# Information About Your Notice, Penalty and Interest

The interest rates on underpayment and overpayment of taxes are as follows:

<table>
<thead>
<tr>
<th>Periods</th>
<th>Percentage Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underpayment</strong></td>
<td><strong>Overpayment</strong></td>
</tr>
<tr>
<td>July 1, 2008 through September 30, 2008</td>
<td>5</td>
</tr>
<tr>
<td>October 1, 2008 through December 31, 2008</td>
<td>6</td>
</tr>
<tr>
<td>January 1, 2009 through March 31, 2009</td>
<td>5</td>
</tr>
<tr>
<td>April 1, 2009 through December 31, 2010</td>
<td>4</td>
</tr>
<tr>
<td>January 1, 2011 through March 31, 2011</td>
<td>4</td>
</tr>
<tr>
<td>April 1, 2011 through September 30, 2011</td>
<td>3</td>
</tr>
<tr>
<td>October 1, 2011 through March 31, 2012</td>
<td>4</td>
</tr>
<tr>
<td>April 1, 2012 through March 31, 2013</td>
<td>5</td>
</tr>
<tr>
<td>January 1, 2013 through March 31, 2013</td>
<td>6</td>
</tr>
<tr>
<td>Beginning July 1, 2013</td>
<td>5</td>
</tr>
</tbody>
</table>

Beginning January 1, 1999, the interest rate we pay on any overpayment of taxes, except for corporate taxes, is the same as the rate of interest we charge on the underpayment of taxes. The law requires us to determine these interest rates quarterly. From January 1, 1987 through December 31, 1998, the interest rate we paid on an overpayment of taxes was one percent less than the rate of interest we charged on your underpayment of taxes. Effective January 1, 1995, we pay a reduced rate of interest on corporate overpayments that exceed $10,000. This reduced rate is the short-term federal interest rate, plus ¼%. We compound interest daily, except on late or underpaid estimated taxes for individuals or corporations.

If you have an underpayment resulting from a tax motivated transaction (for returns due before January 1, 1990), we charge a special interest rate of 120 percent of the underpayment rate.

We charge interest on penalties for filing late, paying late, over or understating valuations, and substantially understating the tax you owe.

Also, we charge interest on fraud and negligence penalties if the tax returns, including extensions, are due after December 31, 1988. For returns due after December 31, 1989, the Accuracy-Related Penalty is charged interest from the later of the return due date or extended return due date.

We continue to charge interest until you pay the amount you owe in full. After December 31, 1990, the law allows us to charge interest at the underpayment rate plus two percent on large corporate underpayments of more than $100,000.

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### About Your Notice

You may call your local IRS telephone number if the number shown on your notice is a long-distance call for you. All days mentioned in the paragraphs below are calendar days, unless specifically stated otherwise.

#### Removal of Penalties

**Reasonable Cause.** The law lets us remove or reduce the penalties we explain in this notice if you have an acceptable reason. If you believe you have an acceptable reason, you may send us a signed statement explaining your reason. We will review it and let you know if we accept your explanation as reasonable cause to remove or reduce your penalty. This procedure does not apply to interest.

#### Erroneous Written Advice from IRS

We will also remove your penalty if:

- you wrote to IRS and asked for advice on a specific issue,
- you gave IRS complete and accurate information, IRS wrote back to you and gave you a specific course of action to take or explained what actions not to take, and you followed our written advice in the manner we outlined, and
- you were penalized for the written advice we gave you.

To have the penalty removed because of erroneous written advice from IRS you should:

- complete Form 843, Claim for Refund and Request for Abatement,
- request that IRS remove the penalty, and
- send Form 843 to the IRS Service Center where you filed your return for the year you relied on erroneous advice from the IRS.

The three documents you must attach to your Form 843 are:

- a copy of your original request for advice from IRS,
- a copy of the erroneous written advice from IRS, and
- an IRS notice (if any) showing the penalty we charged that you now wish us to remove.

#### Deposit Penalties - IRC 6656

We may charge penalties if you do not make required deposits on time, make deposits for less than the required amount or if you do not use EFTPS when required. We will not charge penalties if you did not willfully neglect to make a proper and timely deposit and you have a reasonable cause. For amounts not properly or timely deposited, the penalty rates are:

- 2% — deposits made 1 to 5 days late,
- 5% — deposits made 6 to 15 days late,
- 10% — deposits made 16 days or more late, but on or before the 10th day after the date of the first notice we sent you asking for the tax you owe.
- 10% — deposits made to an unauthorized financial institution, or payments made directly to the IRS, or paid with your tax return.
- 10% — Amounts subject to electronic deposit requirements but not deposited using EFTPS.
- 15% — Amounts still unpaid more than 10 days after the date of the first notice the IRS sent asking for the tax due or the day on which you receive notice and demand for immediate payment, whichever is earlier.

The law allows you to tell the IRS where to apply your deposits within the tax return period with a deposit penalty. You have 90 days from the date of the correspondence you received showing the deposit penalty to contact the IRS if you want to specify where to apply your deposits. Also, the law allows the IRS to remove the deposit penalty if (1) the penalty applies to the first required deposit after a required change to your frequency of deposits, and (2) you file your employment tax returns by the due date.

#### Estimated Tax Safe Harbor for Higher Income Individuals - IRC 6654(d)

For tax years after 1993, your adjusted gross income in the preceding year is more than $150,000 ($75,000 if your filing status is married filing separately), the required payments are as follows:

- For 2003: Your required payment is the lesser of 90% of the tax shown on your return for the current year or 110% of the tax shown on your prior year return.
- For 2002: Your required payment is the lesser of 90% of the tax shown on your current year return or 110% of the tax shown on your prior year return.
- For 2001: Your required payment is the lesser of 90% of the tax shown on your current year return or 110% of the tax shown on your prior year return.
For 2000: Your required payment is the lesser of 90% of the tax shown on your current year return or 108.6% of the tax shown on your prior year return.

For 1999: Your required payment is the lesser of 90% of the tax shown on your current year return or 105% of the tax shown on your prior year return.

For 1998: Your required payment is the lesser of 90% of the tax shown on your current year return or 100% of the tax shown on your prior year return.

For 1994 through 1997: Your required payment is the lesser of 90% of the tax shown on your current year return or 110% of the tax shown on your prior year return.

For more information on when the estimated tax penalty may be reduced or removed, see the instructions for Form 2220 and its instructions for your tax year. See Publication 505, Tax Withholding and Estimated Tax.

Corporations — We charge a penalty for not estimating your tax correctly when the corporation owes $500 or more in tax, and the total payments made on time are less than the required amount.

For tax years beginning after December 31, 1993, the law requires corporations to pay their estimated tax in 4 quarterly payments (unless income is seasonal or the corporation used an annualized income method to estimate its tax) based on the lesser of 100% of either the tax shown on the current year tax return or the prior year tax return. Each installment must be at least 25% of the tax shown on the return.

The procedure for reasonable cause does not apply to corporate estimated tax penalties. For more information on when the estimated tax penalty may be reduced or removed, see Form 2220 and its instructions for your tax year.

03 Failure to Deposit - IRC 6654(b) — Federal Tax Deposits Insufficient/Late — We charged a penalty because you didn’t deposit the correct amounts of tax on time. We used your Record of Tax Liability to determine where to apply your deposits. We applied your deposits in the date order we received them. We figured the penalty on any tax not deposited, deposited late, or not deposited in the correct amounts. If you think we should remove or reduce this penalty, see “Removal of Penalties — Reasonable Cause.”

04 Dishonored Check or Other Form of Payment - IRC 6665 — We charged a penalty because your bank did not honor your check or other form of payment. The penalty was $25, whichever is less. (2) $100 a day for each day your return is late. The penalty may not be more than $50,000. For all other forms, the penalty is $10 a day for each day your return is late. The penalty may not be more than $5,000. For these penalties, subject to a normal inflation adjustment for returns due after 2014. If you think we should remove or reduce this penalty, see “Removal of Penalties — Reasonable Cause.”

11 Failure to Deposit - IRC 6656 — Federal Tax Deposits Insufficient/Late and Incomplete Record of Federal Tax Liability — We charged a penalty because it appears that you didn’t deposit the correct amounts of tax on time.

Also, your Record of Federal Tax Liability was incomplete or had an error amount. We reported didn’t equal the net taxes for the tax period. Therefore, we averaged the total tax liability and distributed it equally throughout the tax period. We applied your deposits in the date order we received them. We figured the penalty on any tax not deposited, deposited late, or not deposited in the correct amounts. If you believe the penalty incorrectly, please send a complete breakdown of your tax liability on Form 4977 (for tax years before 1993), Form 941 Schedule B (for tax years 1993 to 1997), Form 943 or Form 945-A, or Form 944 or Form 945-A. If you think we should remove or reduce this penalty, see “Removal of Penalties — Reasonable Cause.”

12 Incomplete Return - IRC 6652 — We charged a penalty because, according to our records, you didn’t file a complete return. For Forms 990, 990EZ, and 990PF, the penalty is (1) $20 a day for each day your return is incomplete, if your gross annual receipts are equal to or less than $1 million. The penalty may not be more than $10,000 or 5% of your gross annual receipts, whichever is less. (2) $100 a day for each day your return is incomplete, if your gross annual receipts exceed $1 million. The penalty may not be more than $50,000. For all other forms, the penalty is $10 a day for each day your return is late. The penalty may not be more than $5,000. For these penalties, subject to a normal inflation adjustment for returns due after 2014. If you think we should remove or reduce this penalty, see “Removal of Penalties — Reasonable Cause.”

14 Fraud - IRC 6651(f) — Late Filing Penalty — The law allows us to increase the penalty for filing late if you didn’t file on time because of fraud. The penalty is 15% of the amount of tax you should have reported on your return for the tax year. If you didn’t file your return for a month or part of a month you didn’t file your return. The total penalty may not be more than 75% of the tax you didn’t pay.

17 Penalty Removal — We removed the penalty we charged you and we are reviewing your account. We will let you know the results.

27 Penalty on Tips - IRC 6652(b) — We charged a penalty because, according to our records, you didn’t report your tips on your return. The penalty is 50% of the social security or railroad retirement tax on the tips you didn’t report. If you think we should remove or reduce this penalty, see “Removal of Penalties — Reasonable Cause.”

28 Examining Officer’s Report - IRC 6751(a) — According to our records, your Examining Officer gave you a report that explained the reason for this penalty.

30 Late Payment Penalty Removal — We removed the late payment penalty we previously charged you.

31 False W-4 Penalty - IRC 6682 — We charged a $500 penalty because it appears you made false statements on your Form W-4. If you think we should remove or reduce this penalty, see “Removal of Penalties — Reasonable Cause.”

32 Partnership Late Filing – IRC 6698 — We charged a penalty because, according to our records, you filed your partnership’s return late. The penalty is the lesser of 90% of the tax shown on your return was filed late, for up to 12 months. If you think we should remove or reduce this penalty, see “Removal of Penalties — Reasonable Cause.”

Corporation Late Filing – IRC 6699 — We charged a penalty because, according to our records, you filed your S Corporation return late. The penalty is $195 for each month or part of a month that the return was filed late, for up to 12 months. If you think we should remove or reduce this penalty, see “Removal of Penalties — Reasonable Cause.”

For tax years that began before 2010, the penalty charge is $89 if the return was required to be filed after December 31, 2009.

For returns required to be filed before 2009, but after December 20, 2007, the penalty charge is $195 for each month or part of a month that the return was filed late, for up to 12 months. If you think we should remove or reduce this penalty, see “Removal of Penalties — Reasonable Cause.”

The Hokie Act increased the penalty charge by $1 for returns for tax years that start in 2008.

For returns required to be filed before December 21, 2007, the penalty charge is $50, and the penalty is not charged for more than five months. These penalty amounts are subject to annual inflation adjustment for returns due after 2014.

S Corporation Late Filing – IRC 6699 — We charged a penalty because, according to our records, you filed your S Corporation return late. The penalty is $195 for each month or part of a month that the return was filed late, for up to 12 months. If you think we should remove or reduce this penalty, see “Removal of Penalties — Reasonable Cause.”

For tax years that began before 2010, the penalty charge is $89 if the return was required to be filed after December 31, 2009.

For returns required to be filed before 2009, but after December 20, 2007, the penalty charge is $195.

These penalty amounts are subject to annual inflation adjustment for returns due after 2014.

33-39 and 45-52 Filing Incomplete Return – IRC 6698 — We charged a penalty because, according to our records, your partnership return was incomplete and you didn’t give us the information we requested. The penalty is 15% of the tax due for the tax year for the tax year. For returns for tax years that start in 2008, the penalty charge is $85.

For returns required to be filed before 2009, but after December 20, 2007, the penalty charge is $85.

The Hokie Act increased the penalty charge by $1 for returns for tax years that start in 2008.

For returns required to be filed before December 21, 2007, the penalty charge is $50, and the penalty is not charged for more than five months. These penalty amounts are subject to annual inflation adjustment for returns due after 2014.
We charged you a penalty because, according to our records, you didn’t make your tax deposit on time or in the correct amounts.

We used your Record of Federal Tax Liability to determine the tax due, and we applied your deposits directly to the IRS.

The penalty is 10% of the part of the payment that you didn’t pay on time.

If you think we computed the penalty incorrectly, please complete Form 941 Schedule B, Form 945-A, or Form 943-A. For additional details see Information on Failure to Deposit Penalty, Code 56.

Failure to Deposit - IRC 6656 — Deposits Insufficient/Late and Incorrect Record of Federal Tax Liability — We charged you a penalty because, according to our records, you didn’t make your deposits to an unauthorized financial institution, directly to the IRS, or on Failure to Deposit Penalty, Code 56.

If you believe we charged you a penalty due to a disallowance of claimed tax benefits by reason of a transaction lacking economic substance or failing to meet the requirements of any similar rule of law, the penalty is 40% of the portion of the underpayment attributable to one or more non-disclosed non-economic substance transactions. The reasonable cause exception does not apply to any portion of an underpayment that is attributable to one or more non-disclosed non-economic substance transactions.

Full Incomplete Return - IRC 6699 — We charged a penalty because, according to our records:

Accordingly, we averaged the liability you reported, distributed it equally, and applied your deposits in the date order we received them.

If you believe we charged the penalty incorrectly, please complete Form 941 Schedule B, Form 945-A, or Form 943-A. For additional details see Information on Failure to Deposit Penalty, Code 56.

Failure to Deposit - IRC 6656 — Deposits Insufficient/Late, Taxes Paid Directly to IRS — We charged a penalty because, according to our records:

You may pay taxes of less than $2,500 with your tax return.

If you think we should remove or reduce this penalty, please complete Form 941 Schedule B, or Form 945-A or Form 943-A. For additional details see Information on Failure to Deposit Penalty, Code 56.
you did not make your deposit(s) electronically as the law requires, and your Record of Federal Tax Liability was incomplete or illegible, or the liability amounts you reported didn’t equal the net taxes for the tax period.

We averaged your total tax liability, distributed it equally, and applied your deposits and payments to the averaged liabilities in the date order we received them. We placed the penalty on any tax not deposited, deposited late, or not deposited in the correct amounts.

If you believe we computed the penalty incorrectly, please complete the enclosed Form 941 Schedule B, Form 945-A, or Form 943-A. For additional details see Information on Failure to Deposit Penalty below.

Information on Failure to Deposit Penalty. There is a limit to the amount of tax you may pay with your return. See the list below.

Form 941 series, Form 943, Form 944, and Form 945 — You may pay tax of less than $2,500 with your tax return.

Form 1042 — You may pay taxes of less than $200 with your tax return.

Form 720 — You may pay taxes of $2,000 or less with your tax return.

Form CT-1 — You may pay taxes of less than $2,500 with your tax return.

If you think we should remove or reduce this penalty, see “Removal of Penalties – Reasonable Cause.” Also see Publication 15, Circular E – Employer’s Tax Guide, or Publication 51, Circular A — Agricultural Employer’s Tax Guide, for deposit requirements.

Failure to Deposit - IRC 6656 — Deposits Insufficient/Late and Incorrect Record of Federal Tax Liability — We charged a penalty because, according to our records, you didn’t deposit your tax using the one-day deposit rule for liabilities $100,000 or more during a deposit period.

Also, the Record of Federal Tax Liability on your return was incomplete and we couldn’t determine if you made your deposits on time or in the correct amounts. Therefore, we averaged the liability you reported and distributed it equally.

Since your average amount of monthly liability was $100,000 or more, we placed the liability on the first day of your applicable semi-weekly period. We applied your deposits in the date order we received them. We figured the penalty on any tax not deposited, deposited late, or not deposited in the correct amounts.

For deposits due after December 31, 1989, see Code 54.

Failure to Deposit - IRC 6656 — Deposits Insufficient/Late and Incorrect Record of Federal Tax Liability — We charged a penalty because, according to our records, you didn’t deposit your tax using the one-day deposit rule for liabilities $100,000 or more during a deposit period.

Also, your Form 941 Schedule B, Form 945-A, or Form 943-A was incomplete and we couldn’t determine if you made your deposits on time or in the correct amounts. Therefore, we averaged the liability you reported and distributed it equally.

Since your average amount of monthly liability was $100,000 or more, we placed the liability on the first day of the applicable semi-weekly period (eight-month period for tax years ending on or before December 31, 1992). We applied your deposits in the date order we received them. We figured the penalty on any tax not deposited, deposited late, or not deposited in the correct amounts.

For deposits due after December 31, 1989, see Code 54.

Interest - IRC 6601

09 Interest — We are required by law to charge interest when you do not pay the amount you owe on time. Generally, we charge interest from the due date of your return (regardless of extensions) until you pay the amount you owe in full, including all interest and any penalty charges. Interest rates are variable and may change quarterly.

Corporate interest — If you are a C corporation, and you underpaid your tax by more than $100,000 for any taxable period, we charge additional interest of 2% if the full amount shown as due on a notice isn’t paid within 30 days of the notice date. If you don’t pay within 30 days, interest at the higher rate begins on the 31st day after the notice date. Once the additional 2% rate begins to apply, we charge the additional interest for the remaining period of the tax and that tax period until you pay your balance in full.

19 Additional Interest Charges — If the amount you owe is $100,000 or more, please make sure that we receive your payment within 10 business days from the date of your notice. If the amount you owe is less than $100,000, please make sure that we receive your payment within 21 calendar days from the date of your notice. If we don’t receive full payment within these time frames, the law requires us to charge interest until you pay the full amount you owe.

Interest Paid
Beginning with tax year 1991, you can no longer deduct interest you paid to the United States Treasury as an itemized deduction on your Form 1040, Schedule A.

Interest Reduced
If we reduce interest that you previously reported as a deduction on your tax return, you must report this reduction of interest as income on your tax return for the year we reduce it.

Interest Removed-Erroneous Refund
The law requires us to remove interest up to the date we request you to repay the erroneous refund when:

- you didn’t cause the erroneous refund in any way, and
- the refund doesn’t exceed $50,000.

The IRS may remove or reduce interest on other erroneous refunds based on the facts and circumstances involved in each case.

Annual Interest Netting — Effective January 1, 1987 through December 31, 1998, the interest rate we paid on any overpayment of taxes was 1% less than the interest rate we charged on the underpayment of taxes. As of January 1, 1999, the overpayment and underpayment rates of interest that we pay and charge are the same, except for corporate overpayments. If we refund an overpayment with interest and we have to increase the tax at a later date, we give special consideration to the interest on that account.

On the tax increase made after the refund, we will charge the lower refund rate of interest (up to the amount of the refund) for the same time period that we paid interest on the overpayment.

Request for Net Interest Rate of Zero - IRC 6621(d)
General Rule — If you owe interest to the IRS on an underpayment for the same period of time that the IRS owes you interest on an overpayment, you may be entitled to receive a net interest rate of zero (the same rate of interest applies to your underpayment as your overpayment).


To qualify for the net interest rate of zero, the period of limitation for claiming a refund of interest on an underpayment and the period of limitation for claiming additional interest on an overpayment must have been open on October 1, 1998. Generally, the period of limitation for claiming a refund of interest on an underpayment is 3 years from the time you filed your tax return, or 2 years from the time you paid the interest, whichever is later. The period of limitation to request additional interest on an overpayment is 6 years from the date of the refund.

You must file Form 843 on or before the closing date of the later statute of limitation period. Mail Form 843 to:

U.S. Mail:

Internal Revenue Service
Net Rate Interest Netting Claim
P.O. Box 9987
Stop 1600
Ogden, UT 84409

Other than U.S. mail:

Internal Revenue Service
Net Rate Interest Netting Claim
1160 West 1200 South
Mail Stop 6800
Ogden, UT 84201

If your request for interest netting involves solely interest that you owed the IRS or that the IRS owed you on or after October 1, 1998, send Form 843 to the Internal Revenue Service Center where you filed your most recent federal income tax return. For more information on these Form 843 filing requirements, see Revenue Procedure 2000-26, 2000-24 I.R.B. 1. Revenue Procedure 2000-26 is available at www.irs.gov.

Status of Your Account

22 Balance Less than $1 — If the amount you owe is less than $1, you do not have to pay it.

23 Refund Less than $1 — If your refund is less than $1, we will send it to you only if you ask for it.

24 Refund — We will refund your overpayment (plus interest when applicable), if you owe no other taxes or have no other debts the law requires us to collect.

25 This notice is not the result of an examination of your return. We notify a taxpayer when we select his/her return for examination.

Action Required on Balance Due Accounts

16 Payment — Please make your check or money order payable to the United States Treasury. Write on your payment your social security number or employer identification number, the tax period and tax form. Mail your payment with the bottom part of your notice in the enclosed envelope or to the address on the front of your notice.

22 Notice about Partial Payments — Generally, we apply your payment first to tax, then to penalty, and finally to the interest you owe.

Additional Tax Concerns

Backup Withholding
If you received interest, dividends or patronage dividend income, but you didn’t report the income on your tax return and you didn’t pay the tax due on your tax return, you could be subject to a special income tax withholding called Backup Withholding. The IRS may request each payer of that income to begin withholding at a rate of 24% if, after we send you four notices over 210 days, a balance remains due on your account.

Federal/State Exchange Program
The IRS exchanges agreements with state and certain local tax agencies to exchange information about federal tax, including increases or decreases. If this affects the amount of your state or local income taxes, you should file the required state or local form to report the change.