



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

5.19.26

NOVEMBER 14, 2023

EFFECTIVE DATE

(11-14-2023)

PURPOSE

- (1) This transmits new IRM 5.19.26 *Liability Collection, Campus Procedures for IRC 965 - Transition Tax on Untaxed Foreign Earnings*

MATERIAL CHANGES

- (1) This new IRM 5.19.26 has been established to provide guidance to SB/SE Campus Compliance employees who process 965(h), 965(i) Transfer, and Consent Agreements and Acceleration.

EFFECT ON OTHER DOCUMENTS

None

AUDIENCE

This document is intended for use by Small Business Self Employed (SBSE) Compliance Campus employees who process

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5.19.26

Liability Collection, Campus Procedures for IRC 965 - Transition Tax on Untaxed Foreign Earnings

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5.19.26.1
(11-14-2023)

Program Scope and Objectives

- (1) **Purpose:** IRC Section 965 is a provision of the Tax Cuts and Jobs Act that requires certain taxpayers to pay a transition tax on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the United States. Taxpayers may make an election under section 965(h) to pay the transition tax in installments over a term of eight years with no interest. Certain acceleration events may result in the taxpayer's transition tax liability becoming due immediately. The regulations provide an exception to this rule if a transfer agreement is entered into by the transferor and an eligible transferee under which the eligible transferee is liable for the remaining installments due in the same manner as if the eligible transferee were the transferor. Additionally, annual installments are due on the due date of the return. Failure to timely pay a required installment could result in the assessment of an addition to tax, which could accelerate the entire remaining IRC 965(h) net tax liability balance and cause it to become immediately due. Payments and credits received on related accounts must be timely and accurately cross-referenced to ensure the IRS collects the tax only once.
- (2) **Audience:** This Internal Revenue Manual (IRM) section contains instructions for the IRC 965(h) program collection functions in Campus Compliance Service Collection Operations (CSCO) . Campus personnel includes tax examiners, clerks, and associated management staff.
- (3) **Policy owner:** Director, Small Business / Self Employed, Collection Operations, Headquarters Collection, Collection Policy.
- (4) **Program owner:** Small Business / Self Employed, Collection Operations, Headquarters Collection, Collection Policy, Employment Tax Policy.
- (5) **Primary Stakeholders:** External stakeholders include, but are not limited to: Government Accountability Office (GAO), taxpayers, and taxpayer representatives. Internal stakeholders include, but are not limited to: Examination, Collection, Accounting, Chief Financial Officer (CFO), Counsel, and Campus Compliance Service Collection Operations (CSCO). Compliance Service Collection Operations (CSCO) centralized in Brookhaven Campus Collection will:
 - Route, assign, and track transfer agreements
 - Process cases
 - Assessing IRC 965(h) liabilities to transferees
 - Process subsequent transferred liability payments
 - Determine acceleration of delinquent IRC 965(h) accounts
 - Process acceleration cases
 - Input account corrections
 - Respond to Taxpayer calls
- (6) **Program Goals:** Duplicate IRC 965(h) assessments artificially inflate the dollar amount of total IRS balance due accounts. It is critical that IRC 965(h) cross-referencing of payment and credit case actions on transferred IRC 965(h) liabilities adhere to a very high standard of account accuracy and timeliness requirements in order to provide quality customer service, maintain public trust in the IRS, and satisfy GAO & CFO requirements associated with IRS Financial Statements. Additionally, ensure acceleration of delinquent IRC 965(h) accounts to protect the government's interest.

5.19.26.1.1 (11-14-2023) Background	(1) This IRM 5.19.26, Campus Procedures for IRC 965 - Transition Tax on Untaxed Foreign Earnings, provides guidelines for working the Section 965 program.
5.19.26.1.2 (11-14-2023) Authority	(1) Section 14103 of the Tax Cuts and Jobs Act, Public Law 115-97.
5.19.26.1.3 (11-14-2023) Roles and Responsibilities	<div data-bbox="406 483 1437 682"> (1) Director, Collection Policy, is responsible for overseeing program coordination for Collection IRC 965, Transfer and Consent agreements, as well as acceleration of delinquent IRC 965(h) policies, strategies, objectives, and procedures. Directs evolving program issues and collaborates with stakeholders to ensure IRC 965(h) financial reporting requirements meet GAO & CFO standards. Clarifies tax code issues within this IRM. </div> <div data-bbox="406 703 1437 892"> (2) Director, Campus Collection, has administrative responsibility for all Campus managerial and Collection IRC 965 program responsibilities. Provides adequate funding and staffing of Campus personnel to ensure IRC 965(h) financial reporting requirements meet GAO & CFO standards. Promotes adherence to IRC 965 IRM program processes and procedures to ensure IRS meets the needs of the customers and the Internal Revenue Service. </div> <div data-bbox="406 913 1437 1102"> (3) Director, Campus Operations, has administrative responsibility for Campus management and Collection 965 employees. Maintains adequate 965 staffing and ensures full and efficient utilization of IRC 965 funding allocations. Promotes adherence to IRC 965 IRM program processes and procedures. Certifies the accuracy and timeliness of IRC 965 casework on a quarterly basis. </div> <div data-bbox="406 1123 1437 1312"> (4) Campus Operations Manager oversees Collection IRC 965 department, team, and employee actions. Ensures Collection 965 employees are provided with appropriate tools and training to perform their jobs and casework meets IRC 965 IRM accuracy and timeliness requirements. Facilitates efficient usage of IRC 965 funding allocations and performs all necessary actions to maintain proper staffing levels. </div> <div data-bbox="406 1333 1437 1596"> (5) Campus Department Manager oversees Collection IRC 965 team and employees actions. Ensures Collection IRC 965 employees are provided with appropriate tools and training to perform their jobs and casework meets IRC 965 IRM accuracy and timeliness requirements. Reviews all local IRC 965 program inventory and quality review reports to confirm accuracy. Initiates and monitors actions to identify and resolve case errors and error trends. Resolves internal campus IRC 965 processing issues. Elevates complex IRC 965 program questions to Collection Policy Headquarter (HQ) Analysts. </div> <div data-bbox="406 1617 1437 1906"> (6) Campus Team Manager is responsible to manage employees and programs in their team. Oversees employee actions and assigns inventory. Ensures employees are provided with appropriate tools and training to perform their jobs and casework meets IRC 965 IRM accuracy and timeliness requirements. Oversees the preparation of IRC 965 team quality review and inventory reports and checks them for accuracy. Suggests actionable items to identify and resolve errors and error trends. Resolves routine internal campus IRC 965 processing issues. Elevates complex IRC 965 program issues to Department Manager. </div>

- (7) Campus Tax Examiners work their assigned cases in accordance with IRC 965 IRM accuracy and timeliness requirements. Their responsibilities include, but are not limited to, the cross-referencing of all payments and credits to related duplicate assessments, establishing account linkages on IDRS, adjusting existing IRC 965 accounts, responding directly to taxpayers and/or their representatives on inquiries regarding these accounts, performing quality reviews, preparing inventory and quality review reports, and varied interactions with other IRC 965 program functions within the organization.
- (8) Campus Clerks batch incoming 965 casework on AMS, scan cases and route to Campus Tax Examiners for necessary action.

5.19.26.1.4 (11-14-2023) Program Management and Review

- (1) **Program Reports:** Local campus reports are submitted via the BBTS (Batch/Block Tracking System) to the WP&C (Work Planning & Control) reports. The WP&C is used to monitor rates, receipts, and closures to determine if cases are being received and subsequently closed. WP&C reports are located on the Business Objects platform. AMS (Accounts Management Services) reports provide information on inventory and inventory age. IDRS (Integrated Data Retrieval System) CCA (Case Control Activity) System reports detail the cases assigned to an operation, department, team or employee; they are located on Control D.
- (2) **Program Effectiveness:** Effectiveness of this program is monitored and tracked on the 965 inventory report. The report captures the data weekly and roles up in monthly and yearly cumulative totals. The program goals and results are housed on the Collection Program and Campus Reports SharePoint site in the MMR (Monthly Monitoring Report). The MMR captures monthly and cumulative data on inventory and rates, as well as periodic snapshots of aged case percentages. Operational and program reviews are conducted to ensure case actions are timely and in accordance with the procedures in this IRM.
 - Case Reviews are conducted by Group Managers and are recorded in the EQRS (Embedded Quality Review System).
 - Program Reviews are conducted by Headquarters annually to evaluate program delivery and conformance to administrative and compliance requirements.

5.19.26.1.5 (11-14-2023) Program Controls

- (1) These inventory mechanisms and employee actions are monitored by the Campus Operation, Department, and Team managers, along with Employment Tax Policy HQ Analysts.
 - IRS Master File is programmed to generate transcripts when specified activity occurs on 965(h) transfer agreements and/or related duplicate tax modules. Transcripts are loaded into AMS then assigned to tax examiners.
 - Taxpayers mail IRC 965(h) transfer agreements, IRC 965(i) transfer agreements, and consent agreements to Brookhaven CSCO. Agreements are date stamped, scanned and loaded into the Tax Reform Initiative_965(h) SharePoint site in the appropriate folder, then assigned to TE by the manager of the team. TE inserts agreement cases into AMS.
 - Possible acceleration cases are received from CFO via CDDDB extract. Cases are batched and loaded into AMS and assigned to the TEs.

- IRC 965(i) failure to report cases as of mid-year 2023 will be identified via Control-D report. Cases will be loaded in AMS and assigned to TEs for review.
- Correspondence via phone messages, e-mail referrals, or eFax are monitored by Brookhaven 965 team and inserted into AMS.
- Acceleration cases identified via possible acceleration review listing are loaded into Tax Reform Initiative_965(h) SharePoint site.
- **SBSE Brookhaven 965* is a designated and secured e-mail box that is utilized by other areas to communicate case action requests to the 965 Team.

5.19.26.1.6
(11-14-2023)

Terms/Acronyms

- (1) For a list of commonly used IRC 965(h) terminology see Exhibit 5.19.26-1, *IRC 965(h) Terms*.
- (2) For a list of commonly used IRC 965(i) terminology see Exhibit 5.19.26-2, *IRC 965(i) Terms*.
- (3) For a list of commonly used acronyms in this IRM see Exhibit 5.19.26-3, *Acronyms*.
- (4) For a list of OFP Program and Function Codes see Exhibit 5.19.26-4, *OFP Program and Function Codes*.

5.19.26.1.7
(11-14-2023)

Related Resources

- (1) This program may require research specific to the program including access and input to the IDRS (Integrated Data Retrieval System) with and without IAT (Integrated Automation Tools), the AMS (Accounts Management System), the EUP (Employee User Portal), the RTR (Remittance Transaction Research System).
- (2) The IRC 965 program involves both paper and telephone contact with internal and external customers, and follows additional guidelines set forth in relevant IRMs referenced in this document.

5.19.26.2
(11-14-2023)

IRC 965 Overview

- (1) IRC Section 965 requires certain taxpayers to pay a transition tax on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the United States. It will generally affect 2017 tax year and 2018 tax year returns. Those potentially subject to the transition tax are:

- US shareholders of a deferred foreign income corporation
- Certain direct/indirect domestic partners in domestic partnerships that are United States shareholders of specified foreign corporations
- A shareholder in a S corporation that is a United States shareholder of a specified foreign corporation
- Certain beneficiaries of another pass-through entity that is a United States shareholder of a specified foreign corporation

Note: A United States shareholder is generally one who owns 10 percent or more of the foreign corporation's stock, applying the indirect stock ownership principles of section 958.

Note: It will generally affect 2017 tax year and 2018 tax year returns (returns that start in 2017 and 2018). The IRC 965 inclusion period, was 201712 through

201911. After November 2019, no new IRC 965 inclusions can be made. Although (rev. 2021) contemplates possible inclusions from passthroughs through 2020.

Note: Very generally, foreign earnings held in the form of cash and cash equivalents are subject to an effective tax rate of 15.5 percent, and the remaining earnings are taxed at 8 percent. This is accomplished through a deduction under 965(c).

- (2) Taxpayers who have made a section 965(i) election may also make a section 965(h) election when a triggering event occurs, so their section 965(i) net tax liability is paid over an 8 year installment payment schedule. In certain cases where the triggering event is a liquidation, sale, exchange or other disposition of substantially all of the assets of the S corporation, a cessation of business by the S corporation, or the S corporation ceases to exist, the shareholder must obtain consent in order to make the IRC 965(h) election. These taxpayers must submit consent agreements under 965(i)(4)(D).
- (3) A transfer agreement and consent agreements must generally be filed with the IRS within 30 days of the acceleration or triggering event. The regulations specifically provide that IRC Section 9100 relief is not available if the agreement is not timely filed.

5.19.26.2.1 (11-14-2023) Payment Options

- (1) US shareholders who are liable for the IRC 965 transition tax can pay the tax with the following options.
 - a. Full payment
 - b. Section 965(h) election; election to pay tax liability in 8 annual installments (unless an acceleration event occurs), as follows:

Year	Annual Payment Schedule	Maximum Unpaid Percent Per Year
1	8%	92%
2	8%	84%
3	8%	76%
4	8%	68%
5	8%	60%
6	15%	45%
7	20%	25%
8	25%	0%

- c. Section 965(i) election; election by S corporation shareholders to defer liability and payment until the year of a triggering event.

5.19.26.2.2
(11-14-2023)
Election Requirements

- (1) Taxpayers must make the Section 965(h) election by the due date of their income tax return, including extensions, regardless of whether an extension was requested. Annual installments are due on the due date of the return (not the extended due date). Failure to timely pay a required installment could result in the assessment of an addition to tax, which could accelerate the entire remaining IRC 965(h) net tax liability balance and cause it to become immediately due.

Note: IMF taxpayers who filed a 2017 tax return and did not make an election under Section 965(h) could file a Form 1040X on or before October 15, 2018 and make the election to pay their new tax liability under section 965 in 8 annual installments. The taxpayer will be treated as having requested an extension of time to file the original return such that the due date to make the election is extended to October 15.

- (2) Taxpayers made the 2017 Section 965(h) election to pay the transition tax in 8 installments by following the rules in the Frequently Asked Questions (FAQ) and Appendices in the Questions and Answers about Reporting Related to Section 965 on 2017 Tax Returns at [irs.gov](https://www.irs.gov/newsroom/questions-and-answers-about-reporting-related-to-section-965-on-2017-tax-returns). <https://www.irs.gov/newsroom/questions-and-answers-about-reporting-related-to-section-965-on-2017-tax-returns> Specifically, taxpayers had to attach the election statement described in FAQ 7 and the IRC Transition Tax Statement described in FAQ 3.

Note: These FAQs are not included in the Internal Revenue Bulletin, and therefore may not be relied upon as legal authority. This means that the information cannot be used to support a legal argument in a court case.

5.19.26.2.3
(11-14-2023)
Reporting Requirements

- (1) Taxpayers must report 100 percent of the IRC 965(h) transition tax, which is included in the Transaction Code (TC) 150, but if the taxpayer elects to pay in 8 installments, a TC 766 with Credit Reference Number (CRN) 263 is posted for the amount of installments two through eight (deferred amount).

Example: Taxpayer's income tax without regard to section 965 is \$5,000. The IRC 965(h) net tax liability is \$25,000. The TC 150 is \$30,000. Since 8 percent of the IRC 965(h) net tax liability is due in year one ($\$25,000 \times .08 = \$2,000$), a TC 766 CRN 263 is posted for \$23,000. There will also be a TC 971 Action Code (AC) 114 posted with the original return. The Miscellaneous Field will show the total amount of the IRC 965(h) net tax liability as shown on the original return and included in the TC 150. TC 971 AC 114 represents the total net tax liability under section 965(h) reported by the taxpayer. There may also be a TC 971 AC 115 present on BMF and IMF tax modules. This either represents the BMF total net tax liability to be paid in installments (deferred) under section 965(h) or the IMF IRC 965 deferral amount when there are additional TC 766 credits reported on the income tax return.

- (2) Taxpayers with an IRC 965(i) net tax liability who made a section 965(i) election will have a TC 971 AC 114 posted on the module for the year of inclusion. The Miscellaneous Field will reflect 0 since no IRC 965(i) transition tax is being assessed. The IRC 965(i) election deferral will remain intact until a triggering event occurs at which time the tax is assessed and deemed payable, unless a valid transfer agreement is entered into. A TC 971 AC 165 with Miscellaneous Field showing the total amount of the IRC 965(i) net tax liability will be input on the IRC 965(i) inclusion year tax module and on every tax year

module thereafter until the year of the triggering event when the IRC 965(i) liability is assessed and deemed payable.

Note: TC 971 AC 114 Miscellaneous Field 0 could also be present if the taxpayer reported an IRC 965 inclusion and fully paid the 965 net tax liability, however taxpayer failed to provide a tax statement, or the tax statement was incomplete. The TC 971 AC 114 Miscellaneous Field 0 could also indicate under tolerance.

Note: For tax years 2018 and subsequent, Form(s) 965-A and 965-B replaced the IRC 965 Transition Tax Statement.

- (3) Annual installments for a IRC 965(h) election are due on the due date of the return (not the extended due date). Failure to timely pay a required installment could result in the assessment of an addition to tax, which could accelerate the entire IRC 965(h) net tax liability remaining balance and cause it to become immediately due.

Note: Relief is available for individual taxpayers (IMF) who reported a IRC 965(h) inclusion in the 2017 tax year and did not pay in full the first of the 8 annual installment payments, if the individual's IRC 965(h) net tax liability was less than \$1 million and the first and second installments are paid in full by the due date of the 2nd installment.

- (4) Taxpayers are instructed to make two separate payments: one for the IRC 965(h) transition tax, which can be identified as a TC 670 with a Designated Payment Code (DPC) 64, and one for the remaining regular tax due.

5.19.26.3
(11-14-2023)
**Mail Routing, Tracking
and Assignment of
Transfer and Consent
Agreements**

- (1) This section addresses procedures relating to the receipt, logging, and preparation of IRC 965(h) transfer agreements, IRC 965(i) transfer agreements, and Consent Agreements for assignment.
- (2) Taxpayers may make an election under section 965(h) to pay the transition tax in installments over a term of eight years with no interest or penalties. However, certain "acceleration" events may result in the taxpayer's transition tax liability becoming due immediately. An "acceleration" event includes, among other things, a liquidation, sale, exchange, or other disposition of substantially all of the assets of the electing taxpayer.
- (3) The regulations provide an exception to this rule if a transfer agreement is entered into by the transferor and an eligible transferee under which the eligible transferee is liable for the remaining installments due in the same manner as if the eligible transferee were the transferor.
- (4) Additionally, a shareholder of an S corporation can make an election under section 965(i) to defer the transition tax liability indefinitely. Certain "triggering" events (with respect to a section 965(i) election) may result in the taxpayer's transition tax liability becoming due immediately. A transfer of stock shall not be treated as a "triggering" event if an eligible transferee enters into an agreement with the IRS under which the eligible transferee is liable for the remaining section 965(i) net tax liability with respect to the transferred stock in the same manner as if the eligible transferee were the transferor taxpayer.

- (5) Taxpayers who have made a section 965(i) election may also make a section 965(h) election when a triggering event occurs, so their section 965(i) net tax liability is paid over the 8-year installment payment schedule. Certain taxpayers, however, must submit consent agreements under 965(i)(4)(D), in order to request a section 965(h) election.
- (6) Transfer agreements must generally be filed with the IRS within 30 days of the acceleration or triggering event. There is a transition rule that provides that for acceleration or triggering events that occurred prior to February 6, 2019, the transfer or consent agreement must be filed by March 7, 2019. The regulations specifically provide that IRC Section 9100 relief is not available if the agreement is not timely filed.

5.19.26.3.1
(11-14-2023)
**Receipt and Batching of
Transfer and Consent
Agreements**

- (1) Form 965-C, *Transfer Agreement Under Section 965(h)(3)*, signed by both transferor and transferee, Form 965-D, *Transfer Agreement Under Section 965(i)(2)*, signed by both transferor and transferee, and Form 965-E, *Consent Agreement Under Section 965(i)(4)(D)* are received and stamped with the date of receipt, by team clerk.
- (2) Team clerk batches IRC 965(h) transfer agreements, IRC 965(i) transfer agreements, and Consent agreement(s) into AMS, within 5 working days of receipt, establishing an open control. Team clerk scans and e-mail's agreements to organization shared e-mail box (*SBSE Brookhaven 965). Paper agreements are placed in a dated envelope and routed to Lead/Manager of 965(h) team.
- (3) Agreements are assigned to TE, and TE loads case information and scanned agreement into SharePoint trackers.

5.19.26.4
(11-14-2023)
**IRC 965(h) Transfer
Agreement Case
Processing**

- (1) This section addresses procedures relating to the review and input of IRC 965(h) transfer agreement case information into Tax Reform Initiative_965(h) SharePoint inventory tracker, acknowledgement of transfer agreement, and transferee assessment.

5.19.26.4.1
(11-14-2023)
**IRC 965(h) Inventory
Tracker Information Log**

- (1) IRC 965(h) transfer agreement Inventory tracker is located in the *Tax Reform Initiative_965(h) SharePoint site*. (Only campus compliance employees assigned to the 965 team have access)
 - Enter IRC 965(h) transfer agreement information and attach a scanned copy of the agreement into the 965(h) tracker folder.
 - Review IRC 965(h) transfer agreement for completeness. Complete and attach a *965(h) Transfer Agreement Checklist* to the SharePoint case folder for each case that is not filed with a Form 965-C. Transfer Agreement Checklist is optional for agreements filed with a Form 965-C.

Note: When a transfer agreement fails to meet all the requirements from the checklist, notate any missing or incomplete information on the checklist and/or SharePoint. Then continue processing the agreement.

5.19.26.4.2
(11-14-2023)
Letter 6153 Issuance

- (1) Create and send Letter 6153, *Acknowledgement of Receipt of IRC Section 965 Transfer Agreement* to both transferor and transferee of IRC 965(h) transfer agreements, to acknowledge receipt of transfer agreement. Attach copy of Letter 6153 to SharePoint case file.

- (2) In addition to the transferor and transferee, send Letter 6153 to any valid POA on file. POA (Form 2848, *Power of Attorney and Declaration of Representative* or Form 8821, *Tax Information Authorization*) must be on file for the year of assessment (inclusion year), generally 2017, or 2018, and not for the year that the installment payment is being made/due. See IRM 21.1.3.3, *Third-Party (POA/TIA/F706) Authentication*.

5.19.26.4.3

(11-14-2023)

Link Accounts and Assess IRC 965(h) Liability to Transferee

- (1) This section addresses procedures relating to creating joint and several liabilities between transferor and transferee of IRC 965(h) net tax liability.
- (2) IRC 965(h) election accounts may contain the following transaction codes:

Transaction Code	Definition
TC 971 AC 114	Posts with the original return. The Miscellaneous Field will show the total amount of the IRC 965 transition tax as shown on the original return and is included in the TC 150 amount. The AC 114 represents the total net tax liability under section 965 reported by the taxpayer. See IRM 3.14.2.7.5, <i>IRC 965 Transition Tax</i> .
TC 971 AC 115	Input generates the posting of TC 766 CRN 263. BMF - represents the total IRC 965 net tax liability to be paid in installments (deferred) under section 965(h). Limited use during the 2017 tax year to assist background programming. IMF - Tax returns reporting additional 766 credits other than an IRC 965 transition tax deferred amount. Limited use during the 2017 tax year to assist background programming. Note: In 2023 the TC 971 AC 115 was re-purposed for additional Exam assessments.
TC 971 AC 507	Links the transferor and transferee IRC 965(h) accounts.

Transaction Code	Definition
TC 766 CRN (Credit Reference number) 263	A false credit posted in the amount of the IRC 965(h) deferred portion of tax. The TC 150 will be a combination of regular income tax and 100 percent of the total IRC 965(h) net tax liability. Taxpayers report 100 percent of the transition tax, which is included in the TC 150, but if the taxpayer elected to pay IRC 965 liability in 8 installments, a TC 766 CRN 263 is posted for the remaining unpaid amount (deferred amount).
TC 767 CRN 263	Reverses the posting of TC 766 CRN 263. Transaction may post to correct original return errors or omissions, or when IRC 965(h) DPC 64 (designated payment code) payments post. Note: Beginning 2019, IMF and BMF programming will systemically generate a TC 767 CRN 263 when a TC 670 DPC 64 posts to the tax account. However, if payments are not designated as IRC 965 by the taxpayer, the TC 767 CRN 263 will be input manually.
TC 766 CRN 337 RC (Reason Code) 160	Used to cross reference payments made towards IRC 965(h) installments to joint and severally liable accounts.
TC 670 DPC 64	Designated IRC 965(h) installment payment.

- (3) The following RPC (Return Processing Code) and CCC (Computer Condition Code) are used to identify IRC 965 tax returns and initiate specific processing:
- RPC 7 - Tax returns reporting an IRC 965(i) election (IMF)
 - RPC F - Tax returns reporting an IRC 965 Repatriation Provision (IMF)
 - CCC 3 - Tax returns reporting an overpayment, this CCC sets TC 570 which freezes release of overpayment of account at Masterfile (IMF)
 - CCC P - Tax returns identified as eligible for the 2017 Penalty Waiver (IMF)
 - CCC B - Tax returns reporting an IRC 965(i) election (BMF)
 - CCC J - Tax returns reporting an IRC 965 Repatriation Provision (BMF)

- CCC X - Tax returns reporting an overpayment, this CCC sets the -R Freeze, which freezes any overpayment on the account from offsetting or refunding (BMF)

Note: RPC post to the Return Transaction File and does not move to Masterfile. RPC can be identified using CC (Command Code) RTVUE and TRDBV.

Caution: The CCC X may not be functional on all BMF accounts for IRC 965 transition tax – ERS is currently reducing the TC 971, AC 115 amount by the credit elect amount, which will in turn reduce the TC 766 CRN 263 and prevents the overpayment from being available for credit elect on the account. This is being done on BMF because the TC 766 is determined from the AC 115 amount and not a return entry.

5.19.26.4.4 (11-14-2023) Determine Assessment Amount and Link Accounts

- (1) Determine the transferee's IRC 965(h) assessment amount using, transfer agreement, IDRS data and IRC 965 Tool. Transferee assessment amount will be equal to the current transferor deferral balance. Typically, this amount is equal to, or less than the amount indicated on the transfer agreement.
- (2) Establish links between the transferor and the transferee by inputting a TC 971 AC 507 on both modules.
- (3) On the transferor inclusion year module using CC REQ77/FRM77 input TC 971 AC 507 as in below table.

FRM77 Field Name	Input
TC>	971
TRANS_DT>	Transaction date is the date of the transfer agreement i.e. acceleration or triggering event date. If transfer agreement date is missing, use post mark date, if missing, use CSCO received date, if missing, use signature date.
TC971-CD>	507, TC 971 AC 507 establishes a link between the transferor and transferee who are joint and severally liable for the IRC 965(h) net tax liability.
XREF-TIN>	TIN of the transferee to establish a link between the transferor and the transferee.
XREF-TX-PRD>	YYYYMM, Xref tax period will match the tax period of the transferors inclusion year.
XREF-MFT>	MFT 82 if transferee is IMF, MFT 83 if transferee is BMF.

FRM77 Field Name	Input
MISC>	<p>Transferee's IRC 965(h) transferred assessment amount.</p> <p>Note: Enter amount in whole numbers only, rounding to the nearest dollar (do not use commas, decimal point, or cents.)</p> <p>Example: \$123,456.78 will be entered as 123457.</p>
REMARKS>	NSD 965 TRANS AGREE, NSD = No Source Document.

- (4) Establish transferee module by using CC REQ77/FRM77 to input TC 971 AC 507 as in the below table:

FRM77 Field Name	Input
REQ77 / FRM77	<p>Input transferee's TIN to establish an IRC 965(h) transferred liability module and create a link to the transferor's module.</p> <p>Note: If a module for the transferee does not already exist, create a dummy module to establish the MFT 82 or MFT 83 module. The module must be established with a TC 971 AC 507 prior to any other transactions being input, Otherwise, additional transactions will unpost.</p> <p>Example:</p> <p>MFREQD XX-XXXXXXX 83 YYYYMM NAME MFREQD XX-XXXXXXX 82 YYYYMM NAME</p>
MFT>	IMF transferee use MFT 82, BMF transferee use MFT 83.
TX-PD>	Tax Period of new transferee module will match the tax period of the transferor's IRC 965 liability inclusion year.

FRM77 Field Name	Input
TC>	971, will establish new module.
TRANS-DT>	Transaction date is the date of the transfer agreement i.e. acceleration or triggering event date. If transfer agreement date is missing, use post mark date, if missing, use CSCO received date, if missing, use signature date. Will match the TC 971 AC 507 date used on transfer or module.
TC971-CD>	507, TC 971 AC 507 establishes a link between the transferor and transferee who are joint and severally liable for the IRC 965(h) liability.
XREF-TIN>	TIN of the transferor to establish a link between the transferor and the transferee.
XREF-TX-PRD>	YYYYMM, Inclusion year of transferor's IRC 965(h) net tax liability.
XREF_MFT>	MFT of transferor.
MISC>	Transferor's original IRC 965(h) net tax liability amount (TC 971 AC 114 amount). Note: Enter amount in whole numbers only, rounding to the nearest dollar (do not use commas, decimal point, or cents.) Example: \$123,456.78 will be entered as 123457.
REMARKS>	NSD 965 TRANS AGREE, NSD = No Source Document.

5.19.26.4.5
(11-14-2023)
Assess Transferee

- (1) On the module established for the transferee (MFT 82 IMF, MFT 83 BMF) input assessment of transferred IRC 965(h) net tax liability using CC REQ54/ADJ54, with a TC 298 using interest computation date. Along with CRN 263 to defer the liability (TC 766 CRN 263).

Caution: If inputting transferee assessment at the same time as inputting TC 971 AC 507 to establish transferee module, a posting delay code of 1 **must** be used to prevent the assessment from unposting.

Procedures for assessing a transferred IRC 965(h) net tax liability

REQ54 Field Name	Input
1. EIN 2. MFT> 3. TX-PD> 4. NM-CTRL>	These fields should auto-populate, if not, manually input appropriate data for each field with information for the module being adjusted.
BLK>	Use block number 05 for MFT 82, Use block number 15 for MFT 83.

REQ54 Field Name	Input
INTCMP-DT>	<p>Interest Computation Date is the first Return Due Date of the transferee following the Date of the transfer agreement.</p> <p>Example: A 201712 IRC 965(h) net tax liability with a transfer agreement received in March of 2019, the Interest Computation Date would be 04/15/2019.</p> <p>Note: Always use Return Due Date for Month and Day, for example 04/15/YYYY.</p> <p>Caution: Use command code INOLES to validate transferee's entity filing requirements. Transferee may have a different fiscal year (FY) return due date always use the next return due date of the transferee for the Int-Comp-Date.</p> <p>Example: A 201712 IRC 965(h) liability with a transfer agreement received in March of 2019, the transferee is a FY filer, month 10 (201710) the Interest Computation Date would be 02/15/2020.</p> <p>Caution: Interest Computation Dates calculated to fall between 4/1/2020 through 7/15/2020, use 7/15/2020 as the Int Comp Date. This is in response to the extension of return due date and payment due date granted due to COVID19.</p>
CASE-STS-CD>	C

REQ54 Field Name	Input
IRS-RCVD_DT>	*, indicating current date.
CTRL-CAT>	IRRQ
OVERRIDE-CD>	I, (Uppercase I allows the Interest Computation Date to be a date in the future).
TC>	298, with a money amount. Note: if TC 298 with money amount needs to be reverse for any reason, use TC 299, input a * for the TCB -DT field when inputting a TC 299 reversal.
AMT>	Input amount of the “net tax liability” that was transferred. Note: Transferee assessment will be equal to the amount agreed upon with the transfer agreement or if the transferor’s IRC 965(h) liability balance has been reduced below agreed amount the assessment will be for the remaining balance of the transferor’s IRC 965(h) liability.
SRCE-CD>	MFT 82, use 2, MFT 83 leave blank.
RSN-CDS	IMF Transferee (MFT 82) use two reason codes 160, AND 191 if the XREF TIN is IMF OR 192 if the XREF TIN is BMF. BMF Transferee (MFT 83) Use only one reason code, 191 if the XREF TIN is IMF OR 192 if the XREF TIN is BMF.
HOLD-CD>	3

REQ54 Field Name	Input
PRT-CD>	If inputting an assessment that is greater than \$10.00 and is within \$10.00 of a previously posted TC 290/294/298/300/304/308 for an amount greater than \$10.00, input Priority Code 1 to prevent transaction from unposting.
PSTNG-DLAY-CD>	Use post delay code of 1 IF the assessment is input at the same time as the TC 971/507 creating the MFT 82 or 83 module. Note: If MFT 82 or 83 already exists (i.e., not a dummy module) the posting delay code of 1 is not required.
XREF-TIN>	Transferor's TIN. Note: xref-TIN will display on the TC 290 transaction on CC BMFOLT.
CD>	263, Note: This will post as TC 766 CRN 263.
AMT>	Full amount of assessment is deferred if before Interest Computation Date. If subsequent to Interest Computation date input balance due of IRC 965(h) liability.
SOURCE-DOC-ATTACHED>	Y, use Form 8485, <i>Assessment Adjustment Case Record</i> .
REMARKS>	965 TRANS AGREE

- (2) Upon completion of transferee assessment, send Letter 6155, *Transferee Notice and Demand under Section 965*, attach a copy of Letter 6155 to SharePoint case file.
- (3) Leave history on IDRS, AMS, update SharePoint case status to "Transferee Assessed" close case on AMS.

5.19.26.5
(11-14-2023)
**IRC 965(i) Net Tax
Transfer Agreement
Case Processing**

- (1) This section addresses procedures relating to the review and input of IRC 965(i) net tax transfer agreement case information into Tax Reform Initiative_965(i) SharePoint inventory tracker, acknowledgement of transfer agreement, and IDRS module perfection.

Note: IRC 965(i) net tax liabilities differ from IRC 965(h) net tax liabilities in two very distinct ways.

- IRC 965(i) net tax liabilities are not assessed until such a time as a triggering event occurs (provided a transfer agreement was not entered into), at which time the liability can either be paid in full or converted to an IRC 965(h) net tax liability and paid over an 8-year period.
- IRC 965(i) net tax liabilities can have partial triggering events if the transferor transfers less than all of the S corporation stock. Thus, if the transferor enters into one or more transfer agreements, the IRC 965(i) net tax liability can be transferred in full or in part, based on the transfer of the S corporation shares. It is not uncommon for a transferor to split their liability between several transferees. It is also fairly common for the transferee to become a transferor and split the liability again between multiple transferees.

5.19.26.5.1
(11-14-2023)
**Inventory 965(i) Tracker
Information Log**

- (1) 965(i) transfer agreement Inventory tracker is located in the *Tax Reform Initiative_965(h) SharePoint site*. (Only campus compliance employees assigned to the 965 team have access).

- Enter IRC 965(i) transfer agreement information and attach a scanned copy of the agreement into the 965(i) tracker folder.
- Review IRC 965(i) transfer agreement for completeness. Complete and attach a *965(i) Transfer Agreement Checklist* to the SharePoint case folder for each case that is not filed with a Form 965-D. 965(i) Transfer Agreement Checklist is optional for agreements filed with Form 965-D.

Note: Each transfer agreement will have its own case ID number in SharePoint, however all IRC 965(i) transfer agreements associated with the same S Corporation TIN will be documented to the same Excel case file. Do not create another case file if an S Corporation case file already exists. Case files are stored in SharePoint under Documents in file folder named **(i) Transfer Agreement Case Files**. Please adhere to file naming convention to ensure case files are in order, and easy to locate.

Example: 965(i) S-Corp XX-XXXXXXX.xlsm

5.19.26.5.2
(11-14-2023)
Letter 6153 Issuance

- (1) Create and send Letter 6153, *Acknowledgement of Receipt of IRC Section 965 Transfer Agreement* to both transferor and transferee of IRC 965(i) transfer agreements, to acknowledge receipt of transfer agreement. Attach copy of Letter 6153 to SharePoint case file.
- (2) In addition to the transferor and transferee, send Letter 6153 to any valid POA on file. The POA (Form 2848, *Power of Attorney and Declaration of Representative* or Form 8821, *Tax Information Authorization*) must be on file for the year of IRC 965(i) election (inclusion year), generally 2017, or 2018, and not for the year that the transfer is being made/due. See IRM 21.1.3.3, *Third-Party (POA/TIA/F706) Authentication*.

5.19.26.5.3
(11-14-2023)

IRC 965(i) Identifying Transaction Perfection, Transferor

- (1) Ensure IRC 965(i) identifying transactions are on the appropriate modules. IRC 965(i) identifying transactions include:

Transaction Codes	Definition
TC 971 AC 114	TC 971 AC 114 represents the total net tax liability under section 965(h) reported by the taxpayer. See IRM 3.14.2.7.5, <i>IRC 965 Transition Tax</i> . TC 971 AC 114 with a miscellaneous amount greater than zero is an indication of a IRC 965(h) election. Typically with a IRC 965(i) election the TC 971 AC 114 amount will be zero.
TC 971 AC 165	Represents a deferred tax liability under Section 965(i) was reported by the taxpayer. The Miscellaneous Field will show the total amount of the IRC 965(i) transition tax being deferred.
TC 971 AC 607	Links the transferor and transferee IRC 965(i) accounts. On transferor's transfer year module Input: <ul style="list-style-type: none"> • TC 971 AC 607 using trigger event date (Form 965-D, Part IV Line 1), • Transferee's TIN (Form 965-D, Part II) as XREF-TIN, XREF-TXPD and XREF-MFT, • Amount being transferred (Form 965-D, Part V Line 5) as the MISC amount.

- (2) A IRC 965(i) inclusion year (typically 2017 or 2018) must have a TC 971 AC 114 with a MISC field amount of 0, unless the taxpayer also has a IRC 965(h) liability, in which case the MISC field amount of the TC 971 AC 114 will be greater than 0. The inclusion year module will also have a TC 971 AC 165 with the IRC 965(i) total amount in the MISC field. Validate this amount by reviewing an electronically filed return on EUP (Employee User Portal). If return was not filed electronically request a copy of return via Form 2275, *Records Request*. Leave a history item on TXMOD "(i) TA-BSC" to indicate that a transfer agreement has been filed.
- (3) Taxpayers that made an IRC 965(i) election to defer the assessment and payment of tax until a triggering event occurs during the inclusion period (201712-201911), did so as follows:

Tax Year	Form	IRC 965(i) Inclusion Made
2017	BMF Form 1041, <i>Income Tax Return for Estates and Trusts</i>	Transition Tax Statement, Line 7 and IRC 965(i) Election Statement,
2017	IMF Form 1040, <i>U.S. Individual Income Tax Return</i>	<p>The IRC 965 income was reported on line 21, Line 44, was reduced by the amount of net tax liability deferred under section IRC 965(i) & thereby not included in the “Total Tax” calculation reported on Line 63.</p> <p>In addition to the IRC 965 Transition Tax Statement and IRC 965(i) Election Statement being attached to the return.</p>
2018	BMF Form 1041, <i>Income Tax Return for Estates and Trusts</i>	Form 965 and Form 965-A, Part I, Column (e), Line 2 and Part III, Column (g), Line 2.

Tax Year	Form	IRC 965(i) Inclusion Made
2018	IMF Form 1040, <i>U.S. Individual Income Tax Return</i>	<p>The IRC 965 income was reported on Schedule 1, Line 21, Line 11a, was reduced by the amount of net tax liability deferred under section 965(i) & thereby not included in the "Total Tax" calculation reported on Line 15.</p> <p>In addition to the Form 965, <i>Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System</i>, (& applicable schedules) and Form 965-A, <i>Individual Report of Net 965 Tax Liability</i>, being attached to the return in lieu of an IRC 965 Transition Tax Statement.</p>
2019	BMF Form 1041, <i>Income Tax Return for Estates and Trusts</i>	Form 965 and Form 965-A, Part I, Column (e), Line 3 and Part III, Column (g), Line 3.

Tax Year	Form	IRC 965(i) Inclusion Made
2019	IMF Form 1040, <i>U.S. Individual Income Tax Return</i>	<p>The IRC 965 income was reported on Schedule 1, Line 8, Line 12a, was reduced by the amount of net tax liability deferred under section 965(i) & thereby not included in the "Total Tax" calculation reported on Line 16.</p> <p>In addition to the Forms 965(& applicable schedules) and Form 965-A being attached to the return in lieu of an IRC 965 Transition Tax Statement.</p>

- (4) IRC 965(i) subsequent years will have only a TC 971 AC 165 with the IRC 965(i) amount in the MISC field. Validate this amount by reviewing the return on EUP or if paper filed requesting a copy of return as described above. Ensure the taxpayer has filed the required Form 965-A, *Individual Report of Net 965 Tax Liability* to report the liability. If the taxpayer does not report their IRC 965(i) liability on subsequent years they may be assessed a 5% penalty for failure to report.
- (5) See IRM 5.19.26.6.2, *965(i) Five Percent Penalty for Failure to Report* for instructions on assessing 5% penalty for failure to report.

5.19.26.5.4
(11-14-2023)
**965(i) Identifying
Transaction Perfection,
Transferee**

- (1) Ensure 965(i) identifying transactions are on the appropriate modules. 965(i) identifying transactions include:

Transaction Codes	Definition
TC 971 AC 114	Input TC 971 AC 114 MISC amount 0 on transferee's module, beginning with the year the transfer agreement is made (Form 965-D, Part IV, Line 1.)

Transaction Codes	Definition
TC 971 AC 165	<p>Input TC 971 AC 165 MISC amount equal to amount of liability transferred (Form 965-D, Part V, Line 5.) on transferee's module, beginning with the year the transfer agreement is made (Form 965-D, Part IV, Line 1.)</p> <p>Note: Only one TC 971 AC 165 is allowed to post on a module, if more than one transfer agreement is filed for the same transferee, add the amounts from multiple transfer agreements (for same transferee TIN) from Forms 965-D, Part IV, Line 5 together. Input TC 971 AC 165 with new or corrected MISC amount and the previously posted TC 971 AC 165 will automatically be deleted and replaced with new input.</p>
TC 971 AC 607	<p>Links the transferor and transferee 965(i) accounts. On transferee transfer year module Input:</p> <ul style="list-style-type: none"> • TC 971 AC 607 using trigger event date (Form 965-D, Part IV Line 1), • Transferor's TIN (Form 965-D, Part I) as XREF-TIN, • XREF-TXPD and XREF-MFT of transferor transfer agreement tax year, • Amount being transferred (Form 965-D, Part V Line 5) as the MISC amount.

- (2) Leave a history item on TXMOD "(i) TA-BSC" to indicate that a transfer agreement has been filed.
- (3) 965(i) subsequent years will have only a TC 971 AC 165 with the 965(i) amount in the MISC field, validate this amount by reviewing the return on EUP or if paper filed requesting a copy of return as described above. Ensure the taxpayer has filed the required Form 965-A, *Individual Report of Net 965 Tax*

Liability to report the liability. If the taxpayer does not report their 965(i) liability on subsequent years they may be assessed a 5% penalty for failure to report.

- (4) See IRM 5.19.26.6.2, *IRC 965(i) Five Percent Penalty for Failure to Report* for instructions on assessing 5% penalty for failure to report.

Note: If TC 971 AC 165 is missing, input using CC REQ77/FRM77 as follows:

Procedures for inputting TC 971 AC 165

FRM77 Field Name	Input
1. EIN 2. MFT> 3. TX-PD> 4. NM-CTRL>	These fields should auto-populate, if not, manually input appropriate data for each field with information for the module being adjusted.
TC>	"971"
TRANS-DT>	Current Date "MMDDYYYY"
SECONDARY-DT>	Current Date "MMDDYYYY"
TC971-CD>	"165"
MISC>	<p>Input the IRC 965(i) deferred liability amount (dollars only, no cents, no special characters).</p> <p>Note: For the inclusion year module this amount will be reflected on the Transition Tax Statement, Line 7 and the IRC 965(i) Election Statement for TY 2017 or on the Form 965-A, Part I, Column (e) and Part III, Column (g), line 2 for 2018 or line 3 for 2019.</p> <p>Note: For the annual reporting year this amount must match the amount reflected on Form 965-A, Part IV, the sum of Column (i) for the reporting year.</p> <p>Note: For a transferred liability this amount must match the amount reflected on Form 965-D, Part V, Line 5.</p>
REMARKS	"NSD, 965I Tax"

5.19.26.6

(11-14-2023)

IRC 965(i) Five Percent Penalty for Failure to Report

- (1) This section addresses procedures relating to assessing a five percent penalty for failure to report a IRC 965(i) net tax liability in subsequent filing years. Any shareholder of an S corporation that makes an election to defer assessment and payment of an S corporation-related net IRC 965 tax liability must report such liability with their income tax return for the year of election and every year thereafter through the year in which liability is assessed in full, or converted to a IRC 965(h) and election to pay over 8-year plan was requested.
- (2) If a shareholder fails to report the amount of its deferred IRC 965(i) net tax liability as required with respect to any taxable year by the due date (taking into account extensions, if any) for the return for that taxable year, five percent of such deferred net tax liability will be assessed as an addition to tax for such taxable year where the failure to report occurred.

5.19.26.6.1

(11-14-2023)

Validate IRC 965(i) Liability Was Not Reported

- (1) When a possible failure to report case is referred or identified, validate that the liability was required to be reported and that the liability was not reported. Research could include viewing the tax returns on EUP MeF if e-filed. If paper return was filed, the return may need to be ordered from files for accurate verification.
- (2) 2017 Inclusion year returns will typically have an *IRC 965 Transition Tax Statement* attached to the return; Line 7 of the transition tax statement includes the amount of IRC 965 liability being deferred under IRC 965(i).
- (3) Form 965-A, *Individual Report of Net 965 Tax Liability* replaced the transition tax statement beginning with the 2018 filing period.
- (4) Form 965-A Part IV provides for the required annual reporting of deferred S corporation-related net IRC 965 tax liabilities and any adjustments related to such deferred liabilities during the reporting year.
- (5) Check for possible IRC 965(i) transfer agreements to potentially explain any unreported or underreported amounts.
- (6) The table below shows where IRC 965(i) amounts are reported on Form 965-A:

Form 965-A, Part IV Reporting	Form 965-A, Part IV will Reflect	Form 965-A, Part I will Reflect
An intact IRC 965(i) election with no adjustments/triggered liabilities	<ul style="list-style-type: none">• Column (a)- year of inclusion/transfer• Column (b)- S Corp Name• Column (c)- S Corp EIN• Column (d)- must match the prior year Form 965-A, Part IV, Column (i) Total• Column (f)-(h) will be blank• Column (i) - sum will equal the Column (d) amount	Part I should reflect the original IRC 965 inclusion amounts reported on one of lines 1-3 depending on the year the inclusion was made. Note: Part III should also reflect the original IRC 965 inclusion amounts reported on one of lines 1-3 depending on the year the inclusion was made.

Form 965-A, Part IV Reporting	Form 965-A, Part IV will Reflect	Form 965-A, Part I will Reflect
A triggered liability	<ul style="list-style-type: none"> Column (a)- year of inclusion/transfer Column (b)- S Corp Name Column (c)- S Corp EIN Column (d)- must match the prior year Form 965-A, Part IV, Column (i) Total Column (f)- will reflect the triggered liability as a negative amount Columns (g)-(h)- will be blank unless there is a transfer in/out reported with the triggered liability Column (i) - sum will equal the Column (d) amount minus any amounts reflected in columns (f)-(h) 	<ul style="list-style-type: none"> Part I should reflect the original IRC 965 inclusion amounts reported on one of lines 1-3 depending on the year the inclusion was made. When an IRC 965(i) deferred liability is triggered, it must be transferred from Form 965-A, Part IV, where it is annually reported, to Part I, on one of lines 5 through 8 as follows: In column (a), the tax year in which the triggering event occurred is reported. Columns (b) through (e) are skipped and the triggered liability is reported in column (f) as a positive number. If the taxpayer elects to pay the triggered liability in full in the year of the triggering event, the amount in Column (f) will be carried to Column (h) and the corresponding line in Part II, column (b), Paid for Year 1, will report the payment made to pay the IRC 965 liability in full. If the taxpayer makes an IRC 965(h) election in the year of the triggering event, to pay the triggered liability in installments, "Yes" will be checked in column (g) to indicate an IRC 965(h) election is being made. The amount in Column (f) will be carried to Column (i) and the corresponding line in Part II, column (b), Paid for Year 1, will reflect the 1st installment payment. <p>Note: Part III will also reflect the original IRC 965 inclusion amounts reported on one of lines 1-3 depending on the year the inclusion was made.</p>

Form 965-A, Part IV Reporting	Form 965-A, Part IV will Reflect	Form 965-A, Part I will Reflect
A transferred liability	<ul style="list-style-type: none"> Column (a)- year of inclusion/transfer Column (b)- S Corp Name Column (c)- S Corp EIN Column (d)- will match the prior year Form 965-A, Part IV, Column (i) Total Column (g)- Amount of a transfer out, reported as a negative number. Amount of a transfer in as a positive number Column (h)- TIN of transferee or transferor Column (i) - sum will equal the Column (d) amount minus any amounts reflected in columns (f)-(h) 	For reporting years following the year of transfer, report the transferred deferred S corporation-related net IRC 965 tax liability in the same fashion as all other deferred S corporation-related net IRC 965 tax liabilities.

5.19.26.6.2
(11-14-2023)

Assess Five Percent Failure to Report Penalty

- (1) Written managerial approval is required for each failure to report penalty assessment. Complete Form 3870, *Request for Adjustment* for managers signature, attach signed Form 3870 to case in SharePoint, and leave a history on AMS indicating managerial approval was requested, received, and 5% Failure to Report IRC 965(i) liability was assessed, with PRC 707.
- (2) If a taxpayer failed to report their IRC 965 (i) liability, assess a five percent failure to report penalty for the filing year in which the liability was not reported. Penalty will be equal to five percent of the amount that should have been reported. Use PRC 707.

Example: If \$5,000 should have been reported but the IRC 965(i) liability was not reported at all, the penalty will be \$250.

Example: If \$5,000 should have been reported but they reported \$3,000 as the IRC 965(i) liability. \$2,000 was underreported, the penalty will be \$100.

- (3) 5% failure to report penalty is assessed as below, using CC REQ54/ADJ54:

REQ54 Field Name	Input
1. TIN 2. MFT> 3. TX-PD> 4. NM-CTRL>	These fields should auto-populate, if not, manually input appropriate data for each field with information for the module being adjusted.
BLK>	IMF 05 BMF 17

REQ54 Field Name	Input
CASE-STC-CD>	C
IRS-RCVD-DT>	*, indicating current date
CTRL_CAT>	IRRQ
TC>	290
AMT>	.00
SRCE-CD>	0
RSN-CDS>	065
HOLD-CD>	0
CD>	707
AMT>	5% of IRC 965(i) amount not reported
SOURCE-DOC-ATTACHED>	N
REMARKS>	965(i) 5% FTR PENALTY

- (4) Leave a history on AMS, indicating a five percent failure to report IRC 965(i) liability was assessed with PRC 707.

Note: The 5% failure to report penalty does not have a reasonable cause exception. If assessed, the only reason for abatement would be if the taxpayer can show proof that the liability was indeed reported timely. Amended returns filed after the due date of the return (including extensions) are not an acceptable reason for abatement of the penalty.

Note: If penalty was assessed on an amount of X and that amount is later determined (through an audit, verified amended return, ...) it should have been Y, penalty can be adjusted to reflect the new accurate amount that was not timely reported. If Y is larger than X, penalty would be increased. If Y is smaller than X penalty can be reduced.

Note: When 5% penalty is assessed for failure to report IRC 965(i) liability, Input TC 971 AC 165 for amount deferred, see IRM 5.19.26.5.4 (4) Note.

5.19.26.7
(11-14-2023)
**Consent Agreement
Case Processing**

- (1) This section addresses procedures relating to the review and input of Consent agreement case information into Tax Reform Initiative_ SharePoint inventory tracker and acknowledgement of consent agreement.

5.19.26.7.1
(11-14-2023)
**Inventory Consent
Tracker Information Log**

- (1) Consent agreement Inventory tracker is located in the *Tax Reform Initiative_ 965(h) SharePoint site*. (Only campus compliance employees assigned to the 965 team have access).
- Enter consent agreement information and attach a scanned copy of the agreement into the consent tracker folder.

- Review consent transfer agreement for completeness. Complete and attach a *Consent Transfer Agreement Checklist* to the SharePoint case folder for each case that is not filed with a Form 965-E. Consent Agreement Checklist is optional for agreements filed with Form 965-E.

5.19.26.8
(11-14-2023)
**Processing Subsequent
Liability Payments**

- (1) This section addresses procedures relating to reducing the balance due on joint and several transfer agreement liabilities. On modules with a TC 971 AC 507, a transcript will generate and be sent to AMS at CSCO Brookhaven when the following post:

- Payments
- Credit offsets or reversals
- TC 29X
- Module reaches MF status 12

Note: Payments posted to MFT 82 or MFT 83 will hold on account. No refunds or offsets will post systemically.

5.19.26.8.1
(11-14-2023)
Input TC 767 CRN 263

- (1) A TC 767 CRN 263 is required on an account where a IRC 965 liability payment posts, to reduce the amount of the TC 766 CRN 263 (deferral).
- (2) Payments that post as a TC 670 DPC 64 will systemically generate a TC 767 CRN 263 to reduce the TC 766 CRN 263 deferral amount.
- (3) If the TC 767 CRN 263 fails to post systemically, or if the payment does not post as a TC 670 DPC 64, manual input of TC 767 CRN 263 to reduce the TC 766 CRN 263 deferral amount is required.

Note: A systemic TC 767 CRN 263 does not generate on MFT 82 or MFT 83, adjustment must be input manually.

- (4) Use CC REQ54/ADJ54 to complete an IRC 965 transition adjustment (TC 76X CRN 263) as follows:

REQ54 Field Name	Input
1. EIN 2. MFT> 3. TX-PD> 4. NM-CTRL>	These fields should auto-populate, if not, manually input appropriate data for each field with information for the module being adjusted.
BLK>	MFT 02 = 15, MFT 05 = 17, IMF = 05
INTCMP-DT>	Interest Computation Date will be the date of the payment, or the due date of the installment, whichever is earlier. Use only when making an adjustment with a TC 298.
CASE-STS-CD>	C

REQ54 Field Name	Input
IRS-RCVD-DT>	*, indicates current date
CTRL-CAT>	IRRQ
RET-PROC-DT>	Use instead of interest computation date, only when inputting a TC 290 (see TC) adjustment to an MFT other than 82/83 using return processing date, otherwise leave blank.
OVERRIDE-CD>	S, only if the RSED date is in the past. I (upper case i) only if the INTCMP-DT is in the future.
RFSCDT>	RSED Date (MMDDYYYY) only input on TC 290 adjustments when the RSED date is in the past.
TC>	298 (or 290 if 766/767 adjustment will carry the return due date on MFTs other than 82 & 83).
AMT>	.00
SRCE_CD>	IMF 3, BMF blank.
RSN_CDS>	For MFT's other than 82/83; IMF 050 and 190 BMF 192 When inputting adjustment on MFT 82/83; 191 if XREF TIN is IMF 192 if XREF TIN is BMF
HOLD_CD>	4 MFT's other than 82/83, 3 on MFT 82/83.
PRT-CD>	MFT 82/83 use priority code 1, Also use PC 1 if attempting to post to a BMF module where an unreversed TC 766 CRN 337 plus an active 57 hold (TC 570) are present.
PSTNG-DLAY-CD>	If inputting a TC 971 AC 114 or AC 507 at the same time use posting delay code of 1, otherwise it is not required.
XREF-TIN>	On MFT 82/83 xref tin is required (transferor TIN).
CD>	263

REQ54 Field Name	Input
AMT>	Amount of payment/overpayment, when inputting a TC 767 CRN 263, input the amount with a minus (negative). Example: CRN 263 for 1,000.00- will generate a TC 767 for \$1,000.00. No credit bar will generate a TC 766. Caution: On BMF modules, amount of TC 767 cannot exceed the amount of any one un-reversed TC 766 amount.
SOURCE-DOC-ATTACHED>	N
REMARKS>	Net 766/767 adjustment

5.19.26.8.2
(11-14-2023)
**Cross-Reference
Payments**

- (1) When payments or credits post to an account with transfer agreement (TC 971 AC 507), cross-reference the available amount to the applicable joint and severally liability account. Payments and credits are cross-referenced using TC 290 \$.00 and CRN 337 with AMT> of credit being cross referenced.

Note: Cross-referenced payments and credits will post to Master file as TC 766 CRN 337. You must manually input a TC 767 CRN 263 to reduce the TC 766 CRN 263 amount.

- (2) TC 766 CRN 337 is input on IMF module as follows, using CC REQ54/ADJ54:

REQ54 Field Name	Input
1. EIN 2. MFT> 3. TX-PD> 4. NM-CTRL>	These fields should auto-populate, if not, manually input appropriate data for each field with information for the module being adjusted.
BLK>	05
CASE_STS-CD>	C
IRS-RCVD-DT>	*, indicates current date.
CTRL-CAT>	COLL
RET-PROC-DT>	Payment date (MMDDYYYY)

REQ54 Field Name	Input
OVERRIDE-CD>	S, only needed if the RSED date is in the past.
RFSCDT>	RSED Date (MMDDYYYY), only needed if the RSED date is in the past.
TC>	290
AMT>	.00
SRCE-CD>	1
RSN-CDS>	150
HOLD-CD>	3
PRT_CD>	9
CD>	337
AMT>	Amount of payment Caution: Input an ending – (credit bar) if inputting a TC 767 CRN 337 to reverse a previously posted TC 766 CRN 337.
CD>	992

REQ54 Field Name	Input
AMT>	<p>XREF TIN input as follows:</p> <ul style="list-style-type: none"> The 11-digit CRN 992 amount field will carry the File Source, TIN Type and the TIN number in that order, using all 11 digits available in the ABST-AMT field. The first digit will be the File Source code (use the existing Files source values: 1 for IMF and 2 for BMF). The second digit will be the TIN type (0 for valid SSN account, 1 for invalid SSN account and 2 for EIN). The next 9 digits will be the TIN number (it can be SSN or EIN). IDRS will not allow the input of CRN 992 if the File source is other than 1 or 2 or TIN type is greater than 2. AMT must be input in dollar and cents format with commas and decimal. 10X,XXX,XXX.XX (SSN) 22X,XXX,XXX.XX (EIN) <p>Example: XREF TIN is a BMF EIN The following adjustment is input via ADJ54, TC 290 \$.00 CRN 337 \$3,500.00 and CRN 992 \$221,234,567.89. IMFOL will display, Ref 337 AMT \$3,500 BEIN 12-3456789.</p>
SOURCE-DOC-ATTACHED>	N
REMARKS	XREF 965 PAYMENT

- (3) TC 766 CRN 337 is input on BMF module as follows, using CC REQ54/ADJ54:

REQ54 Field Name	Input
1. EIN 2. MFT> 3. TX-PD> 4. NM-CTRL>	These fields should auto-populate, if not, manually input appropriate data for each field with information for the module being adjusted.
BLK>	00
CASE_STS-CD>	C
IRS-RCVD-DT>	*, indicates current date
CTRL-CAT>	COLL
RET-PROC-DT>	Payment date (MMDDYYYY)
OVERRIDE-CD>	S, only needed if the RSED date is in the past.
RFSCDT>	RSED date (MMDDYYYY), only needed if the RSED date is in the past.
TC>	290
AMT>	.00
SRCE-CD>	leave blank
RSN-CDS>	191 If X-ref TIN is IMF 192 if X-ref TIN is BMF
HOLD-CD>	0
PRT_CD>	Use PC 1 if attempting to post to a module where an unreversed TC 766 CRN 337 plus an active 57 hold (TC 570) are present.
CD>	337
AMT>	Amount of payment Caution: Input an ending – (credit bar) if inputting a TC 767 CRN 337 to reverse a previously posted TC 766 CRN 337.
SOURCE-DOC-ATTACHED>	N
REMARKS	XREF 965 PAYMENT

Caution: If a posted TC 766 CRN 337 needs to be reversed, the transaction must be reversed in whole. Netting is not allowed.

Example: A TC 766 CRN 337 was input in error for \$10,000.00. Payment/Credit being cross referenced was only \$1,000.00. To correct, input a TC 290 \$.00 and CRN 337 with AMT> \$10,000.00- (credit bar will cause the transaction to post as a TC 767 CRN 337). Also input corrected TC 290 \$.00 and CRN 337 with AMT> \$1,000.00.

(4) Update database (965(h) SharePoint) with next installment due date.

5.19.26.8.3
(11-14-2023)
**Multiple Transferor
Assessment Cases**

(1) When a transferee with multiple assessments makes a “lump sum” payment, the payment must be split between the transferors for cross-reference.

Example: Transferee has three assessments:

- TC 298 for transferor A, with 4th installment amount of \$3,247.00
- TC 298 for transferor B, with 4th installment amount of \$1,558.00
- TC 298 for transferor C, with 4th installment amount of \$184,443.00
- Transferee makes a lump sum payment of \$189,248.00 for the fourth installment payment of each IRC 965 liability.
- Cross reference payment to each transferor in the amount of each installment balance due using TC 766 CRN 337.

(2) When the lump sum payment amount is in excess of the amount due, and is not designated as to which liability it is to be applied to, determine the split of the excess amount by dividing the amount by the number of transferors.

Example: Using the same transferor’s and amounts from above. Transferee makes a lump sum payment of \$200,000.00 for the fourth installment payment of each IRC 965 liability. Payment is greater than all three installment amounts combined.

- $\$200,000.00 - \$189,248.00$ (total of all three installment amounts) = \$10,752.00
- $\$10,752.00 \div 3 = \$3,584.00$. Overpayment amount can be divided equally between all transferor’s
- Transferor A would receive \$6,831.00 of the \$200,000.00 payment. ($\$3,247.00 + \$3,584.00$)
- Transferor B would receive \$5,142.00 of the \$200,000.00 payment. ($\$1,558.00 + \$3,584.00$)
- Transferor C would receive \$188,027.00 of the 200,00.00 payment. ($\$184,443.00 + \$3,584.00$)
- $\$6,831.00 + \$5,142.00 + \$188,027.00 = \$200,000.00$

(3) When the lump sum payment amount is less than the amount needed to full pay all installments, pay the installment with the earliest due date first. If there are multiple installments with the same due date, divide the payment amount by the number of transferor installments to be paid. If the division of the payment split equally between transferors is in excess of any one installment amount, apply the excess of that split to the remaining transferors.

Example: Using the same transferor’s and amounts from above. Transferee makes a lump sum payment of \$180,000.00 for the forth installment payment of each IRC 965 liability. Payment is less than all three installment amounts combined.

- $\$180,000.00 \div 3 = \$60,000.00$
- Determine the split of the payment by starting with the lowest amount due first
- $\$60,000.00$ is greater than transferor A 4th installment due of $\$3,247.00$ ($\$56,753.00$ in excess)
- Calculate the remaining amount to be split between the remaining transferors. $\$180,000.00 - 3,247.00 = \$176,753.00$ (2 transferors remaining)
- $\$176,753.00 \div 2 = \$88,376.50$
- Next lowest amount due is transferor B
- $\$88,376.50$ is greater than transferor B 4th installment due of $\$1,558.00$. ($\$86,818.50$ in excess)
- Apply the entire remaining balance of payment ($\$180,000.00 - \$3,247.00 - \$1,558.00 = \$175,195.00$) to transferor C

Note: Since transferor C 4th installment is not full paid, acceleration process must be started on the transferor C and transferee.

- (4) Update database (965(h) SharePoint) with next installment due date, and close case on AMS.

5.19.26.9
(11-14-2023)
**Acceleration
Determination**

- (1) This section addresses procedures relating to determining if an event has occurred requiring acceleration of the unpaid portion of the remaining IRC 965(h) installments. Reasons for acceleration include:
- IRC 965(h) installment payments are not timely (FTP assessed),
 - Transfer of IRC 965(h) liability is invalid, missing, or incomplete transfer agreement (referred by exam),
 - Other triggering events identified through coordination with exam counterparts.

5.19.26.9.1
(11-14-2023)
**Possible Acceleration
Listing**

- (1) HQ will filter CDDDB (Custodial Detail Database) extract provided by CFO of potential acceleration accounts. Cases are loaded into AMS for distribution to TEs for review. Work includes:
- Accounts with misapplied payments/credits that can be moved to resolve the case discrepancy,
 - Accounts where an adjustment to the net TC 766, 767, CRN 263 (deferral amount) is required to resolve case discrepancy,
 - Accounts that require acceleration due to nonpayment, late payment, or payments that have refunded or offset.

5.19.26.9.2
(11-14-2023)
Research Path

- (1) Research includes EUP (Employee User Portal) to review accuracy of IRC 965 transactions. Ensure there is a posted TC 971 AC 114 and the appropriate TC 766 CRN 263 amounts posted.
- Taxpayers are required to report the net tax liability and any deferred amount on specific income tax return lines,
 - If a paper tax return is filed by the taxpayer, attempt to use IDRS command codes (i.e. TRDBV) to research the entries. It may be necessary to request the tax return from files,
 - Taxpayers were given specific IRC 965 tax return reporting instructions for 2017 and 2018, which are provided in *Questions and Answers about*

Reporting Related to Section 965 on 2017 Tax Returns and Questions and Answers about Tax Year 2018 Reporting and Payments Arising under Section 965.

- (2) **IMF Account with an IRC 965(h) Election** IRM 3.12.37.29, *Section 965 Processing*. IRC 965 inclusions and elections could be identified on 2017-2019 returns as follows:

IRC 965 Reference Item	Line Number
Taxpayer will report IRC 965 income on:	2017 , Schedule 1, Line 21 Form 1040. 2018 , Schedule 1, Line 21 Form 1040. 2019 , Line 8 Form 1040.
Taxpayers will pay IRC 965 tax on:	2017 , Line 44 Form 1040. 2018 , Line 11a Form 1040. 2019 , Line 12a Form 1040.
Taxpayers may or may not defer a portion of IRC 965 tax (TC 766 CRN 263 amount) on:	2017 , Line 73(d) Form 1040. 2018 , Line 74(d) Schedule 5 Form 1040. 2019 , Line 13d Schedule 3 Form 1040.
IRC 965 transition statement is required to be attached (2017 returns only).	Line 5 of the transition statement is the total IRC Section 965 tax liability (TC 971 AC 114).

- (3) **BMF Account with an IRC 965(h) Election** IRM 3.14.2.7.5(9, 10, 11), *Notice Review, IRC 965 Transition Tax Overview* provides BMF reporting instructions for each tax type (Form 1120S, Form 1065, Form 1041, Form 1120, Form 1120PC, Form 1120L, Form 1120 REIT, Form 1120 RIC, and Form 990 T). Form 1120 is the most common BMF IRC 965(h) election tax return.

Location of 965 election for BMF accounts

BMF Form	Location of IRC 965 Tax Deferred Pursuant to IRC 965(h) Reported on BMF Form	Location of IRC 965 Total Tax Reported on BMF Form
IRC 965 Transition Tax Statement (2017 returns only).	IRC 965(h) Deferred Tax reported on Line 6.	IRC 965 Total Tax reported on Line 5.
Form 1120	Page 3, Schedule J, Part II, Line 19d.	Page 3, Schedule J, Part 1, Line 11.

BMF Form	Location of IRC 965 Tax Deferred Pursuant to IRC 965(h) Reported on BMF Form	Location of IRC 965 Total Tax Reported on BMF Form
Form 1041 965(h) election (Form 1041 where Net IRC 965 amount was not distributed to the beneficiary and an IRC 965(h) election was made)	Page 1, Line 24a.	Page 2, Schedule G, Line 7.

(4) Check for freeze codes.

- a. If module has any of the following freeze codes, do not accelerate, notate on AMS and IDRS accordingly.

Freeze Code	Definition
-C	Combat Zone
-Z	Criminal Investigation
-R	Refund frozen (only TC 971 502 or 506 ID Theft)

- b. If there is a -L freeze for an open exam, and the case appears ready to accelerate otherwise, accelerate using priority code 1 on REQ54 to bypass unpostable condition.
- c. If there is a -A freeze showing an amended return (TC 971 010), place control in B status and accelerate if the case is ready otherwise.

(5) If during review of possible acceleration cases it is determined that acceleration is not necessary, due to errors on the account, account must be corrected. Corrections to accounts are typically necessary because of incorrect TC 971 AC 114 amounts, or incorrect TC 766, TC 767, CRN 263 amounts, or misapplied payments.

5.19.26.9.3
(11-14-2023)

Analyzing Payments on Account

(1) **No Payment / Insufficient Payment**

- If installment payment(s), or current installment due, have not been paid, or an installment payment was made in part but not in full (see note), and the account is clean (no erroneous penalty or interest assessed, TC 971 AC 114, TC 766 CRN 263, and TC 767 CRN 263 amounts correct), proceed with acceleration procedures. If the account is not clean, make corrections to the account prior to initiating acceleration procedures.

Note: Apply a 7 calendar day grace to payments when analyzing the account.

(2) **Installment Full Paid, Late**

- If installment payment(s) have been paid in full, but late (beyond the due date of the installment payment), proceed with acceleration procedures.

Note: Apply 7 calendar day grace when determining payment timeliness.

Exception: IMF taxpayers who had an IRC 965(h) tax liability of less than 1 Million for 2017 were provided relief. If their first and second installment payments were paid by the 2018 RDD (Return due date), their account is considered in good standing.

(3) Payment posted on incorrect tax period

- If an installment payment is missing, review previous, subsequent, and current tax periods for possible miscoded and/or misapplied IRC 965 payments. Typically, payment will post as a TC 670 DPC 64, however it could post without the DPC or as another transaction. If it is a transfer agreement case, research the transferee as well as the transferor. Review AMS to determine if an amended return or correspondence relating to IRC 965 was received. Review RTR and or EFTPS to determine if payment should have been DPC 64.
- If payment is posted to another tax period and you can clearly identify it was intended to pay IRC 965 tax, and payment has not refunded or offset, Credit transfer the payment to the tax period of the IRC 965(h) liability as a DPC 64 payment, after any corrections to the module have been done, using command code ADD24 / DRT.
- If misapplied payment is located, and has refunded or offset to another liability, and the account is not whole, begin acceleration process.

Note: A clearly identified payment is defined as:

If	Then
DPC 64 payment is on a module that does not have an IRC 965 liability,	Follow taxpayers' intent and move payment.
Payment amount matches installment amount or installment balance due and review of RTR or EFTPS indicates it should have been designated 965,	Follow taxpayers' intent and move payment.
Payment amount matches installment amount or installment balance due, is not designated and will not leave a balance due on the module where it is posted,	Move payment.

If	Then
Payment is not designated and will leave a balance due on the module where it is posted,	Do not move payment, correspond with taxpayer, if taxpayer approves of moving the payment and creating a balance due on another module then payment can be moved.
Review of AMS history indicates payment was intended for IRC 965 liability,	Move payment.

- (4) Credit transfer of misapplied payments can be transferred by overlaying TXMODA with ADD24 then DRT24 will display. Input Debit side as below:

DRT24 Field Name	Input
DRT24	TIN where payment/credit is posted.
MFT>	MFT of module where payment/credit is posted.
TX-PRD>	Tax period of module where payment/credit is posted.
RPN>	000
NM-CTRL>	Name control of module where payment/credit is posted.
TRANS-DT>	Date of payment/credit being moved.
TC>	TC reversal code for payment/credit Example: 672, 612, 652, 702.
AMT>	Amount of payment/credit to be moved, include commas and decimals.
REVERSE-DPC>	64 Note: Match the DPC code to original payment/credit, if there is not a DPC on the original payment/credit on IDRS then leave blank.
CASE-STS-CD>	C
IRS-RCVD-DT>	*, indicates current date.
CTRL-CAT>	IRRQ

DRT24 Field Name	Input
ACTIVITY>	CRED-TRANS

(5) Input credit side as below:

DRT24 Field Name	Input
TIN and File Source	TIN were payment/credit is going.
MFT>	MFT of module where payment/credit is going.
TX-PRD>	Tax period of module where payment/credit is going.
RPN>	000
NM-CTRL>	Name control of module where payment/credit is going.
TRANS-DT>	<p>Date of payment/credit being moved.</p> <p>Note: Typically this date will match the TRANS-DT> field from debit side of credit transfer, however, If moving a credit and the original date of the payment/credit is needed to make the IRC 965 module current refer to IRM 21.5.8.4.2(2), <i>Determining Correct Credit Transfer Format</i>.</p>
TC>	<p>TC reversal code for payment/credit,</p> <p>Example: 672, 612, 652, 702.</p>
CASE-STC-CD>	C
IRS-RCVD-DT	*, indicates current date.
CTRL-CAT>	IRRQ
ACTIVITY>	CRED-TRANS

DRT24 Field Name	Input
BYPASS-IND>	0, Note: Use Bypass Indicator of 1 when attempting to post DPC 64 to a settled module (IDRS Master File Status 12).
REMARKS>	965 CASE/MISAPPLIED PAYMENT

- (6) Requirements established and included in DRT24, Transactions allowed on MFT 82 and MFT 83, TC 670, 680, 690, 700 and 822 on the Credit side. Secondary TC 360 will also be allowed. TCs 671, 672, 681, 682, 691, 692, 702 and 820 on the Debit side. Secondary TC 280 will also be allowed.

Caution: If using IAT Credit Transfer Tool to complete the transfer of a DPC 64 payment, manually add “64” to the “Reverse DPC” field on the debit side of the transfer. The DPC 64 must be input on both the credit and debit side of the transfer to prevent it from unposting.

- (7) Current IDRS programming systemically posts a TC 767 CRN 263 when a TC 670 DPC 64 payment posts on an IRC 965 inclusion module, using payment date as the date of the TC 767 CRN 263.
- A systemic TC 767 CRN 263 does not generate on MFT 82 or MFT 83, adjustment must be input manually.
 - TC 767 CRN 263 must carry the earlier of the date of the payment, or the due date of the installment. Unless there is assessed interest on the module, then the TC 767 CRN must carry the installment due date. If either the payment date and/or installment due date is in the past, use the installment due date.
 - TC 767 CRN 263 operates as a debit in the module to reduce the amount of the IRC 965(h) tax deferral (TC 766 CRN 263). If DPC 64 payment date is subsequent to the installment due date, reverse the systemically posted TC 767 CRN 263 with the payment date and input a new TC 767 CRN 263 with the installment due date.

Example: Installment of \$500.00 is due 4/15/19. TC 670 DPC 64 payment of \$500.00 is received on 4/25/19, which created systemic posting of TC 767 CRN 263 dated 4/25/19 (which is incorrect).

Input the following adjustments to correct interest computations:

- TC 298 .00 interest computation date 4/25/19 TC 766 CRN 263 \$500.00 to reverse the posted TC 767 CRN 263. Use HC 4
- TC 298 .00 interest computation date 4/15/19 TC 767 CRN 263 \$500.00

Note: Source document a copy of the adjustment.

5.19.26.10
(11-14-2023)

Processing Acceleration Cases

- (1) This section addresses procedures relating to initiating the acceleration of the unpaid portion of the remaining IRC 965(h) installment(s). Procedures include determining reason for acceleration, sending appropriate letter based on reason for acceleration, monitoring for timely response to correspondence, determining if there is reasonable cause for failure to timely pay installment, and inputting transactions to reverse IRC 965(h) deferral.

Reminder: Before accelerating a case, you must ensure TC 971 AC 114 and TC 766 CRN 263 amounts are correct. Additionally, if accelerating a transfer agreement case, with rare exception you must accelerate both the transferor and the transferee at the same time.

- (2) Acceleration based on failure to timely pay an installment, (which is the most common type of acceleration) will be accelerated with Letter 6154, *Notice of Intent to Accelerate*. This provides the taxpayer an opportunity to make payment and ask for relief of failure to pay penalty before account is accelerated.

5.19.26.10.1
(11-14-2023)

Issue IRC 965(h) Letter 6154, Notice of Intent to Accelerate

- (1) Create and send pdf version of Letter 6154 as the first notice for missing or late installment payments. In addition to normal header information the Letter 6154 must include:
 - Number of installment payment(s) paid late or missed,
 - Due date of installment payment(s) paid late or missed,
 - Date each installment was paid,
 - Amount of installment paid, if installment was paid in full use the full installment amount, if the installment was paid in part, use the partial amount,
 - Amount required to bring installment up to date, if installment was paid in full but late, this amount would be \$0.00,
 - Calculated interest on IRC 965(h) installment amount(s) due, CC COMPA from installment due date to date of Letter 6154. Interest on late but full paid installments will typically be calculated and posted on the module.

Note: If multiple payments / credits have been applied to pay an installment, do not list each and every credit. Use only installment due date (if timely) or last payment / credit date (if not timely) and total amount (full or partial installment amount paid.)

Example: Taxpayer has an IRC 965(h) net tax liability, the 1st through 5th installment amounts are \$100,000.00 each (8% of 971/114), RDD is 4/15/2018. If the taxpayer made the 1st and 2nd installment but only a portion of the 3rd. List the 1st installment due date 4/15/2018, (or the date installment was full paid if after the due date), and the installment amount \$100,000.00 as the amount paid, then the 2nd installment due date 4/15/2019, (or the date installment was full paid if after the due date), and the installment amount \$100,000.00 as the amount paid. Then the 3rd installment due date 7/15/2020, (or the date the partial payment was made, if after the due date), and the partial amount paid as the amount paid.

5.19.26.10.2
(11-14-2023)
**Monitor Case for Timely
Response to LTR 6154**

- (2) If Letter 6154 is returned as undeliverable, research IDRS to locate a different address, if no other address is found, proceed with acceleration.

- (1) Letter 6154 allows the taxpayer 30 days to respond with their installment payment plus interest and show reasonable cause for failure to timely pay the required installment.
- (2) Attach a copy of Letter 6154 to the case file in SharePoint and establish an open control on module for monitoring case 45 days after the issuance of the letter.
- (3) Leave history item on IDRS - L6154 and history on AMS. Monitor weekly age listing and incoming correspondence for responses to outgoing letters. Review correspondence to determine if reasonable cause exists.

5.19.26.10.3
(11-14-2023)
**Reasonable Cause
Determination**

- (1) Information provided here does not supplant the guidance provided in the IRM. All employees need to be familiar with Reasonable Cause criteria provided in IRM 20.1.1.3, *Criteria for Relief from Penalties*.
- (2) Per Policy Statement 3-2, any reason for delinquency in making deposits or payments which established that the taxpayer exercised ordinary business care and prudence but was nevertheless unable to comply within the prescribed time will be accepted as reasonable cause.
- (3) Policy Statement 3-2 provides that the following examples of sound causes will be accepted as reasonable cause for failure to comply with a payment requirement:
- Death or serious illness of the taxpayer or a death or serious illness in the taxpayer's immediate family,
 - Unavoidable absence of the taxpayer,
 - Destruction by fire or other casualty of the taxpayer's place of business or business records,
 - Taxpayer was unable to determine the amount of deposit or tax due for reasons beyond their control,
 - Taxpayer was unable to comply due to being materially impaired by civil disturbances,
 - Any reason for delinquency making deposits or payments which established that the taxpayer exercised ordinary business care and prudence but was nevertheless unable to comply within the prescribed time will be accepted as reasonable cause.
- (4) While this general guideline applies to a period of time prior to and including the payment due date, keep in mind that in IRM 20.1.1.3.2, *Reasonable Cause*, it states "Reasonable cause does not exist if, after the facts and circumstances that explain the taxpayer's noncompliant behavior cease to exist, the taxpayer fails to comply with the tax obligation within a reasonable period of time."
- (5) Whenever possible, you are encouraged to use the RCA (Reasonable Cause Assistant) program when determining if a penalty can be removed. Additional information on RCA can be found in IRM 20.1.1.3.6, *Reasonable Cause Assistant (RCA)*.

5.19.26.10.4
(11-14-2023)

Special Consideration

- (1) Due to late enactment of the law pertaining to these installments and other common circumstances, when a taxpayer requests abatement of the FTP penalty, employees working in the Section 965 program may use the following If/Then chart below. If the penalty abatement request was received prior to assertion, follow IRM 20.1.1.3.5.2, *Taxpayer Entitled to Relief*. Reasonable cause for failure to pay the section 965(h) installment may exist at the same time where there is no reasonable cause for failure to pay the tax not related to section 965(h). Reasonable cause must be considered separately with respect to each portion of the total tax liability. Acceleration of payments under section 965(h) election occurs in the case of a failure to timely pay a section 965(h) installment without reasonable cause.

Caution: FTA (First Time Abate) is not available for failure to pay section 965 tax installments. Lack of funds in itself is not reasonable cause for failure to pay. Insolvency in itself is a trigger for acceleration.

IF	THEN
Taxpayer explains how the late enactment and lack of IRS guidance prevented timely payment of the correct first section 965(h) installment amount due in 2018.	Remove the FTP penalty using a TC 271 for the full amount attributable to the late installment, including accruals. Use RC 062 and PRC 030. Send a letter to the taxpayer advising them the penalty is being removed and that payment of the remaining installments will not be accelerated.
Taxpayer claims the late enactment and lack of IRS guidance prevented timely payment of any section 965(h) installment due after 2018.	Reject the penalty abatement request unless there are additional reasons (see below in this chart). Follow instructions in IRM 20.1.1.3.5.3, <i>Taxpayer Not Entitled to Relief</i> .
Taxpayer is able to show the section 965(h) tax installment was late because of difficulty in transferring funds from a foreign source, and that the difficulty could not reasonably have been anticipated.	Remove the FTP penalty using a TC 271 for the full amount attributable to the late installment, including accruals. Use RC 062 and PRC 030. Send a letter to the taxpayer advising them the penalty is being removed.
Any other reason not listed above. Note: Reasons other than those above will generally apply to the entire tax liability, and not only the section 965(h) installment.	Follow guidance in IRM 20.1.1.3, <i>Criteria for Relief From Penalties</i> . Employees are encouraged to use the RCA program if available IRM 20.1.1.3.6, <i>Reasonable Cause Assistant (RCA)</i> .

5.19.26.10.5
(11-14-2023)
Acceleration

- (1) After monitoring for 45 days (LTR 6154 accounts), if correspondence has not been received, research all accounts again for a potential payment that may have been recently sent to the IRS.
 - If a payment is found that matches request from LTR 6154 and is available for credit transfer, move the money to IRC 965(h) inclusion year.
 - If there is “no reply” to the LTR 6154 or no reasonable cause requested, the account will be accelerated.

Note: Taxpayers must show reasonable cause for a late or missing installment payment. Even if taxpayer makes the payment requested by the LTR 6154, they must show reasonable cause or be accelerated. Always review AMS history to determine if reasonable cause has been requested and / or granted, or if correspondence has been received from taxpayer by another area.
- (2) To accelerate a module, input a TC 298 .00, CRN 263 reversing entire remaining deferral amount (this transaction will post on IDRS as a TC 767 CRN 263). Remaining deferral amount will be equal to the maximum deferral amount for the last installment due, or less if overpaid, (see note) interest computation date will be projected 23C date for posting transaction (see Document 6209, *Section 16 - Julian Date, Cycle and Notice Calendars*.) Use hold code 0 with this transaction so that FTP penalty and interest will be included in the notice for the late installment amounts, along with the full remainder of the deferred IRC 965(h) tax.

Note: If there are multiple installments that were late or unpaid that were not previously processed with a TC 767 CRN 263, input the deferral reversal (TC 767 CRN 263) for each installment payment prior to reversing the entire remaining deferral amount. Also input TC 767 CRN 263 for any installment payment with a due date that is prior to the 23C date for the transaction to reverse entire remaining deferral amount. Refer to below table showing installment number, due date, installment amount, and maximum deferral amounts for the following examples.

Installment amounts

Installment Number	Installment Due Date	Installment Amount	Maximum deferred amount for Installment Due Date
1st	04/15/2018	\$800.00	\$9,200.00
2nd	04/15/2019	\$800.00	\$8,400.00
3rd	04/15/2020	\$800.00	\$7,600.00
4th	04/15/2021	\$800.00	\$6,800.00
5th	04/15/2022	\$800.00	\$6,000.00
6th	04/15/2023	\$1,500.00	\$4,500.00

Installment Number	Installment Due Date	Installment Amount	Maximum deferred amount for Installment Due Date
7th	04/15/2024	\$2,000.00	\$2,500.00
8th	04/15/2025	\$2,500.00	\$0.00

Examples

Example	Description of adjustment date	Input Action
No. 1 , 201712 IRC 965(h) tax was \$10,000.00. Deferred amount is \$6,800.00 (maximum deferral amount for the 4th installment due date,). 3rd and 4th installments of \$800.00 each, were missed. In this example, both missing installment payments 3 and 4 have been processed with a TC 767 CRN 263. Module needs only the entire remaining deferral amount accelerated.	Adjustment is input on 6/03/2021. Per doc 6209 2021 IDRS input table, transactions input on 6/03/2021 will have a 23C date of 6/28/2021.	TC 298 .00 interest computation date 6/28/2021 CRN 263 for \$6,800.00-. Use hold code 0. This adjustment will put the module into balance due for the remaining balance of the IRC 965(h) liability plus FTP penalty and interest. Module will fall into the normal collection stream.

Example	Description of adjustment date	Input Action
<p>No. 2, 201712 IRC 965(h) tax was \$10,000.00. Deferred amount is \$8,400.00 (maximum deferral amount for the 2nd installment due date,). 3rd and 4th installments of \$800.00 each, were missed. In this example missing installment payments 3 and 4 have not been processed with a TC 767 CRN 263, module needs adjustments for installment 3, 4, and remaining deferral amount.</p>	<p>Adjustments are input on 6/03/2021. Per doc 6209 2021 IDRS input table, transactions input on 6/03/2021 will have a 23C date of 6/28/2021.</p>	<p>TC 298 .00 interest computation date 4/15/2020 CRN 263 for \$800.00-, this will reduce the deferral amount down to \$7,600.00 (maximum deferral amount for this installment due date.)</p> <p>TC 298 .00 interest computation date 4/15/2021 CRN 263 for \$800.00-, this will reduce the deferral amount down to \$6,800.00 (maximum deferral amount for this installment due date.)</p> <p>TC 298 .00 interest computation date 6/28/2021 CRN 263 for \$6,800.00-, this will reduce the deferral amount down to \$0.00, making the entire IRC 965(h) liability, FTP and interest due immediately. Module will fall into the normal collection stream.</p>

Example	Description of adjustment date	Input Action
<p>No. 3, 201712 IRC 965(h) tax was \$10,000.00. Deferred amount is \$8,400.00 (maximum deferral amount for the 2nd installment due date,) 3rd and 4th installments of \$800.00 each, were missed. In this example missing installment payments 3 and 4 have not been processed with a TC 767 CRN 263.</p>	<p>Adjustments are input on 4/13/2022. Per doc 6209 2022 IDRS input table, transactions input on 4/13/2022 will have a 23C date of 5/02/2022. Note that the installment due date for installment 5 (4/15/2022) is prior to the 23C date for the transaction needed to reverse entire deferral amount (5/02/2022).</p>	<p>TC 298 .00 interest computation date 4/15/2020 CRN 263 for \$800.00-, this will reduce the deferral amount down to \$7,600.00 (maximum deferral amount for this installment due date.)</p> <p>TC 298 .00 interest computation date 4/15/2021 CRN 263 for \$800.00-, this will reduce the deferral amount down to \$6,800.00 (maximum deferral amount for this installment due date.)</p> <p>TC 298 .00 interest computation date 4/15/2022 CRN 263 for \$800.00-, this will reduce the deferral amount down to 6,000.00 (maximum deferral amount for this installment due date.)</p> <p>TC 298 .00 interest computation date 5/02/2022 CRN 263 for \$6,000.00-, this will reduce the deferral amount down to \$0.00, making the entire IRC 965(h) liability, FTP and interest due immediately. Module will fall into the normal collection stream.</p>

Note: When inputting transactions with an interest computation date in the future, input an "I" in the Override -CD on ADJ54 input screen.

(3) TC 767 CRN 263 adjustments will unpost if:

- On a BMF module the TC 767 CRN 263 exceeds any one unreversed TC 766 CRN 263 amount.
- On an IMF module the total TC 76X CRN 263 (Net deferral amount) plus the adjustment 767 CRN 263 amount is greater than the TC 971 AC 114 amount.

Example: Total deferred amount is \$603,775.00. The BMF module has the following 76X transactions posted:

- TC 766 CRN 263 4/15/2018 \$498,269.00-
- TC 766 CRN 263 4/15/2018 \$53,004.00-
- TC 766R CRN 263 4/15/2018 \$69,668.00-
- TC 767 CRN 263 4/15/2019 \$69,668.00
- TC 766 CRN 263 4/15/2018 \$52,502.00-

Note: In order to reverse the entire deferred amount of \$603,775.00, three adjustments would be required, as there are three unreversed TC 766 CRN 263 transactions posted on the module that equal the entire deferred amount.

- (4) Leave history item on IDRS "965 Accel" and history on AMS. Update SharePoint case status to "Acceleration Pending", monitor module for the deferral adjustments to post leaving the deferral amount at \$0.00, at which time the SharePoint case status will be updated to "Deferral Reversed". Also ensure the "Unpaid 965" amount is updated on SharePoint.

5.19.26.11
(11-14-2023)

Correspondence

- (1) This section addresses procedures relating to correspondence regarding transfer agreements and/or acceleration cases.
- (2) Retrieve correspondence via, e-mail, voice mail, and e-Fax. e-mail appropriate employee Form 4442, *Inquiry Referral* can be used.
- (3) Report time and volume of correspondence under OFP 61523 for correspondence regarding transfer agreements or OFP 61524 for correspondence regarding acceleration cases.
- (4) Use the following resources for assistance in corresponding with taxpayers:
 - IRM 21.1.3.2.3, *Required Taxpayer Authentication*
 - IRM 21.1.3.2.4, *Additional Taxpayer Authentication*
 - IRM 21.1.3.3, *Third Party (POA/TIA/F706) Authentication*

5.19.26.11.1
(11-14-2023)

Document Upload Tool (DUT)

- (1) The Document Upload Tool (DUT) is an application on IRS.GOV that will allow taxpayers to upload documentation that is requested or required of them to provide and transmit to the IRS during or shortly after their interaction (phone conversation or correspondence) Provide taxpayers or their representatives with a unique, one-time use access code along with a corresponding link to www.irs.gov/sendmyreply *Documentation Upload Tool | Internal Revenue Service | TPF* (irs.gov), to upload the required documents. Tax examiners must complete a BEARS request prior to gaining access to DUT. To generate the unique access code, the tax examiners must sign in to DUT using the following link: *Documentation Upload Tool | Internal Revenue Service | TPF* (irs.gov). Use of the DUT by Bargaining Unit employees is voluntary, but highly recommended.

Note: DUT website reminds the Taxpayer/POA of the following requirements when using DUT.

- The unique access code is valid ONLY for 70 days and for ONE use by the taxpayer
- The taxpayer may only upload scans, photos, or digital copies in the form of JPG, PNG, or PDF with a maximum file size of 15MB per file up to 40 files (120-page limit per file)
- the taxpayer must name their file before uploading and the file may not contain any special characters
- All required documents must be uploaded before pressing the submit button
- If the taxpayer/POA needs to upload additional documents after hitting the submit button, then they must contact the caseworker to request a new unique access code

Note: For a detailed description of DUT capabilities and features, please consult the *Document Upload Tool (DUT) Information Page for SB/SE Collection*.

5.19.26.12
(11-14-2023)
**Case File, Daily Work
Folder**

- (1) Completed case files will be deposited in team completed work file where they will be counted as completed inventory and reviewed. Transfer agreements that have been assessed are considered source documents and sent to files via Form 8485, after quality review.
- (2) Completed work could include adjustments based on cross referencing accounts, callbacks, loose correspondence, or credit transfers. Work will be separated into folders at the close of each day to be given to manager.
- (3) The below table outlines three types of folders.

Folder Type	Actions
<p>Destroy, cases that are classified waste can be placed in the destroy folder. Information is provided in IRM 21.5.1.4.10, Classified Waste. Information in this folder is not needed for legal or audit trail purposes.</p> <p>Caution: The following are examples of items that cannot be destroyed:</p> <ul style="list-style-type: none"> • Adjustments with a SD (Source Document), such as a transfer agreement • Correspondence requests for relief from penalties (either allowed or denied) • Credit transfer actions from an unrelated account 	<p>Indicate the following on the front of the destroy folder:</p> <ul style="list-style-type: none"> • DESTROY • IDRS number • Date • Number of documents in folder <p>For IRC 965 program, Classified Waste will include:</p> <ul style="list-style-type: none"> • Correspondence received • F4442 referrals from other areas • F4442 write ups from callbacks that were resolved in CSCO <p>X through the front of each piece of correspondence in destroy folder, indicate IDRS number, date and action taken on the document.</p>
<p>Adjustment, certain procedures need to be followed when paper documents are sent to files to be associated with an adjustment SD. The proper disposition of a case file is important, the SD may be pulled for audit trail purposes, court cases, or any other future review.</p>	<p>Daily adjustment folder label will include:</p> <ul style="list-style-type: none"> • IDRS number • Date • Category of source documents • Sequence numbers (e.g. 01-15), • Release date (Current date) <p>SD case folder will include:</p> <ul style="list-style-type: none"> • Transfer agreement mirroring account adjustment (TC 298)
<p>Other, includes items that cannot be destroyed, but don't need to be officially filed with a DLN of a return. They are sent to Files to be stored.</p>	<p>Items that fall into this category include:</p> <ul style="list-style-type: none"> • Taxpayer inquiries or background information resulting in a hard-core payment tracer. • Taxpayer inquiries or background information resulting in a credit transfer between non-related accounts or related accounts and the credit is not available.

- (4) At the end of the workday, ensure all folders are labeled correctly and bundled. Place in designated area for review. Manager has two days to review SD adjustments for quality. Completed folders will be sent to Campus Files within

seven days of input. If there is any delay, notify Files Management Unit of shipment delays. Send only adjustment and other folders to files area. The destroy folders will be reviewed and placed in classified waste.

5.19.26.13
(11-14-2023)
Account Corrections

- (1) During review of IRC 965(h) liability account it may be necessary to make corrections or adjustments to the account.
- (2) **TC 76X adjustments**
 - Input an adjustment to the account if the net deferral amount (total TC 76X amounts) is incorrect, for example, if the deferral amount is not equal to or less than the maximum deferral amount for the most recent installment due date. Use IRC 965 Tool, to assist in determining when an adjustment to 76X amounts is necessary.
 - If the net amount is less than the IRC 965 balance, input a TC 766 CRN 263.
 - If the net amount is greater than the IRC 965 balance, input a TC 767 CRN 263.

Note: Input of a TC 766 CRN 263 and a TC 767 CRN 263 are the same with the following exception:

- TC 766 CRN 263 amount is input with a positive amount (no credit bar).

Example: 100,000.00 will post a TC 766 CRN 263 credit.

- TC 767 CRN 263 amount is input with a negative amount (credit bar).

Caution: 100,000.00- will post a TC 767 CRN 263 debit.

Caution: If there are multiple unreversed TC 766 CRN 263 on BMF accounts, a TC 767 CRN 263 cannot be greater than any one unreversed TC 766 CRN 263. It may be necessary to input multiple TC 767 CRN 263.

- Use TC 298 .00, interest computation date, and x-ref TIN, to make an adjustment to ALL 76X amounts on MFT 82, MFT 83.
- Use TC 298 .00, interest computation date, to make an adjustment to any 76X that does not carry the RDD.
- Use TC 290 .00, to make an adjustment to 76X that carries the RDD on all MFT's other than 82 & 83.

Caution: If reversing a TC 766 with NO CRN or incorrect CRN (000). On REQ54 input screen use CRN 767 instead of CRN 263.

- (3) **TC 971 AC 114** If the TC 971 AC 114 amount falls into question, validate the amount using EUP. Also review AMS history to check for a valid reason for the TC 971 AC 114 amount. The need to adjust the TC 971 AC 114 amount is rare.

- (4) **TC 972 AC 507 to reverse incorrect TC 971 AC 507** If TC 971 AC 507 is input incorrectly or in error, reverse the transaction with a TC 972 AC 507.

Note: When inputting TC 972 AC 507 to correct an incorrect TC 971 AC 507 and also inputting a correct TC 971 AC 507, post delay new TC 971 AC 507 to prevent unposting.

- (5) **Credit Transfer** If an IRC 965(h)-payment posted to a non-inclusion tax period, input a credit transfer moving the payment to the inclusion year.
- Use Bypass Indicator of 1 when attempting to post DPC 64 to a settled module (IDRS Master File status 12).
 - Requirements established and included in DRT24, Transactions allowed on MFT 82 and MFT 83, TC 670, 680, 690, 700 and 822 on the Credit side. Secondary TC 360 will also be allowed. TCs 671, 672, 681, 682, 691, 692, 702 and 820 on the Debit side. Secondary TC 280 will also be allowed.

Caution: If using IAT Credit Transfer Tool to complete the transfer of a DPC 64 payment, you must manually add the “64” to the “Reverse DPC” field on the debit side of the transfer. The DPC 64 must be input on both the credit and debit side of the transfer to prevent unposting.

- (6) **TC 299** If the TC 298 assessment on an MFT 82 or MFT 83 needs to be reversed, input the reversal with TC 299.
- (7) **Unpostable Transactions** When an account has an unposted transaction, ensure the unpostable is resolved and that the account is correct once the unpostable is closed. Access IAT UPTIN Histories Tool, to advise the unpostable unit what actions to take or to do further research on the unpostable transaction(s). Match DLN's from IDRS to the DLN's on the tool to ensure you are updating the correct unpostable transaction. Monitor account to ensure unpostable transaction is resolved.
- (8) For a list of common unpostable codes related to IRC 965 modules see Exhibit 5.19.26-5, *Common IRC 965 Related Unpostables*.

Exhibit 5.19.26-1 (11-14-2023)
IRC 965(h) Terms

The following is a list of commonly used terminology for IRC 965(h)

Term	Definition
Acceleration	Certain conditions may require the full deferred amount become due before the end of the 8-year installment period.
Deferred Amount	92% (maximum amount deferred) of the IRC 965(h) net tax liability in inclusion year, with a reduced percentage deferred each year. May also be referred to as false credit .
Inclusion Year	Year an amount is included in income because of section 965 and the year for which the IRC 965(h) election is made (generally 2017 or 2018), except in cases where the IRC 965(h) election follows an IRC 965(i) triggering event.
Transfer Agreement	IRC 965(h) can be transferred in whole to another person, trust, or corporation, with Form 965-C, <i>Transfer Agreement Under 965(h)(3)</i> . The transferor and transferee are jointly and severally liable for the transferred liability.
Transferee	The entity gaining the IRC 965(h) liability on the transfer agreement.
Transferor	The entity removing the IRC 965(h).
Trigger/Acceleration Date	Date of the acceleration event on Form 965-C, (965(h) Transfer Agreement).

Exhibit 5.19.26-2 (11-14-2023)
IRC 965(i) Terms

The following is a list of commonly used terminology for IRC 965(i)

Term	Definition
Deferral Election	IRC 965(i) election was made to defer the liability until a triggering event.
Inclusion Year	Year in which the IRC 965(i) election was reported (generally 2017 or 2018).
S-Corp	A small business corporation with shareholders that are only individuals, estates, trusts (including 401(k) plans), Employee Stock Ownership Plan (ESOP) and 501(c)(3).
Shareholder	A shareholder of an S corporation.
Transfer Agreement	IRC 965(i) can be transferred in whole or in part to another shareholder with Form 965-D, <i>Transfer Agreement Under 965(i)(2)</i> . Transferor and transferee are jointly and severally liable for the transferred liability.
Transferee	The shareholder of an S corporation gaining the IRC 965(i) liability on the transfer agreement.
Transferor	The shareholder of an S corporation transferring the IRC 965(i) liability on the transfer agreement.
Triggering Event	An event that causes the deferred IRC 965(i) net tax liability to become assessable and payable, unless a transfer agreement is entered into.

Exhibit 5.19.26-3 (11-14-2023)

Acronyms

The following is a list of commonly used acronyms in this IRM

Acronym	Definition
AC	Action Code
ADJ	Adjustment
AMS	Account Management System
AMT	Amount
BMF	Business Master File
CC	Command Code
CCC	Computer Condition Code
CRN	Credit Reference Number
DPC	Designated Payment Code
FTP	Failure to Pay
GII	Generalized IDRS Interface
HQ	Headquarters
IDRS	Integrated Data Retrieval System
IMF	Individual Master File
IRC	Internal Revenue Code
IRM	Internal Revenue Manual
MFT	Master File Tax
POA	Power of Attorney
PRC	Penalty Reason Code
RC	Reason Code
RPC	Return Processing Code
SBSE	Small Business / Self Employed
SERP	Servicewide Electronic Research Program
TC	Transaction Code
TE	Tax Examiner
TIN	Tax Identification Number
UPC	Unpostable Code

Exhibit 5.19.26-4 (11-14-2023)
OFP Program and Function Codes

OFP Reporting for IRC 965 program is as follows:

OFP Code	Definition
810-61521	IRC 965(h), IRC 965(i), and Consent; Receipt and batching, agreement review, acknowledgement letter, link accounts, assess transferee.
810-61522	Acceleration cases; Sending letters for acceleration of account with missing or incomplete transfer agreement information, missing, late, or insufficient payments, determining reasonable cause, reversing deferral amount.
810-61523	Transfer agreement correspondence; retrieve phone messages, email referrals, eFax, callback taxpayers concerning transfer agreement.
810-61524	Acceleration correspondence; retrieve phone messages, email referrals, eFax, callback taxpayers concerning acceleration cases.
810-61525	IRC 965(h) transfer agreement Subsequent Payments transcripts; Cross reference subsequent installment payments.
810-61526	IRC 965 Account Review and Correction; "Possible acceleration" listing review, take corrective actions or determine acceleration is required.
810-61527	IRC 965(i) Review; Review transfer agreement for subsequent Form 965-A, 5% Penalty, Review consent agreement for subsequent income tax filing.
810-61528	IRC 965 Feedback work, rework to correct accounts. Use this OFP only when asked by HQ to correct a case.

Exhibit 5.19.26-5 (11-14-2023)

Common IRC 965 Related Unpostables

IMF Unpostable Codes can be found in *Document 6209 Section 8B*.

BMF Unpostable Codes can be found in *Document 6209 Section 8B*.

Most common IRC 965 unpostable codes

Unpostable, Reason Code	Description
155 0	Module contains restricted interest, in order to allow adjustment to post you must include with your regular adjustment a TC 340 for \$0.00 and in the DB-INT-TO-DT field input current date. TC 340 for \$0.00 must be included with EVERY adjustment.
168 0	TC 766 CRN 337 on MFT 30 input incorrectly.
189 2	No posted unreversed TC 971 AC 114, OR total TC 76X CRN 263 amounts plus the amount of the input CRN 263 is greater than the Total IRC 965 amount posted on the unreversed TC 971 AC 114 misc. field.
198 2	Credit attempting to post to a settled module that will put the module into a credit balance, typically, correcting the deferral amount will allow the credit to post.
305 2	Credit attempting to post to a settled module that will put the module into a credit balance, typically, correcting the deferral amount will allow the credit to post.
309 1	MFT 82 & 83, Input transaction attempts to establish a tax module. 971/507 Must post and create the module before any other transactions can post.
313 1	On MFT 82 & 83, needs x-ref TIN or may have incorrect reason code. Also, could be no DPC 64 on both the credit and debit side of a DPC 64 credit transfer.
316 1	767 adjustment amount is greater than any unreversed 766 amount or deferral amount is greater than TC 971 AC 114 amount.
328 7	If module has an unreversed TC 766 CRN 337 with an active 57 hold (TC 570) use a priority code 1 to prevent adjustment from unposting.
333 2	Z freeze (CI).

Exhibit 5.19.26-5 (Cont. 1) (11-14-2023)
Common IRC 965 Related Unpostables

Unpostable, Reason Code	Description
305 4	Current 23C date is greater than ASER (as extended).