



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

8.17.7

JUNE 13, 2025

EFFECTIVE DATE

(06-13-2025)

PURPOSE

- (1) This transmits a revised IRM 8.17.7, Settlement Computations and Statutory Notices of Deficiency, Penalties/Additions to Tax in Computations.

MATERIAL CHANGES

- (1) Added new IRM 8.17.7.1, Program Scope and Objectives, to include Internal Control information required by IRM 1.11.2, Internal Revenue Manual (IRM) Process. As a result, IRM section 8.17.7.1 was renumbered to 8.17.7.2.
- (2) IRM 8.17.7.1.5, Related Resources, TBOR content updated based on guidance from the Division Counsel/Associate Chief Counsel (National Taxpayer Advocate Program) and Branch 3 of the Associate Chief Counsel (Procedure and Administration). Added content related to IRM 25.30.2.3, Statement of Commitment, Service Level Agreement (SLA) between Appeals and Taxpayer Advocate Service (TAS).
- (3) Prior IRM section 8.17.7.2, Penalties Repealed for Returns Due (Without Regard to Extensions) After 12/31/89, was deleted.
- (4) Modified IRM 8.17.7.2.2, Items Impacting the Penalty Computations, and IRM 8.17.7.9, Accuracy-Related Penalty, IRC 6662, to add IRC 6603 deposits to items not included in payment credits.
- (5) Modified paragraph (2) to clarify that when asserting the fraudulent failure to file (FFTF), IRC 6651(f) penalty should be asserted with the failure to file (FTF) under IRC 6651(a)(1). Removed the qualifier regarding 1989 in IRM 8.17.7.3.2, Coordination with Fraud Penalty, and throughout the IRM because it is no longer useful.
- (6) Modified IRM 8.17.7.3.1, Minimum Failure to File Penalty. Deleted the bullet points and replaced with a link to IRM 20.1.2.3.7.4, Minimum Penalty, which includes a more complete list of periods. Deleted paragraph (5) to minimize redundancy.
- (7) Removed paragraph (2) in IRM 8.17.7.4.2, Failure to Pay Penalty and Installment Agreement - IRC 6651(h), because it is no longer applicable.
- (8) Added information regarding First Time Abatement (FTA) to IRM 8.17.7.4, Failure to Pay Penalty, IRC 6651(a)(2) and IRC 6651(a)(3).
- (9) Modified IRM 8.17.7.5, Nonfilers: Substitute for Return (SFR), IRC 6651(a)(1) and 6651(a)(2), to more closely align with the guidance of IRM 20.1.2.3.10, Substitute for Return - IRC 6651(g).
- (10) Modified paragraph (5) in IRM 8.17.7.5.1, IRC 6651(a)(2) and IRC 6020(b) Returns, to emphasize that Substitute for Return (SFR) returns on employment tax cases must be processed before the Substitute for Return (SFR) case periods are sent to Appeals for consideration.
- (11) Modified IRM 8.17.7.9, Accuracy-Related Penalty, IRC 6662, to delete references to transactions entered into after specific date (throughout) because the date is no longer applicable.

- (12) Added new paragraph (2) in IRM 8.17.7.10, Fraud Penalty, IRC 6663, addressing the application of IRC 6663 to joint income tax returns.
- (13) Updated Exhibit 8.17.7-2, Penalty Reference Chart, to reflect facts considered currently useful to Appeals Technical Employees (ATEs) regarding the FTF minimum penalty and to add details relating to the application of IRC 6663 to joint income tax returns.
- (14) Updated obsolete IRM references and links to SharePoint.

EFFECT ON OTHER DOCUMENTS

This supersedes IRM 8.17.7 dated 03/31/2014.

AUDIENCE

Appeals

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Acting Director, Operations Support

8.17.7

Penalties/Additions to Tax in Computations

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8.17.7.1
(06-13-2025)
Program Scope and Objectives

- (1) Purpose: The purpose of this IRM section is to provide guidance to the IRS Independent Office of Appeals (Appeals) Tax Computation Specialists (TCSs) for the accurate and efficient preparation of settlement computations involving penalties and additions to tax on cases worked in Appeals.
- (2) Audience: The primary users of the IRM section are Appeals TCSs and ATEs.
- (3) Policy Owner: Policy, Planning, Quality and Analysis (PPQ&A) is under the Director, Operations Support.
- (4) Program Owner: Appeals Policy is the program office responsible for providing technical and procedural guidance to the Appeals organization and is under the Director of PPQ&A.
- (5) Contact Information: Appeals employees should follow established procedures on *How to Contact an Analyst*. Other employees should contact the Product Content Owner shown on the Product Catalog Information page for this IRM.

8.17.7.1.1
(06-13-2025)
Background

- (1) This section covers procedures for preparing settlement computations involving penalties and additions to tax on cases worked in Appeals.
- (2) As stated in IRC 7803(e)(3), the Appeals mission is to resolve Federal tax controversies without litigation on a basis that is fair and impartial to both the Government and the taxpayer, promotes a consistent application and interpretation of, and voluntary compliance with, the Federal tax laws, and enhances public confidence in the integrity and efficiency of the IRS. Appeals accomplishes its mission by considering protested and Tax Court cases and negotiating settlements in a manner which ensures Appeals employees act in accord with the Taxpayer Bill of Rights (TBOR) in every interaction with taxpayers.

8.17.7.1.2
(06-13-2025)
Authority

- (1) IRM 8.17, Settlement Computations and Statutory Notices of Deficiency, establishes the TCS policy framework for Appeals.

8.17.7.1.3
(06-13-2025)
Responsibilities

- (1) The Appeals TCS is responsible for the accurate preparation of tax computations, including all applicable computation schedules.
- (2) The Appeals TCS Program Analyst is responsible for:
 - a. Updating the applicable IRM sections as needed
 - b. Reviewing training modules
 - c. Responding to inquiries

8.17.7.1.4
(06-13-2025)
Acronyms

- (1) See IRM 8.1.1-1, Common Terms Used in Appeals, for common terms and definitions used in IRM Part 8.
- (2) The table below lists commonly used acronyms and definitions:

Acronym	Definition
DMI	Decision Modeling Inc.
FFTF	Fraudulent Failure to File

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Acronym	Definition
FTF	Failure to File
FTP	Failure to Pay
SFR	Substitute for Return
RAR	Revenue Agent Report

8.17.7.1.5
(06-13-2025)

Related Resources

- (1) The Taxpayer Bill of Rights (TBOR) lists rights that already existed in the tax code, putting them in simple language and grouping them into 10 fundamental rights. Employees are responsible for being familiar with and acting in accord with taxpayer rights. See IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights. For additional information about the TBOR, see <https://www.irs.gov/taxpayer-bill-of-rights>.
- (2) In accordance with IRM 25.30.2.3, Statement of Commitment, Appeals will work collaboratively with the Taxpayer Advocate Service (TAS) to enhance the taxpayer experience. For more information, see IRM 25.30.2, Service Level Agreement between the IRS Independent Office of Appeals and the Taxpayer Advocate Service.

8.17.7.2
(09-24-2013)

Settlements with Penalties and Additions to Tax

- (1) This subsection briefly discusses the various penalties and additions to tax that are included in settlement computations. These penalties and additions to the tax are generally considered by Appeals concurrently with the tax liability generating the penalty or addition to tax amounts.
- (2) For detailed information on these penalties and additions to tax, see IRM 20.1, Penalty Handbook. For detailed information about the reasonable cause exception to penalties, see IRM 20.1.1.3.2, Reasonable Cause.
- (3) The more common penalties and additions to the tax by Internal Revenue Code (IRC) section and kind of tax are summarized in Exhibit 8.17.7-2, Penalty Reference Chart.
- (4) For useful information about penalty computations, click on the Procedures and Resources link on the *TCS Website*, and then see the Penalty Information folder.
 - This folder has a file with a very helpful chart which discusses whether certain penalties can be asserted on a deficiency determined in Appeals, depending on if the return was timely filed, late filed, or is an SFR case.
 - The file also contains flow charts to assist in determining whether or not certain penalties can be asserted on a deficiency determined in Appeals.
- (5) References to an ATE within this IRM section include both an Appeals Officer (AO) and an Appeals Team Case Leader (ATCL).

8.17.7.2.1
(09-24-2013)
**When the Tax Court
Lacks Jurisdiction**

- (1) The Tax Court does not have jurisdiction over certain underpayments of additions to tax or penalties.
- (2) When the Tax Court does not have jurisdiction to determine a penalty, the penalty is assessable and not subject to a deficiency procedures. Penalties that are not subject to deficiency procedures are not included in the computation of the deficiency shown on the notice of deficiency.
- (3) In general, the Tax Court has no jurisdiction over the following penalties.
 - IRC 6651 : The IRC 6651 penalty (including the FFTF penalty under IRC 6651(f)) where the penalty applies to tax shown on a filed return. The Tax Court only has jurisdiction if the penalty is applicable to a deficiency.
 - IRC 6652(b) : The IRC 6652(b) penalty.
 - IRC 6654: The IRC 6654 penalty when a tax return has been filed.
 - IRC 6655: The IRC 6655 penalty when a tax return has been filed.
 - IRC 6656: The IRC 6656 penalty where the penalty relates to the failure to deposit employment taxes withheld. (However, see IRC 7436 and IRM 8.7.16, Appeals Employment Tax Procedures, for information concerning IRC 7436 Notices of Determination.)

Note: The Tax Court has jurisdiction over the IRC 6656 addition to tax when the addition relates to a deficiency due to the failure to withhold and deposit taxes pursuant to IRC 1441 and IRC 1442. (See IRM 20.1.4.11.5, Deficiency Procedures Form 1042, for additional information.)
- (4) For more discussion of the Tax Court jurisdiction, see the following IRM sections for additional information:
 - IRM 8.11.1, Return Related Penalties in Appeals
 - IRM 8.17.4.3, Adjustments Requested by AO Prior to Issuing Notice of Deficiency
 - IRM 8.17.4.17, Including Penalties/Additions to Tax in the Notice of Deficiency
 - IRM 20.1.1.4.2, Deficiency Procedures

8.17.7.2.2
(06-13-2025)
**Items Impacting the
Penalty Computations**

- (1) For loss carrybacks, generally, the penalty provisions of the Code sections in effect for the loss year generating the carryback govern penalties applicable to the carryback years, and for deficiencies resulting from a carryback recapture.
- (2) Net operating loss carrybacks, capital loss carrybacks and all credit carrybacks cannot be used to reduce the underpayment subject to the penalty.
- (3) Prepayment credits and frozen refunds may impact the penalty computations:
 - a. Prepayment credits are payments of tax such as withholding tax, estimated tax payments, etc., made on or before the due date of the return. Prepayment credits also include payments made on or before the due date for an unfiled return.

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- b. Prepayment credits do not include advance payments, cash bonds, IRC 6603 deposits, or amounts applied from other tax liabilities subsequent to the due date of the return for which the penalty applies.
- c. Frozen refunds are payments and credits from a filed return that are neither applied to a tax liability nor refunded to the taxpayer, may impact penalty computations.

8.17.7.3 (09-24-2013) Failure to File, IRC 6651(a)(1)

- (1) IRC 6651(a)(1) provides that when a taxpayer fails to file a return on the due date, including extensions, a penalty of 5% will apply if the failure is for not more than one month, with an additional 5% for each month or fraction thereof during which the failure continues, not exceeding 25% in the aggregate.
- (2) The FTF penalty under IRC 6651(a)(1) applies to any delinquent return or SFR, except when the failure to file was due to reasonable cause and not willful neglect.
- (3) The FTF penalty is computed on the net amount due. The net amount due generally is the tax required to be shown on the return reduced by payments of tax on or before the date prescribed for payment and by the amount of allowable credits against the tax, which may be claimed on the return.
 - a. If a valid extension of time to file has been granted, the FTF penalty begins to accrue the date the extension expires. An extension may be considered invalid if the estimate of tax provided with the extension request (for example, Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return), is not reasonable. If the extension is invalid or if the tax return is not filed on or before the expiration of the extension period, the FTF penalty is computed from the original due date of the return.
 - b. To arrive at the tax liability required to be shown on return, compute the revised tax liability of the case, excluding all net operating loss, capital loss and credit carrybacks.
 - c. All withholding credits are considered timely paid regardless of the posting date shown on the IDRS transcript. Additional allowable withholding credits are considered timely paid and are allowed as credits when computing the delinquency penalty.
 - d. Refundable credits such as earned income credit, additional child tax credit, first time homebuyer credit, and other credits:
 - 1. Are treated as payments when computing the FTF penalty.
 - 2. Adjustments made to change these credits are not included in the revised tax liability.
 - 3. Instead, when computing the FTF penalty with adjustments to these credits, the revised tax liability as determined in paragraph (b) above is reduced by the allowable amount of these refundable credits.
 - 4. The allowable amount of refundable credit is the total amount shown on the transcript increased or decreased by any adjustments made to the refundable credit in the Appeals tax computation.

Note: See IRM 20.1.2.3.7.1, Period Subject to IRC 6651(a)(1)(1), for the disaster due dates and combat zone due dates, especially considering COVID-19 broad penalty relief.

- (4) The FTF penalty is generally computer generated by the campus with respect to the liability shown on delinquent returns.
- (5) Generally Appeals computations that assert the IRC 6651 penalty use the RGS penalty schedules or the TCS Excel penalty spreadsheets on the Technical Support SharePoint site, reached by a link on the *TCS Website*.
- (6) Interest will be imposed on the FTF penalty as of the return due date (including extensions.) The campus typically will compute interest. If the taxpayer wishes to make a payment, then the ATE will request an interest computation which will be included in the case file.
- (7) Additional information on computing the FTF penalty can be found in IRM 20.1.2, Failure to File/Failure to Pay Penalties.

8.17.7.3.1
(06-13-2025)
**Minimum Failure to File
Penalty**

- (1) If the income tax return is more than 60 days late, including an extension of time to file, a minimum FTF penalty shall apply. See IRM 20.1.2.3.7.4, Minimum Penalty, for details.
- (2) The minimum penalty applies only to income tax returns. It does not apply to employment tax, excise tax, gift tax, or estate tax returns.
- (3) In order for the minimum penalty to apply, there must be a net tax due. Withholding and other allowable credits as of the due date of the return must be less than the revised tax liability or tax required to be shown on the return.
- (4) When both the failure to pay (FTP) penalty and the minimum FTF penalty apply (income tax returns only), the minimum FTF penalty is not reduced by the amount of the FTP penalty.

8.17.7.3.2
(06-13-2025)
**Coordination with Fraud
Penalty**

- (1) The FTF and the fraud penalties may be asserted for the same tax year and against the same portion of the tax liability.
- (2) If the FTF is due to fraud, the FFTF penalty under IRC 6651(f) should be asserted with the FTF penalty under IRC 6651(a)(1). See IRM 20.1.2.3.7.5.1.2, FFTF Penalty Assessment Process.
- (3) See discussion of IRC 6651(f) in IRM 8.17.7.6, Fraudulent Failure to File (FFTF), IRC 6651(f).

8.17.7.3.3
(09-24-2013)
**FTF Penalty with
Concurrent FTP Penalty
Assessment**

- (1) IRC 6651(c)(1) provides that the penalty for filing late under IRC 6651(a)(1) is to be reduced by the amount of any penalty for paying late imposed under IRC 6651(a)(2) for any month or part of a month during which both penalties apply. The penalties are said to be running concurrently.
- (2) The above reduction does not reduce the total penalty for filing late below the minimum penalty, if applicable. See IRM 20.1.2.3.7.4, Minimum Penalty.
- (3) When both the IRC 6651(a)(1) FTF and IRC 6651(a)(2) FTP penalties apply to an original assessment, see example below of the computation of the FTF penalty that should be assessed by the campus if the return is filed late:

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Net Amount Due (Return due 4/15/2006 filed 12/2/2006)	\$500.00
Failure to Pay Penalty - \$500.00 x 1/2 of 1% for 8 months	20.00
Failure to File Penalty - \$500.00 x 5% per month for 5 months.	\$125.00
Less Failure to Pay Penalty for first 5 months.	<u>12.50</u>
Failure to File Penalty assessed by the campus	\$112.50

- (4) If the taxpayer has filed a return late and an additional tax liability is determined:

- Compute the FTF penalty at the total rate of 5% per month allowable under IRC 6651(a)(1).
- Generally, the FTP penalty under IRC 6651(a)(2) cannot be asserted on a subsequently determined tax deficiency when the taxpayer has filed a return.

Caution: If the revenue agent report (RAR) or notice of deficiency has asserted the IRC 6651(a)(2) FTP penalty and the taxpayer filed a return, the ATE or Counsel attorney will need to determine whether the FTP penalty should be sustained or eliminated.

- However, the IRC 6651(a)(2) FTP penalty may be assessed on the tax liability shown on the return when it was filed.
- If an IRC 6651(a)(2) FTP penalty was assessed by the campus on the tax per return, then the FTF penalty must be reduced by the amount of the FTP penalty assessed for any month or part of a month during which both penalties apply, but not below the minimum FTF penalty, if applicable. See Exhibit 8.17.7-1, Computation of Failure to File Penalty After Tax Adjustment, with Previously Assessed Failure to Pay Penalty, for an example.

- (5) If the taxpayer has filed a return late and FTF penalty applies, and the IRC 6651(a)(2) FTP penalty has been assessed:

- Generally the RGS penalty schedules or the TCS Excel penalty spreadsheets on the Technical Support SharePoint site are used for the IRC 6651 penalty computations.
- RGS Penalty Computations:**
 - Generally the IRC 6651(a)(2) FTP penalty cannot be asserted on a subsequently determined tax deficiency when the taxpayer has filed a return. Therefore, the RGS user should not indicate that the IRC 6651(a)(2) FTP penalty applies on the RGS Return Related Penalties input screen. If an amount is entered on this input screen for the IRC 6651(a)(2) FTP penalty previously assessed, it will not be considered in the computation of the FTF penalty.

- Therefore, the correct amount to enter into RGS for the previously assessed FTF penalty must include both the assessed FTF penalty and the concurrent IRC 6651(a)(2) FTP penalty assessed. This amount must be determined manually.
- For an article that discusses how to compute the FTF penalty for late filed returns using RGS, click on the Procedures and Resources link on the TCS web site, and then see the Penalty Information folder.

c. **Excel Penalty Computation:**

- The TCS Excel IRC 6651 penalty spreadsheet on the Technical Support SharePoint will reduce the FTF penalty amount by the amount of the IRC 6651(a)(2) FTP penalty previously assessed for any month or part of a month during which both penalties apply.
- DMI InterestNet7 (ACT) can also be used for penalty computations.

- (6) If the taxpayer has not filed a return and an additional tax liability is determined, see IRM 8.17.7.5, Nonfilers: Substitute for Return (SFR), IRC 6651(a)(1) and 6651(a)(2), for SFR procedures for computing the FTF and FTP penalties.

8.17.7.4
(06-13-2025)
**Failure to Pay Penalty,
IRC 6651(a)(2) and IRC
6651(a)(3)**

- (1) FTP penalties apply to the balance of tax due and shown on returns, and to balances due where notice and demand is given. In general, the applicable FTP penalty is assessed at 0.5% of the unpaid tax for the first month the penalty applies and an additional 0.5% for each additional or fraction of the month the tax is unpaid, not to exceed 25% of the aggregate of tax.
- (2) IRC 6651(a)(2):
- a. The IRC 6651(a)(2) penalty generally is computed from the date prescribed for payment of tax (determined with regard to any extension of time for payment) until the date the tax is paid.
- (3) IRC 6651(a)(3):
- a. The IRC 6651(a)(3) penalty generally applies to the following additional assessments:
- A deficiency, or
 - An amendment to the original return, or
 - Tax assessed due to the correction of a mathematical error as defined under IRC 6213(b)(1).
- b. The IRC 6651(a)(3) penalty is assessed if payment is not made within 21 calendar days (or 10 business days if the balance due amount equals or exceeds \$100,000) of notice and demand.
- (4) These additions under IRC 6651(a)(2) and IRC 6651(a)(3) will generally be assessed automatically by the campus.
- (5) In the case of an SFR prepared by the IRS under IRC 6020(b) when there is a deficiency in tax, the FTP penalty is subject to deficiency procedures before an assessment can be made.
- (6) If the taxpayer has filed a return and a deficiency in tax is determined:
- a. The IRC 6651(a)(2) FTP penalty generally cannot be asserted because the penalty is subject to deficiency procedures before an assessment can

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be made. Therefore, the IRC 6651(a)(2) penalty should not be computed on the deficiency shown in the settlement computation when a return is filed by the taxpayer.

- b. However, if the RAR or statutory notice of deficiency has asserted IRC 6651(a)(2) and the taxpayer filed a return, the ATE or Counsel attorney will need to determine whether the IRC 6651(a)(2) penalty should be sustained or conceded.
 - c. If the IRC 6651(a)(2) penalty is conceded, then the IRC 6651(a)(1) penalty asserted in the RAR or notice of deficiency will need to be re-computed.
 - d. If an IRC 6651(a)(2) penalty was assessed, see IRM 8.17.7.3.3, FTF Penalty with Concurrent FTP Penalty Assessment, for information on how to recompute the IRC 6651(a)(1) penalty.
 - e. If per settlement there is an overassessment instead of a deficiency, the assessed IRC 6651(a)(2) penalty will be reduced accordingly. If the FTP penalty posted to the transcript was computer generated by the campus, the abatement can also be computer generated unless the penalty has been restricted (by manually posted FTP, even if the manually posted amount is zero).
- (7) If the taxpayer has not filed a return and an additional tax liability is determined, see IRM 8.17.7.5, Nonfilers: Substitute for Return (SFR), IRC 6651(a)(1) and 6651(a)(2), for SFR procedures for computing the FTP penalty.
 - (8) If a First Time Abatement (FTA) was granted, the transcript will show a penalty reversal with Penalty Reason Code 018 or 020. If the FTF penalty was reversed, the transcript will show TC 161. See IRM 20.1.1.3.3.2.1, First Time Abate (FTA), for more details. TCS may need to alert ATE and/or the Counsel attorney that the FTA was granted, but the decision whether to apply the FTF/FTP penalty in the settlement computation would be the decision of the ATE and/or the Counsel attorney.

8.17.7.4.1 (09-24-2013)

Failure to Pay Penalty and Notices of Levy - IRC 6651(d)

- (1) Notices of Levy: IRC 6651(d) increases the FTP penalty rate under IRC 6651(a)(2) or IRC 6651(a)(3) from 0.5% (.005) to 1% (.01) of the tax at the start of the month beginning after:
 - 10 days after the date of notice of intent to levy [IRC 6331(d)], or
 - The day on which notice and demand for immediate payment is given in the case of jeopardy [IRC 6631(a)].

Note: The 1% penalty rate applies to all subsequent assessments on that module. However, once a module is fully paid, a later tax assessment will begin to accrue at the rate of 0.5%.
- (2) These are the only two conditions (trigger dates) that allow for the FTP penalty rate increase to 1%. See IRM 20.1.2.3.8.1.1, 1 Percent Penalty Rate—IRC 6651(d), for more information.

8.17.7.4.2

(06-13-2025)

**Failure to Pay Penalty
and Installment
Agreement - IRC 6651(h)**

- (1) An individual's FTP penalty will be reduced to 0.25% (.0025) for any month in which an installment payment agreement with the IRS under IRC 6159 is in effect, provided the individual timely filed (taking extensions into account) the return relating to the liability that is subject to the installment agreement.
- (2) Termination of installment agreement
 - a. The 0.25% (.0025) rate ends following the month during which the installment agreement is terminated.
 - b. When an installment agreement is terminated, the basic penalty rate reverts to the rate in effect prior to the installment agreement beginning with the first penalty month that begins after the installment agreement is terminated.
- (3) See IRM 20.1.2.3.8.1.2, 1/4 Percent Penalty Rate—IRC 6651(h), for more detailed information.

8.17.7.5

(06-13-2025)

**Nonfilers: Substitute for
Return (SFR), IRC
6651(a)(1) and 6651(a)(2)**

- (1) If the taxpayer has not filed a return and an additional tax liability is determined:
 - a. IRC 6651(g)(1) provides a return prepared under IRC 6020(b) does not constitute the taxpayer's return for determining whether or when the taxpayer filed a return for the purpose of computing the penalty for filing late under IRC 6651(a)(1). This does not mean the penalty should not be part of an assessment under IRC 6020(b). It means the penalty is computed beyond the date of the SFR return to the date when the taxpayer has satisfied the requirement to file, or for the maximum amount if the requirement to file has not been satisfied.
 - b. IRC 6651(g)(2) provides for returns due after July 30, 1996 (determined without regard to extensions), the tax assessed under IRC 6020(b) constitutes the tax shown on the taxpayer's return for the purpose of determining the penalty for paying late under IRC 6651(a)(2).
- (2) SFR computations generally will include both a FTF penalty under IRC 6651(a)(1), and FTP penalty under IRC 6651(a)(2).

8.17.7.5.1

(06-13-2025)

**IRC 6651(a)(2) and IRC
6020(b) Returns**

- (1) Pursuant to IRC 6020(b), the IRS generally prepares a return when it determines that a taxpayer is liable for filing the tax return, but failed to do so after receiving notification from the IRS.
- (2) A valid return must have been prepared under IRC 6020(b) in order to assert the IRC 6651(a)(2) FTP penalty. The requirements of a valid IRC 6020(b) return are discussed in 26 CFR 301.6020-1.
- (3) The requirements of a valid IRC 6020(b) return include the following documents for each nonfiled tax period (known as the 6020(b) Certification package):
 - a. A properly completed and signed Form 13496, IRC 6020(b) Certification, dated on or after the date of the 30-day letter.
 - b. Form 4549, Report of Income Tax Examination Changes, or Form 4549-A, Report of Income Tax Examination Changes, signed by a duly authorized IRS employee.
 - c. Form 886-A, Explanation of Items.

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- (4) The ATE or Counsel attorney must determine that SFR procedures were followed in order to sustain the FTP penalty asserted by compliance. See the steps they must take below:
 - a. Verify that the taxpayer did not file a return, and that there is a SFR TC 150 posting on the transcript.
 - b. Check the administrative file to see if the case file includes a 6020(b) Certification package.
 - c. Where no 6020(b) Certification package is included in the administrative file, the ATE or Counsel attorney will need to review the file to determine whether there are documents that would meet the requirements of an IRC 6020(b) return, as outlined in 26 CFR 301.6020-1. (Also see CC Notice 2007-005.)
- (5) SFRs for employment and excise tax returns:
 - a. SFR returns on employment tax periods must be processed before the SFR periods are sent to Appeals for consideration. See IRM 8.7.16.3, Appeals Technical Employee (ATE) Receipt of Newly Assigned Case, requiring confirmation that all IDRS modules have been established with Transaction Code 150 posted.
 - b. See IRM 8.7.10.6, Preparing an Excise Tax Return under IRC 6020(b), for information about SFR returns prepared for excise tax cases.

8.17.7.5.2 (09-24-2013) Failure to File and Failure to Pay Computations for SFR Returns

- (1) Because the IRC 6651(a)(1) FTF and IRC 6651(a)(2) FTP penalties are asserted concurrently on SFRs, the amount of the FTF penalty must be reduced by the amount of the FTP penalty for any month or part of a month during which both penalties apply, but not below the minimum IRC 6651(a) FTF penalty, if applicable. See IRM 8.17.7.3.3 , FTF Penalty with Concurrent FTP Penalty Assessment, for additional information.
 - a. For simplicity purposes, RGS implements this reduction by reducing the 5 percent FTF penalty rate by the 0.5 percent FTP penalty rate for any month during which both penalties apply. This results in an IRC 6651(a)(1) FTF penalty rate of 4.5 percent a month (to a maximum of 22.5 percent) shown on the RGS IRC 6651 penalty computation schedule. The RGS IRC 6651 penalty computation schedule may be included in the settlement computation as long as the computations are accurate.
 - b. The TCS Excel IRC 6651 penalty spreadsheet on the Technical Support SharePoint site will correctly reduce the IRC 6651(a)(1) FTF penalty amount by the concurrent IRC 6651(a)(2) FTP penalty amount.

Caution: If the taxpayer made payments after the due date of the return, the RGS IRC 6651 penalty computation schedule and the TCS IRC 6651 penalty Excel spreadsheet will not be accurate for the FTP penalty. This is because these penalty schedules will not consider any late payments in the FTP penalty computation. When there are late payments, these penalty schedules must be corrected, or an alternate schedule used.

- (2) If the IRC 6651(a)(2) FTP penalty has not reached the maximum penalty of 25%, see procedures below:

- a. Show the FTP penalty amount on Form 3610, Audit Statement, (if prepared) or Form 5278, Statement - Income Tax Changes, (or Form 4549, etc.) as an asterisk (*). An explanation should also be included to explain that the amount cannot be determined. Suggested sample language that can be used is "Amount to be determined" or "To be computed later."

Exception: In certain circumstances the IRC 6651(a)(2) FTP penalty may be computed at the maximum rate when the penalty is still accruing. An example is when the ATE or Counsel attorney determines that the IRC 6651(a)(2) FTP penalty should be computed at the maximum 25% rate because the maximum penalty rate will be reached soon after the computations are prepared (usually within a month or two).

- b. Also include penalty computations in the settlement computation. The RGS or the TCS Excel IRC 6651 penalty schedules are generally used for this purpose, but other schedules may also be used.
 - c. Both the RGS and the TCS Excel IRC 6651 penalty schedules will show an amount for the IRC 6651(a)(2) FTP penalty even if the penalty is still accruing. This FTP amount does not need to be deleted from either the RGS or the TCS Excel penalty schedules and an asterisk inserted, because there is a paragraph on the penalty schedules underneath the computation that tells the taxpayer that the FTP penalty is still accruing.
 - d. If the RGS or TCS Excel schedule is not used, then a similar paragraph must be included to notify the taxpayer that the FTP penalty is still accruing.
- (3) If the IRC 6651(a)(2) FTP penalty has reached the maximum amount, either because the penalty has reached the maximum rate of 25% or because the tax has been paid in full, see procedures below:
 - a. Compute the IRC 6651(a)(2) FTP penalty and include on the settlement computation.
 - b. Also include penalty computations in the settlement computation. The RGS or the TCS Excel IRC 6651 penalty schedule is generally used for this purpose, but other schedules may also be used.

8.17.7.6
(09-24-2013)
**Fraudulent Failure to
File (FFTF), IRC 6651(f)**

- (1) IRC 6651(f) provides for an increase in the penalty rate for failure to file if the failure to file is fraudulent. The penalty rate is increased from 5% per month to 15% for each month or part of a month the return is late, and the maximum penalty is increased from 25% of the amount subject to IRC 6651(a)(1) to 75% of that amount.
- (2) The IRC 6651(f) fraudulent failure to file (FFTF) penalty is a counterpart of the IRC 6663 civil fraud penalty. The fraud components of the FFTF penalty and the civil fraud penalty are generally similar:
 - The civil fraud penalty requires an underpayment which is attributable to the willful and knowing intent to defraud.
 - The FFTF penalty requires that all or part of the tax required to be shown on the return was unpaid on the due date for payment.
- (3) The IRC 6651(f) FFTF penalty and the IRC 6663 civil fraud penalty can be asserted on the same return, if failure to file is due to fraud and the taxpayer files a return with a deficiency attributable to fraud.

8.17 Settlement Computations and Statutory Notices of Deficiency

- (4) Additional information on the fraudulent failure to file penalty can be found in IRM 20.1.2, Failure to File/Failure to Pay Penalties.

8.17.7.7 (09-24-2013) **Failure to Report Tips, IRC 6652(b)**

- (1) IRC 6652(b) provides for a penalty on employees for failure to report tips.
- (2) The IRC 6652(b) penalty is 50% of FICA tax on tip income that the employee failed to report to their employer. This penalty, though applicable to employment tax, is assessed and collected as a part of the taxpayer's income tax.
- (3) See IRM 20.1.10.6.2, IRC 6652(b) - Failure to Report Tips, for additional information about the penalty computation.
- (4) See IRM 8.7.16.18, Computation for Unreported Tip Income Cases, for information on how to include the IRC 6652(b) penalty in a settlement computation.
- (5) See IRM 8.17.4.26, Tip Income Cases, and FICA Tax Informational Notice, for information about tip income cases and the IRC 6652(b) penalty when a notice of deficiency must be issued.

8.17.7.8 (09-24-2013) **Estimated Tax Penalties, IRC 6654 and IRC 6655**

- (1) Taxpayers are generally required to pay income tax as income is earned. This typically is accomplished via withholding from income, or estimated tax payments. Taxpayers who do not have sufficient amounts withheld, and who fail to make estimated tax payments as required by law, may be assessed a penalty under IRC 6654 (individuals) or IRC 6655 (corporations) for underpayment of estimated tax.
- (2) Although IRC 6654 and IRC 6655 penalties are generally computer generated by the campus when a return is filed by the taxpayer compliance will sometimes assert or adjust these penalties. If an adjustment is made to the tax of an original return, after the return due date (including extensions) because of either an audit or the taxpayer filing an amended return, the estimated tax penalty amount will generally not be adjusted.

Note: An estimated tax penalty cannot be asserted on a deficiency when the taxpayer has filed a return. An estimated tax penalty can be asserted in SFR cases.

- (3) For detailed information on all provisions covering estimated tax penalties, see IRM 20.1.3, Estimated Tax Penalties.

8.17.7.8.1 (09-24-2013) **IRC Section 6654 - Individuals**

- (1) IRC 6654 provides for a penalty when individuals underpay any required installment(s) of estimated income tax liabilities reportable on Form 1040, U.S. Individual Income Tax Return.
 - a. Taxpayers are required to make estimated tax payments if the tax that will be shown on their return (or, if no return is filed, their tax liability), minus tax amounts withheld from wages during the year, is \$1,000 or more.
 - b. "Tax shown on the return" is defined in the instructions for Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts. It is generally net tax reduced by net refundable credits listed for line 3 of Form 2210.

- c. The required annual payment is generally based on the lesser of:
 - 1) A percentage of the tax shown on the original return or, if no return is filed, on the tax as determined or
 - 2) A percentage of the prior year's tax.

Note: Consult IRM 20.1.3.4.1.1 , Determining the Required Payment Amount, and/or the Form 2210 instructions for the applicable percentages.
- d. The penalty rate is provided by IRC 6621. The period of underpayment runs from the due date of the installment to the earlier of the due date of the return or the date of payment.

- (2) For the purpose of asserting the IRC 6654 penalty, tax is defined as income tax and self-employment tax less all credits allowed by Part IV, Subchapter A, Chapter 1 of the IRC, other than tax withheld from wages. Tax withheld from wages is allowed as a payment of estimated tax.
- (3) RGS computations:
 - a. RGS will not show an amount on Form 5278 (or Form 4549/Form 4549-A) for IRC 6654 if the computed penalty is less than \$100.
 - b. The RGS Form 5278 (or Form 4549/Form 4549-A) that is generated without an IRC 6654 penalty when the penalty is less than \$100 can be used in the settlement computation.
 - c. If the ATE or Counsel attorney wants TCS to include the IRC 6654 penalty on the Form 5278 (or Form 4549/Form 4549-A) for amounts less than \$100, they must specify this requirement in their work request to TCS.
- (4) See IRM 20.1.3.3, IRC 6654 - Individual Taxpayers and Fiduciaries, for more detailed information about IRC 6654.

8.17.7.8.2
(09-24-2013)
**IRC Section 6654 -
Estates and Trusts**

- (1) IRC 6654(l) provides for a penalty when estates and trusts (other than charitable trusts and private foundations) underpay any required installment(s) of estimated income tax liabilities reportable on Form 1041, U.S. Income Tax Return for Estates and Trusts.
 - a. In general, all estates and most trusts are required to make estimated tax payments in the same manner as individuals.
 - b. Generally, an estate or trust is required to pay estimated tax if it expects to owe, after credit for withholding, an amount greater than \$1,000.
- (2) Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, is used by the taxpayer to figure any penalty.
- (3) For information and exceptions when computing the estimated tax penalty for estates and trusts, consult the IRC and treasury regulations. The following resources are also available:
 - IRM 20.1.3.3.1.1.6, Fiduciaries of Estates or Trusts
 - Instructions for Form 2210
 - Form 1041-ES, Estimated Income Tax for Estates and Trusts
- (4) Charitable trusts and any private foundation organized as a trust, will be subject to the corporate estimated tax provisions under IRC 6655, rather than IRC 6654.

8.17 Settlement Computations and Statutory Notices of Deficiency

8.17.7.8.3 (09-24-2013) **IRC Section 6655 - Corporations & Others Not Covered by IRC Section 6654**

- (1) IRC 6655 imposes a penalty when a corporation, private foundation, private foundation organized as a trust, or tax exempt organization underpays estimated tax.
- (2) A corporation or other entity subject to IRC 6655 must make estimated tax payments if its tax shown on the return (income tax minus credits) is \$500 or more. If the tax is less than \$500, no estimated tax payments are required, and a penalty will not be assessed.
- (3) Since the law can be complex, it is best to consult the IRC and treasury regulations if computation of this penalty is involved in a case. Also IRM 20.1.3.4, IRC 6655—Corporations and Others Not Covered by IRC 6654, has very detailed information about IRC 6655.

8.17.7.9 (06-13-2025) **Accuracy-Related Penalty, IRC 6662**

- (1) IRC 6662 generally imposes an accuracy-related penalty at the rate of 20% on the portion of any underpayment attributable to any of the following:
 - a. Negligence or disregard of rules or regulations. [IRC 6662(b)(1)]
 - b. Substantial understatement of income tax. [IRC 6662(b)(2)]
 - c. Substantial valuation misstatement. [IRC 6662(b)(3)]
 - d. Substantial overstatement of pension liabilities. [IRC 6662(b)(4)]
 - e. Substantial estate or gift tax valuation understatement. [IRC 6662(b)(5)]
 - f. Transactions lacking economic substance. [IRC 6662(b)(6)]
- (2) IRC 6662 imposes an accuracy-related penalty at the rate of 40% on the portion of any underpayment attributable to any of the following:
 - a. Gross valuation misstatements. [IRC 6662(h)]
 - b. Nondisclosed noneconomic substance transactions. [IRC 6662(i)]
 - c. Any undisclosed foreign financial asset understatement. [IRC 6662(b)(7) and IRC 6662(j)]

Note: For more detailed list and information on accuracy-related penalties, refer to IRM 20.1.5, Return-Related Penalties.

- (3) The IRC 6662 penalty only applies to filed returns and does not apply to any portion of an underpayment that is subject to a fraud penalty imposed under IRC 6663.
- (4) The underpayment used to compute the IRC 6662 penalty is the deficiency attributable to IRC 6662 decreased (or increased) by changes to prepayment credits and decreased by frozen refunds:
 - a. Prepayment credits are payments of tax such as withholding tax, estimated tax payments, etc., made on or before the due date of the return.
 - b. Prepayment credits do not include advance payments, cash bonds, IRC 6603 deposits, or amounts applied from other tax liabilities after the due date of the return for which the penalty applies.
 - c. The deficiency attributable to IRC 6662 is decreased or increased by adjustments made in the settlement computation to prepayment credits
 - d. Payments and credits from a filed return that are neither applied to a tax liability nor refunded to the taxpayer are called “frozen refunds”. The deficiency attributable to IRC 6662 is also reduced by a frozen refund.

- e. When computing the IRC 6662 penalty, RGS will reduce a deficiency by a frozen refund to determine the underpayment subject to IRC 6662.

Note: For more information, click on the Procedures and Resources link on the *TCS Website*, and then see the IRC 6662 Penalty and Frozen Refunds folder. The folder contains Counsel memos on this topic, including a 2012 Counsel memo which discusses IRC 6664, and how to compute the IRC 6662 penalty when there are frozen refunds.

- (5) Net operating loss carrybacks, capital loss carrybacks and all credit carrybacks cannot be used to reduce the underpayment subject to the IRC 6662 penalty.
- (6) Interest will accrue on the IRC 6662 penalty from the due date of the return, including extensions.

8.17.7.9.1
(09-24-2013)
**Accuracy-Related
Penalty on
Understatements with
Respect to Reportable
Transactions, IRC 6662A**

- (1) IRC 6662A generally imposes an accuracy-related penalty at the rate of 20% on any reportable transaction understatement for tax years ending after October 22, 2004. The penalty applies to:
 - a. Any listed transaction; and
 - b. Any other reportable transaction (other than a listed transaction) if a significant purpose of the transaction is the avoidance or evasion of federal income tax.
- (2) The computation of the IRC 6662A penalty is:
 - a. 20% of the reportable transaction understatement where the reportable transaction was properly disclosed, and
 - b. 30% of the reportable transaction understatement where the transaction was not properly disclosed. (See IRM 20.1.5.17.1, Adequate Disclosure and Rescission of IRC 6707A Impact on IRC 6662A, for discussion of disclosure requirements.)
- (3) Due to the definition of reportable transaction understatement, the IRC 6662A penalty, unlike the IRC 6662 penalty, can apply even if there is no underpayment of tax on the taxpayer's return. See IRM 20.1.5.17.2, Penalty Calculation, for discussion of IRC 6662A penalty computations.
- (4) Coordination with other penalties:
 - a. IRC 6662A does not apply to any portion of an understatement on which a penalty is imposed under IRC 6663.
 - b. IRC 6662A does not apply to any portion of an understatement on which a gross valuation misstatement penalty under IRC 6662(h) is imposed.
 - c. IRC 6662A does not apply to any portion of an understatement on which an IRC 6662 penalty is imposed at the increased rates determined under IRC 6662(i) for nondisclosed, noneconomic substance transactions.

8.17.7.10
(06-13-2025)
Fraud Penalty, IRC 6663

- (1) IRC 6663 imposes a fraud penalty at the rate of 75% on the portion of any underpayment attributable to fraud. This penalty only applies to filed returns.

Note: The accuracy-related penalty, IRC 6662, cannot apply to any portion of an underpayment on which the fraud penalty is imposed.

8.17 Settlement Computations and Statutory Notices of Deficiency

- (2) In the case of a joint return, IRC 6663 shall not apply with respect to a spouse unless some part of the underpayment is due to the fraud of that spouse. IRC 6663(c).
- (3) IRC 6651(f) covers the fraud penalty that applies to failure to file cases.
- (4) On late filed returns the delinquency penalty under IRC 6651 and the fraud penalty under IRC 6663 can apply on the same return.
- (5) Net operating loss carrybacks, capital loss carrybacks and all credit carrybacks cannot be used to reduce the underpayment subject to the penalty.
- (6) The underpayment used to compute the IRC 6663 penalty is the deficiency attributable to IRC 6663 decreased or increased by changes to prepayment credits and decreased by frozen refunds:
 - a. The prepayment credit and frozen refund discussion in paragraph (5) of IRM 8.17.7.9, Accuracy-Related Penalty, IRC 6662, also applies to the IRC 6663 penalty.
 - b. When computing the IRC 6663 penalty, RGS will reduce a deficiency by a frozen refund to calculate the underpayment subject to IRC 6663.
- (7) Interest will accrue on the IRC 6663 penalty from the due date of the return, including extensions.

Exhibit 8.17.7-1 (09-24-2013)
Computation of Failure to File Penalty After Tax Adjustment, with Previously Assessed Failure to Pay Penalty

Facts: The taxpayers filed their joint 2006 return on August 19, 2008. The tax liability on the return was \$4,062.00. The taxpayer had withholding of \$726.00, resulting in net tax due of \$3,336.00. The taxpayer fully paid the tax due on August 19, 2008. FTF and FTP penalties were assessed by the campus as shown below:

FTF Penalty Computation:	
FTF: $3,336.00 \times .05/\text{month} \times 5 \text{ months}$	834.00
Less FTP for 5 months: $3,336.00 \times .005/\text{month} \times 5 \text{ months}$	83.40
FTF Penalty Assessed	750.60
FTP Penalty Assessed: $3,336.00 \times .005/\text{month} \times 17 \text{ months unpaid}$	283.56

Note: It may appear that the campus computed the FTF penalty using a rate of .045 per month, since $3,336.00 \times .045/\text{month} \times 5 \text{ months} = \750.60 . However, the actual computation is shown above.

The return was examined and an additional tax deficiency of \$1,500.00 was determined. The additional IRC 6651(a)(1) penalty would be \$375.00, computed as shown below:

Correct tax liability ($4,026.00 + 1,500.00$)	5,562.00
Less: prepayment credits	(726.00)
Net tax due	4,836.00
Penalty Rate	0.25
Penalty	1,209.00
Less FTP for the same number of months as FTF was assessed:	
$(3,336.00 \times .005 \times 5 = 83.40)$	83.40
Failure to file - IRC 6651(a)(1)	1,125.60
Less previously assessed FTF penalty	(750.60)
Additional failure to file penalty	375.00
	=====

Incorrect Method: If a penalty rate of .225 ($.045 \times 5$) for IRC 6651(a)(1) was used, the following incorrect answer would result:

8.17 Settlement Computations and Statutory Notices of Deficiency

Exhibit 8.17.7-1 (Cont. 1) (09-24-2013)

Computation of Failure to File Penalty After Tax Adjustment, with Previously Assessed Failure to Pay Penalty

Net tax due	4,836.00
Penalty Rate	0.225
Penalty Amount	1,088.10
Less previously assessed FTF penalty	(750.60)
Incorrect amount of additional failure to file penalty	337.50
	=====

Exhibit 8.17.7-2 (06-13-2025)
Penalty Reference Chart

IRC 6651(a)(1)	<p>Failure to File 5% per month to 25% maximum. Based on correct tax liability less payments and credits allowable at due date of return.</p> <p>If the return is 60 days or more late, a minimum FTF penalty applies:</p> <p>Minimum penalty is lesser of \$100 or 100% of tax due on return.</p> <p>Minimum penalty is lesser of \$135 or 100% of tax due on return.</p> <p>Minimum penalty is lesser of \$205 or 100% of tax due on return.</p> <p>Minimum penalty is lesser of \$210 or 100% of tax due on return.</p> <p>Minimum penalty is lesser of \$435 or 100% of tax due on return.</p> <p>Minimum penalty is lesser of \$450 or 100% of tax due on return.</p> <p>Minimum penalty is lesser of \$485 or 100% of tax due on return.</p> <p>Interest accrues from later of return due date or extended DD.</p>	<p>All years.</p> <p>Returns due on or before 12/31/2008</p> <p>Returns due between 01/01/2009 and 12/31/2015</p> <p>Returns due between 01/01/2016 and 12/31/2017</p> <p>Returns due between 01/01/2018 and 12/31/2019</p> <p>Returns due between 01/01/2020 and 12/31/2022</p> <p>Returns due between 01/01/2023 and 12/31/2023</p> <p>Returns due after 12/31/2023</p>
IRC 6651(a)(2)	<p>Failure to Pay 0.5% per month not to exceed 25% in aggregate.</p> <p>Based on actual amount shown on return. Due date for payment is with regard to any extensions of time for payment.</p> <p>FTP applies for SFR returns.</p> <p><u>IRC 6651(d)</u>: See IRC 6651(d) and IRM 20.1.2.3.8.1.1 for certain situations where penalty is increased to 1%.</p> <p><u>IRC 6651(h)</u>: See IRC 6651(h) and IRM 20.1.2.3.8.1.2 for certain situations where penalty is decreased to .25%.</p>	All years
IRC 6651(a)(3)	<p>Failure to Pay Additional Assessment upon Notice and Demand 0.5% per month not to exceed 25% in aggregate.</p>	All years

8.17 Settlement Computations and Statutory Notices of Deficiency

Exhibit 8.17.7-2 (Cont. 1) (06-13-2025)
Penalty Reference Chart

	Based on amount of additional assessment not paid on or before 21 calendar days from notice and demand (or 10 business days if amount of notice and demand equals or exceeds \$100,000).	
IRC 6651(f)	Fraudulent Failure to File 15% per month up to maximum of 5 months, 75% maximum. Amount of tax required to be shown on return reduced by tax timely paid and by credits which may be claimed on the day prescribed for payment of tax. IRC 6662 and/or IRC 6663 can apply with IRC 6651(f) as long as a return is filed. Carrybacks have no effect on penalty.	
IRC 6652(b)	Failure to Report Tips 50% of FICA tax on unreported tip income.	Returns due after 12/31/86, without regard to extensions
IRC 6654	Failure to Pay Estimated Tax – Individual, Estates and Trusts (See IRM 20.1.3.3.)	
IRC 6655	Failure to Pay Estimated Tax – Corporation (See IRM 20.1.3.4.)	
IRC 6656	Failure to Deposit (See IRM 20.1.4.)	
IRC 6662 20%	Accuracy-Related Penalty 20% of underpayment, applies to portion of understatement attributable to: <ul style="list-style-type: none"> • Negligence or disregard of rules and regulations • Substantial understatement of income tax • Substantial valuation misstatement • Substantial overstatement of pension liabilities • Substantial estate/gift tax valuation understatement • Transactions lacking economic substance Applies only if return has been filed.	

For transactions lacking economic substance, penalty applies for transactions entered into after 3/30/2010.

Exhibit 8.17.7-2 (Cont. 2) (06-13-2025)
Penalty Reference Chart

	Not applicable to fraud items.	
IRC 6662 40%	<p>Accuracy-Related Penalty 40% of underpayment, applies to portion of understatement attributable to:</p> <ul style="list-style-type: none"> • Gross valuation misstatements. • Nondisclosed noneconomic substance transactions. • Any undisclosed foreign financial asset understatement. <p>Applies only if return has been filed.</p> <p>Not applicable to fraud items.</p>	<p>Applies for transactions entered into after 3/30/2010.</p> <p>Applies for tax years beginning after 3/18/2010.</p>
IRC 6662A	<p>Accuracy-Related Penalty 20% of the reportable transaction understatement.</p> <p>Increased to 30% for any portion of any reportable transaction understatement where the transaction was not properly disclosed</p>	<p>Effective for taxable years ending after October 22, 2004.</p>
IRC 6663	<p>Fraud 75% of the underpayment attributable to fraud. If joint income tax return, the IRC 6663 penalty may apply for each joint filers only if fraud is established for each individual.</p> <p>Applies only if return filed.</p> <p>If no return filed, only IRC 6651(f) FTF penalty can apply.</p>	

