How to Stop Interest on Your Account

Making Remittances to Stop Interest
When the IRS proposes adjustments to your account, interest on the liability runs from the tax return due date to the date the IRS receives your remittance paying the entire liability, including tax, penalties, and interest.

What Amount Do I Have to Pay to Stop Interest from Running?
To completely stop interest from running on a proposed tax liability, your remittance must cover the entire amount of the proposed liability, including all interest that has accrued to that point and penalties. Otherwise, interest may continue to build on any excess tax, penalties, and interest that may be assessed against you. Your local Appeals Office can help you compute the amount of interest and process your remittance.

How Do I Stop Interest from Running on Proposed Liabilities?
You may stop interest from building up against a proposed tax liability by making a remittance on your account as soon as you know the amount of tax that potentially may be owed, but before the tax liability is assessed. There are two types of remittances that will stop the running of interest on proposed liabilities. You need to decide which type is right for you.

What are the Different Types of Remittances I Can Make for Proposed Liabilities?
A remittance for additional tax liabilities that have been proposed by IRS may take the form of either a “deposit” or an “advance
How are Deposits and Advance Payments Similar?
Both types of remittances will reduce or stop the accrual of additional interest on proposed tax liabilities (depending on the amount of the remittance). IRS will credit a deposit or an advance payment to your account on the date it is received. If the final decision on a proposed liability results in a lower liability than the amount of your remittance, the IRS will either credit the excess against your other tax liabilities, or return (or refund) the excess to you.

How are Deposits and Advance Payments Different?
One significant difference between a deposit and an advance payment is that you may ask in writing for a deposit to be returned to you at any time. The IRS will return the deposit to you, with interest if you qualify, unless the IRS has already applied the deposit as a payment against an assessed tax liability on your account. An advance payment is treated as a payment of tax and will be refunded to you only if you make a claim for refund and IRS determines you are entitled to a refund.

Another difference between deposits and advance payments is that a higher interest rate will usually be paid on refunds of advance payments than on returned deposits.

Once a notice of deficiency (often referred to as a 90-day letter) is issued in your case, the IRS will convert your deposit to a payment against the proposed deficiency after the expiration of the 90-day or 150-day period for the notice of deficiency, unless you request in writing that you want IRS to
continue to treat your remittance as a deposit. You must provide the IRS with your written request before the expiration of the 90-day or 150-day period.

What If I Want to Go to Tax Court to Challenge the Proposed Liability?
If you make a remittance after the IRS sends you a notice of deficiency, the Tax Court will have jurisdiction to hear your case regardless of whether the remittance is treated as a deposit or an advance payment, except in situations where you sign a waiver for assessment and collection. However, if you make a remittance that is designated as a payment of tax for the full amount of the tax liability before a notice of deficiency is mailed, you generally will not have a right to challenge the proposed deficiency in Tax Court. Therefore, if you desire to go to Tax Court, it is important that you clearly designate your remittance as a deposit in this situation.

What Happens if I Do Not Clearly Designate the Type of Remittance I Intend to Make?
If you send a remittance to the IRS without clearly designating the type of remittance you are intending to make, the IRS may apply the remittance to your account as either a deposit or an advance payment of tax depending on the circumstances. Therefore, it is important to be specific if you desire a particular type of treatment for your remittance.

How Do I Designate the Remittance as a Deposit?
If you want to make a deposit, provide the IRS (where you are required to file your return or the office where your return is being examined) with a check or money
order payable to the United States Treasury accompanied by a written statement designating the remittance as a deposit. Include in the written statement the type(s) of tax and tax year(s) that are potentially in dispute along with the amount and basis for the disputable tax. You may include a copy of the 30-day letter that you received explaining the proposed liability as the written statement as long as you make it clear the remittance is a deposit for the tax type(s), tax years(s) and disputable amount(s) shown on the 30-day letter.

**Can I Withdraw a Deposit and Do I Receive Interest on It?**

You may withdraw a deposit at any time, as long as the IRS has not already converted the deposit as a payment of tax against your account.

If you withdraw a deposit, you may qualify to receive interest at the federal short-term rate. To qualify for interest beginning on the date the IRS receives your deposit, you need to include with your remittance the written statement identifying the tax type(s), tax year(s), and disputable tax (or a copy of the 30-day letter). Interest will not begin on your deposit until the IRS receives this information from you.

If you withdraw a deposit and it is later determined that you are liable for the tax, you will be charged interest on the tax liability from the return’s original due date as if no deposit had been made. (See Revenue Procedure 2005-18 for more information on deposits).