.

21.6.4.4.14.5.1  
(10-01-2024)

**Adjusting Form 4137,  
Social Security and  
Medicare Tax on  
Unreported Tip Income**

- (1) Input the following to adjust the account:
  - TC 29X to adjust the tax.
  - Item reference number 891 to increase or decrease **primary unreported tip income** (PRIM-UNRPRTD-TIP-INC).
  - Item reference number 892 to increase or decrease **secondary unreported tip income** (SECND-UNREPRTE-TIP-INC).

**Note:** The smaller of Form 4137, line 6 or line 10, is the item reference number 891 or 892 amount.

  - Item reference number 898 to increase or decrease **primary Medicare tip income** (PRIM-MEDICARE-INC).
  - Item reference number 899 to increase or decrease **secondary Medicare tip income** (SECND-MEDICARE-INC).

**Note:** Form 4137, line 6, is the item reference number 898 or 899 amount.

- (2) When tip income exceeds the yearly limitation, or when Medicare is less than the tip income, the adjustment will result in an unpostable condition 189, reason code 8.

| If            | Then  |
|---------------|---|
| Tax Year 2024 | Item reference number 891 or 892 cannot exceed \$168,600. |
| Tax Year 2023 | Item reference number 891 or 892 cannot exceed \$160,200. |
| Tax Year 2022 | Item reference number 891 or 892 cannot exceed \$147,000. |
| Tax Year 2021 | Item reference number 891 or 892 cannot exceed \$142,800. |

21.6.4.4.15  
(10-03-2022)  
**Workers Whose  
Employers Qualify  
Under the Revenue Act  
of 1978, Section 530**

- (1) Certain employers who qualify under the Revenue Act of 1978, Section 530, can treat their workers as other than employees (such as independent contractors).

**Note:** A taxpayer's qualification for Section 530 treatment is determined regardless of whether the workers are employees under common law rules.

- An employer who must issue any required information forms (such as Form 1099-MISC or Form 1099-NEC) must issue this form instead of a Form W-2 for the employer to continue to qualify.
- The workers can be employees under the common law rules. If the workers are employees, the workers are not liable for self-employment (SE) tax on their earnings from the employer but are liable for the employee's portion of social security and Medicare Taxes.
- Workers may apply to determine their status as employees or independent contractors under the common law by filing Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding.

21.6.4.4.15.1  
(10-03-2022)  
**Misclassified Workers to  
File Form 8919,  
Uncollected Social  
Security and Medicare  
Tax on Wages**

- (1) Generally, a worker who receives a Form 1099-MISC or 1099-NEC for services provided as an independent contractor must report the income on Schedule C and pay self-employment tax on the net profit, using Schedule SE. However, sometimes the worker is incorrectly treated as an independent contractor when they are an employee. When this happens, Form 8919, Uncollected Social Security and Medicare Tax on Wages, is used when the employer did not withhold the worker's share of social security and Medicare taxes.
- (2) Employees who were misclassified by their employers as an independent contractor use Form 8919, Uncollected Social Security and Medicare Tax on Wages, to figure and report their share of uncollected social security and Medicare taxes due on their compensation.

- (3) In addition, the worker must say which one of several reasons they were an employee while performing the services that applies to them. The reasons include:
- The worker has filed Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding, and received a determination letter from the IRS stating they are an employee of the firm.
  - The worker believes they should have been treated as an employee, and files Form SS-8 before filing their tax return.
  - The worker has received other correspondence from the IRS that says they are an employee.
  - The worker has filed Form SS-8 with the IRS and has not yet received a reply.
  - The worker received a Form W-2, and a Form 1099-MISC or 1099-NEC from their employer. The amount on Form 1099-MISC or 1099-NEC should have been included as wages on the Form W-2.
- (4) Tax from Form 8919 is reported on Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, *Schedule 2*, Additional Taxes.
- (5) By using Form 8919, the worker's social security and Medicare wages are credited to their social security record. To facilitate this process, the IRS electronically shares Form 8919 data with the Social Security Administration.
- (6) For tax year 2013 and later, taxpayers may be subject to the 0.9% Additional Medicare Tax. See IRM 21.6.4.4.18, Additional Medicare Tax, for more information.

21.6.4.4.15.2  
(05-21-2008)

**Processing Claims for  
Refund of  
Self-Employment Tax by  
Individual Claiming to  
Be an Employee**

- (1) Claims for refund of self-employment (SE) tax by an individual claiming to be an employee who was treated as an independent contractor must include either:
- a. A determination letter from the Internal Revenue Service holding that the taxpayer is an employee, or
  - b. A Form W-2 (or Form W-2C, Corrected Wage and Tax Statement).
- Note:** The claim should include Form 8919, Uncollected Social Security and Medicare Tax on Wages.

| If  | And   | Then  |
|---|---|---|
| An incomplete claim is received with a Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding. |   | <ol style="list-style-type: none"> <li>1. Forward the form to the right function (follow local procedures).</li> <li>2. Tell the taxpayer the Form SS-8 was forwarded for consideration and to resubmit the claim if a favorable determination is received.</li> <li>3. Close IDRS control base.</li> </ol> |
| An incomplete claim is received without substantiation.   | The claim says taxpayer received a favorable determination or a corrected Form W-2.       | Correspond for the missing information.   |
| An incomplete claim is received without substantiation.   | The claim does not say taxpayer received a favorable determination or corrected Form W-2. | <ol style="list-style-type: none"> <li>1. Do not consider the claim. Refer to IRM 21.5.3.4.6, No Consideration and Disallowance of Claims and Amended Returns.</li> <li>2. Enclose a blank Form SS-8.</li> <li>3. Tell the taxpayer to file Form SS-8 and forward to the address on the form.</li> </ol>    |

- c. See IRM 21.7.2.5.3, Worker Classification Determinations, for more information.

21.6.4.4.15.3  
(10-03-2022)

**Adjustment  
Considerations -  
Revenue Act of 1978,  
Section 530**

- (1) The taxpayer must include compensation paid by the payer shown in the determination letter, or by the payer shown on the Form W-2C, Corrected Wage and Tax Statement, that was previously reported on Schedule C, Profit or Loss from Business (Sole Proprietorship).
- (2) The Form W-2C may or may not show any federal income tax withholding, social security or Medicare taxes withheld.
- (3) The deduction for the self-employment (SE) tax must be added back to the adjusted gross income.
- (4) Social security and Medicare tax must be computed on the compensation. For 2020, deferred social security tax must be refigured.
- (5) For 2020 and 2021, any credit claimed on *Schedule 3*, Additional Credits and Payments, from *Form 7202*, Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals, must be refigured.
- (6) Some previously deducted Schedule C expenses may be claimed as employee business expenses on Form 2106, Employee Business Expenses, and carried to Schedule A, Itemized Deductions, subject to the 2% limitation (prior to 2018)
- (7) Refer the case to Exam as Category A if the Schedule C deductions included any of the following:
  - Cost of goods
  - Wages
  - Office in home expenss

See Exhibit 21.5.3-2, Examination Criteria (CAT-A) - General.



21.6.4.4.15.4  
(10-01-2019)

**Processing Complete  
Claims — Revenue Act  
of 1978, Section 530**

(1) Process complete claims (with the necessary substantiation) as follows:

**Note:** See IRM 21.6.4.4.15.5, Form 8919, Uncollected Social Security and Medicare Tax on Wages - Adjustments, for yearly limitations.

| If  | Then  |
|---|---|
| Self-employment (SE) tax was previously assessed. | <ol style="list-style-type: none"> <li>Math verify Form 8919, Uncollected Social Security and Medicare Tax on Wages.</li> <li>Prepare a dummy Form 8919, if not attached to the claim.</li> <li>Use the SE tax to offset the employee share of FICA now due (unless withheld by the employer via an adjustment and shown on Form W-2C, Corrected Wage and Tax Statement) and input TC 29X to net the difference.</li> <li>Decrease the SE income (SE-INC and MEDICARE-INC to zero) and use item reference numbers (IRNs) 873 / 874, 878 / 879, 893 / 894 and 895 / 896.<br/><b>Note:</b> Do not input IRN 891 / 892 or 898 / 899.</li> <li>Use IRN 889 to decrease SE tax to zero.</li> <li>Use Reason Code 024.</li> </ol> |
| SE tax was not previously assessed.               | <ol style="list-style-type: none"> <li>Follow procedures 1 and 2 above.</li> <li>Adjust taxpayer's account with TC 29X.</li> <li>Use IRNs 873 / 874 and 893 / 894 as necessary.</li> <li>Use Reason Code 024.<br/><b>CAUTION:</b> Do not input IRNs 889, 878 / 879 or 895 / 896.</li> </ol>   |

21.6.4.4.15.5  
(10-01-2024)

**Form 8919, Uncollected  
Social Security and  
Medicare Tax on Wages  
- Adjustments**

(1) Input the following to adjust the account:

- TC 29X to adjust the tax.
- Item reference number (IRN) 873 to increase or decrease Primary Social Security Wages.
- IRN 874 to increase or decrease Secondary Social Security Wages.

**Note:** The smaller of line 6 or 9, Form 8919, Uncollected Social Security and Medicare Tax on Wages, is the IRN 873 or 874 amount.

- IRN 893 to increase or decrease the Primary Total Wages Amount (Medicare).
- IRN 894 to increase or decrease the Secondary Total Wages Amount (Medicare).

**Note:** Line 6, Form 8919 is the IRN 893 or 894 amount.

(2) When social security income exceeds the yearly limitation, or when Medicare is less than the social security income, the adjustment will result in an unpostable condition 189, reason code 8.

| If            | Then                                    |
|---------------|---|
| Tax Year 2024 | IRN 891 or 892 cannot exceed \$168,600. |
| Tax Year 2023 | IRN 873 or 874 cannot exceed \$160,200. |

| If            | Then                                    |
|---------------|---|
| Tax Year 2022 | IRN 873 or 874 cannot exceed \$147,000. |
| Tax Year 2021 | IRN 873 or 874 cannot exceed \$142,800. |

(3) Use Reason Code 024.

(4) The information from the input of the IRNs is transmitted to Social Security Administration.

21.6.4.4.16  
(04-25-2019)  
**Accounting Period  
Change**

(1) Individual income tax returns cover an accounting period of either a:

- **Calendar year** — January 1 through December 31
- **Fiscal year** — 12 month period ending on the last day of any month except December or a period of 52 or 53 weeks (always ending on the same day of the week)

(2) A taxpayer chooses an accounting period when filing the first tax return.

- It cannot be longer than 12 months.
- The taxpayer must obtain approval from the Internal Revenue Service to change the established accounting period.
- For information about short period returns and when they can be filed, see IRM 3.11.3.6.2.18, Short Period Return, and IRM 3.12.3.24.4.11, Annualized Income (EC 260).
- Taxpayer must file Form 1128, Application to Adopt, Change, or Retain a Tax Year, to request a change, or, in the case of taxpayer filing a bankruptcy petition, choose to terminate their tax year under IRC 1398(d)(2) (see IRM 5.9.8.14, Internal Revenue Code 1398 Issues, for more information).

(3) Forward original Form 1128, Application to Adopt, Change, or Retain a Tax Year, requests to the Entity function. The Entity function determines whether a referral to Headquarters is required (e.g., fiscal year changes).

(4) The taxpayer's return may post to an incorrect period because of a processing error, such as:

- A calendar year return posting as a fiscal year return.
- A fiscal year return posting as a calendar year return.
- A deceased taxpayers short year return posting as a calendar year return.

(5) The tax year ending for a final short year return is the month and year of death. Enter computer condition code "Y" on the return to prevent unpostable condition 162.

21.6.4.4.16.1  
(02-27-2019)  
**Resolving Accounting  
Period Changes**

(1) Take the following action:

- Request IMFOL/BMFOL to determine taxpayer's correct filing period.
- Request the return posted to the incorrect period(s).
- Back out the tax information posted on the incorrect period.
- Input TC 170 for .00 if adjusting withholding and/or transferring timely payments from the module and no TC 17X is on the module.

- e. If TC 17X is present on the module, input TC 171 to reduce to zero or, if applicable, adjust to the amount reported by the taxpayer on the return.
- f. Transfer payments to the correct period, if necessary.

**Caution:** To avoid unpostable code 162-0, establish the “to” module before moving any payments, credits, or refunds.

- g. Reprocess the return(s) to the correct tax period.

**Caution: DO NOT** zero out the tax on Statute years. Refer claims to the Statute function for clearance if they involve adjusting accounts and reprocessing return on Statute years. See IRM 21.5.2.4.23.4, Statute Imminent Documents.

- h. Input an entity transaction using CC ENREQ to change the Fiscal Year Month (FYM) when taxpayer includes a copy of a previously approved Form 1128, Application to Adopt, Change, or Retain a Tax Year.

21.6.4.4.17  
(07-14-2010)  
**First-Time Homebuyer  
Credit**

- (1) The Housing and Economic Recovery Act of 2008 (PL 110-289), enacted on July 30, 2008, allows a taxpayer who is a first-time home buyer a refundable tax credit of the lesser of \$7,500 (\$3,750 for Married Filing Separate) or 10% of the purchase price. The law is effective for qualifying homes purchased on or after April 9, 2008, and on or before December 31, 2008.
- (2) The American Recovery and Reinvestment Tax Act of 2009 (ARRA) (PL 111-5), enacted on February 17, 2009, allows a refundable tax credit of the lesser of \$8,000 (\$4,000 for Married Filing Separate) or 10% of the purchase price. The credit is available for first-time home buyers who purchased a home after December 31, 2008, and before December 1, 2009.
- (3) The Worker, Homeownership and Business Assistance Act of 2009 (PL 111-92), enacted on Nov. 6, 2009, extends the eligibility period to purchases before May 1, 2010. Taxpayers who have entered into a written binding contract before May 1, 2010, must close on the home before October 1, 2010, to qualify. This bill also establishes a credit for long-time residents who purchase a new home and sets out special rules for members of the Armed Services, Foreign Service officers and the intelligence community.
- (4) For homes purchased in 2008, the credit is treated as a no-interest loan. The credit is recaptured over fifteen years beginning the second year after the home is purchased.
- (5) For homes purchased in 2009 and 2010, the taxpayer must repay the credit only if the home ceases to be the taxpayer's main home within the 36 month period beginning on the purchase date.
- (6) For more information about claiming the First-Time Homebuyer Credit, see IRM 21.6.3.4.2.10, First-Time Homebuyer Credit (FTHBC).

21.6.4.4.17.1  
(10-01-2019)  
**Recapture of First-Time  
Homebuyer Credit**

- (1) For principal residences purchased in 2008, the First-Time Homebuyer Credit is recaptured over a period of 15 years. The tax imposed is 6 2/3% of the credit taken. The additional tax is reported on Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, *Schedule 2*, Additional Taxes. The recapture began with the 2010 tax return.

**Example:** A taxpayer purchased a principal residence in 2008 and received a \$7,500 First-Time Homebuyer Credit (FTHBC). The taxpayer must report the first repayment of \$500 on the 2010 return.

If a taxpayer does not report the required 6 2/3% recapture amount (\$500 when a \$7,500 credit is taken) on Form 1040, additional tax is assessed using math error procedures. If the home is disposed of or ceases to be the taxpayer's main home at any time during the 15 years, see IRM 21.6.4.4.17.2, Acceleration of Recapture.

- (2) For principal residences purchased in 2009, 2010 or 2011, the credit does not have to be paid back unless the home is disposed of or ceases to be the taxpayer's main principal residence within 36 months of the purchase date. See IRM 21.6.4.4.17.2, Acceleration of Recapture.
- (3) CC ENMOD and CC IMFOL with definer code F displays the amount of credit taken and the amount of credit recaptured. The recapture amount field starts at zero and increases to the amount of credit taken.

**Note:** When a joint Form 5405, Repayment of First-Time Homebuyer Credit, is filed, the credit and recapture amount is split between the primary and secondary taxpayer.

- (4) Taxpayers must file Form 5405, Repayment of First-Time Homebuyer Credit, if they meet either of the following conditions:
  - The taxpayer disposed of the principal residence or ceased to use the home as the principal residence during the tax year.

**Note:** This condition does not apply to homes purchased in 2009 or 2010 and owned and used it as the principal residence for at least 36 months beginning on the purchase date.
  - The taxpayer is repaying the credit because the principal residence was purchased after 2008, destroyed or sold through condemnation or threat of condemnation, and the taxpayer did not purchase a new principal residence within 2 years of the event.

In all other cases, the taxpayer is not required to file Form 5405.

- (5) Form 5405, Repayment of First-Time Homebuyer Credit, can be viewed using CC TRDBV or CC RTVUE with definer HC.

21.6.4.4.17.2  
(03-22-2013)  
**Acceleration of  
Recapture**

- (1) For homes purchased in 2008, if the home is disposed of or ceases to be the taxpayer's main home before the end of the recapture period, taxpayers generally must report all remaining annual installments in the year the event occurred. If the home is sold to an unrelated person, the repayment in the year of sale is limited to the amount of gain on the sale. When figuring the gain, reduce the adjusted basis of the home by the amount of credit.

**Example:** A taxpayer purchased a home in June 2008 and received a \$7,500 credit. The home was sold in 2012 for a \$10,000 gain. Since \$500 was recaptured on each of the 2010 and 2011 returns, \$6,500 would have to be reported on the 2012 return.

**Example:** A taxpayer purchased a home in September 2008 for \$100,000 and received a \$7,500 FTHBC. The home was sold to an unrelated person in October 2009 for \$95,000. The adjusted basis for the home is \$92,500 (\$100,000 - \$7,500). The taxpayer is required to repay \$2,500 (\$95,000 - \$92,500). The remaining \$5,000 is not required to be repaid.

**Example:** A taxpayer purchased a home in 2008 and received a \$7,500 credit. The taxpayer moved in 2010 and continued to own the home until 2011 when it was sold for a loss. Since the intent was to sell the home rather than convert the home to a rental property or some other use, the sale of the home is the disposition. The taxpayer must repay \$500 in 2010. In 2011, the taxpayer is subject to accelerated recapture. Since the home was sold for a loss, the remaining \$7,000 is not required to be repaid.

- (2) For homes purchased in 2009, 2010 or 2011, if the home is disposed of or ceases to be the taxpayer's main home within 36 months of the purchase date, taxpayers generally must repay the credit in the year the event occurred. If the home is sold to an unrelated person, the repayment in the year of sale is limited to the amount of gain on the sale. When figuring the gain, reduce the adjusted basis of the home by the amount of credit.

**Example:** A taxpayer purchased a home in 2009 and received a FTHBC of \$8,000. They sold the home in 2011 for a gain of \$8,500. The taxpayer must report the entire \$8,000 repayment on the 2011 tax return.

**Example:** A taxpayer purchased a home in 2009 and received a \$6,000 FTHBC. The home was converted to a rental property in 2010. The taxpayer is required to report the entire \$6,000 repayment on their 2010 return.

- (3) Dispositions referenced above include:

- The home was sold
- The entire home was converted to business or rental property
- The home was abandoned
- The lender foreclosed on the mortgage
- The home is no longer the taxpayer's main home

**Note:** A gift of a home to a relative or non-relative, including a part-sale or part-gift, triggers full repayment of the credit. The gain limitation does not apply to the taxpayer's repayment liability.

- (4) Exceptions to the acceleration rule:

- Death of a taxpayer - the repayment is not required for the deceased taxpayer.
- Transfers between spouses due to divorce - the spouse receiving the home is responsible for any repayment.
- Qualified official extended duty for members of the Armed Services, members of the Foreign Service of the United States, or members of the intelligence community (dispositions or cessations after December 31, 2008, only).
- Involuntary conversion - taxpayers have 2 years to purchase a new home. See the table below for repayment requirements.

| Transaction                 | Gain on sale   | No gain on sale           |
|-----------------------------|--|---------------------------|
| 2008 purchase               | <p>Year of conversion - installment payment of 1/15 of the lesser of the gain or allowed credit</p> <p>1st year after conversion - installment payments (1/15 of the lesser of the gain or allowed credit) continue</p> <p>2nd year after conversion -</p> <p>a. Replacement home - installment payments (1/15 of the lesser of gain or allowed credit) continue through end of 15 year term</p> <p>b. No replacement home - acceleration of lesser of remaining gain or remaining credit amount</p> | No repayment is required. |
| 2009, 2010 or 2011 purchase | <p>Year of conversion and 1st year after - no repayment requirement</p> <p>2nd year after conversion -</p> <p>a. Replacement home - no repayment required at this time (must still meet the remainder of the 36 month own and use period)</p> <p>b. No replacement home - recapture the lesser of the gain or allowed credit</p>   | No repayment is required  |

- (5) Taxpayers must file Form 5405, Repayment of First-Time Homebuyer Credit, with the correct box checked in Part I with their Form 1040, U.S. Individual Income Tax Return.

21.6.4.4.17.3  
(06-02-2011)  
**Systemic Adjustments  
to the Recapture  
Amount**

- (1) When a Form 5405, Repayment of First-Time Homebuyer Credit, is filed with a Form 1040, U.S. Individual Income Tax Return, the taxpayer's account is adjusted during processing. Transaction Code (TC) 971 Action Codes (AC) are systemically generated when the First-Time Homebuyer Credit (FTHBC) and total recapture amounts are moved or eliminated.
- AC 511 - used to transfer the FTHBC entity and total recapture amount from one account to another
  - AC 512 - used to zero out the FTHBC entity and total recapture amount
- (2) The TC 971 action codes generate with indicators, shown on CC TXMOD as "XREF MFT", which provide descriptions of the systemic actions taken.  
**Action Code 511** with XREF MFT indicator:



- **00** - Used to transfer the FTHBC and total recapture amount from an account to the primary SSN of another account.
- **01** - Used to transfer the FTHBC and total recapture amount from the primary SSN to the spouse's SSN in the same amount and make the spouse responsible for the entire credit.
- **02** - Used to transfer the FTHBC and total recapture amount from the spouse's SSN to the primary SSN in the same account. 02 is also used to zero out the spouse FTHBC and total recapture amount and make the primary responsible for the entire credit.
- **03** - Used to add the recapture amount to the primary total recapture amount.
- **04** - Used to add the recapture amount to the spouse's total recapture amount.
- **05** - Used to show the recapture amount was credited to the original account and should generate and post in the same cycle as the return.

**Action Code 512** with XREF MFT indicator:

- **00** - Used to generate a TC 290 for zero with item reference numbers 875 / 876 / 975 / 976 for the credit amount posted in the entity.
- **01** - Used to generate a TC 290 for zero with item reference numbers 875 / 876 for the primary credit amount posted in the entity.
- **02** - Used to generate a TC 290 for zero with item reference numbers 975 / 976 for the secondary credit amount.
- **03** - Used to generate a TC 290 for zero with item reference numbers 875 / 876 / 975 / 976 for the credit amount posted in the entity.
- **04** - Used to generate a TC 290 for zero with item reference numbers 875 / 876 / 975 / 976 for the credit amount posted in the entity.

**Note:** See IRM 21.6.4.4.17.4, Manually Adjusting the Recapture Amount, for a description of the item reference numbers listed above.

- (3) When the FTHBC is systemically moved from one spouse to another, a TC 290 is generated containing all 8s in the blocking series and serial number of the Document Locator Number (DLN).

**Example:** Taxpayer A and B, both single taxpayers, purchased a home together in 2009 and split the \$8000 FTHBC 50/50 on their individual returns. In 2010, they marry and file a joint return with Taxpayer A as the primary taxpayer. The FTHBC entity under Taxpayer B's SSN is systemically moved to Taxpayer A's SSN. A TC 290 with all 8s in the blocking series and serial number is found on Taxpayer B's SSN.

- (4) When taxpayers claim the FTHBC on a joint return and then file separate returns in later years, the FTHBC entity may not be moved to the spouse. The correct tax is captured on the spouse's account but the update to the FTHBC entity is reflected on the xref account.

**Exception:** When a Form 5405 with box 3e checked (transferred the home to my spouse or ex-spouse as part of a divorce settlement) is filed, the entity is moved to the receiving spouse.



21.6.4.4.17.4  
(10-09-2019)

### Manually Adjusting the Recapture Amount

- (1) Issues about FTHBC repayment can impact multiple years and multiple accounts. When reviewing a taxpayer's issue and account, address all repayment issues. In addition, since the FTHBC entity (CC IMFOLF) can move from one account to another, depending on how taxpayers file, always check CC IMFOLF before adjusting any account. If CC IMFOLF is blank, the FTHBC entity has been moved to the spouse's SSN, which may not be the current spouse. If separate returns are later filed to repay the credit, or the joint return was filed under the spouse's SSN, you may need to input multiple adjustments.
- (2) When manually adjusting the FTHBC recapture amount, use specific item reference numbers (IRNs) with each adjustment. The table below lists the IRNs associated with the recapture and the reason codes (which are shown in (3)) associated with them.

**Note:** These reference numbers are valid for MFT 30 only.

**Caution:** Failure to use these IRNs when adjusting the account results in CC IMFOLF being incorrect and could cause possible harm to the taxpayer in the future.

| Item Reference Number | Description  |
|-----------------------|--|
| 875                   | Adjusts the primary credit amount field. Indicates the primary FTHBC in the entity field was transferred to the spouse or used to correct the primary credit amount. You must use one credit RC (109, 110, 125 or 126). The system allows the input of one more disposition RC (112 - 118 and 127).<br><b>Note:</b> Adjustments to the FTHBC (CRN 258) update the credit amount field.   |
| 876                   | Adjusts the primary total recapture amount field in the entity. RC 112 - 119 and 127. Use this when a disposition has occurred and all or part of the recapture amount is not required.  |
| 877                   | Adjusts the repayment amount in the posted return section (CCs TXMOD / IMFOLR) and the total repayment field in the entity (CC IMFOLF). <b>Used to update the recapture amount when a repayment has been made.</b> RC 119, 120, 123, 132 and 133.<br><b>Note:</b> RC 132 can be input with IRN 877 but does not update the recapture amount field on CC IMFOLF. RC 133 requires the input of RC 119, 120 or 123.<br><b>Caution:</b> When decreasing the recapture amount, do not exceed the amount reported on the original return or previously adjusted. |
| 880                   | Adjusts the year indicator in the entity. Input as .08, .09, .10 or .11 to show the year the home was purchased. RC 121 and 122.   |

| Item Reference Number | Description   |
|-----------------------|---|
| 975                   | Adjusts the secondary credit amount field. Indicates the secondary's FTHBC in the entity field was transferred to the primary or used to correct the secondary credit amount. You must use one credit RC (109, 110, 125 or 126). The system allows the input of one more disposition RC (112 - 118 and 127).<br><b>Note:</b> Adjustments to the FTHBC (CRN 258) update the credit amount field. |
| 976                   | Adjusts the spouse's total recapture amount field in the entity. RC 112 - 118, 120 and 127. Use this when a disposition has occurred and all or part of the recapture amount is being waived.   |

**Reminder:** When considering a recapture issue, in addition to reviewing the entity on CC IMFOLF, ensure the recapture field on CC TXMOD is correct.

**Example:** Taxpayer A and Taxpayer B file a joint return in 2008 claiming a \$7,500 FTHBC. In 2022, they file as Married Filing Separate. Since the FTHBC entity is under Taxpayer A's SSN, if a recapture needs to be input on Taxpayer B's account, two adjustments are required. A TC 29X with IRN 877 and RC 132 are input on Taxpayer B's account. A TC 290 .00 with IRN 976 and RC 120 are input on Taxpayer A's account.

**Note:** The above example is followed any time tax is being adjusted on an account where CC IMFOLF is blank. RC 132 does not update CC IMFOLF. Adjust the XREF account to update the CC IMFOLF data.

(3) The table below lists the reason codes associated with the recapture.

**Caution:** If the reason code used on the adjustment does not provide the taxpayer with a clear understanding of the action taken on their account, suppress the adjustment notice and send a correspondex letter.

| Reason Code | Description   |
|-------------|---|
| 109         | First-Time Homebuyer Credit (2008)<br><b>Note:</b> RC 109 can be used when adjusting tax if no other FTHBC reason codes apply or can be used due to systemic limitations. |
| 110         | First-Time Homebuyer Credit (2009 / 2010)   |

| Reason Code | Description   |
|-------------|---|
| 112         | <p>Repayment of the FTHBC is not required. This is forgiveness for taxpayers who had a loss when the house was sold, foreclosed, repossessed or abandoned, or who are only required to pay back part of the credit.</p> <p><b>Note:</b> In situations where the primary recapture amount field needs to be updated but no other reason code works, use RC 112 (example: transferring the secondary's entity from the primary account to the secondary account, the secondary taxpayer has paid the required installment and the entity field on CC TXMOD already reflects repayment).</p> |
| 113         | Repayment of the FTHBC is not required. This is forgiveness for taxpayers whose home was destroyed, condemned, or disposed of under threat of condemnation, and had a loss.   |
| 114         | Repayment of FTHBC. Systemic use only. This is for taxpayers who converted their home to rental or business use.  |
| 115         | FTHBC transferred to spouse. Transfer to spouse requested on Form 5405, <i>Repayment of First-Time Homebuyer Credit</i> .   |
| 116         | Repayment of the FTHBC not required. This is forgiveness if the primary taxpayer is deceased.   |
| 117         | Repayment of the FTHBC not required. This is forgiveness if the secondary taxpayer is deceased.   |
| 118         | Requirement to repay the FTHBC not required. This is forgiveness when both taxpayers are deceased.  |
| 119         | Repayment of FTHBC. Used when updating the primary entity section.  |
| 120         | <p>Repayment of FTHBC. Used when updating the spouse's entity section.</p> <p><b>Note:</b> When updating CC IMFOLF, if the current return is other than married filing jointly, use IRN 976 to update the spouse's recapture amount.</p>  |
| 121         | <p>Used to adjust the primary FTHBC year.</p> <p><b>Note:</b> When adjusting both the primary and secondary year, use RC 000. When the adjustment posts to Masterfile, RC 000 drops off.</p>  |
| 122         | Used to adjust the spouse's FTHBC year. See the note in RC 121 above.   |
| 123         | Repayment of FTHBC. This updates the joint entity section.  |
| 125         | First-Time Homebuyer Credit - This is for the repeat homeowners.  |
| 126         | First-Time Homebuyer Credit - This is for the military / foreign service / intelligence community.  |
| 127         | Requirement to repay the FTHBC not required. This is for members of the military, foreign service or intelligence community.  |

| Reason Code | Description  |
|-------------|--|
| 132         | <p>Updates the FTHBC Recapture field on <b>CC TXMOD</b> when:</p> <ul style="list-style-type: none"> <li>• Joint First-Time Homebuyer Credit repaid via separate returns</li> <li>• Separate credits repaid via joint return</li> <li>• Updating CC TXMOD only (CC IMFOLF Recapture field is correct)</li> </ul> <p><b>Example:</b> John and Mary file joint in 2008 and claim the FTHBC. In 2010, they file separate. CC IMFOLF is under John's SSN. To assess Mary a \$250 recapture, input RC 132 to adjust Mary's 2010 account. A second adjustment is required under John's SSN to update CC IMFOLF (IRN 976 RC 120).</p> |
| 133         | <p>Repayment of the FTHBC. This is for taxpayers whose home was destroyed, condemned, or disposed of under threat of condemnation, and had a gain. See IRM 21.6.4.4.17.2(4), Acceleration of Recapture.</p>  |

- (4) When adjusting the recapture amount, the adjustment is generally input on the year the recapture or disposition should have been reported, not the year the credit was claimed. The recapture amount starts at zero and builds up to the amount of credit taken. Annual installments and dispositions are captured in the recapture amount field.

**Example:** A taxpayer purchased a home in 2008 and received a \$7,500 FTHBC. They sold the home in 2009 to an unrelated person for a \$4,000 gain. The taxpayer files an amended return in 2010 to report the sale. CC IMFOLF shows \$7,500 in the primary credit amount field. When processing the amended return, the adjustment is input on the 2009 tax year using a TC 290 for \$4,000, RC 112 and 119, IRNs 877 for \$4,000 and 876 for \$3,500.

**Example:** A couple purchased a home in 2008 and received a \$7,500 FTHBC. They sold the home to an unrelated person for a \$6,000 gain in 2009. CC IMFOLF shows \$3,750 in the primary credit amount and secondary credit amount fields. When adjusting the account, input the adjustment on 2009 as follows: TC 290 \$6,000, RC 112 and 123, 877 \$6,000, 876 \$750 and 976 \$750.

**Example:** A taxpayer purchased a home in 2008 and received a \$7,500 FTHBC. The taxpayer was unable to pay the mortgage and the home was foreclosed on in September 2009. The taxpayer files an amended return in 2010 to report the loss due to foreclosure. When adjusting the account, input the adjustment on 2009 as follows: TC 290 .00, RC 112 and 876 \$7,500.

**Example:** A taxpayer purchased a home in 2009 and received a \$6,000 FTHBC. The taxpayer converted the home to a rental property in 2010. The taxpayer did not report the disposition on their 2010 return. The taxpayer later files an amended return to report the disposition. To adjust the account, input a TC 290 \$6,000, RC 119 and IRN 877 \$6,000 on the 2010 tax year.

- (5) When reporting a disposition, taxpayers are instructed to file Form 5405 with their original Form 1040 or Form 1040-X, no other documentation is required. Amended returns impacting multiple years do not require an amended return for each tax year.

**Example:** A taxpayer has been reporting a \$500 repayment since 2010. The taxpayer later filed an amended 2015 return reporting the home was converted to a rental and assesses the remaining repayment. The \$500 repayment on 2016 and 2017 can be refunded without an amended return being filed for those years.

If an amended return is received and the Form 5405 (or documentation instead of Form 5405) is not attached, see IRM 21.5.1.5.6, Incomplete CII Claims. A loose Form 5405 can be processed without a Form 1040-X.

- (6) When transferring the FTHBC from one account to another, the primary account must be zeroed out before the entity field can be established on the cross reference (xref) account. When creating the xref entity field, use the correct reason code and IRN 880 to show the year the home was purchased. When creating the FTHBC entity, if the recapture amount field needs to be updated, the entity must post first. Use a posting delay code (PDC) 1 with the IRN 877 adjustment.

When a disposition E (divorce) is reported, transfer the entire credit and repayment amount shown on CC IMFOLF to the gaining spouse.

**Example:** Taxpayer A and Taxpayer B file Married Filing Jointly in 2008 and claim a \$7,500 First-Time Homebuyer Credit. The couple gets divorced in 2016 and Taxpayer B gets the house as part of the divorce settlement. Neither Taxpayer A or Taxpayer B reported the transfer or the recapture on their 2016 return. Taxpayer B is now filing an amended return reporting a tax increase of \$500. The recapture started with the 2010 tax return, so Taxpayer A and Taxpayer B have made six payments totaling \$3,000. The entity field currently reflects a primary and secondary credit amount of \$3,750 and primary and secondary total recapture amount of \$1,500. To remove the credit from Taxpayer A's account, input a TC 290 .00 with IRNs 875 and 975 for \$3,750-, IRNs 876 and 976 for \$1,500-, RC 115. To create the entity on Taxpayer B's account, input a TC 290 .00, IRNs 875 (since taxpayer B is now the primary) for \$7,500, and 880 for .08 (to show the home was purchased in 2008), RCs 109 and 121. Input a second adjustment consisting of a TC 290 \$500, 876 for \$3,000 (the total amount repaid from the joint account), 877 for \$500 (to show a \$500 payment has been reported), RC 115 and 119, PDC 1.

- (7) When a taxpayer files an amended return reporting a divorce (Form 5405, line 3, box e) on Form 5405 which conflicts with the cross-referenced spouse's reported divorce (disposition e), disallow the claim. See IRM 21.5.3.4.6.1, Disallowance and Partial Disallowance Procedures. If the taxpayer responds to the disallowance with divorce papers, see the table below. Math error authority can be used to update the accounts.

**Note:** For divorces, the disposition does not occur until the divorce is finalized. Until that time, each spouse is liable for their share of the 1/15 repayment.

| If  | Then  |
|---|---|
| One individual was awarded sole ownership   | Each individual is liable for 1/2 of the 1/15 repayment until the divorce was finalized. At that point, the individual awarded ownership is liable for any remaining repayment.   |
| Both individuals continue to have joint ownership after the divorce   | Each individual is liable for 1/2 of the 1/15 repayment until the divorce was finalized. At that point: <ul style="list-style-type: none"> <li>the spouse who no longer resides in the home is liable for full repayment of their remaining liability</li> </ul> <p><b>Example:</b> If the original credit was \$7,500 and the divorce was finalized in 2012, the taxpayer is liable for \$250 in 2010 and 2011. In 2012, the taxpayer is liable for \$3,250.</p> <ul style="list-style-type: none"> <li>the spouse who resides in the home continues to pay 1/2 of the 1/15 repayment</li> </ul> |
| One individual was awarded sole ownership, but the divorce decree says the other individual must repay X amount | Follow procedures in the 1st If / Then. The dollar amount stated in the divorce decree is a civil matter.   |

- (8) When the FTHBC entity has been moved to a cross reference account and needs to be updated but no returns have been filed since at least 2008, a TC 290 with the above IRNs cannot be input. To update these accounts, the entity has to be systemically updated. To trigger the systemic update:

1. Input CC MFREQD to create a CC TXMOD for the current processing year.
2. Input CC REQ77.
3. Input "971" in the "TC" field.
4. Input "512" in the "TC 971 / 151-CD" field.
5. Input the spouse's SSN in the "XREF-TIN" field.
6. Input the correct 2 digit MFT indicator in the "MISC" field. See IRM 21.6.4.4.17.3, Systemic Adjustments to the Recapture Amount. **Use MFT 00, 01 or 02 only.**

Once the TC 971 is input, manually move the entity back to the originating SSN and post it as the secondary's entity. When the cross-reference taxpayer does file a return, the entity is again systemically moved.

**Example:** Taxpayer A and Taxpayer B have filed joint since 2008. In 2011 Taxpayer A died so Taxpayer B's portion of the entity was transferred to their SSN. Unfortunately, the recapture amount on Taxpayer B's account is incorrect. To correct taxpayer B's account, input the TC 971 action 512 on Taxpayer B's SSN, then update the entity on Taxpayer A's SSN to show the correct amount in the secondary entity field.

- (9) Taxpayers can choose to pay the entire recapture amount all at once rather than pay it over the 15 year period. Taxpayers should report this on line 7b of Form 1040, Schedule 2, Additional Taxes, or line 60b of the Form 1040 for tax years 2018 and prior. Form 5405 is not required. However, taxpayers may send in a payment rather than reporting the recapture on a return. If this happens, taxpayers must file an amended return for the last return filed. When



the amended return is received, assess tax for the repayment using a TC 298, IRN 877 for the same amount and RC 119, 120 or 123.

**Note:** The required repayment amount is assessed with a TC 290. Any additional repayment is assessed with a TC 298.

Use the received date as the interest computation date. To reverse a TC 298, input a TC 299 for the tax change and IRN 877 for the correct amount. A TC 299 requires an interest computation date (as shown on the TC 298) and a credit interest date (received date).

**Example:** A taxpayer filed a 2008 tax return and received a \$7,500 FTHBC. The taxpayer reported \$500 recapture on their 2010 and 2011 tax returns. In Oct. 2012, the taxpayer decides to repay the remainder of the credit. They need to file an amended 2011 tax return, with Form 5405, First-Time Homebuyer Credit and Repayment of the Credit, to report an additional \$6,500 in tax.

**Note:** Taxpayers have the right to have pre-paid installments refunded to them. In the example above, if the taxpayer later decides they want the pre-paid \$6,500 refunded, they can file an amended return to do so. Any required installment that may have been skipped because of the pre-payment has to be assessed using math error authority.

- (10) When a taxpayer reports a disposition for a loss, if there are unfiled returns that require a 1/15 repayment, do not consider the claim following procedures found in IRM 21.5.3.4.6.3, No Consideration Procedures, and tell the taxpayer to file the required return(s).
- (11) Dispositions reported after the assessment statute expired for the tax year are allowable if the disposition was one for a loss or no change in tax. Follow normal statute procedures found in IRM 25.6.1.5, Basic Guide for Processing Cases with Statute of Limitations Issues, when considering tax adjustments and refunds.

**Example:** A disposition reported in July 2017 showing the home was sold for a loss in 2012 - the taxpayer is not liable for any annual installments beginning in 2012. Tax year 2012 can be updated to reflect the disposition, however, since the refund statute for 2013 is expired, no tax adjustments or refunds are allowed on those years. Repayments on tax years 2014, 2015, and 2016 can be refunded.

**Note:** Ensure CC IMFOLF is updated to reflect the total credit amount as recaptured.

**Example:** A taxpayer files a 2016 amended return showing the home was sold for a gain in 2011 and assesses \$4,000 additional tax. With the annual installments and the additional \$4,000 assessment a total of \$7,500 has been repaid, no more action is required on prior years (no refunds are due).

If the disposition resulted in a tax increase that cannot be assessed due to the expired statute, if received after the ASERD expired, the disposition is not allowable, and the taxpayer remains liable for the 1/15 repayment.



**Example:** A disposition reported in 2015 showing the home was converted to a rental in 2009 - since the statute for 2009 has expired, the disposition is not allowable, and the taxpayer remains liable for the 1/15 repayment.

**Exception:** If the home was sold at a gain, but the gain amount was less than the credit amount, waive the difference between the credit left unpaid (at the time of disposition occurred) and the gain on the sale. The taxpayer is liable for the gain amount, at 1/15 a year, until paid.

**Example:** In 2018, a taxpayer who received a \$7,500 FTHBC reports the home was sold for a gain in 2013. Form 5405, Part II, Line 8 shows \$3,018. The taxpayer is liable for \$3,018 beginning in 2013, at \$500 year. The taxpayer has paid \$500 on tax years 2010 - 2017, that leaves \$500 owed on 2018 and \$18 owed on 2019. In total, \$4,518 must be repaid (\$500 for tax years 2010, 2011, and 2012, plus \$3,018 for 2013), waive \$2,982.

**Note:** Homes purchased after 2008 do not have a 1/15 repayment requirement, no action can be taken on these accounts, the repayment is lost.

If received prior to the ASERD expiring but the additional tax cannot be assessed because the statute has expired, the disposition is allowable, but the tax cannot be assessed. Update CC IMFOLF to reflect the total credit amount as recaptured. If a payment was made with the claim, send the payment to Excess Collection following established procedures.

- (12) Often an original joint return is filed with the spouse having an ITIN. If the spouse later gets an SSN, the spouse's SSN field on CC IMFOLF is not systematically updated causing repayment problems in later years. To update the SSN field, you must update the entity for the year the credit was taken on the TIN where the credit was claimed.

**Note:** If tax year 2008 has dropped to retention, you need to bring it back first using CC IMFOLB.

Take the following actions:

1. Input CC ENREQ.
2. In the "YEAR-NM-LINE>" field, enter the year the credit was claimed (2008).
3. In the "SPOUSES-SSN>" field, enter the spouse's SSN.

Once posted, CC IMFOLF is updated with the spouse's SSN. You may need to assess math errors on prior year returns if the yearly recapture amounts haven't been assessed.

- (13) If you identify issues not addressed above, elevate to your Planning & Analysis staff, following local procedures, for coordination with the author of this IRM.

21.6.4.4.17.4.1  
(10-01-2024)

#### First-Time Homebuyer Credit Recapture Math Errors

- (1) When a taxpayer does not report a recapture, or reports an incorrect amount, a math error notice is issued during original processing. One of the following taxpayer notice codes are assigned:

- 648 - Issued to taxpayers who received the FTHBC in 2008 but did not report a repayment installment on their current tax return.
  - 649 - Issued to taxpayers who reported a repayment but we changed the payment amount for various reasons.
- (2) The IRS has math error authority to assess (as provided by IRC 6213(b)(1) and (g)(2)(N)) or abate (as provided by IRC 6404) the 1/15 recapture amount, see IRM 21.5.4.4, Math Error Procedures Research, for the proper actions. If the taxpayer's reported recapture amount is systemically refunded in error, assess up to the amount that must be reported. Erroneous refund procedures should **not** be followed.
- (3) When a 1/15 recapture amount is assessed as a math error due to the taxpayer not attaching Form 5405 reporting a disposition, the math error can be corrected upon receipt of the Form 5405. An amended return is not required.

**Note:** IRM 21.5.4.5.3, Processing Responses to Math Error Notices, allows for refunds after the RSED.

- (4) The IRS also has math error authority to assess or abate a repayment when a disposition has occurred.

**Example:** A taxpayer reported the home was sold for a \$5,000 gain but during processing only \$1,000 was assessed. Math error authority can be used to assess the additional \$4,000.

**Example:** A taxpayer was assessed a math error for not reporting the \$500 repayment on their 2017 return. The taxpayer responds with a Form 5405 showing the home was sold for a loss in 2015. Based on the information provided, tax years 2016 and 2017 can be updated.

- (5) If a taxpayer reports a repayment and the original FTHBC claimed on their previous return is later disallowed or reversed, the same math error procedures can be used to correct the repayment.
- (6) Math errors may impact more than one tax year. Be sure to perform thorough account research and if needed, address all account issues, not just the taxpayer's issue.

**Example:** A taxpayer reported a military disposition on their 2015 return. A \$500 math error was assessed on their 2016 return. CC IMFOLF currently reflects a \$7,500 credit and \$2,500 recaptured. To correctly update this account, reverse the recapture math error on 2016 and record the disposition on 2015.

To illustrate, on tax year 2016, input a TC 291 \$500-, 877 \$500- RC 119. On tax year 2015, input a TC 290 .00, 876 \$5,000, RC 127, PDC 1.

- (7) Taxpayers may submit divorce papers in response to a math error notice. If so, follow procedures in IRM 21.6.4.4.17.4 (7), Manually Adjusting the Recapture Amount, to determine liability.

21.6.4.4.17.5  
(10-01-2013)

**Original Returns  
Claiming the First-Time  
Homebuyer Credit Filed  
After the RSED Expired**

- (1) These procedures are designed to be used by Statute unit employees processing STEX transcripts.
- (2) When processing an STEX transcript, review the module to determine if the taxpayer claimed the First-Time Homebuyer Credit (FTHBC).
- (3) Since the FTHBC is subject to repayment or recapture, depending on when the home was purchased, the account must be reviewed to determine if the taxpayer benefited from the credit, and if so, how much. Any portion of the credit that did not benefit the taxpayer must be disallowed.
- (4) To determine if the taxpayer benefited from the FTHBC, take the following steps:
  1. Review CC TXMOD or CC IMFOLT to see how much credit the taxpayer was allowed. The credit can be identified by a TC 766, credit reference number 258.
  2. Determine the total tax shown on the module. Combine the TC 150 with any TC 290 or TC 291.
  3. Subtract any refundable credit from the total tax.

**Note:** Refundable credits are applied in the order shown on the Form 1040.

**Example:** For tax year 2008, the order of credits is withholding, ES payments / credit elect, EIC, excess social security, ACTC, extension payment, credits from Form 2439 / 4136 / 8801 / 8885, FTHBC and RRC.

- (5) If the tax is paid prior to applying the FTHBC, the taxpayer did not benefit from the credit and the entire credit is disallowed.
- (6) If the tax is not paid prior to applying the FTHBC, the taxpayer did benefit from the credit and a portion of the credit may be disallowed.

**Example:** The total tax on the module is \$5,000, withholding \$2,000 and FTHBC \$7,500. After subtracting the withholding from the tax, \$3,000 of the FTHBC is applied to the tax. The taxpayer has a \$3,000 benefit. \$4,500 would be disallowed.

- (7) To disallow the credit:
  - Input a TC 290 .00
  - Input a RC 109 (for a 2008 purchase) or RC 110 (for a 2009 or later purchase)
  - Input credit reference number 258 (negative) for the credit being disallowed
  - Input blocking series 05, source code 2, hold code 2 and posting delay code 1
  - Include language in the 105C letter about the amount of credit disallowed

**Example: Partial disallowance-** Since \$2,500 of the \$7,500 First-Time Homebuyer Credit claimed was applied to the tax reported on your return, we have disallowed the \$5,000 that could not be refunded you. Your annual repayment is 1/15 of the \$2,500.

21.6.4.4.17.6  
(10-01-2017)  
**First-Time Homebuyer  
Credit Web Tool**

- (1) A web tool called the *First-Time Homebuyer Credit Account Look-up* is available on the IRS web site. The web application provides account information that assists taxpayers to correctly self-report their FTHBC repayment obligations on their tax returns.
- (2) Taxpayers must self-authenticate to access their account information. Self-authentication consists of inputting their SSN, date of birth and complete address.
- (3) The account information screen displays the last 4 digits of the taxpayer's SSN, original credit amount, annual repayment amount, total amount paid and the total balance left to be paid.
- (4) Taxpayers are directed to contact the IRS by calling 800-919-0352 if the following occurs:

| If  | Then   |
|---|--|
| Authentication Failure                      | Research the account(s) and provide the requested data.  |
| No Data / Duplicate Record                  | Research the primary and secondary SSN and provide the requested data. If a duplicate condition exists on CC IMFOLF, correct the duplicate condition. See IRM 21.6.4.4.17.4, Manually Adjusting the Recapture Amount, for the correct RC and item reference numbers to use.<br><b>Example:</b> The FTHBC was originally claimed on a joint return. The primary taxpayer is deceased. CC IMFOLF on the primary SSN shows a \$7,500 credit split 50/50 between the husband and wife. The primary recapture amount is \$3,750, the secondary recapture amount is \$250. On the wife's SSN, CC IMFOLF shows a primary credit of \$3,750 and a \$250 recapture. Zero out the secondary credit and recapture amount on the primary account (the deceased taxpayer's SSN) to correct the duplicate condition. |
| Technical Difficulties / System Unavailable | Research the account(s) and provide the requested data.  |

21.6.4.4.18  
(10-01-2019)  
**Form 8959, Additional  
Medicare Tax**

- (1) The Affordable Care Act added an Additional Medicare Tax (AdMT) for tax years 2013 and later. The 0.9% tax applies to income subject to the Federal Insurance Contributions Act (FICA), the Railroad Retirement Tax Act (RRTA) and/or the Self-Employment Contributions Act (SECA).
- (2) The 0.9% tax applies to individuals' wages (which includes Form 4137, Social Security and Medicare Tax on Unreported Tip Income, and Form 8919, Uncollected Social Security and Medicare Tax on Wages), RRTA compensation and self-employment income above a threshold based on their filing status. Unlike traditional Medicare tax, AdMT is only imposed on earnings that exceed a certain threshold and employers only withhold AdMT on wages or RRTA compensation that exceed \$200,000.
- (3) A taxpayer is subject to AdMT on any wages, self-employment income and RRTA compensation above the following thresholds:

- Married Filing Jointly - \$250,000
  - Married Filing Separately - \$125,000
  - All other filing statuses - \$200,000
- (4) AdMT is calculated on Form 8959, Additional Medicare Tax, and is carried over to Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, *Schedule 2*, Additional Taxes.
- (5) Form 8959, Additional Medicare Tax, is broken down into 5 parts:
- Part I - Additional Medicare Tax on Medicare Wages
  - Part II - Additional Medicare Tax on Self-Employment Income
  - Part III - Additional Medicare Tax on Railroad Retirement Tax Act (RRTA) Compensation
  - Part IV - Total Additional Medicare Tax
  - Part V - Withholding Reconciliation
- (6) Although AdMT is figured separately for each type of income, the threshold amount for self-employment income in Part II is reduced by the total wages in Part I (but not below zero). In this way, wages and self-employment income are combined to determine the amount (if any) that exceeds the applicable AdMT threshold and is subject to the 0.9% AdMT. However, the threshold for railroad retirement compensation is not reduced by other income, which can result in a taxpayer (or jointly filing taxpayers) with total earnings that are over the threshold amount but not subject to the 0.9% tax.

**Example:** John and Kathy are married and file jointly. John has \$190,000 in wages subject to Medicare tax and Kathy has \$150,000 in compensation subject to RRTA taxes. John and Kathy do not combine their wages and RRTA compensation to determine whether they are more than the \$250,000 threshold for a joint return. John and Kathy are not liable to pay AdMT because John's wages are not more than the \$250,000 threshold and Kathy's RRTA compensation is not more than the \$250,000 threshold.

- (7) Additional Medicare Tax withheld from wages are reported with Medicare tax withheld as a combined amount on Form W-2, box 6. Additional Medicare Tax withheld from RRTA compensation are reported in box 14. These amounts are carried to Part V of Form 8959 to compute Total Additional Medicare Tax Withholding. The total AdMT withholding are included with the federal income tax withholding on Form 1040.
- (8) Before adjusting AdMT, review the Additional Medicare Tax fields ("SSA AdMT" and "RRB AdMT") on CC TXMOD or CC IMFOLR.

**Note:** The "SSA AdMT" field combines lines 7 and 13 of Form 8959, the "RRB AdMT" field is line 17 only.

- (9) To adjust AdMT:
- Input a Transaction Code 29X for the tax amount
  - Input Item Reference Number 863 to update the SSA AdMT amount field for the Medicare wages reported in Part I of Form 8959 (line 7)
  - Input Item Reference Number 901 to update the SSA AdMT amount field for the self-employment income reported in Part II of Form 8959 (line 13)

- Input Item Reference Number 864 to update the RRB AdMT amount field (line 17)
- Input Credit Reference Number 806 / 807 for the Additional Medicare Tax withholding (RC 051), if necessary (line 24)
- Input Reason Code (RC) 136

**Note:** RC 136 requires a corresponding Item Reference Number, such as 863 or 864. If the only issue is withholding, use RC 051.

Reference: PL 111-148

21.6.4.4.19  
(10-01-2019)  
**Form 8960, Net  
Investment Income Tax**

- (1) The Health Care and Education Reconciliation Act of 2010 (PL 111-152) added a Net Investment Income Tax (NIIT) under section 1411 of the Internal Revenue Code for tax years 2013 and later. The NIIT applies at a rate of 3.8% to certain net investment income of individuals, estates and trusts. Although section 1411 falls within Chapter 2A of the Internal Revenue Code, entitled "Unearned Income Medicare Contribution", the tax is not a payroll tax.
- (2) In general, net investment income includes interest, dividends, capital gains, rental and royalty income, certain annuities and income from businesses in which the taxpayer is not an active participant. Investment expenses, such as brokerage fees and rental property expenses, related to the net investment income are allowed. IRA distributions and employer pension annuities are not net investment income, and therefore, not subject to the tax.
- (3) Some common types of income that are not net investment income include wages, unemployment compensation, self-employment income, Social Security Benefits, alimony, tax-exempt interest, operating income from a non-passive business, IRAs and distributions from certain Qualified Plans.
- (4) The 3.8% tax applies when taxpayers have net investment income and modified adjusted gross income (MAGI) above the following thresholds:
  - Single or Head of Household - \$200,000
  - Married Filing Jointly or Qualifying Widow(er) - \$250,000
  - Married Filing Separately - \$125,000
- (5) Non-resident aliens (NRA) are not subject to the Net Investment Income Tax. A nonresident alien who is married to a U.S. citizen or resident are subject to NIIT if such NRA makes an election to file a joint return for purposes of NIIT. If spouses choose to file a joint return under IRC 6013(g)(where a nonresident alien is married to a U.S. citizen or resident at the end of the tax year), or under IRC 6013(h)(where at least one spouse was an NRA at the beginning of the tax year, but is a U.S. citizen or resident married to a U.S. citizen or resident at the end of the tax year), they can also choose to apply the joint return election for NIIT purposes.
- (6) The 3.8% tax is assessed on **the lesser of** the net investment income or the excess amount (if any) of MAGI over the threshold amount.

**Example:** A single taxpayer has wages of \$180,000 and \$15,000 of interest and dividends. The taxpayer's MAGI of \$195,000 is less than the \$200,000 threshold, therefore no NIIT is due.

**Example:** A single taxpayer has wages of \$180,000 and received \$90,000 from a passive partnership interest, which is considered net investment income.



The taxpayer's total income is \$270,000. The taxpayer's total income exceeds the threshold of \$200,000 by \$70,000. Since the Net Investment Income Tax is based on the lesser of \$70,000 or \$90,000, the taxpayer owes NIIT of \$2,660 (\$70,000 X 3.8%).

- (7) Net investment income and net investment income tax are reported on Form 8960, Net Investment Income Tax – Individuals, Estates and Trusts. Tax from Form 8960 is carried over to Form 1040, U.S. Individual Income Tax Return, or Form 1040-SR, U.S. Income Tax Return for Seniors, *Schedule 2*, Additional Taxes.
- (8) Before adjusting NIIT, verify the net investment income and the net investment income tax posted in the "NI Income" and "NI Income Tax" fields on CC TXMOD or CC IMFOLR.

**Note:** The "NI Income" field is the lesser of the net investment income or the excess of MAGI over the applicable filing status threshold amount.

- (9) The amount of income which is subject to the Net Investment Income Tax is captured on line 16 and net investment income tax is captured on line 17 of Form 8960.

**Note:** If you cannot determine the income amount, divide the NIIT tax amount by .038.

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- (11) To adjust NIIT:
  - Input a Transaction Code 29X for the tax amount
  - Input Item Reference Number 861 to update the NIIT income amount
  - Input Item Reference Number 862 to update the NIIT tax amount
  - Input Reason Code 137

21.6.4.4.20  
(10-02-2023)

#### Individual Shared Responsibility Provision

- (1) The Individual Shared Responsibility Provision was eliminated as of tax year 2019. The information provided in this section and subsections are for historical purposes only.
- (2) For tax years 2014 - 2018, individuals were required to either have minimum essential coverage, a coverage exemption, or report a shared responsibility payment (SRP). The SRP is the penalty imposed if an applicable individual in a tax household lacks minimum essential coverage for any month. On their returns, taxpayers either:
  - Checked a coverage check box on Form 1040 (Form 1040A / Form 1040EZ for tax years 2017 and prior), which said **all members of the tax household had minimum essential coverage for the entire year**
  - Attached Form 8965, *Health Coverage Exemptions*, indicating an approved coverage exemption from the Marketplace or to request a coverage exemption from the IRS, and / or
  - Made a shared responsibility payment

*Minimum essential coverage* included, but was not limited to:

- Government sponsored programs such as Medicare, Medicaid, CHIP, and TRICARE



- Employer-sponsored plans
- Plans in the individual market, including a qualified health plan offered by the Health Insurance Marketplace
- Grandfathered health plans
- Other coverage such as State health benefits

A tax household generally includes the taxpayer, their spouse (if filing a joint return), and any individual they claim as a dependent on their tax return. It also generally includes each individual the taxpayer can, but does not, claim as a dependent on their tax return.

**Note:** A dependent filing a return not claiming their own exemption may not address either of the above since it is addressed on the parent(s) return.

- (3) For information about the coverage check box, see IRM 21.6.4.4.20.1, Coverage Checkbox. For information about coverage exemptions, see IRM 21.6.4.4.20.2, Form 8965, Health Coverage Exemptions. For information about shared responsibility payments, see IRM 21.6.4.4.20.3, Shared Responsibility Payment Overview.
- (4) Control cases as follows:

| Type  | Category Code | Program | CII Document Type  |
|---|---------------|---------|--------------------|
| Loose Forms                                 | ACA5          | 40313   | ACA-Loose Forms    |
| Correspondence                              | ACA7          | 40310   | ACA-Correspondence |
| Correspondence or claims written in Spanish | ACAC          | 40317   | ACA-Spanish        |
| Form 1040-X                                 | ACAX          | 40320   | ACA-1040X          |

**Exception:** Use these ACA category codes unless directed otherwise by another IRM.

21.6.4.4.20.1  
(10-01-2019)  
**Coverage Checkbox**

- (1) For tax years 2014 - 2018, a taxpayer said they and everyone in the tax household had minimum essential coverage for the entire year by checking the coverage checkbox. For tax year 2018, the checkbox was found in the entity section of Form 1040. For tax years 2017 and prior, the checkbox was found on Form 1040 line 61, Form 1040A line 38, Form 1040EZ line 11, and Form 1040-X full-year coverage, and recorded on MFT 30, on CC TXMOD as "Coverage-IND". The values are:
- blank - no coverage or coverage does not comprise the entire year
  - 1 - coverage for the entire year

**Caution:** Do not confuse the coverage indicator checkbox with the 3rd party designee checkbox.

CC IMFOLR displays "Coverage" in the indicator field if the checkbox is present, otherwise the field is blank.

- (2) If a taxpayer later updates the checkbox by filing an amended return, corresponding, filing a loose Form 1095, or a phone call; input item reference number (IRN) 869 with a .00 to turn it off, or .01 to turn it on. No supporting documentation is required.

**Note:** Make adjustments to the checkbox using the xMend tool.

**Caution:** For paper processing, if the taxpayer demonstrates everyone in the tax household had coverage for the entire year, ensure any SRP assessed is waived, see IRM 21.6.4.4.20.3.1, Shared Responsibility Payment Adjustments.

- (3) You do not need to use a reason code with IRN 869, however, the correct *source code* and *hold code* are required.
- (4) Accept oral statement to update the coverage checkbox. However, if a taxpayer had previously reported an SRP which now needs to be removed, tell the taxpayer to file an amended return, check the coverage checkbox, and remove SRP, or request the removal of SRP in writing showing the tax household had health insurance coverage for the entire year. The account is updated when the amended return or correspondence is processed. Follow normal procedures if there is Compliance involvement.
- (5) If a taxpayer requests to update the checkbox prior to the return posting, tell the taxpayer no action is required at this time.

21.6.4.4.20.2  
(10-01-2019)

**Form 8965, Health  
Coverage Exemptions**

- (1) For tax years 2014 - 2018, a coverage exemption from the shared responsibility payment was reported on Form 8965, Health Coverage Exemptions. Part I of Form 8965 was used to report a Marketplace-granted coverage exemption and its Exemption Certificate Number (ECN). Part II and Part III were used to request an exemption transcribed by IRS.
- (2) Marketplace-granted coverage exemptions were not transcribed from the original return, nor were they input in post processing (e.g., amended returns, etc.). ECNs are transmitted to the IRS and can be found in the Coverage Data Repository (CDR).
- (3) Exemptions reported in Part II and Part III are transcribed from the original return and can be viewed using CC RTVUE, definer CE. Exemptions reported in Part II and Part III can also be input post processing (e.g., amended returns, etc.).

**Note:** For tax year 2018, taxpayers can check the “full-year health care coverage or coverage exemptions” box if they had a Marketplace granted exemption or qualify for the exemption shown in Part II of Form 8965. If the taxpayer cannot check the box, they must file Form 8965 to report coverage exemptions shown in Part III of the form. If Form 8965 is attached, follow procedures outlined below.

- (4) Upon receipt of a Form 8965, verify the box in Part II is checked, and/or Part III is complete, and if Part III is completed, the exemption type is one recorded by IRS.

**Note:** If Form 8965 is received with only Part I completed, notate in CII. No other action is required for Part I.

**Note:** If the taxpayer checked the box in Part II and partially completes Part III, disregard Part III.

- (5) No supporting documentation is required for Form 8965, nor is an amended return. If the form is incomplete or has an exemption type other than one listed below, return the request. Oral statement authority does not apply, the Form 8965 must be provided.

**Note:** Taxpayers can report an exemption for an individual not claimed on the return. In addition, when reporting an exemption, taxpayers are not required to provide a TIN. If a TIN is not provided, do not record the exemption on IDRS and do not correspond for the missing TIN.

**Note: If a return has not posted, see IRM 21.5.1.4.4, Processing of Loose Forms or Schedules.**

- (6) The following table provides the tax year 2018 exemption types, the exemption code associated with it, and who can grant the exemption. Only exemptions allowed on the tax return have a corresponding exemption code. For coverage exemptions prior to tax year 2018, see the *Instructions for Form 8965*.

| Row Number | Exemption Type   | Exemption Code | Marketplace Granted | Claimed on Tax Return |
|------------|--|----------------|---------------------|-----------------------|
| 1          | <b>Income below the filing threshold</b> - individuals whose gross income or household income is less than filing requirements   |                |                     | ✓                     |
| 2          | <b>Coverage is considered unaffordable</b> - individuals who cannot afford coverage because the minimum amount they must pay for premiums is more than 8.05% of their household income (HHI)   | A              |                     | ✓                     |
| 3          | <b>Short coverage gap</b> - Individuals who went without coverage for less than 3 consecutive months during the year<br><b>Note:</b> An individual is treated as having coverage for any month in which they have coverage for at least 1 day of the month.<br><b>Note:</b> If multiple gaps exist, only the first gap is allowed. | B              |                     | ✓                     |

| Row Number | Exemption Type  | Exemption Code | Marketplace Granted   | Claimed on Tax Return |
|------------|---|----------------|-----------------------|-----------------------|
| 4          | <b>Citizens living abroad and certain noncitizens</b> <ul style="list-style-type: none"> <li>a U.S. citizen or resident who spent at least 330 full days outside of the U.S. during a 12 month period</li> <li>a U.S. citizen who is a bona fide resident of a foreign country or U.S. territory</li> <li>a resident alien who was a citizen or national of a foreign country with which the U.S. has an income tax treaty with a nondiscrimination clause, and a bona fide resident of a foreign country for the entire year</li> <li>not lawfully present in the U.S. and not a U.S. citizen or U.S. national</li> <li>a nonresident alien, including a dual-status alien in the first year of U.S. residency, or a nonresident alien or dual-status alien who elects to file a joint return with a U.S. spouse.</li> </ul> | C              |                       | ✓                     |
| 5          | <b>Member of Health Care Sharing Ministry</b>   | D              |                       | ✓                     |
| 6          | <b>Member of federally recognized Indian Tribe</b> - individuals who were either a member of an American Indian tribe, including an Alaska native, or those otherwise eligible for services through an Indian health care provider or Indian Health Service   | E              | ✓<br>Connecticut only | ✓                     |
| 7          | <b>Incarcerated</b> - individuals who were in a jail, prison, or similar penal institution or correctional facility after the disposition of charges  | F              |                       | ✓                     |
| 8          | <ul style="list-style-type: none"> <li>two or more family members whose <b>aggregate cost</b> of self-only employer-sponsored coverage is more than 8.05% of HHI, as was the cost of any available employer-sponsored coverage for the entire family</li> <li>individuals who would have been eligible for <b>Medicaid</b> had their state expanded coverage to 138% of the FPL</li> <li>individuals who experienced a <b>hardship</b> from obtaining coverage under a qualified health plan</li> </ul>   | G              |                       | ✓                     |

| Row Number | Exemption Type  | Exemption Code | Marketplace Granted | Claimed on Tax Return |
|------------|---|----------------|---------------------|-----------------------|
| 9          | <b>Member of tax household born, adopted, or died</b> - For 2018 a child is added to the household by birth or adoption, or a member of the household died during the year  | H              |                     | ✓                     |
| 10         | Member of certain religious sects   |                | ✓                   |                       |
| 11         | Individuals without access to affordable coverage based on projected household income   |                | ✓                   |                       |
| 12         | Individuals ineligible for Medicaid solely because the state in which they live does not participate in the Medicaid expansion under ACA  |                | ✓                   |                       |
| 13         | Enrolled in Medicaid coverage provided to a pregnant woman that is not recognized as MEC, enrolled in Medicaid coverage provided to a medically needy individual that is not recognized as MEC, or enrolled in Medicaid and received MEC for one or more months but not in other months |                | ✓                   |                       |

- (7) When a taxpayer reports an exemption post-processing, the exemption is recorded on MFT 30, on CC TXMOD with a TC 971. Action Code (AC) 175 adds the exemption, AC 176 signifies the exemption is no longer valid. Since the exemption can be for the entire family, individual members of the family, different reasons, for the entire year, or just part of the year, multiple TC 971 action codes may be needed.

**Note:** Coverage exemptions allowed at-filing do not have a corresponding TC 971 AC 175, they can be viewed using the “8965 Tool” or CC RTVUE CC TRDBV.

- (8) Use the “8965 Tool” in Accounts Management Service (AMS) to process a Form 8965.

**Note:** The “8965 Tool” pre-populates the at-filing coverage exemption data. If a taxpayer is adjusting an existing exemption type (such as changing from specific months to all year) which is pre-populated on the “8965 Tool”, both a TC 971 AC 176 and AC 175 are required. Check the “reverse” box on the pre-populated line to remove the existing exemption and add a new line with the new exemption information (with the “add” box checked) to allow the new exemption.

**Caution:** Exemptions input to Masterfile post-processing do not pre-populate on the “8965 Tool”. If a taxpayer adjusts or removes a post-processing exemption, you must research CC TXMOD or IMFOLT for the corresponding TC 971 AC 175 for the information shown in (9) below and add

that data to the “8965 Tool” to issue a TC 971 AC 176 (do not assume a previous exemption no longer applies if a new Form 8965 is received).

- (9) When viewing the TC 971s on CC TXMOD or CC IMFOLT, the TIN populated in the XREF-TIN field says the person entitled to the exemption. The MISC field identifies the exemption type and the months the exemption applies. The following format is used in the MISC field:

**Part II**

- a “4” shows the box was checked
- for tax years 2014 and 2015 forms, a “1” shows line 7a was checked, a “2” shows line 7b was checked, and a “3” shows both boxes were checked)

**Note:** If the exemption is for the household, as shown on Form 8965, Part II, the XREF-TIN is the primary SSN.

**Part III**

- number = exemption code (from the table above)
- 01-12 = months the exemption applies, January - December (01 = January, 02 = February, etc.)
- Y = exemption applies to the entire year
- - (dash) = through

**Example:** If a Form 8965 was filed requesting an exemption for being incarcerated for January - June, the MISC field would show F01-06

**Example:** A short coverage gap for January and February would be shown as “B0102”.

- (10) The reporting of an exemption may impact SRP. If Form 8965 is received reporting an exemption and the taxpayer addresses SRP, or if the exemption(s) reported covers the tax family for the entire year, see IRM 21.6.4.4.20.3.1, Shared Responsibility Payment Adjustments.

21.6.4.4.20.3

(10-09-2019)

**Shared Responsibility  
Payment Overview**

- (1) For tax years 2014 - 2018, a taxpayer is liable for a SRP if the taxpayer, spouse, or the taxpayer’s dependent(s) does not have either minimum essential coverage for every month of the year or an exemption. The taxpayer’s SRP is the sum of the monthly payment amounts for all months when any member of the taxpayer’s tax household is neither exempt nor has minimum essential coverage. The monthly payment amount is 1/12 of the annual payment amount.

The annual payment amount is the greater of:

- the flat dollar amount, or
- a percentage of the excess income amount

The shared responsibility payment is capped at the annual national average premium for a bronze-level qualified health plan for the applicable family size involved available through the Marketplace. Those amounts are as follows:

| Tax Year | Amount   |
|----------|----------|
| 2018     | \$16,980 |
| 2017     | \$16,320 |
| 2016     | \$13,380 |

- (2) The flat dollar amount is the sum of the applicable dollar amounts (ADAs) for all members of the household who are not exempt and do not have minimum essential coverage in a particular month. The ADA is \$695 per individual for 2016 - 2018, \$325 per individual for 2015, and \$95 per individual for 2014, and is subject to indexing for subsequent years. For a child who is not yet 18 years old as of the beginning of the month when the child is neither exempt nor has minimum essential coverage, the ADA is one-half of the amounts listed earlier. The flat dollar amount for a tax household is capped at 300% of the ADA for adults.
  - (3) See Instructions for Form 8965 for detailed information about computing the SRP. Additionally, see IRM 21.1.1.3.2, Out of Scope and Limited Service, for information about the SRP worksheet.
  - (4) SRP is reported on Form 1040, Schedule 4, Other Taxes (for tax years 2017 and prior, Form 1040EZ line 11, Form 1040A line 38, or Form 1040, line 61). The amount reported is carried to MFT 35 and assessed as a TC 240 with penalty reference number (PRN) 692. **MFT 35 posts one cycle after MFT 30.**
- Note:** Since the SRP amount is carried to MFT 35, the total tax shown on Form 1040 is not the total tax amount (TC 150) shown on MFT 30. A TC 971 action code 530 posts to MFT 30 with the SRP amount in the memo field.
- Reminder:** Balance due returns do not settle (23C date) until cycle 20 (or when the balance is paid in full), which delays MFT 35 from posting until the following cycle.
- (5) SRP notices can be identified by an "H" after the CP number (i.e., CP 14H, CP 501H, etc.). SRP notices identify the form as "SRP" instead of "1040".
  - (6) Overpayments shown on the original Form 1040 are applied to MFT 35 prior to offsetting to any other balance due. The overpayments are applied with a TC 896. Any subsequent overpayment from MFT 30 is offset with a TC 826 following normal offset rules.
  - (7) SRP is subject to interest, but not penalty (Failure to File or Failure to Pay).
  - (8) Although CC IMFOLT for MFT 35 only shows the primary taxpayer's name, joint refunds are issued in the primary and secondary name.
  - (9) A transcript of the MFT 35 module can be requested using MFTRA type X.

21.6.4.4.20.3.1

(10-09-2019)

**Shared Responsibility  
Payment Adjustments**

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#  
#  
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- (2) If a taxpayer corresponds, files an amended return, or files a refund claim requesting adjustment, review the MFT 35 module to determine if a Compliance function assessed and adjusted the SRP (which can be identified by a TC 240, PRN 692, RC 154 on MFT 35), or is in the process of reviewing the taxpayer’s account (which is identified by a -L freeze on MFT 30).

**Reminder:** SRP reported at-filing has 88888 in the TC 240 DLN.

**Note:** Oral statement authority does not apply to SRP unless there is a decimal point or transcription error when posting SRP. Advise the taxpayer to file an amended return.

- (3) If no Compliance involvement:

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#  
#  
#  
#  
#

**Note:** When requesting an exemption from SRP, Form 8965 must be on file or provided by the taxpayer.

Suggested verbiage for the executive order: **On January 20, 2017, the President signed Executive Order 13765, Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Repeal. The shared responsibility payment (SRP) was eliminated for months after December 31, 2018. For tax years 2014 to 2018, you must have full year healthcare coverage, have an exemption from coverage, or make a SRP.**

- If correspondence is sent and the taxpayer provides the corrected SRP amount or demonstrates that everyone in the tax household had coverage for each month of the year, or an exemption for those months

#  
#

have to specifically state “remove SRP”, it can be implied.

**Example:** Taxpayer responds to CP 501H with a copy of an insurance card. Since an insurance card doesn’t show everyone in the household had coverage for every month of the year, more information is needed.

**Example:** Taxpayer responds to CP 14H indicating they forgot to check the box showing everyone in their tax household had minimum essential coverage for the entire year, SRP can be removed.

**Example:** Taxpayer responds to CP 14H with Form 8965. The taxpayer says the computed SRP is incorrect because they forgot the exemption. In this example, if the taxpayer is single claiming only themselves and the exemption is for the entire year,

SRP can be removed. However, if the exemption is for part of the year, SRP cannot be adjusted without the taxpayer providing the correct amount.

**Example:** Form 1095-B, Health Coverage, sent showing everyone in the tax household had coverage for the year, SRP can be removed.

- Input a PRN 692 on MFT 35, for the correct amount, RC 153. SRP can be adjusted using the xMend tool. **Do not use the SRP Calculator found in AMS.** The usual *source codes* and *blocking series* apply.

**Reminder:** Do not assess more than the national average bronze-level plan shown in IRM 21.6.4.4.20.3, Shared Responsibility Payment Overview.

**Reminder:** If a Letter 5600C (as shown in IRM 21.6.4.4.20.5, Shared Responsibility Provision Notices) is attached or mentioned, input a priority code 3 if the adjustment results in an overpayment. Do not input an amended claims date. See IRM 20.2.4.7.5.5, 45-Day Rule and IRS Initiated Adjustments.

**Note:** If an MFT 35 module has not been established, create a dummy MFT 35 module using CC MFREQD, and then input the assessment. **Do not use a hold code 3 or 4 on the initial assessment unless transferring a payment or offsetting an overpayment to the MFT 35 module at the time of assessment to satisfy the SRP liability.** A hold code interferes with subsequent notice routine. After the initial assessment, use a hold code on subsequent adjustments.

**Note:** When adjusting both MFT 30 and MFT 35, the system posts all transactions, including any offsets, in the same cycle. However, if creating the MFT 35 module, posting is delayed one cycle. Manually transfer any overpayment from MFT 30, or use a posting delay code as needed.

- If SRP is being removed because the taxpayer demonstrated everyone in the tax household had coverage for the entire year, see IRM 21.6.4.4.20.1, Coverage Checkbox.
- (4) If Compliance adjusted the account (MFT 30 or MFT 35), see IRM 21.5.10.4.3, Audit Reconsiderations. If a -L freeze or TC 922 is on MFT 30, see IRM 21.5.6.4.24, -L Freeze, or IRM 21.3.1.6.52, Status of Individual Master File (IMF) Underreporter Cases.
  - (5) MFT 35 modules can be mirrored. If the MFT 35 module is mirrored to MFT 65, two adjustments are necessary, see IRM 21.6.8, Split Spousal Assessments (MFT 31 / MFT 65).
  - (6) Take the following action if a payment was made with the 1040-X:

| If                              | And                                      | Then  |
|---------------------------------|--|---|
| TC 670 payment posted to MFT 30 | The amount matches the change to the SRP | Transfer the payment to MFT 35 using the IAT credit transfer tool |

| If   | And   | Then   |
|--|---|--|
| TC 670 payment posted to MFT 30 does NOT match the change to SRP | <ol style="list-style-type: none"> <li>1. The payment amount matches the total adjustment to MFT 30 and MFT 35</li> <li>2. The payment amount is more than the total adjustment to MFT 30 and MFT 35</li> <li>3. The payment amount is less than the total adjustment to MFT 30 and MFT 35</li> </ol> | <ol style="list-style-type: none"> <li>1. Transfer the amount attributable to SRP using the IAT credit transfer tool</li> <li>2. Transfer the amount attributable to SRP using the IAT credit transfer tool</li> <li>3. Do not transfer the payment unless there is an indication the taxpayer wanted the SRP fully or partially paid</li> </ol> |

**Note:** If the TC 670 payment posted to MFT 35, follow the same logic above to transfer the payment to MFT 30.

**Note:** If both an adjustment and a credit transfer using CC ADD34 are needed for the same MFT 35 module, input a posting delay code 1 on the adjustment. A PDC isn't needed if using CC ADD24 or CC ADD48. See IRM 21.5.8.4, IDRS Guidelines for Credit Transfers.

21.6.4.4.20.4  
(02-01-2018)

#### Shared Responsibility Payment Math Errors

- (1) Taxpayers who file a paper return and do not check the coverage checkbox, attach Form 8965, or report a shared responsibility payment, are issued a Letter 12C, Individual Return Incomplete for Processing, requesting the taxpayer address their health care responsibility. Electronic returns are rejected.
- (2) If a taxpayer responds to the Letter 12C assessing an SRP, or if no response is received, SRP is assessed at-filing and a math error notice issued with one of the following taxpayer notice codes (TPNC):
  - 811 - We assessed an estimated amount for the shared responsibility payment (SRP) because you didn't respond to our request. You owe the SRP because one or more members of your tax household did not have minimum essential health coverage, per IRC 5000A. We adjusted your tax return accordingly.
  - 812 - We changed the refund amount, or the amount you owe on your tax return, based on the shared responsibility payment information you provided in response to our correspondence.

When TPNC 811 is issued, taxpayers are advised to refer to the instructions for Form 8965 to compute SRP, and if they don't agree with the amount assessed, to file an amended return.

- (3) In addition to the TPNCs listed above, another TPNC is used when the taxpayer reports an SRP that exceeds the maximum amount shown in IRM 21.6.4.4.20.3, Shared Responsibility Payment Overview:
  - 813 - We reduced the shared responsibility payment (SRP) you reported on your tax return down to the maximum SRP amount imposed under the law.

21.6.4.4.20.5  
(10-11-2017)

**Shared Responsibility  
Provision Notices**

- (1) Various notices were sent addressing issues concerning the shared responsibility provision.
- (2) Below is a list of the notices issued and required actions. **If a response to one of these notices result in an overpayment, input the adjustment using a priority code 3. Do not input an amended claims date.** See IRM 20.2.4.7.5.5, 45-Day Rule and IRS Initiated Adjustments, for more information.
  - **Letter 6002** (September 2017) - issued to taxpayers who filed silent returns with respect to healthcare coverage for tax year 2014 and/or 2015. These taxpayers were also silent in tax year 2016. Letter 6002 advises taxpayers to file an amended return to either report full-year coverage, claim a coverage exemption, or report a shared responsibility payment.

**Reminder:** You can use oral statement authority to update the coverage checkbox, see IRM 21.6.4.4.20.1, Coverage Checkbox. If the taxpayer's only issue is they forgot to check the box, update the checkbox, an amended return does not need to be filed.
  - **Letter 5600C** (November/December 2015) - issued to taxpayers who may have over-assessed their SRP.

Taxpayers may have reported more than they should have for several reasons, such as:

- a. They reported more than the maximum amount required by law.
- b. Their income was below the filing threshold.
- c. They are a dependent on someone else's tax return.

Taxpayers who received Letter 5600C should file a Form 1040-X to remove or reduce the SRP reported, and if applicable, file Form 8965, Health Coverage Exemptions.

