

Section 10 - Penalties and Interest Provisions

1 Nature of Changes

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2 General Background

This is a new Section 10 – Penalties and Interest Provisions incorporating content from Sections 8, 10, and 11 in prior Doc. 6209 editions. Section 10 provides penalty and interest policy guidelines, processing codes and additional information from the Office of Servicewide Penalties (OSP) and the Office of Servicewide Interest (OSI). The following web site links provide additional penalty and interest information.

| LINK | WEB ADDRESS |
|---|---|
| Office of Servicewide Penalties | http://sbseservicewide.web.irs.gov/penalty/default.aspx |
| Office of Servicewide Interest | http://sbseservicewide.web.irs.gov/interest/default.aspx |

3 Interest Rates

The Interest Rate Tables are located on the Servicewide Electronic Research Program (SERP) web site at http://serp.enterprise.irs.gov/databases/irm-sup.dr/interest_rates.htm. This web site contains all of the applicable interest rates to calculate interest on tax balances.

4 Penalty Provisions

In general, for every filing, paying, and reporting requirement imposed by the Internal Revenue Code, there is a penalty provision for failing to comply with the requirement. This section does not contain information on all penalty provisions. For additional penalty provisions see IRM 20.1, *Penalty Handbook*.

| Type of Penalty | Penalty Rate and Information |
|-------------------------------------|--|
| Failure to File IRC § 6651(a)(1) | The penalty is 5% of the tax unpaid on the return due date (without regard to extensions) for each month or part of a month that the return is late, not to exceed 25%. When an income tax return is 60 days or more late, the minimum penalty is \$135 (\$100 for returns due before 1/1/2009), or 100% of the unpaid tax, whichever is less. |

| Type of Penalty | Penalty Rate and Information |
|---|--|
| Failure to Pay Tax Shown on the Return IRC § 6651(a)(2) | <p>The penalty is 1/2% of the tax shown on the return that is not paid by the return due date without regard to extensions. The penalty is charged on the unpaid tax for each month or part of a month that the tax remains unpaid, but it cannot exceed 25% in the aggregate.</p> <p>When both of the above penalties apply for the same month, the Failure to File penalty is reduced by the amount of the Failure to Pay penalty for that month, unless the minimum Failure to File penalty applies.</p> |
| Failure to Pay Tax Upon Notice and Demand for Payment IRC § 6651(a)(3) | <p>The penalty is 1/2% of the tax in the notice and demand for payment that remains unpaid 21 calendar days (10 business days, if the total due in the notice was \$100,000 or more) after the date of the notice. The penalty is charged on the unpaid tax for each month or part of a month that the tax remains unpaid, but it cannot exceed 25% in the aggregate.</p> <p>Both <i>Failure to Pay</i> penalty rates are increased to 1% per month on any tax that remains unpaid 10 days after IRS has issued a Notice of Intent to Levy Certain Assets. Issuance of such a notice is identified by notice status 58, TC 971 with action code 035 or 069, or by an assessment with doc code 51 and blocking series 14X.</p> <p>The penalty rate for Failure to Pay Tax Upon Notice and Demand for Immediate Payment is 1% as of the date of the notice for any jeopardy assessment. Jeopardy assessments are identified by doc code 51 with blocking series 100 - 119.</p> <p>For individual taxpayers who filed on time, any Failure to Pay penalty rates are decreased to 1/4% per month during any month during which the taxpayer has an approved installment agreement with the IRS for that tax.</p> |
| Failure to Deposit Taxes IRC § 6656 | <p>For deposits required after December 31, 1989, there is a four-tiered penalty. The penalty is 2 percent for deposits 1-5 days late, 5 percent for deposits 6-15 days late, 10 percent for all direct payments and those deposits more than 15 days late, but paid on or before the 10th day following notice and demand, and 15 percent (actually, a 5 percent addition to the 10 percent) for late undeposited taxes still unpaid after the 10th day following the first balance due notice or the day on which notice and demand for immediate payment is given.</p> |
| Failure to Pay Estimated Tax IRC § 6654 & IRC § 6655 | <p>The penalty is determined by multiplying the daily interest rate in effect for a given day by any underpaid installment amount for that day. The total penalty is the aggregate of the penalty for all days during which an underpayment exists.</p> |
| Bad Checks IRC § 6657 Dishonored Paper Checks or Money Orders/Insufficient Funds on Electronic Payments | <p>The penalty is two percent (2%) of the amount of the dishonored payment instrument, or if the amount of the dishonored payment instrument is less than \$1,250, then the penalty is the lesser of \$25 or the amount of the payment. Effective July 2, 2010, the penalty now includes all "instruments" (forms) of payment.</p> <p>For dishonored checks or money orders received after May 25, 2007, and prior to July 2, 2010, the bad check penalty was only applicable to paper checks and money orders. The penalty was two percent (2%) of the amount of the dishonored payment, or if the amount of the dishonored payment was less than \$1,250, then the penalty was the lesser of \$25 or the amount of the payment. Penalties were not assessed on checks less than \$5.00. See IRM 20.1.10 <i>Miscellaneous Penalties</i>.</p> |
| Failure to File a Timely and/or Complete Form 1065 IRC § 6698 | <p>For returns due before 12/21/2007, the penalty is \$50 per person (as defined in IRC 7701(a)(1)) who was a partner in the partnership at any time during the year, for each month or part of a month the return is late or incomplete, for up to 5 months.</p> <p>For returns due after 12/20/2007 but before 1/1/2009, the penalty is \$85 per person who was a partner in the partnership at any time during the year, for each month or part of a month the return is late or incomplete, for up to 12 months.</p> |

| Type of Penalty | Penalty Rate and Information |
|--|---|
| | <p>For returns due after 12/31/2008 that cover tax periods that begin prior to 1/1/2010, the penalty is \$89 per person who was a partner in the partnership at any time during the year, for each month or part of a month the return is late or incomplete, for up to 12 months.</p> <p>For returns that cover tax periods beginning in 2008, the penalty is increased by \$1 per person for each month the return is late or incomplete.</p> <p>For returns that cover tax periods beginning after 12/31/2009, the penalty is \$195 per person who was a partner in the partnership at any time during the year, for each month or part of a month the return is late or incomplete, for up to 12 months.</p> |
| Failure to File a Timely and/or Complete Form 1120S IRC § 6699 | <p>For returns due after 12/20/2007 but before 1/1/2009, the penalty is \$85 per person (as defined in IRC 7702(a)(1)) who was a shareholder in the corporation at any time during the year, for each month or part of a month the return is late or incomplete, for up to 12 months.</p> <p>For returns due after 12/31/2008 that cover tax periods that begin prior to 1/1/2010, the penalty is \$89 per person who was a shareholder in the corporation at any time during the year, for each month or part of a month the return is late or incomplete, for up to 12 months.</p> <p>For returns that cover tax periods beginning after 12/31/2009, the penalty is \$195 per person who was a shareholder in the corporation at any time during the year, for each month or part of a month the return is late or incomplete, for up to 12 months.</p> |
| Failure to File an Exempt Organization Return IRC § 6652(c)(1)(A) | Failure to File Penalty for Form 990, Form 990-EZ and Form 990-PF is \$20 per day for each day late—not to exceed a maximum penalty \$10,000 or 5% of the gross receipts unless gross receipts exceed 1,000,000, then penalty is \$100 per day not to exceed \$50,000. |
| Return Preparer Penalties IRC § 6695(a), 6695(b), 6695(c) | \$50 for each failure to: provide T/P with copy of prepared return; - sign the prepared return or claim; - include an identifying number (EIN, PITN, or SSN) on the prepared return or claim. Maximum (per subsection) is \$25,000 per calendar year. |
| Frivolous Tax Submissions IRC § 6702 | \$5,000 per frivolous tax return (6702(a)) or submission (6702(b)); \$5,000 each for married filing joint submissions returns. See IRM 20.1.10 <i>Miscellaneous Penalties</i> . |

5 Penalties and Interest Table

Certain penalties must be specifically addressed when adjusting tax, credits, or payments within a module. The Penalty and Interest Table contains the information needed to address these conditions as well as the “Interest Start Date” for the listed penalties.

| Transaction Code | Definition | Must TC be addressed when adjusting tax | Conditions | Comments | IRM References |
|------------------|---------------------------------------|---|--|---|----------------------------|
| 160 | Delinquency Penalty Manually Computed | Yes | All conditions except: TC 290 for a zero amount. | A TC160 for zero amount may be input if penalty should not be changed. Interest Start Date: Return due date or extended due date (whichever is later). | IRM 20.1.2 IRM 20.2.5.3 |
| 161 | Delinquency Penalty Manually Abated | Yes | All conditions except: TC 290 for a zero amount. | Abates previously assessed 160 or 166 in whole or in part. | IRM 20.1.2 IRM 20.2.5.3 |

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| Transaction Code | Definition | Must TC be addressed when adjusting tax | Conditions | Comments | IRM References |
|------------------|---|---|---|---|----------------------------|
| 170 | Estimated Tax Penalty Manually Computed | Only under the following conditions | When there is a previous posted TC 170/171 with Doc Code 17,18,24,47,51,52 or 54 present and a TC29X or 30X Adj. with TC 806/807 is input, or timely ES payments are transferred into or out of the module. | Priority Code 8 may be used in lieu of TC 170 for zero amount to bypass UPC158 check when adjusting withholding when there is no change to the penalty. NOTE A prev. posted TC 170/171 w/these Doc. Codes restricts the module from automatic recomputation. Interest Start Date: 23C Date of penalty assessment. | IRM 20.1.3 IRM 20.2.5 |
| 171 | Estimated Tax Penalty Abatement | . Only under the following conditions | When there is a prev. posted TC 170/171 with Doc Code 17,18,24,47,51,52 or 54 present and a TC29X or 30X Adj. with TC 806/807 is input, or timely ES payments are transferred into or out of the module. | Priority Code 8 may be used in lieu of TC 170 for zero amount to bypass UPC158 check when adjusting withholding when there is no change to the penalty. NOTE A prev. posted TC 170/171 w/these Doc. Codes restricts the module from automatic recomputation. | IRM 20.1.3 IRM 20.2.5 |
| 180 | FTD Penalty Manually Assessed | Yes | All conditions except: TC 290 for a zero amt. | Use the information in the new ROFTL to determine the new penalty amount and input TC 18X (or a TC180 for zero amount if the penalty should not be changed) along with the TC 29X. Interest Start Date: 23C Date of penalty assessment. | IRM 20.1.4 IRM 20.2.5.3 |
| 181 | FTD Penalty Manually Abated | Yes | All conditions except: TC 290 for a zero amt. | Use the information in the new ROFTL to determine the new penalty amount and input TC 18X (or a TC 180 for zero amount if the penalty should not be changed) along with the TC 29X. | IRM 20.1.4 IRM 20.2.5.3 |
| 186 | FTD Penalty Assessment Computer Generated | Yes | All conditions except: when TC 291 is for a partial tax decrease and the total of the credit transfers equals the TC 291 amount or when a complete tax decrease is input to a module which has no FTD restriction | Use the information in the new ROFTL to determine the new penalty amount and input TC 18X (or a TC 180 for zero amount if the penalty should not be changed) along with the TC 29X. Interest Start Date: 23C Date of penalty | IRM 20.1.4 IRM 20.2.5.3 |

| Transaction Code | Definition | Must TC be addressed when adjusting tax | Conditions | Comments | IRM References |
|------------------|--|---|---|--|--|
| | | | (TC 180/181). | assessment. | |
| 187 | FTD Penalty Abatement Computer Generated | Yes | All conditions except: when TC 291 is for a partial tax decrease and the total of the credit transfers equals the TC 291 amount or when a complete tax decrease is input to a module which has no FTD restriction (TC 180/181). | Use the information in the new ROFTL to determine the new penalty amount and input TC 18X (or a TC 180 for zero amount if the penalty should not be changed) along with the TC 29X. | IRM 20.1.4 IRM 20.2.5.3 |
| 190 | Interest or Transferred-in Manually Assessed | No | If Master File is not prevented from computing interest, use TC 190 to post interest on a quick or prompt assessment on a Form 2859. | A TC190 does not prevent Master File from recomputing interest on the module. | IRM 20.2.8 |
| 191 | Interest Abatement | No | Usually seen on a Transferred-in account, TC 370 | A TC 191 does not prevent Master File from recomputing interest on the module. | IRM 20.2.8 |
| 196 | Interest Assessment | No | Computer-Generated | A TC196 does not prevent Master File from recomputing interest on the module. | IRM 20.2.8 |
| 197 | Interest Abatement | No | Computer-Generated | A TC197 does not prevent Master File from recomputing interest on the module. | IRM 20.2.8 |
| 234 | Daily Delinquency Penalty | No | Manually Assessed | Interest Start Date: 23C Date of penalty assessment. | IRM 20.1.8 IRM 20.2.5.3 |
| 235 | Daily Delinquency Penalty | No | Manually Abated | Abate previously assessed TC 234 or 238 in whole or in part. | IRM 20.1.8 |
| 238 | Daily Delinquency Penalty | No | Computer-Generated | Interest Start Date: 23C Date of penalty assessment. | IRM 20.1.8 IRM 20.2.5.3 |
| 240 | Miscellaneous Civil Penalty Assessment | No | Computer-Generated | Computer-Generated from the appropriate PRN (Penalty Reference Number) with a positive dollar amount. Interest Start Date: For PRN 680, 681, 683, return due date or extended due date (whichever is later). All others 23C Date of the penalty assessment. Input manually without PRN on MFT 02 and MFT 06 for respective assessment of penalties under IRC 6699 and IRC | IRM 20.1.8 IRM 20.2.5.3 IRM 20.1.2.3 IRM 20.1.2.5 |

| Transaction Code | Definition | Must TC be addressed when adjusting tax | Conditions | Comments | IRM References |
|------------------|---------------------------------------|---|--|---|--|
| | | | | 6698. | |
| 241 | Miscellaneous Civil Penalty Abatement | No | Computer-Generated | Computer-Generated from the appropriate PRN (Penalty Reference Number) that corresponds to the penalty being abated, using a negative dollar amount. Input manually without PRN to abate TC 240 without PRN. | IRM 20.1.8 IRM 20.1.2.3 IRM 20.1.2.5 |
| 270 | Failure to Pay Tax Penalty | Yes | All conditions except: TC 290 for a zero amount. Manually Assessed. | A TC270 for zero amount may be input if penalty should not be changed. Restricts penalty computation for the module unless input with Reason Code 62. Interest Start Date: 23C Date of penalty assessment. | IRM 20.1.2 IRM 20.2.5.3 |
| 271 | FTP Penalty | yes | All conditions except: TC 290 for a zero amount. Manually Abated | Interest Start Date: 23C Date of penalty assessment. | IRM 20.1.2 IRM 20.2.5.3 |
| 280 | Bad Check Penalty | no | Manually Assessed | Interest Start Date: 23C Date of penalty assessment. | IRM 20.1.10.4 IRM 20.2.5.3 |
| 281 | Bad Check Penalty | no | Manually Abated | Abates previously posted TC 280 or 286. | IRM 20.1.10.4 |
| 340 | Restricted Interest Manually Computed | Yes | All conditions except: TC 290 for a zero amount. | TC340 for zero amount may be input if interest should not be changed. | IRM 20.2.8 |
| 341 | Restricted Interest Abatement | Yes | -I freeze present on module | Not required unless interest is restricted. Use of TC 341 to abate interest will restrict interest on the rest of the module. | IRM 20.2.1 |

6 Return Preparer Penalties

Form 8278 is an adjustment document (ADJ54) used for assessments or abatements of return preparer penalties and other miscellaneous civil penalties that are not subject to deficiency procedures. The Penalty Reference Numbers (PRN) is keyed in with a positive dollar amount for assessments. A Transaction Code (TC) 290 posts with a TC 240 for the assessed amount. Preparer penalties are assessed on the tax period of the return in violation. Use MFT 55 for violations

by an individual tax return preparer and for violations by a firm tax return preparer use MFT 13. Tax return preparer penalty PRNs are listed below. See IRM 20.1.6 *Preparer/Promoter/Material Advisor Penalties* for additional information.

| PRN | IRC Section | Description |
|-----|-------------|--|
| 624 | 6695(a) | Other Assessable Penalties with Respect to the Preparation of Tax Returns for Other Persons – Preparers Failure to furnish a copy to taxpayer. |
| | 6695(b) | Other Assessable Penalties with Respect to the Preparation of Tax Returns for Other Persons – Preparers Failure to sign return. |
| | 6695(c) | Other Assessable Penalties with Respect to the Preparation of Tax Returns for Other Persons – Preparers Failure to furnish identifying number. |
| | 6695(d) | Other Assessable Penalties with Respect to the Preparation of Tax Returns for Other Persons – Preparers Failure to retain copy or list. |
| | 6695(e) | Other Assessable Penalties with Respect to the Preparation of Tax Returns for Other Persons – Preparers Failure to maintain record of preparers employed. |
| 626 | 6695(f) | Other Assessable Penalties with Respect to the Preparation of Tax Returns for Other Persons - Preparers negotiating taxpayer's refund check including electronic deposit |
| 627 | 6695(g) | Other Assessable Penalties with Respect to the Preparation of Tax Returns for Other Persons – Preparer EIC due diligence. |
| 633 | 6713 | Return Preparer Disclosure or Use of Information – Also applies to any persons engaged in the business of preparing or providing services for the preparation of income tax returns. |
| 645 | 6694(a) | Return Preparer Understatement Due to unreasonable position for prepared tax returns. |
| 650 | 6694(b) | Return Preparer Understatement Due to willful or reckless conduct for prepared tax returns. |

7 Information Return Penalties

The Small Business Jobs Act (SBJA) of 2010, section 2102, increases the amounts of IRC section 6721(a) penalties from \$50 to \$100 for failure to timely file accurate information returns using the correct media and the proper format. The calendar year maximum for these penalties for large businesses increases from \$250,000 to \$1.5 million.

The SBJA of 2010 also increases the IRC section 6722(a) penalties from \$50 to \$100 for failure to timely furnish accurate payee statements. IRC section 6722(b) adds a penalty reduction tiered rate for corrections on or before August 1 of the filing year. IRC section 6722(d) adds lower limitations for gross receipts of \$5 million or less. The calendar year maximum for these penalties for large businesses increases from \$100,000 to \$1.5 million. These changes apply to returns required to be filed on or after Jan. 1, 2011.

IRC section 6721 penalty rate increases are reflected in the following two tables:

| IRC 6721 - Large Businesses with Gross Receipts of More Than \$5 million | | |
|--|-------------------------------------|--|
| Time of filing | Returns due before 01-01-2011 | Changes effective 01-01-2011 |
| Not more than 30 days late | \$15 per return / \$75,000 maximum | \$30 per return / \$250,000 maximum |
| 31 days late - August 1 | \$30 per return / \$150,000 maximum | \$60 per return / \$500,000 maximum |
| After August 1 | \$50 per return / \$250,000 maximum | \$100 per return / \$1,500,000 maximum |
| Intentional disregard | \$100 per return / no limitation | \$250 per return / no limitation |
| IRC 6721 Small Businesses with Gross Receipts \$5 million or Less | | |
| Time of filing | Returns due before 01-01-2011 | Changes effective 01-01-2011 |
| Not more than 30 days late | \$15 per return / \$25,000 maximum | \$30 per return / \$75,000 maximum |
| 31 days late - August 1 | \$30 per return / \$50,000 maximum | \$60 per return / \$200,000 maximum |
| After August 1 | \$50 per return / \$100,000 maximum | \$100 per return / \$500,000 maximum |
| Intentional disregard | \$100 per return / no limitation | \$250 per return / no limitation |

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IRC section 6722 penalty rate changes are reflected in the following two tables:

| IRC 6722 - Large Businesses with Gross Receipts of More Than \$5 million | | |
|--|--------------------------------------|--|
| Time of filing | Returns due before 01-01-2011* | Changes effective 01-01-2011 |
| Not more than 30 days late | \$50 per return / \$100,000 maximum* | \$30 per return / \$250,000 maximum |
| 31 days late - August 1 | \$50 per return / \$100,000 maximum* | \$60 per return / \$500,000 maximum |
| After August 1 | \$50 per return / \$100,000 maximum | \$100 per return / \$1,500,000 maximum |
| Intentional disregard | \$100 per return / no limitation | \$250 per return / no limitation |
| IRC 6722 - Small Businesses with Gross Receipts \$5 million or Less | | |
| Time of filing | Returns due before 01-01-2011* | Changes effective 01-01-2011 |
| Not more than 30 days late | \$50 per return / \$100,000 maximum* | \$30 per return / \$75,000 maximum |
| 31 days late - August 1 | \$50 per return / \$100,000 maximum | \$60 per return / \$200,000 maximum |
| After August 1 | \$50 per return / \$100,000 maximum | \$100 per return / \$500,000 maximum |
| Intentional disregard | \$100 per return / no limitation | \$250 per return / no limitation |
| *Prior to the enactment of SBJA of 2010 (01-01-2011), IRC 6722 had no tiered penalty reduction rate and no large business - small business limitation differentiation. | | |

Form 3645, *Computation of Penalty for Failure to File Information Returns or Furnish Statements*, should be used in conjunction with Form 8278. Form 3645 is used for computation of penalties for failure to file information returns, failure to furnish statements, and failure to comply with other information reporting requirements. Form 3645 is available on the following IRS web site:

<http://publish.no.irs.gov/getpdf.cgi?catnum=19810>

8 Penalty Reference Numbers – Miscellaneous Civil Penalties

Penalty Reference Numbers (PRN) are used to assess and abate miscellaneous civil penalties. Some civil penalties are assessed and abated with their respective PRN or Transaction Code (TC) (generally, not TC 240/241) using Forms 5344, 5403, 3870 or similar closing and adjustment documents.

Form 8278, *Assessment and Abatement of Miscellaneous Civil Penalties*, is used to assess or abate civil penalties on MFT 13 (BMF) and MFT 55 (IMF) accounts. See Form 8278 instructions for additional PRN information at the following IRS web site:

<http://publish.no.irs.gov/getpdf.cgi?catnum=62278>

CAUTION: The following PRN table reflects the most current penalties for the respective Internal Revenue Code sections. Archived PRN information, plus more information about PRNs, civil penalties, and return-related penalties are available through the following Office of Servicewide Penalties, IRS web site:

| | |
|---|---|
| LINK | WEB ADDRESS |
| Office of Servicewide Penalties | http://sbseservicewide.web.irs.gov/penalty/default.aspx |

(1) Penalty Reference Numbers Table

Note: Penalty was \$50 for all returns due on or before December 31, 2010.

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----|--|--|------------|
| 165 | Failure to File Annual Registration and Other Notification by Pension Plan | \$1 per participant each day for failure to file a registration statement (Form 8955-SS), not to exceed \$5,000. (Note: Input via F5734 on MFT 74, CP-213, BMF, TEGE). | 6652(d)(1) |
| 167 | Failure to File Information Required in Connection With Certain Plans of Deferred Compensation; etc. | \$25 a day (up to \$15,000) for not filing returns plans of deferred compensation, trusts and annuities, and bond purchase plans by the due date(s). (Note: Input via F5734 on MFT 74, CP-213, BMF, TEGE). | 6652(e) |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----------|---|---|------|
| 169 | Failure to File Actuarial Report | \$1,000 per failure and no maximum in penalty amount (Note: Input via F5734 on MFT 74, BMF, and TEGE). | 6692 |
| 500 - 514 | IRP Civil penalties (returns due on or before January 1, 2011) Note: Systemically assessed | Imposition of the Failure to Comply with Certain Information Reporting Requirements. \$50 per failure/maximum = \$250,000 (\$100,000 for small businesses). \$15 per failure/maximum \$75,000 (\$25,000 for small businesses), the penalty is decreased if the failure is corrected within 30 days after the due date of the information return.\$30 per failure/maximum = \$150,000 (\$50,000 for small businesses), the penalty is decreased if the failure is corrected more than 30 days after the due date of the return, but on or before August 1 of the filing year.\$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 500 - 514 | IRP Civil penalties (returns due on or after January 1, 2011) Note: Systemically assessed Magnetic Media Penalty | Imposition of the Failure to Comply with Certain Information Reporting Requirements \$100 per failure/maximum = \$1,500,000 (\$500,000 for small businesses). \$30 per failure/maximum \$250,000 (\$75,000 for small businesses), the penalty is decreased if the failure is corrected within 30 days after the due date of the information return. \$60 per failure/maximum = \$500,000 (\$200,000 for small businesses), the penalty is decreased if the failure is corrected more than 30 days after the due date of the return, but on or before August 1 of the filing year.\$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 500 | Late Filing Penalty | Late Filing Penalty | 6721 |
| | Magnetic Media Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 502 | Missing or Incorrect TIN Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for | 6721 |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----|--|---|------|
| | | intentional disregard of the rules and regulations). | |
| 503 | Improper Format Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 504 | Late & Magnetic Media Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 505 | Late & Missing or Incorrect TIN Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 506 | Late & Missing or Incorrect TIN Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 507 | Magnetic Media & Missing or Incorrect TIN Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 508 | Magnetic Media & Improper Format Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 509 | Missing or Incorrect TIN Penalty & Improper Format Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 510 | Late, Magnetic Media & Missing or Incorrect TIN Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 511 | Late, Magnetic Media & Improper Format Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 512 | Late, Missing or Incorrect TIN, & Improper Format Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----------|---|--|---------------|
| 513 | Magnetic Media, Missing or Incorrect TIN, & Improper Format Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 514 | Late, Magnetic Media, Missing or Incorrect TIN, Improper Format Penalty | \$50 penalty per document type (increases to \$100 for returns due on or after January 1, 2011) *Note-there are no dollar limitations for intentional disregard of the rules and regulations). | 6721 |
| 527 (IMF) | Failure to Provide Public Inspection of Application | \$20 per day No maximum. See IRC section 6104(d) requirements. | 6652(c)(1)(D) |
| 528 (IMF) | Failure to Provide Public Inspection of Annual Return | \$20 per day. Maximum = \$10,000. See IRC sections 527(j) and 6104(d) requirements. | 6652(c)(1)(C) |
| 537 | Penalty in Case of Intentional Disregard | Refer to IRC section 6721(e). \$100 per return (returns due before January 1, 2011) \$250 per return (returns due on or after January 1, 2011) No maximum | 6721(e) |
| 543 | Penalty for Specified Frivolous Submissions | \$5,000 per frivolous submission under IRC 6702(c), or for any delay/ impediment of the administration of Federal tax laws. | 6702 (b) |
| 547- | Failure to file correct information | Self-assessment \$50 per form | 6723 |
| 548 | Failure to comply with other information reporting requirements | \$50 per return up to a maximum of \$100,000 per calendar year, except for in the case of intentional disregard, for which there is no maximum. | 6723 |
| 549 | Failure to File W-2s with intentional disregard (CAWR Penalty Program). Note: NOT manually assessed using Form 8278 | The greater of \$100 per form or 10% of the aggregate amount of items required to be reported (returns due before January 1, 2011) The greater of \$250 per form or 10% of the aggregate amount of items required to be reported (returns due on or after January 1, 2011) No maximum 4.19.4.3.1.1 The Intentional Disregard Failure to File Penalty (PRN 549) | 6721(e) |
| 550 | Failure to File Forms W-2 Timely (CAWR Penalty Program). Note: NOT manually assessed using Form 8278 | \$50 per failure(returns due before January 1, 2011) \$100 per failure (returns due on or after January 1, 2011) See IRM 4.19.4.3.1.2 Late Filed Forms W-2 Penalty (PRN 550) | 6721(a) |
| 551 | Fraudulent Identification of Exempt Use Property | \$10,000 per violation made after August 17, 2006. | 6720B |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----|---|---|---------------|
| | under IRC section 170(e)(7)(C) | | |
| 552 | Failure to File Returns and Reports relating to certain Trust and Annuity Plans required under IRC section 6047(d) – Forms 1096 or 1099 | \$25 per day Maximum = \$15,000. | 6652(e) |
| 553 | Failure to File a Report relating to Archer MSAs required under IRC section 220(h) | \$50 per failure No maximum | 6693(a)(2)(B) |
| 554 | Failure to File a Report relating to Health Saving Accounts required under IRC section 223(h) | \$50 per failure No maximum | 6693(a)(2)(C) |
| 555 | Failure to File a Report relating to Qualified Tuition Programs required under IRC section 529(d) | \$50 per failure No maximum | 6693(a)(2)(D) |
| 556 | Failure to File a Report relating to Coverdell Education Saving Accounts required under IRC section 530(h) | \$50 per failure No maximum | 6693(a)(2)(E) |
| 557 | Failure to Furnish Information relating to Nondeductible Contribution required under IRC section 408(o)(4) | \$100 per failure. No maximum. | 6693(b)(1) |
| 558 | Failure to File a Form relating to Nondeductible Contributions required under IRC section 408(o)(4) | \$50 per failure No maximum | 6693(b)(2) |
| 563 | Penalty for failure to notify health plan of cessation of eligibility for COBRA premium assistance | 110% of the premium reduction the taxpayer was ineligible to receive. There is no penalty assessed on the recapture of a COBRA subsidy, which is when a taxpayers' modified adjusted gross income exceeds \$145,000 (\$290,000 for married filing joint returns), and they must report and repay the entire subsidy on their income tax return. | 6720C |
| 564 | Willful Failure to File a Return or Application required under IRC 6104(d) | \$5,000 per failure. No maximum. | 6685 |
| 565 | Erroneous Claims for Refund or Credit Penalty | A penalty in an amount equal to 20% of the excessive amount. Apply to claim for refund or credit filed on or submitted after May 25, 2007. (MFT 13 and MFT 55). See PRN 687 for Married Filing Joint assessments/abatements. | 6676 |
| 566 | Assessable Penalties with Respect to Liability for Tax under Chapter 42 | Penalty equals, and is in addition to the amount of tax imposed under Chapter 42. No maximum. | 6684 |
| 567 | Failure by Tax-Exempt Organization to Disclose certain Information or Service available from | The penalty is the greater of \$1,000 per day, for each day you failed to make the required statement or 50% of the daily combined cost of all offers and solicitations for which there | 6711 |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----|--|---|------------|
| | Federal Government - Intentional Disregard | has been a failure to make the required statement. No maximum. | |
| 570 | Failure to File Notice of Foreign Tax Redetermination | 5% of deficiency per month up to a maximum of 25% of the deficiency. | 6689 |
| 573 | Failure to Furnish certain Information to Participant in SIMPLE IRA Plans required under IRC section 408(i) or 408(l)(2) | \$50 per failure. No maximum. | 6693(c) |
| 574 | Willful Failure to Pay, Evade or Defeat Stamp Tax | 50% of the total amount of the underpayment of the tax for each failure to pay any tax that is payable by stamp, coupons, tickets, books, or other devices or methods. | 6653 |
| 575 | Fraudulent Statement or Willful Failure to Furnish Statement to Employee - IRC section 6051 or 6053(b) | \$50 per failure to provide or for furnishing a false or fraudulent statement (can be assessed and collected in the same manner as the tax on employers). No maximum. | 6674 |
| 578 | Civil Penalty with Respect to Mortgage Credit Certificates –Negligence | \$1,000 per failure. No maximum. | 6709(a) |
| 579 | Civil Penalty with Respect to Mortgage Credit Certificates- Fraud | \$10,000 per failure. No maximum. | 6709(b) |
| 580 | Failure to Timely File Report relating to Mortgage Credit Certificate required under IRC section 25(g) | \$200 for each failure. Maximum = \$2,000. | 6709(c) |
| 581 | Substantial & Gross Valuation Misstatements Attributable to Incorrect Appraisals | Penalty is the lesser of-- (1) The greater of (A) 10% of the underpayment attributable to the misstatement <u>or</u> (B) \$1,000 <u>or</u> (2) 125% of the gross income received from the preparation of the appraisal. | 6695A |
| 582 | Penalty with Respect to Tax Liability of Regulated Investment Company | Penalty equals to the amount of interest attributable to a deemed increase in tax determined under IRC section 860(c) (1) (A); not to exceed one-half of the deduction allowed under IRC section 860(a). | 6697 |
| 583 | Failure to File a Registration Statement by Pension Plan | \$1 per failure per participant. Maximum = \$5,000. | 6652(d)(1) |
| 584 | Failure to File a Notification by Pension Plan | \$1 per failure per day. Maximum = \$1,000. | 6652(d)(2) |
| 585 | Failure to give a Notice to Recipients required under IRC section 3405(e)(10)(B) | \$10 per failure. Maximum = \$5,000. | 6652(h) |
| 586 | Failure to give a Written Explanation to Recipients required under IRC section 402(f) | \$100 per failure. Maximum = \$50,000. | 6652(i) |
| 587 | Failure to File Certification with Respect to certain Residential Rental Projects required under IRC section 142(d)(7) | \$100 per failure per calendar year. No maximum. | 6652(j) |
| 588 | Failure to make Report required under IRC section 1202 | \$50 per failure. \$100 per failure if due to negligence or intentional disregard. If a report covering | 6652(k) |

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| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----|---|--|-------------------|
| | | periods in two or more years, the amount of the penalty shall be multiplied by the number of such years. No maximum. | |
| 589 | Split-Interest Trust | \$100 per failure per day. Maximum = \$50,000. | 6652(c)(2)(C)(ii) |
| 590 | Failure to File a Return for Payments of Dividends aggregating less than \$10 under IRC section 6942(a)(2) or 6652(a)(2) – Failure to File Returns for Payments of Dividends aggregating less than \$10 under IRC section 6044(a)(2) | \$1 per failure per statement. Maximum = \$1,000. | 6652(a) |
| 591 | Failure to Comply with Notice of Demand by Manager of any Organization | \$10 per failure per day. Maximum = \$5,000. | 6652(c)(1)(B)(ii) |
| 592 | Failure to comply with Demand by Managers of exempt organization or trust | \$10 per failure per day. Maximum = \$5,000. | 6652(c)(2)(B) |
| 593 | Failure to Pay Premium or installments required under IRC 9704 and/or for failure to make contributions required under IRC 402(h)(5)(B)(ii) of the Surface Mining Control and Reclamation Act of 1977 to a plan referred to in IRC 402(h)(2)(C) | \$100 per failure per day. No maximum. | 9707 |
| 594 | Voluntary Disclosure – Failure to File Certain Information Return | 27.5% of the highest aggregate account/asset value in all foreign bank account/entities for the tax year | various |
| 595 | Voluntary Disclosure – Failure to File Certain Information Return | 5% of the highest aggregate account/asset value in all foreign bank account/entities for the tax year. | various |
| 596 | Voluntary Disclosure – Failure to File Certain Information Return | 20% of the highest aggregate account/asset value in all foreign bank account/entities for the tax year. | various |
| 597 | Voluntary Disclosure - Failure to File Certain Information Return | 12.5% of the highest aggregate account/asset value in all foreign bank account/entities for the tax year. | various |
| 598 | Voluntary Disclosure - Failure to File Certain Information Return | 25% of the highest aggregate account/asset value in all foreign bank account/entities for the tax year. | various |
| 599 | Systemically asserted: Failure to File Form 5471 in conjunction with Failure to File Corporate Return (Refer to PRN 623 for manual assessments) | \$10,000 per annual accounting period plus FTC reduction. | 6038 |
| 600 | Failure to File Correct Information Returns (returns due before January 1, 2011) | \$50 per failure/Maximum = \$250,000. (\$100,000 for small businesses). \$15 per failure/Maximum = \$75,000 (\$25,000 for small businesses), The penalty is | 6721 |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----|--|---|---------------|
| | | decreased if the failure is corrected within 30 days after the due date of the information return. \$30 per failure/Maximum = \$150,000 (\$50,000 for small businesses), The penalty is decreased if the failure is corrected more than 30 days after the due date of the return, but on or before August 1 of the filing year. For other circumstances that may apply, see IRM 20.1.7. | |
| 600 | Failure to File Correct Information Returns (returns due on or after January 1, 2011) | \$100 per failure/maximum = \$1,500,000 (\$500,000 for small businesses). \$30 per failure/maximum \$250,000 (\$75,000 for small businesses), the penalty is decreased if the failure is corrected within 30 days after the due date of the information return. \$60 per failure/maximum = \$500,000 (\$200,000 for small businesses), the penalty is decreased if the failure is corrected more than 30 days after the due date of the return, but on or before August 1 of the filing year. | 6721 |
| 603 | Failure of Foreign Corporation Engaged in a U.S. Business to Furnish Information or Maintain Records | Initial penalty: \$10,000 per year. After 90 days from notification: \$10,000 for each 30-day period (or fraction thereof). No maximum. | 6038C |
| 604 | Failure of Foreign Person to File Return Regarding Direct Investment in U.S. Real Property Interests | \$25 a day not to exceed the lesser of \$25,000, or 5% of the aggregate fair market value of U.S. real property interests owned at any time during the year. | 6652(f) |
| 605 | Failure to File Return or Supply Information by DISC or FSC | Under IRC section 6011(c) (1): \$100 per failure, not to exceed \$25,000 for any calendar year. Under IRC section 6011(c) (2): \$1,000 for each return. | 6686 |
| 607 | Failure to Timely File Information Return | \$50 per failure/Maximum=\$250,000 (returns due before January 1, 2011) \$100 per failure/Maximum = \$1,500,000 (returns due on or after January 1, 2011) | 6721 |
| 609 | Failure to File a Completed and Correct Form 8300 | \$50 per failure/Maximum=\$250,000 (returns due before January 1, 2011) \$100 per failure/Maximum = \$1,500,000 (returns due on or after January 1, 2011) | 6721 |
| 611 | Failure to File a Disclosure Required of Tax-Exempt Entity | \$100 per failure per day Not to exceed \$50,000 See IRC section 6033(a) (2) requirements. | 6652(c)(3)(A) |
| 612 | Failure to Furnish Correct Payee Statement (returns due before January 1, 2011) | \$50 per failure. Statements are not reduced if returns are corrected or filed after the due date. Only one penalty per statement, regardless the total penalty for all such failures during any calendar year shall not exceed \$100,000. | 6722 |
| 612 | Failure to Furnish Correct Payee Statement (returns due on or after January 1, 2011) | \$100 per failure/maximum = \$1,500,000 (\$500,000 for small businesses). \$30 per failure/maximum \$250,000 (\$75,000 for small businesses), the penalty is | 6722 |

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| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----------|--|--|-------------|
| | | <p>decreased if the failure is corrected within 30 days after the due date of the information return.</p> <p>\$60 per failure/maximum = \$500,000 (\$200,000 for small businesses), the penalty is decreased if the failure is corrected more than 30 days after the due date of the return, but on or before August 1 of the filing year.</p> | |
| 613 | Failure to File Foreign Information Returns (Form 5471 Sch O/Form 8865 Sch P) | <p>\$10,000 per failure, plus \$10,000 for each 30-day period for continuous failure after notification. Maximum = \$50,000. See IRC sections 6046 and 6046A requirements.</p> | 6679 |
| 614 (BMF) | Failure to Disclose Quid Pro Quo Contribution | <p>\$10 for each failure not to exceed \$5,000. Note: PRN 614 (BMF) replaced PRN 671 (BMF) for the same penalty effective 7/15/2009</p> | 6714 |
| 616 | False information with respect to withholding (W-4 Penalty) | <p>\$500 per false statement. The penalty may be waived (in whole or in part) if the individual's taxes for that year are equal to or less than the sum of the allowable credits against those taxes, and estimated tax payments of those taxes.</p> | 6682 |
| 618 | Failure to Collect and Pay Over Tax, or an Attempt to Evade or Defeat Tax. (Trust Fund Recovery Program - Assessed against responsible corporate officers) | <p>100% of the tax required to be collected, accounted for, and paid over. Note: Assessed via Form 2749.</p> | 6672 |
| 619 | Information Reporting with Respect to Certain Foreign Corporations and Partnerships | <p>Continued failure to provide information after 90-day period. The penalty is assessed at \$10,000 per 30-day period or fraction thereof. Maximum = \$50,000..</p> | 6038 |
| 621 | Failure to Comply with Other Reporting Requirements | <p>A penalty of \$50 per failure to comply timely with specified information reporting requirements, or to include correct information. Maximum = \$100,000 per year.</p> | 6723 |
| 623 | Failure to Furnish Information with Respect to Certain Foreign Corporations and Partnerships (Forms 5471/8865) | <p>\$10,000 per annual accounting period plus FTC reduction. If failure continues for more than 90 days after notification, penalty is increased by \$10,000 for each 30-day period (or fraction thereof) the failure continues. Maximum = \$50,000.</p> | 6038 |
| 624 | Return Preparer Penalties | <p>PRN 624 was replaced with PRNs 714-718 effective Jan. 2014. Refer to PRNs 714-718 for the effective penalty rates.</p> | 6695(a)-(e) |
| 625 | Failure to File Information on Foreign owned Corporations (Form 5472) | <p>\$10,000 per failure per year, plus \$10,000 for each 30-day period (or fraction thereof) for continuous failure after notification.</p> | 6038A |
| 626 | Preparer Negotiating Taxpayer Refund Check | <p>On or before December 31, 2011 the penalty is \$100 per failure. There is no maximum amount. See IRM 20.1.6 After December 31, 2011 the penalty is \$500 per failure. There is no Maximum amount. See IRM 20.1.6</p> | 6695(f) |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----|--|---|-----------------------|
| 627 | Preparer EIC due diligence | \$100 per failure for tax years ending before Dec. 31, 2011. \$500 per failure for tax years ending on or after Dec. 31, 2011. No Maximum. | 6695(g) |
| 628 | Promoting Abusive Tax Shelter | The penalty for activity described in IRC section 6700(a)(1) is the lesser of \$1,000 or 100 percent of the gross income derived (or to be derived) from the activity. The penalty for making or furnishing (or causing another person to make or furnish) a statement described in IRC section 6700(a)(2) (A) is 50 percent of the gross income derived (or to be derived) from the activity. There is no maximum amount of penalty. | 6700 |
| 629 | Failure to File Returns by Exempt Organizations and by Certain Trust | \$100 for each day after the expiration of the time specified in such demand during which such failure continues but not exceed \$10,000. | 6652(c)(3)(B)(ii) |
| 630 | Acknowledgement Regarding Vehicle Donation | Multiple calculations. See IRC sections 6720(1) and 6720(2) for calculations. | 6720 |
| 631 | Aiding and Abetting the Understatement of Another Person's Tax Liability | \$1000 for individual. \$10,000 for corporation. | 6701 |
| 632 | Failure by a Broker to Provide Notice to a Payor | \$500 per failure. | 6705 |
| 633 | Disclosure or Use of Information by Return Preparer | \$250 per disclosure or use Maximum = \$10,000 in any calendar year | 6713 |
| 634 | Failure to Furnish Information Regarding Tax Shelters | For Reportable Transactions, the penalty for returns due after 10/22/2004 is \$50,000 per failure. For Listed Transactions, the penalty for returns due after 10/22/2004 is the greater of \$200,000, or 50% of the gross income derived relating to the Listed Transaction. In the case of an intentional failure or act, 75% of the gross income derived. | 6707 |
| 635 | Fraudulent Failure to File | PRN 635 is no longer used to assess IRC 6651(f) penalties effective July 2, 2013. See IRM 20.1.2.2.7.5. Refer to PRN 686 for IRC 6651(f). | 6651(f) |
| 636 | Failure to Maintain List of Investors/Advisees Relating to Reportable Transactions | \$10,000 per day from the 20th day after failure to provide a list and continues until the requested list is submitted. No maximum. See IRC section 6112 requirements. | 6708 |
| 637 | Failures for Returns Relating to Higher Education Tuition and Related Expenses | \$50 per failure to file return (returns due before January 1, 2011) Maximum = \$250,000 (\$100,00 for small business) \$100 per failure to file return (returns due on or after January 1, 2011) Maximum = \$1,500,000 (\$500,000 for small businesses). See IRC section 6050S requirements | 6721(a)(1) or 6722(a) |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----|--|--|---------------|
| 638 | Failures Relating to Form 8027 (Employer's Annual Information Return of Tip Income and Allocated Tips) | \$50 per failure to file return (returns due before January 1, 2011) Maximum = \$250,000 (\$100,00 for small business) \$100 per failure to file return (returns due on or after January 1, 2011) Maximum = \$1,500,000 (\$500,000) Intentional disregard: The greater of \$100 (\$250 after January 1, 2011) per document or 10% of aggregate amount of items required to be reported See IRC section 6053 requirements | 6721 |
| 639 | Failure to Keep Required Records | \$50 multiplied by the number of individual in relation to whom such failure occurred, but not exceed \$50,000 per calendar year. | 6704(b) |
| 642 | Failure to Furnish Payee Statements – Intentional Disregard | \$100 (\$250 for returns required to be filed on or after January 1, 2011) for each payee statement required to be filed, or if greater: 1. Ten percent of the amount of income required to be reported on payee statements for dividends, patronage dividends, interest, fishing boat operators, royalties, and wage and tax statements, or 2. Five percent of the amount required to be reported on the payee statements for brokers, exchange of partnership interest, or disposition of donated property payments. | 6772€ |
| 643 | Sanctions and Costs Awarded by Tax Court | Court awarded sanctions, penalties or costs. Maximum = \$25,000. | 6673(a) |
| 644 | Sanctions and Costs Awarded by Other Courts | Court awarded sanctions, penalties or costs Maximum = \$10,000. | 6673(b) |
| 645 | Understatement of Taxpayer's Liability by Return Preparer Due to Unrealistic Position | \$250 for each income tax return prepared on or before May 25, 2007 No maximum The greater of \$1000 or 50% of the income derived by the preparer for each tax return prepared after May 25, 2007 No maximum | 6694(a) |
| 647 | Failure to Disclose Nondeductible Contribution | \$1,000 for each day on which such a failure occurred, but not to exceed \$10,000 during any calendar years. | 6710(a) & (c) |
| 648 | Failure to Disclose Reportable Transaction with Return (Form 8886) | Reportable Transaction: \$10,000 natural person or \$50,000 other taxpayer Listed Transaction: \$100,000 natural person or \$200,000 other taxpayer | 6707A |
| 649 | Failure to File Form 8806 | \$500 per day. Maximum = \$100,000. See IRC section 6043(c) requirements. | 6652(l) |
| 650 | Preparer's Willful or Reckless Conduct | \$1,000 for each return or claim prepared on or before May 25, 2007 No maximum Greater of \$5,000 or 50% of the income derived by the preparer for each return or claim prepared after May 25, 2007 No maximum | 6694(b) |
| 651 | Failure to Comply with Certain Information | \$50 per failure Maximum = \$250,000 (returns due before | 6721(a) |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----------|--|--|---------------|
| | Reporting Requirements (Form 8300) | January 1, 2011) \$100 per failure Maximum = \$1,500,000 (returns due on or after January 1, 2011) See IRC section 6050I requirements | |
| 652 | Failure to File Form 8300 - Intentional Disregard | The greater of \$25,000 or the amount of cash received in such transaction. Maximum = \$100,000 on a 6050I (d) transaction. The \$1,500,000 yearly limitation does not apply. | 6721(e)(2)(c) |
| 653 | Failure to Furnish Correct Payee Statements (Form 8300) | \$50 per failure Maximum = \$100,000 (returns due before January 1, 2011) \$100 per failure Maximum = \$1,500,000 (returns due on or after January 1, 2011) | 6722(a) |
| 654 | Failure to Provide Correct Payee Statement - Intentional Disregard (Form 8300) | The greater of \$100 (\$250 for returns due on or after January 1, 2011) per failure or 10% of the aggregate amount of items required to be reported correctly No maximum | 6722(e) |
| 655 | Refusal of Entry or Inspection | \$1,000 for each refusal to admit entry or to permit examination. \$1,000 for each refusal to admit entry or to permit examination if the refusal is related to any place where taxable fuel is stored or produced. See IRC section 4083(d) 1 requirements. | 6717(a) |
| 656 | Dyed Fuel Sold for Use or Used in Taxable Use | The greater of \$1,000 or \$10 per gallon of the dyed fuel used, plus multiply the number of prior violations times the greater of \$10 per gallon per prior violation or \$1,000 per prior violation. | 6715 |
| 657 | Failure to Display Tax Registration on Vessels | \$500 per vessel for the initial one month failure to display. For multiple monthly violations: \$500, plus the amount derived by multiplying \$500 times the number of monthly penalties previously imposed. See IRC section 4101(a) requirements. | 6718 |
| 658 (BMF) | Failure to File Information Return (Form 1041-A, etc.) | \$10 per day. Maximum = \$5,000. See IRC sections 6034 and 6043(b) requirements. | 6652(c)(2)(A) |
| 659 | Failure to Report Transactions with Foreign Trusts or Receipt of Certain Foreign Gifts (Form 3520) | 35% of gross reportable amount, plus \$10,000 for each 30-day period if failure continues after 90 days from notification. See IRC section 6048 requirements. | 6677 |
| 660 | Failure to Report Transaction of Foreign Trust with U.S. Owner (Form 3520A) | 5% of gross reportable amount, plus \$10,000 for each 30-day period if failure continues after 90 days from notification. See IRC section 6048(b) requirements. | 6677 |
| 661 | Excessive Claims Relating to Fuels not Used for Tax Purposes | The greater of \$10 or two times the excessive amount. See IRC section 6427 requirements. | 6675 |

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| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|--------------|---|--|---------------|
| 662 (BMF) | Failure to File Required Disclosure of Expenditures and Contributions (Form 8872) | 35% of amount relating to failure. See IRC section 6652(c) (1) (C). Requirements. | 527(j)(1) |
| 663 (BMF) | Failure to File a Return - Exempt Organizations | Gross receipts \$1,000,000 and less: \$20 per day during which such failure continues/maximum is the lesser of \$10,000 or 5% of gross receipts. Gross receipts more than \$1,000,000: \$100 per day during which such failure continues. Maximum = \$50,000. See IRC sections 6033 and 6012(a) (6) requirements. | 6652(c)(1)(A) |
| 664 | Failure to Disclose Treaty-Based Return Position | \$1,000 per failure, or \$10,000 per failure for C corporations. See IRC section 6114 requirements. | 6712 |
| 665 | Mechanical Dye Injection Systems | For IRC section 6715A (a) (1) (Tampering), the penalty is the greater of: \$25,000, or \$10 for each gallon of fuel involved. For IRC section 6715A(a)(2) (Failure to Maintain Security Requirements), the penalty is: \$1,000 per failure, and \$1,000 per day for failing to correct the violation for each day after which such violation was discovered, or such person should have reasonably known of such violation. | 6715A |
| 666 | Frivolous Tax Submissions | \$5,000 per failure (after 3/16/07) \$500 per failure (before 3/17/07) CAUTION: Only PRN 666 assesses IRC section 6702(a) after 1/24/2005 | 6702(a) |
| 667 | Failure to Report a Vessel/Facility | \$10,000 per failure. See IRC section 4101(d) requirements. | 6725 |
| 668 | Failure to Report Receipt of Foreign Gifts (Form 3520) | 5% of amount of gift per month. Maximum = 25% of the amount of the gift. | 6039F(c) |
| 669 (IMF) | Failure to File Report regarding Residence in a U.S. Possession (Form 8898) | \$1,000 per failure. | 6688 |
| 670 | Failure to Register/Re-register | \$10,000 per initial failure, plus \$1,000 per day for continuous failure. See IRC section 4101 requirements. | 6719 |
| 671 (IMF) | Failure to File Expatriation (Form 8854) | \$10,000 per failure after 06-03-04. | 6039G |
| 672 (BMF) | Failure to File Return Relating to Taxable Mergers/Acquisitions | \$50 per failure to file return (returns due before January 1, 2011) Maximum = \$250,000 (\$100,00 for small business) \$100 per failure to file return (returns due on or after January 1, 2011) Maximum = \$1,500,000 (\$500,000 for small businesses). \$100 (\$250 for returns due on or after January 1, 2011) per failure for intentional disregard See IRC section 6043A requirements | 6721 |
| 673 | Resale of Adulterated Diesel Fuels | \$10,000 for each transfer, sale, or holding out for resale. The penalty for retailers who knowingly hold out for sale of any liquid is | 6720A |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----------|--|---|----------------------------|
| | | \$10,000. | |
| 674 | Failure to provide a notice of exchange of partnership interest | \$50 per failure. Maximum = \$100,000 per year. See IRC section 6050K requirements. | 6723 |
| 676 | Failure to File Information on Transfers and Distributions to Foreign Persons (Forms 926 and 8865/Sch O) | 10% of the fair market value of property transferred at time of exchange. Maximum = \$100,000. | 6038B |
| 678 (BMF) | Failure to Furnish Information (Form 8281-OID) | \$50 per instrument (IRC 6706(a)) 1% of the aggregate issue price of debt instrument amount. (IRC 6706(b)) Maximum = \$50,000. | 6706(b) |
| 679 (IMF) | Failure to Provide Information on Residence Status | \$500 per failure. | 6039E |
| 680 | Accuracy-Related Penalties | The penalty is 20% of the applicable underpayment. | 6662(c),(d),(e), (f) & (g) |
| 680 | Accuracy-Related Penalty | The penalty is 40% of the applicable underpayment. | 6662(h) |
| 681 | Accuracy-Related Penalty on Reportable Transactions | The penalty is 20% or 30% of the reportable transaction underpayment. | 6662A |
| 683 | Undisclosed Foreign Financial Asset Understatement | 40% if any portion of an underpayment is attributable to any undisclosed foreign financial asset | 6662(j) |
| 684 | Required Payments for Entities Electing Not to Have Required Taxable Year | 10% of the underpaid tax assessable on MFT 15. See IRC section 444 elections. | 7519(f)(4) |
| 686 | Fraudulent Failure to File | 15% per month for a maximum of 5 months, not to exceed 75% of the total tax. | 6651(f) |
| 687 (IMF) | Erroneous Claim for Refund or Credit Penalty | A penalty in an amount equal to 20% of the excessive amount. Apply to claim for refund or credit filed on or submitted after May 25, 2007. Use Form 3870 and PRN 687 for MFJ assessments and abatements with MFT 30. NOTE: See PRN 565 for MFT 13 and MFT 55. | 6676 |
| 688 | Failure to File Partnership Returns on Magnetic Media | For returns due before 1/1/2011, the penalty is \$50 per partner over 100. For returns due on or after 1/1/2011, the penalty is \$100 per partner over 100. See IRM 20.1.2.4. The penalty is assessed systemically with TC 246 or manually with TC 240. It is abated with TC 241. | 6721 |
| 689 | Failure to comply with certification requirements | Penalty of \$100 for each failure to comply with Section 142(d)(7) certification requirements. | 6652(j) |
| 697 | Trust Fund Recovery Penalty Balance Due to Payment by Related Business Entity | See IRM 4.23.9 Employment Tax Penalty and Fraud Procedures. (NOT assessed on Form 8278) | 6672 |
| 690 | Insurance Provider Fee (IPF) Late Filing penalty | See IRM 25.21.2 - Insurance Provider Fee. (NOT assessed on Form 8278) | |
| 691 | Insurance Provider Fee (IPF) Accuracy-related penalty | See IRM 25.21.2 - Insurance Provider Fee. (NOT assessed on Form 8278) | |
| 699 | Trust Fund Recovery Penalty –adjustment to | See IRM 4.23.9 Employment Tax Penalty and Fraud Procedures. | 6672 |

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| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----|---|---|---------|
| | balance due by a Related Trust Fund Recover Penalty Taxpayer payment or reversal of payment | (NOT assessed on Form 8278) | |
| 700 | Information with Respect to Foreign Financial Assets | \$10,000 Initial Penalty for failure to file a complete statement of foreign financial assets (Form 8938). | 6038D |
| 701 | Information with Respect to Certain Foreign-Owned Corporations | Continued failure to provide information after 90-day period. The penalty is assessed at \$10,000 per 30-day period or fraction thereof. No maximum amount. | 6038A |
| 702 | Failure to File Information with Respect to Certain Foreign Trusts - Form 3520 | Continued failure to provide information after 90-day period. The penalty is assessed at \$10,000 per 30-day period or fraction thereof. Maximum cannot exceed gross reportable amount. | 6677 |
| 703 | Failure to File Information with Respect to Certain Foreign Trusts - Form 3520-A | Continued failure to provide information after 90-day period. The penalty is assessed at \$10,000 per 30-day period or fraction thereof. Maximum cannot exceed gross reportable amount. | 6677 |
| 704 | Failure to File Returns, etc., with Respect to Foreign Corporations or Foreign Partnerships | Continued failure to provide information after 90-day period. The penalty is assessed at \$10,000 per 30-day period or fraction thereof. Maximum = \$50,000. | 6679 |
| 705 | Information with Respect to Foreign Corporations Engaged in U.S. Business | Continued failure to provide information after 90-day period. The penalty is assessed at \$10,000 per 30-day period or fraction thereof. No maximum amount. | 6038C |
| 708 | Self-Reported Voluntary Disclosure – Failure to File Certain Information Returns | 5% of the highest aggregate balance of unreported foreign financial accounts for each of the six years ending with the most recent year covered by a Streamlined Filing Compliance Procedures submission, limited to \$60,000. | Various |
| 709 | Voluntary Disclosure – Failure to File Certain Information Returns | 50% of the highest aggregate account/asset value in all foreign bank accounts/entities for the tax year. | Various |
| 710 | Information with Respect to Foreign Financial Assets | Continued failure to provide information after 90-day period. The penalty is assessed at \$10,000 per 30-day period or fraction thereof. Maximum = \$50,000. | 6038D |
| 711 | Failure to File Form 5472 in conjunction with Failure to File Corporate Return Corporate Return (Refer to PRN 625 for manual assessments) | \$10,000 per failure per year, plus \$10,000 for each 30-day period (or fraction thereof) for continuous failure after notification. | 6038A |
| 712 | Failure to File Form 5471 in conjunction with Failure to File Partnership Return | \$10,000 per annual accounting period plus FTC reduction. If failure continues for more than 90 days after notification, penalty is increased by \$10,000 for each 30-day period (or fraction thereof) the failure continues. Maximum = \$50,000. | 6038 |
| 714 | Return Preparer Penalties | (Formerly PRN 624) \$50 per failure. Maximum = \$25,000 during any calendar year. | 6695(a) |
| 715 | Return Preparer Penalties | (Formerly PRN 624) \$50 per failure. Maximum = \$25,000 during any calendar year. | 6695(b) |
| 716 | Return Preparer Penalties | (Formerly PRN 624) \$50 per failure. | 6695(c) |

| PRN | Type of Penalty | Penalty Rate and Information | IRC |
|-----|---|--|------------|
| | | Maximum = \$25,000 during any calendar year. | |
| 717 | Return Preparer Penalties | (Formerly PRN 624) \$50 per failure. Maximum = \$25,000 to any return period. | 6695(d) |
| 718 | Return Preparer Penalties | (Formerly PRN 624) \$50 per failure. Maximum = \$25,000 to any return period. | 6695(e) |
| 780 | Accuracy-Related Penalty on Underpayments Attributable to Noneconomic Substance Transactions | 20 percent of the portion of the underpayment attributable to one or more noneconomic substance transactions. | 6662(b)(6) |
| 781 | Accuracy-Related Penalty on Underpayments Attributable to Nondisclosed Noneconomic Substance Transactions | 40 percent of the portion of the underpayment attributable to one or more nondisclosed noneconomic substance transactions. | 6662(i) |

9 Penalty Reason Codes (PRC)

When a penalty is manually reduced, abated, or suppressed, a Penalty Reason Code (PRC) is required to be input with the penalty adjustment to indicate why the penalty is being reduced, abated, or suppressed. A PRC is input to the fourth RC position.

Document Code 54 (TC29X) — enter the appropriate PRC (for example 022, 024, 025, 026, or 030) in RC position four of ADJ54 when Reason Code 062 is used in RC position one. Do not use RC 062 in combination with any of the other PRC in RC position four (see exception for PRCs 018/020 in IRM 20.1.1.3.6.1(9)).

Document Code 47 (AIMS Adjustment) — A PRC is a required entry for abatement or suppression of penalties, TC 161, 171, 181, 201, 235, 241, 271, 281, 311, 321, 351 and Penalty Reference Numbers (Negative amounts only). The PRC may be entered for input with TC 300, 304 and 308. Enter the appropriate PRC on Form 5344, Form 5599 and 5650 in item #02 of AMCLS.

Refer to IRM 20.1.1.5.1, *Master File Penalty Reason Codes*, and IRM Exhibit 20.1.1-2, *Penalty Reason Code (PRC) Chart* for detailed information.

| PENALTY ABATEMENT/SUPPRESSION PRC CHART | | | |
|--|------------------|---|--|
| 1 st , 2 nd , or 3 rd Reason Code (RC) position | PRC 4TH position | DEFINITION | |
| ***MANUAL INPUT *** | | | |
| Reasonable Cause (RC 062) | 022 | Normal business care and prudence followed, but taxpayer was still unable to comply due to circumstances beyond their control. Generally used when the taxpayer establishes a single circumstance prevented compliance. See IRM 20.1.1.3.2.2. | |
| | 024 | IMF - Death, serious illness, or unavoidable absence of the taxpayer or a member of their immediate family. See IRM 20.1.1.3.2.2.1. | |
| | 025 | Records inaccessible / Unable to obtain records / Records destroyed by fire or other casualty. See IRM 20.1.1.3.2.2.3. | |
| | 026 | BMF - Death, serious illness, or unavoidable absence of the person responsible for filing and/or paying taxes (i.e., owner, corporate officer, partner, etc.) or a member of their immediate family. See IRM 20.1.1.3.2.2.1. | |
| | 030 | Other - Combination of mistakes. Normal business care and prudence followed, but documentation shows non-compliance was due to circumstances beyond the taxpayer's control. See IRM 20.1.1.3.2.1. | |
| | 046 | Y2K relief. | |
| | 071 | Limited to Form 990-PF (MFT 44) - Allows a private foundation reasonable cause for FTF & FTP 90 days after it received a determination letter from the Service | |

| | | | |
|--|---------|--|--|
| | | stating the organization is a private foundation or it cannot be expected to be a public charity. | |
| | 072 | Membership organization (MFT 67) has no full-time employees responsible for administering finances and was unable to timely file due to little continuity or understanding of duties due to frequent officer changes. Normal business care and prudence. | |
| | 073 | Membership organization (MFT 67) has no full-time employees responsible for administering finances & has no prior history of late filing and claims ignorance of the requirement. | |
| Appeals (RC 065 on IMF accounts) | 039 | Appeals - Partial/Full abatement of penalty(s) based on Third Party (Bulk & Batch Filers or Payroll Tax Service Bureaus) Settlement. | |
| | 040 | Appeals Settlement based on 'Hazards of Litigation'. Complete removal of penalty(s). | |
| | 041 | Appeals sustains penalty(s). | |
| | 042 | Appeals partial abatement. | |
| General Penalty Relief (RC 065 on IMF accounts) | 010 | Amended/Corrected return or schedule. TP prepared original (For example, FTD – Schedule B/CP 207 replies). | |
| | 013 | Amended/Corrected return. Original prepared by IRS (SFR/IRC § 6020B). | |
| | 014 | Misdated FTD. After 01-01-2000, used only for manual abatement if the penalty is restricted from systemic abatement after TC 971 AC 301 to 308 is input to adjust a TC 186. Also used for misdated payments affecting FTF, FTP and Estimated Tax Penalty. | |
| | 016 | Estimated Tax Penalties – Taxpayer computational error (Forms 2210/2220). | |
| | 017 | Bank Error caused Dishonored Check Penalty (TC 286). Banking documentation provided showing credit availability. | |
| | 018 | First-time penalty relief. RCA not used – manual 3-year lookback for compliant behavior. See IRM 20.1.1.3.6.1. | |
| | 019 | Bulk/Batch Filer - Payroll Tax Service Bureau related penalty. Use restricted to the Penalty Prevention & Resolution Group (PPRG). | |
| | 020 | RCA used - Good History of Compliance. See IRM 20.1.1.3.6.1. | |
| | 021 | Tolerance Criteria Met - FTD, FTF, FTP & Estimated Tax Penalties. | |
| | 023 | Taxpayer relied on practitioner or third party advice. See IRM 20.1.1.3.2.2.5. | |
| | 027 | Timely mailed/timely filed. | |
| | 028 | Official Disaster Area. See IRM 20.1.1.3.3.6. | |
| | 029 | Undue economic hardship/inability to pay (FTP). See IRM 20.1.1.3.3.3. Rarely Allowed on Employment Tax Deposits. | |
| | 066 | Cascading FTD Penalty Relief (1998 only). | |
| | 067 | Educational FTD Penalty Relief (i.e., ABC's of FTD). | |
| Administrative Waiver (RC 065 on IMF accounts) | 043 | Service provided relief for a valid penalty (i.e., RRA '98 Section 3304(b) change in FTD deposit frequency for 1st quarter only starting in 1999). See IRM 20.1.1.3.3.2. | |
| Statutory Waivers (RC 065 on IMF accounts) | 012 | Decrease to FTD penalty per RRA '98 Section 3304(a) Rev. Proc. 99-10, Taxpayer designated FTD applications; based on a valid ROFTL. See IRM 20.1.4.26.3. | |
| | 044 | Erroneous or Late Written Advice by IRS. Relief based on Revenue Procedures. See IRM 20.1.1.3.3.1. | |
| *** COMPUTER GENERATED *** | | | |
| Systemic | 001 | Suppressed/Abated - Due to Tolerance Criteria. | |
| | 002 | Penalty adjusted due to computational error. | |
| | 003/066 | Master File Recovery. | |
| | 068 | Systemic FTD penalty abatement per the EFTPS/FTD Penalty Refund Program. | |
| *** MANUAL INPUT *** | | | |
| Service (RC 065 on IMF accounts) | 015 | General IRS Error. Specific instruction for use of this code would be released in IRM updates or SERP Alerts. | |
| | 031 | Erroneous Oral Advice by IRS. See IRM 20.1.1.3.3.4.2. | |
| | 032 | Other Treasury Agency Errors (FMS or EFTPS Treasury Financial Agent (TFA) | |

| | | | |
|--|-----------------------------------|---|--|
| | | errors). | |
| | 045 | IRS Error. Math Error in computing penalties. Extensions to file not posted to Master File (TC 460 did not reverse penalty). Taxpayer complied with law but IRS did not recognize compliance. See IRM 20.1.1.3.4. | |
| *** User Fee Reversals *** (For reference only - Not used with penalty adjustments) | | | |
| | 047 / 048 / 049 / 050 / 051 | User Fee reversals. See IRM 5.19.1.5.5.3. | |

10 Failure to Deposit (FTD) Penalty

(1) FTD Penalties and Deposit Requirements

Below are the Deposit Requirements applicable for each form number. Because of the increasing complexity of this program and the various dates and amounts involved, refer to IRM 20.1.4, *Failure to Deposit Penalty (FTD)*, for detailed information.

| Deposit Requirements Form | Undeposited Tax | Period | Deposit Required |
|---------------------------|-------------------------|--|--|
| 940 | \$500.00 or less | End of first, second or third quarter. | Not required but must be added to next quarter's liability. |
| | | End of last quarter. | Not required. Either pay with return or make deposit by return due date. |
| | \$500.01 or more | End of any quarter. | By the last day of the following month. |
| 1042 | \$200.00 or less | End of any month other than December. | Not required, but must be added to next month's liability. |
| | | End of December. | Not required. Either pay with return or make deposit by return due date. |
| | \$200.00 - \$1,999.99 | End of any month.(periods ended on the 7 th , 15 th , 20 th and last day of each month) | By the 15th day of the following month, unless a 3-banking-day deposit was required during that month. Refer to IRM 20.1.4.11.1. |
| | \$2,000.00 or more | End of any quarter-monthly period. | Within 3 business days after the close of the quarter-monthly period. Refer to IRM 20.1.4.11.1. |
| 720 | | | Refer to IRM 20.1.4.10.4 through 20.1.4.10.7 for deposit rules. |

(2) Forms 941, 943, 944, 945, and CT-1 Deposit Requirements

| If the TOTAL liability during the lookback period is . . . | And . . . | Accumulated Liability is under \$100,000 | Accumulated Liability is \$100,000 or more |
|--|---|---|--|
| | | Then a deposit must be made: | Then a deposit must be made: |
| \$50,000 or less | | On or before the 15th of the following month. | The next day. |
| More than \$50,000 | Payment date is: >Saturday >Sunday >Monday >Tuesday | On or before the following >Friday | The next day. |
| | Payment date is: >Wednesday >Thursday >Friday | On or before the following >Wednesday | The next day. |

(3) Glossary of Terms for Employment Taxes

| Term | Definition or Example | |
|---|---|--|
| Lookback Period - Is a period of historical return filing(s) used to determine which deposit schedule a taxpayer must follow when making current year payroll tax deposits. | For quarterly returns: the total original employment tax liabilities from tax periods between July 1 and June 30 immediately preceding the tax year | For annual returns: the total original employment tax liability from the second previous year. |
| Monthly or Semi-weekly Deposit Schedule - The schedule an employer follows to determine the length of the deposit period over which liabilities are accumulated and when the deposit is due. Refer to IRM 20.1.4.8.2. | | |
| Deposit Period | For taxpayers following a monthly deposit schedule, the deposit period covers: a calendar month | For taxpayers following a semi-weekly deposit schedule, the deposit periods are: Sat., Sun., Mon. & Tues. *****and ***** Wed., Thur. and Friday |
| Accumulated Liability - The sum of tax liabilities from each individual payroll(s) within a deposit period. The amount that must be deposited. (Also referred to as Deposit Liability). | | |
| Business Day - Deposits are due only on business days. A business day is every calendar day that is not a Saturday, Sunday, or legal holiday under IRC section 7503. Additionally, the term "legal holiday" for FTD purposes includes only those legal holidays in the District of Columbia. The following days are currently legal holidays in the District of Columbia: New Year's Day, Birthday of Martin Luther King, Jr., Washington's Birthday, District of Columbia Emancipation Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, Christmas Day, and the day of the inauguration of the President, every fourth year. | | |
| Safe Harbor - Use of the safe harbor rules has been expanded to all depositors. An employer is required to deposit 100% of the deposit liability on or before the deposit due date. Regulations provide a safe harbor, (safety net option) if the employer cannot deposit the full amount required. An employer will still be considered to have met their deposit obligation if the underpayment/shortfall (the difference between the required deposit liability amount and the actual amount of the deposit) is less than the greater of \$100 or 2% of the required deposit. The shortfall is treated as a new, unique, separate liability, arising from its own separate deposit period and carrying its own deposit due date. The shortfall due date is determined by the deposit schedule followed. | | |
| <p>De Minimis Rule - Employers handling payroll taxes are required to deposit those monies. Failure to deposit in the correct manner will subject the employer to a FTD penalty equal to 10% of the amount incorrectly submitted. However, under the de minimis exception an employer may be relieved of the burden of making deposits and may submit a check (to the IRS) for the full amount of the tax liability with their return without incurring an FTD (failure to deposit in the correct manner) penalty if the following criteria is met:</p> <ul style="list-style-type: none"> • Annual filers with a total return liability of less than \$2,500. • Form 940 filers with a total liability of \$500 or less. <p>Quarterly Form 941 filers with a total return liability of less than \$2,500 in the current quarter or a total return liability of less than \$2,500 in the previous quarter, with NO \$100,000 next-day deposit obligation in the current quarter. For de minimis thresholds (including prior years) see IRM 20.1.4.6.</p> | | |
| Application of Payments (FIFO) - Credits are ordered by the date received. Multiple credits of the same transaction code received the same date are combined into one credit amount. Valid credits include TC 610, 650, 670, 700, 760, 710, 716 and 766 with CRN 296 and 299. | | |
| <p>Liabilities are ordered by the due dates. Multiple liabilities arising from the same deposit period are combined into one liability. Multiple liabilities, from various deposit periods, with the same due date are further ordered by their incurred date.</p> <p>For periods after December 31, 2001, deposits are applied to the most recently ended deposit period or periods within the specified tax period to which the deposit relates as provided for in Rev. Proc. 2001-58. The application of deposits to the most recently ended deposit period will, in some cases, prevent the cascading penalties where a depositor either fails to make deposits or makes late deposits. See the job aid on the "Most Recent Payment Allocation Method" located in SERP Job Aids Accounts Management, IRM 21.7</p> | | |

(4) Penalty Computation Codes (PCC)

The following PCCs are associated with the FTD Penalty and used to describe the reason(s) why the FTD penalty was assessed. See Section 10.9 *Penalty Reason Codes (PRC)* in this *IRS Processing Code and Information, Document 6209* for detailed information.

| Transaction Code (TC) | Return with Good ROFTL Information | Return with Invalid or No ROFTL | Returns using monthly ROFTL instead of daily ROFTL |
|---|------------------------------------|---------------------------------|--|
| All *good TC 650 | PCC 003 | PCC 011/057*** | PCC 054/057*** |
| All TC 670 and/or **bad TC 650 | PCC 041 | PCC 043/057*** | PCC 055/057*** |
| Mix of TC 610, *good 650 and **bad 650 and 670 | PCC 042 | PCC 044/ 057*** | PCC 056/ 057*** |
| <p>*good TC 650 is a deposit made before 1-1-2011 as required: by coupon through an authorized depository or in the case of a mandated taxpayer, a deposit made via EFT.</p> <p>**bad TC 650 is a non-EFT deposit made by mandate (taxpayer required to deposit electronically prior to 01-01-2011).</p> <p>*** If averaged monthly tax liability is over \$100,000, use PCC 057.</p> | | | |

A PCC generating with a TC 186 is used to explain why Master File computed a penalty on the account. A PCC also dictates which penalty explanation language is printed on balance due notices.

A PCC is also required with the input of a manual TC 180 penalty assessment to explain why the penalty was assessed. Indicating the computation method used will continue the processing audit trail and reduce the need to request previous case files when responding to incoming correspondence or calculating subsequent adjustments. See IRM 2.4, *IDRS Terminal Input*, for input instructions for the PCCs.

When using Reason Code (RC) 062, the reasonable cause indicator is not affected by the input of the above codes and still must be input whenever reasonable cause applies. It may be used alone (for abatements) or with any of the above codes when reasonable cause is being denied and a penalty is manually assessed. RC 062 is entered in the first RC position; the applicable penalty reason code must be entered in the fourth RC position.

(5) Schedule Indicator Codes (SIC)

A SIC 2 or 3 coded on the return during the return processing will prevent Master File from determining a penalty amount. Instead, Master File generates CP 194 Possible FTD Penalty Notice. The Campus manually reviews all CP 194 accounts.

The SIC applicable to FTD penalty processing are as follows:

| SIC | 199212 & prior | 199312 | 199412 thru 200512 | 200512 & subsequent |
|-------------------------|---|---|---|---|
| 0 computer generated | Return processed with good information. | Return processed with good information. | Return processed with good information. | Return processed with good information. |
| 1 | Missing information, penalty computed by averaging available information. | Missing information, penalty computed by averaging available information. | Missing information, penalty computed by averaging available information. | Missing information, penalty computed by averaging available information. |
| 2 | Safe Harbor checked or reasonable cause claimed. | Reasonable cause claimed. | Reasonable cause claimed. | Not applicable. |
| 3 | Backup withholding (BWH)/Church Social Security issue. | Schedule A attached (BWH)/Church Social Security issue. | Church Social Security issue. | Church Social Security issue. |

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| | | | | |
|-------------------------|---|------------------------|--|--|
| 4 | 1st time occurrence of 3 banking day requirement. | Not applicable. | Not applicable. | Not applicable. |
| 5 | Schedule B attached. | Not applicable. | Not applicable. | Not applicable. |
| 6 | \$100,000 liabilities. | \$100,000 liabilities. | \$100,000 liabilities. | \$100,000 liabilities. |
| 7 computer generated | Not applicable. | Not applicable | Incomplete information, causing averaged liabilities of \$100,000 or more. | Incomplete information, causing averaged liabilities of \$100,000 or more. |

11 Penalty Appeal Procedures

The Office of Appeals is responsible for processing appeals on previously denied penalty abatement requests. However, this procedure is not applicable to the following:

1. Trust Fund Recovery penalty
2. Fraud penalty
3. Negligence penalty
4. Jeopardy assessment
5. Field Collection personnel who deny a taxpayer's request for abatement should personally notify the taxpayer of the denial and the appeal procedure. If the taxpayer wishes to appeal, it may be done with a verbal statement, if the proposed penalty does not exceed \$2,500; with a brief written statement of disputed issues, if the proposed penalty exceeds \$2,500 but does not exceed \$10,000, or with a formal written protest, if the proposed penalty exceeds \$10,000. The statement or protest should be submitted within 15 days to the SB/SE Field Collection (FG) employee who denied the abatement request. The employee will then prepare the appeal request for transmittal to Appeals and attach the following:
 1. The taxpayer's written request for appeal and other pertinent documents,
 2. A copy of the ICS history,
 3. Penalty appeals check sheet,
 4. A copy of the disallowance letter, Letter 2413 (P), and
 5. Prepare Form 3210, *Document Transmittal*.

Forward the request to the group manager for review and concurrence. Refer to the Appeals Case Routing Guide available on the Appeals intranet site or click on this link <http://appeals.web.irs.gov/APS/caserouting.htm>, then click on "Case Routing and Instructions" on the left hand side on the page, and finally, click on "Case Routing by State and Zip Code" for Field Collection cases going to Appeals. The employee should maintain the Bal Due in inventory and suspend collection action only on the penalty portion of the Bal Due. When the Appeals Officer has completed the review, adjustment action will be taken, if appropriate, and any pertinent paperwork copies will be submitted to the FC-employee advising of the decision.

Campus Personnel who deny the abatement of a penalty should send the taxpayer Correspondex Letter 854C, *Penalty Waiver or Abatement Disallowed/ Appeals Procedure Explained* (or Correspondex Letter 852C/853C if the Reasonable Cause Assistant (RCA) is used) and provides the reason(s) for denial. They should also provide the name, address and phone number of the local Campus Penalty Appeals Coordinator. This information is available at <http://serp.enterprise.irs.gov/databases/who-where.dr/campus-penalty-appeal-coordinators.htm>

User Notes