



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

20.2.7

MARCH 25, 2025

EFFECTIVE DATE

(03-25-2025)

PURPOSE

- (1) This transmits a partial revision of IRM 20.2.7, Interest, Abatement and Suspension of Underpayment Interest.

MATERIAL CHANGES

- (1) Changed section title from Interest, Abatement and Suspension of Debit Interest to Interest, Abatement and Suspension of Underpayment Interest. Citation in IRM 20.2.7.1(4) modified accordingly.
- (2) Changed Wage and Investment (W&I) to Taxpayer Services (TS).
- (3) Minor editorial changes have been made throughout (formatting, links, punctuations, citations, etc.)

EFFECT ON OTHER DOCUMENTS

This material supersedes IRM 20.2.7, dated 12-20-2023.

AUDIENCE

All employees that work with interest.

Nicole L. Young Scott
Director, Business Support Office
Small Business/Self-Employed

20.2.7

Abatement and Suspension of Underpayment Interest

Table of Contents

20.2.7.1 Program Scope and Objectives

20.2.7.1.1 Background

20.2.7.1.2 Authority

20.2.7.1.3 Roles and Responsibilities

20.2.7.1.4 Program Management and Review

20.2.7.1.5 Terms/Definitions/Acronyms

20.2.7.1.6 Related Resources

20.2.7.2 Abatement and Suspension of Underpayment Interest Overview

20.2.7.3 IRC 6404(a), Excessive or Not Legally Due

20.2.7.4 Certain Mathematical Errors by IRS Versus Non-Compute Return

20.2.7.4.1 IRC 6404(d), Math Error by IRS

20.2.7.4.2 IRC 6151(b), Non-Compute Return

20.2.7.5 IRC 6404(e)(1), Unreasonable Error or Delay in Performing a Ministerial or Managerial Act

20.2.7.5.1 IRC 6404(e)(1) Criteria and Examples

20.2.7.5.2 IRC 6404(e)(1) Delegation of Authority

20.2.7.5.3 Interest Abatement Correspondence

20.2.7.6 Interest Abatement Coordinator (IAC)

20.2.7.7 IRC 6404(e)(2), Erroneous Refunds

20.2.7.7.1 IRC 6404(e)(2) Delegation of Authority

20.2.7.8 IRC 6404(g) Interest Suspension

20.2.7.8.1 Undisclosed Reportable and Listed Transactions

20.2.7.8.1.1 Good Faith Exception

20.2.7.8.1.2 Post-Assessment Good Faith Claims

20.2.7.8.1.3 Pre-Assessment Good Faith Exception

20.2.7.8.2 Exclusion From IRC 6404(g) Interest Suspension

20.2.7.8.3 Notification Period (36 or 18 Months)

20.2.7.8.4 Interest Suspension Period

20.2.7.8.5 IRC 6404(g) Notice

20.2.7.8.5.1 Multiple IRC 6404(g) Notices

20.2.7.8.5.2 Recording IRC 6404(g) Notice Date

20.2.7.8.5.3 Input of IRC 6404(g) Notice Date on Master File

20.2.7.8.6 IRC 6404(g) Interest Computation

20.2.7.9 IRC 6601(c), Suspension of Interest on Deficiencies

20.2.7.9.1 IRC 6601(c) Suspension Period Calculation

20.2.7.9.2 Types of Deficiencies Ineligible for an IRC 6601(c) Interest Suspension

-
- 20.2.7.10 IRC 6601(e)(3), Notice and Demand Suspension
 - 20.2.7.11 IRC 7508, Combat Zone
 - 20.2.7.11.1 Time Disregarded by Reason of Combat Zone Service
 - 20.2.7.11.2 Combat Zone Interest Suspension
 - 20.2.7.11.3 Combat Zone Overpayment
 - 20.2.7.11.4 Prisoners of War (POW) and Persons Missing in Action (MIA)
 - 20.2.7.12 Military Deferment
 - 20.2.7.13 IRC 7508A, Authority to postpone certain deadlines by reason of Federally declared disaster, significant fire, or terroristic or military actions
 - 20.2.7.13.1 IRC 7508A Interest Computation
 - 20.2.7.14 Request for Interest Abatement
 - 20.2.7.14.1 Closing Other Interest Abatement Requests
 - 20.2.7.14.2 Closing IRC 6404(e)(1) Interest Abatement Request
 - 20.2.7.14.2.1 IRC 6404(e)(1) Interest Calculation
 - 20.2.7.15 Appeal Rights
 - 20.2.7.16 Disputes as to Interest Amount

20.2.7.1
(03-25-2025)
Program Scope and Objectives

- (1) **Purpose:** This IRM provides policy guidance for abatement and suspension of underpayment interest for most cases and return types. For other interest policy guidance, refer to other sections of IRM 20.2, Interest.
- (2) **Audience:** This information is for all employees and managers who work with underpayment interest, including employees and managers in:
 - Small Business Self-Employed (SB/SE) Division,
 - Large Business and International (LB&I) Division,
 - Tax Exempt and Government Entities (TE/GE) Division,
 - Taxpayer Services (TS) Division,
 - Independent Office of Appeals (Appeals),
 - Taxpayer Advocate Service (TAS), and
 - Other IRS functions.
- (3) **Policy Owner:** Responsibility for overseeing abatement and suspension of underpayment interest resides with SB/SE, Operations Support (OS), Business Support Office (BSO).
- (4) **Program Owner:** The Office of Servicewide Interest (OSI) is responsible for abatement and suspension of underpayment interest policy and IRM 20.2, Interest. OSI's role is to ensure the accuracy of interest and its fair and consistent application. OSI has overall responsibility for coordinating and approving any update to IRM 20.2, Interest, including IRM 20.2.7, Abatement and Suspension of Underpayment Interest.
- (5) **Primary Stakeholders:** All operating divisions.

20.2.7.1.1
(12-20-2023)
Background

- (1) Unless otherwise provided by law, interest is mandatory. Interest is paid (charged) on underpayments and interest is paid (allowed) on overpayments. The Office of Servicewide Interest provides policy, training materials, interest tools, validation and support of systemic interest routines, and manual interest procedures for computing overpayment interest and underpayment interest. The abatement and suspension of underpayment interest is authorized by the Internal Revenue Code. **Reasonable cause is never the basis for abating interest.**

20.2.7.1.2
(12-20-2023)
Authority

- (1) These procedures are covered under the following authority:
 - IRC 6151, Time and place for paying tax shown on returns
 - IRC 6404, Abatements
 - IRC 6601, Interest on underpayment, nonpayment, or extensions of time for payment, of tax
 - IRC 7508, Time for performing certain acts postponed by reason of service in combat zone or contingency operation
 - IRC 7508A, Authority to postpone certain deadlines by reason of federally declared disaster, significant fire, or terroristic or military actions
 - Title 50 United States Code (USC), Section 4000, Income taxes

20.2.7.1.3
(11-13-2018)
Roles and Responsibilities

- (1) IRM 20.2.7 provides servicewide policy for the administration of abatement and suspension of underpayment interest.

- (2) All reference materials involving abatement and suspension of underpayment interest must be consistent with the procedures in the IRM and must receive approval from the Office of Servicewide Interest (OSI) prior to distribution.
- (3) Overall responsibility for the interest programs resides with OSI. OSI coordinates policy and procedures concerning the administration of the interest programs.
- (4) All actions are to be done in accordance with the Taxpayer Bill of Rights as listed in IRC 7803(a)(3).

20.2.7.1.4
(11-13-2018)
**Program Management
and Review**

- (1) Nearly every function in the IRS has a role in proper interest administration. It is essential that each function conduct its operations with an emphasis on mitigating risk of inaccurate interest computations. Appropriate reviews should be conducted to ensure interest accuracy, consistency, and fairness.
- (2) To promote the goals of accuracy, consistency, and fairness in the interest program, the Complex Interest Quality Measurement System (CIQMS) Staff, a section within OSI, conducts reviews of interest computations, and forwards its findings to program partners/stakeholders. OSI also prepare reports of significant interest issues, such as corrections to computer programming that affect taxpayers.

20.2.7.1.5
(12-20-2023)
**Terms/Definitions/
Acronyms**

- (1) Refer to Exhibit IRM 20.2.1-2, Definitions of Terms for interest related terms.

20.2.7.1.6
(12-20-2023)
Related Resources

- (1) For additional information, such as the latest interest news, job aids, interest tool updates, training material, list of interest analysts, and so on, see the *Servicewide Interest Virtual Library*.

20.2.7.2
(12-20-2023)
**Abatement and
Suspension of
Underpayment Interest
Overview**

- (1) This is an overview of the most common types of interest abatement and suspension provisions, the applicable code sections, and the IRM reference for further guidance.
- (2) The abatement and suspension of underpayment interest is authorized by the Internal Revenue Code. Reasonable cause is never a basis to abate interest.
- (3) Interest abatement and suspension provisions that may affect only part of the balance due include the following:
 - a. Non-compute Returns per IRC 6014: IRC 6151(b) is an exception to the payment of tax by the return due date. See IRM 20.2.7.4.2.
 - b. Employment Tax Returns per IRC 6205: Allows an underpayment interest-free period from the original due date until the received date of the adjusted return or agreement, if the tax is paid in full. See IRM 20.2.10.6.1, Underpayment Adjustments on Employment Taxes.
 - c. Not Legally Due per IRC 6404(a): Allows the abatement of interest that is excessive, assessed after the statute of limitations, or is illegally or erroneously assessed. See IRM 20.2.7.3.
 - d. Errors on IRS Prepared Returns per IRC 6404(d): Allows an abatement of interest attributable to certain math errors made during IRS tax preparation. See IRM 20.2.7.4.1.

- e. Ministerial and Managerial Acts per IRC 6404(e)(1): Allows an abatement of interest for unreasonable errors and delays by the IRS in performing a ministerial or managerial act. See IRM 20.2.7.5.
 - f. Erroneous Refunds per IRC 6404(e)(2): Allows an abatement of interest on the repayment of an erroneous refund of \$50,000 or less. See IRM 20.2.7.7.
 - g. Failure to Timely Contact Taxpayer per IRC 6404(g): Suspends the interest if the IRS does not timely (36 or 18 months) notify the taxpayer of a proposed liability. See IRM 20.2.7.8.
 - h. A Waiver of Restrictions on Assessment and Collection triggers IRC 6601(c): Suspends interest if the IRS fail to issue a notice and demand within 30 days after a filed IRC 6213(d) waiver. See IRM 20.2.7.9.
 - i. Payments made within specified period after notice and demand per IRC 6601(e)(3): Suspends interest past the notice and demand date on the underpayment amount that is equal to the payment made within 21 calendar days (10 business days if the amount for which such notice and demand equals or exceeds \$100,000) of a notice and demand date. See IRM 20.2.7.10.
 - j. Bankruptcies: Rules vary for pre and post petition interest including the different bankruptcy chapters. See IRM 20.2.11.6.1, Insolvent Taxpayers, also known as Bankruptcy Code Cases.
- (4) Interest abatement and suspension provisions affecting the entire balance due are described as follows:
- a. Combat Zone per IRC 7508: Disregards the combat zone period plus up to 105 (106 leap year) additional days, depending on the circumstances. See IRM 20.2.7.11.
 - b. Military Deferment per Title 50, Section 4000 United States Code (USC): Defers payment of a liability for up to 180 days for a qualified taxpayer. See IRM 20.2.7.12.
 - c. Declared Disaster, Terroristic, or Military Action per IRC 7508A: Postpones certain tax acts that are due during a period of a federally declared disaster, terroristic or military action. See IRM 20.2.7.13.
- (5) For accounts that qualify for the above provisions, follow the applicable IRM instructions for that provision to ensure correct application of the interest laws. Remember, **reasonable cause is never the basis for abating interest.**

20.2.7.3
(12-20-2023)
**IRC 6404(a), Excessive
or Not Legally Due**

- (1) IRC 6404(a) is the authority to abate the unpaid portion of any tax or liability, such as interest, which
- is excessive in amount, or
 - is assessed after the statutory period of limitations has expired, or
 - is erroneously or illegally assessed.

Note: However, IRC 6404(b) prohibits taxpayers from requesting an abatement of the assessment of income, estate, or gift taxes.

- (2) IRS employees are obligated to correct interest errors discovered on taxpayer accounts without the taxpayer having to file a request. For interest errors, the module does not need to be in zero balance in order to correct the identified interest error.

Example: During review of a manual interest computation, it was discovered that incorrect payment amounts were used in the interest computation that resulted in an increase in the amount of underpayment interest owed. The employee can make the correction without the taxpayer having to file a request for abatement.

- (3) Listed below are the steps to follow to correct an IRC 6404(a) interest error:
1. Notify your manager of the error, and document the error on the history sheet or by available electronic means.
 2. Prepare applicable adjustment document(s) to correct the error.
 3. Secure required approval(s) and signature(s) on adjustment document(s).
 4. Attach documentation of the error and the interest computation (if applicable) to adjustment document(s).
 5. Access account command code (CC) TXMODA to make sure the adjustment(s) posted to the module and corrected the interest on the module.

Note: For more information on interest errors, see IRM 20.2.1.4.2.2, Manual Calculation of Interest - Error Correction.

20.2.7.4
(12-20-2023)
**Certain Mathematical
Errors by IRS Versus
Non-Compute Return**

- (1) There are two separate Internal Revenue Code provisions for interest relief requests that have the same interest relief period. Provisions apply only to corrections made to the original tax. Interest relief does not apply to subsequent tax adjustments resulting from an amended return or an examination.

20.2.7.4.1
(12-20-2023)
**IRC 6404(d), Math Error
by IRS**

- (1) IRC 6404(d) grants authority to the IRS to abate assessed interest due to a “mathematical error” on a return prepared by an IRS employee while preparing income tax returns in his or her official capacity or as a voluntary income tax assistance (VITA) volunteer. The taxpayer will receive a notice of math error with the corrected tax increase amount. Payment of the additional tax is not due until 30 days after the date of the math error notice. If the corrected tax is not paid within 30 days from the date of the “math error” notice, then interest starts to accrue from the 30th day after the notice and demand date or the return due date, whichever is later.
- (2) A “math error” can be in addition, subtraction, multiplication, or division of items on the prepared return, or there is an item entry inconsistent with another entry on the return. For the definition of mathematical error, see IRC 6213(g)(2).
- (3) A math error and amended return require two separate adjustments regardless of whether the 45-day interest free period is met. Math error adjustment is made **without** an amended claims date (AMD-CLMS-DT) and an amended return is made **with** an AMD-CLMS-DT if applicable. See IRM 21.5.4.5.3, Processing Responses to Math Error Notices.

20.2.7.4.2
(12-20-2023)
**IRC 6151(b),
Non-Compute Return**

- (1) Under IRC 6014, certain taxpayers may file a timely return not showing the tax on the return and “elect” to have the IRS compute the tax for the filed return. Since the IRS is computing the tax, the taxpayer cannot satisfy his liability at the time of filing. IRC 6151(b) provides that the amount determined by the Secretary as payable is due within 30 days after the mailing of CP 51-A showing the IRS computed tax. If the taxpayer does not fully pay the IRS computed tax within 30 days of the date of the notice and demand, interest starts to accrue from 30 days after the notice and demand date or the return

due date, whichever is later. IRC 6151(b) interest exception applies only to the original tax, transaction code (TC) 150, but not on subsequent liabilities.

- (2) In the **30DAYNOT-CD>** field on a transcript of account (CC TXMODA), a “4” indicator is a return prepared by an IRS employee in the course of his or her duty, and a “1” indicator is the IRS computed tax. Error Codes in the 500 and 600 series will also be generated on all Non-Compute returns.

20.2.7.5

(12-20-2023)

IRC 6404(e)(1), Unreasonable Error or Delay in Performing a Ministerial or Managerial Act

- (1) IRC 6404(e)(1) gives the IRS discretion to abate interest on an underpayment where an IRS employee caused an unreasonable error or delay and the taxpayer (or representative) did not significantly contribute to the error or delay. IRC 6404(e)(1) does not apply to employment taxes.
- (2) A “ministerial act” is a procedural or mechanical act that does not involve the exercise of judgment or discretion and occurs while a taxpayer’s case is pending after all prerequisites to the act, such as conferences and reviews by supervisors, have taken place.

Example: An audit selection letter is sent to the taxpayer’s old address and then forwarded to the new address. In response to the letter, the taxpayer notifies the IRS of the new address and requests a transfer of the audit to an office closer to the new address. The manager approves the transfer request. The IRS, in its discretion, may abate interest attributable to any **unreasonable** delay in transferring the case.

- (3) A “managerial act” is an administrative act that occurs while processing a taxpayer’s case involving the temporary or permanent loss of records or the exercise of judgment or discretion relating to management of personnel.

Example: The manager approves the transfer of the case, but the clerk misplaces the case file. The “misplacing of the case file” is a managerial act. The IRS, in its discretion, may abate interest attributable to any **unreasonable** delay caused by the misplacement of the case file.

Caution: A decision concerning the proper application of federal tax law is not a managerial act, nor is it a ministerial act. See Treas. Reg. 301.6404-2(b).

- (4) Under IRC 6404(e)(1), the IRS may abate the amount of interest that accrues during the period in which the unreasonable error or delay occurred. The provision applies only when an unreasonable error or delay occurred after the date the IRS contacts the taxpayer in writing with respect to an audit deficiency or payment. Do not abate interest accruing from the return due date up to the date when the IRS first contacts the taxpayer.

Example: Taxpayer files a 2006 balance due income tax return. An audit resulted in additional liability (tax and penalty), and there was an unreasonable error (or delay) during the audit. Consider only the interest accruing on the audit liability (additional tax and penalty) for abatement due to the unreasonable error (or delay) and **not** interest on the underpaid original liability.

- (5) TEFRA/Partnerships-IRC 6404(e)(1) applies to partnership/TEFRA examinations:

- a. If the interest abatement request alleges that an unreasonable error or delay occurred during the examination of a partnership return and the ministerial or managerial act criteria applies, then the determination may be applicable to every partner.
 - b. If the interest abatement request alleges that an unreasonable error or delay occurred after the close of a partnership examination, apply the ministerial or managerial act criteria to each partner's interest abatement request and determine allowance on a case by case basis.
- (6) All IRS employees are responsible for identifying significant errors or delays associated with the ministerial and managerial acts that occur during work in progress. Employees are obligated to report unreasonable errors or delays to their manager.

20.2.7.5.1

(12-20-2023)

IRC 6404(e)(1) Criteria and Examples

- (1) The following criteria must be met for an interest abatement request to qualify for unreasonable error or delay under IRC 6404(e)(1):
- a. The statutory period of limitations to file a claim per IRC 6511 is open.
 - b. The request is for tax years beginning after December 31, 1978.
 - c. The request relates to interest on taxes described in IRC 6212(a); for example., income, estate, gift, certain excise taxes (**employment taxes are specifically excluded**).
 - d. An unreasonable error or delay occurred in relation to the performance of a ministerial or managerial act.
 - e. The error or delay occurred **after** the taxpayer was contacted in writing with respect to the examination, underpayment, or payment.
 - f. The taxpayer or representative did not contribute to the error or delay.

Note: An interest abatement request under IRC 6404(e)(1) not meeting **all** of the above criteria is automatically disallowed by law.

- (2) The following chart is a summary of the examples used in Treasury Regulation 301.6404-2(c) to further define a ministerial act and a managerial act. For purposes of the examples, no significant aspect of any error or delay is the fault of the taxpayer, and the IRS has contacted the taxpayer in writing with respect to the deficiency or payment.

Treas. Regs. 301.6404-2 Examples

Examples	Is this a Ministerial act?	Is this a Managerial act?	General Administrative Decision	Decision Involving Application of Law	Relief Available for Undue Delay
1. Transfer of case after administrative approval of taxpayer's transfer request	Yes	No	No	No	Yes
2. Issuance of deficiency notice after all administrative reviews have been completed.	Yes	No	No	No	Yes

Examples	Is this a Ministerial act?	Is this a Managerial act?	General Administrative Decision	Decision Involving Application of Law	Relief Available for Undue Delay
3. Decision to send examining agent to extended training without reassignment of case.	No	Yes	No	No	Yes
4. Reassignment of auditor without reassignment of case for an extended period.	No	Yes	No	No	Yes
5. Granting sick leave to Examiner for extended period without reassignment of case.	No	Yes	No	No	Yes
6. Misplacing taxpayer's file.	No	Yes	No	No	Yes
7. Decision to delay processing of taxpayer's case in order to examine a tax shelter in which the taxpayer invested.	No	No	Yes	No	No
8. Decision to delay processing of taxpayer's case to permit processing of another return on which period of limitation is about to expire.	No	No	Yes	No	No
9. Timely submission of request for Technical Advice to National Office.	No	No	No	Yes	No
10. Granting sick leave to IRS attorney assigned to technical advice request without reassignment of case.	No	Yes	No	No	Yes

Examples	Is this a Ministerial act?	Is this a Managerial act?	General Administrative Decision	Decision Involving Application of Law	Relief Available for Undue Delay
11. Giving taxpayer erroneous, routine balance due information, based on failure to access most recent account data.	Yes	No	No	No	Yes
12. Giving taxpayer erroneous balance due information where determination of balance due involves application of carryback rules.	No	No	No	Yes	No
13. Taxpayer requests multiple transfers of case, which are granted but result in delay, also, group manager grants extended sick leave to Examiner without reassignment of case.	No	Yes	No	No	Yes, but only to extent delay is due to granting leave without reassignment.

20.2.7.5.2
(12-20-2023)
IRC 6404(e)(1)
Delegation of Authority

- (1) Authority delegated to certain individuals to authorize the abatement of interest from an unreasonable error or delay caused by the IRS in the performance of a ministerial or managerial act is found in IRM 1.2.2.14.1, Delegation Order 20-1, (Rev. 2, formerly DO-228, (Rev. 3), Abatement of Interest. The delegation order provides certain managers the authority to disallow interest abatement requests. Interest abatement coordinators may issue the notice of final determination on interest abatement requests that are automatically disallowed by law.
- (2) Prior to July 31, 1996, IRC 6404(e)(1) addressed only interest abatement requests due to ministerial acts. A taxpayer's case misplaced during an examination did not qualify for interest relief under IRC 6404(e)(1) because it was a managerial act.
- (3) For tax years beginning after July 31, 1996, IRC 6404(e)(1) was amended to include both ministerial and managerial acts and redefined "the IRS error or delay" to be unreasonable.

20.2.7.5.3
(11-13-2018)
Interest Abatement
Correspondence

- (1) Use the appropriate letter to communicate the result of the interest abatement determination with the taxpayer. If the determination is to disallow the request, use a disallowance letter with appeal rights. Letter 3010 (Letter 3010-C), Full Disallowance of Interest Abatement Request or Letter 3022 (Letter 3022-C), Disallow Partial Interest Abatement Request are available for use.

- (2) If the taxpayer does not agree or appeal the initial disallowance determination, issue a notice of final determination by certified mail, or registered mail for an international address. Interest abatement coordinators (IACs) should use Letter 2392 (Letter 3180-C), Full Disallowance for Abatement of Interest-Final Determination, or Letter 2391 (Letter 3181-C), Partial Disallowance for Abatement of Interest - Final Determination.
- (3) For full allowance of taxpayer's interest abatement request, use Letter 3023 (Letter 3023-C), Interest Abatement Request Allowed in Full.

20.2.7.6
(11-13-2018)
**Interest Abatement
Coordinator (IAC)**

- (1) An interest abatement coordinator (IAC) reviews the facts and circumstances of an interest abatement request and makes a determination based on those facts, established procedures, and relevant tax laws. An IAC's duties vary throughout the IRS and may include some of the following activities:
 - a. Maintain inventory controls (manual or electronic).
 - b. Review interest abatement requests and make preliminary determinations.
 - c. Request necessary documentation, which may include securing the case file.
 - d. Work interest abatement requests relating to IRC 6404(e)(1).
 - e. Identify the dates (from and to) where interest should be abated or suspended.
 - f. Secure approval of a proposed decision following the operating division's established guidelines.
 - g. Communicate the decision to the taxpayer using appropriate correspondence.
 - h. Confirm the correctness and completion of the adjustments.
 - i. Provide status updates upon request.
- (2) IACs issue determinations for requests made pursuant to IRC 6404(e)(1), which are approved by a delegated authority identified in Delegation Order 20-1. IACs issue notice of final determinations on interest abatement requests that are automatically disallowed by law. For example, a request for abatement of interest for reasonable cause, on an employment tax liability, or for tax year 1978 (and prior).
- (3) Taxpayers who disagree with the interest charges on the notice and demand must contact the person whose name and contact information are printed on the notice received from the IRS, and not the IAC. Interest Abatement Coordinators (IACs) work only IRC 6404(e)(1) interest abatement requests. The names and contact information of the Interest Abatement Coordinators are found in the *Interest Knowledge Base - Interest Abatement Coordinators*.

20.2.7.7
(12-20-2023)
**IRC 6404(e)(2),
Erroneous Refunds**

- (1) Generally, interest is assessed on an erroneous refund recoverable by suit from the refund date to the repayment date. See IRC 6532(b), IRC 6602, and IRC 7405. IRC 6404(e)(2) requires the abatement of interest charged from the refund date to the date of demand for repayment if that refund is \$50,000 or less and the taxpayer (or a related party) did not in any way cause the erroneous refund.
- (2) For erroneous refunds greater than \$50,000, the abatement of interest under IRC 6404(e)(2) is **not required but may be allowed** on a case by case basis.

20.2.7.7.1
(12-20-2023)
IRC 6404(e)(2)
Delegation of Authority

- (1) Delegation Order 30-6 (formerly known as Delegation Order 231 (Rev. 4)) was consolidated with Delegation Order 20-1 (Rev. 1) as Delegation Order 20-1 (Rev. 2), signed October 25, 2012, and is in IRM 1.2.2.14.1.
- (2) Authority delegated to certain IRS employees to abate interest on erroneous refunds of \$50,000 or less is in paragraphs 14 through 16 of Delegation Order 20-1 (Rev. 2).

20.2.7.8
(12-20-2023)
IRC 6404(g) Interest
Suspension

- (1) IRC 6404(g) suspends interest if, as a result of an examination, the IRS fails to timely provide the taxpayer adequate notice of liability and the basis for the liability. The IRS has 36 months (or 18 months in certain cases) from the return due date (without regard to extensions) or the return filed date, whichever is later, to notify the taxpayer of the additional liability without suspending interest. The IRC 6404(g) interest suspension applies only to **timely filed** individual income tax returns for taxable years ending after July 22, 1998, per IRC 7502. A **timely filed** return for this purpose includes one filed in accordance with an extension.
- (2) The IRC 6404(g) interest suspension applies to an increase in liability for any taxes reportable on a Form 1040, U.S. Individual Income Tax Return, and therefore would apply to an individual's liability as a result of an adjustment to a flow-through entity or Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) adjustment. If it is determined that a carryback allowance (tentative carryback refunds (TENT) or restricted interest carryback claims (RINT)) was excessive, no suspension under IRC 6404(g) is allowed when the excessive amount is reassessed (including, if applicable, its associated interest and penalty charges).
 - a. TENT: Form 1045, Application for Tentative Refund
 - b. RINT: Form 1040-X, Amended U.S. Individual Income Tax Return
- (3) Section 8242 of the Small Business and Work Opportunity Tax Act of 2007 (SBWOTA), extended the IRC 6404(g) notification period to 36 months for notices issued after November 25, 2007. See IRM 20.2.7.8.3 for examples of how to determine a 36-month (or 18-month) notification period.
- (4) Rev. Rul. 2005-4, 2005-4 IRB 366, extended IRC 6404(g) interest suspension rules to amended returns (or signed correspondence) received on or before December 21, 2005. The start of the 18-month period applicable for amended returns is the return due date or return filed date of the original tax return. If a taxable amended return is received after 18 months from the original return due date (or filed date), interest on the amended return liability is suspended 18 months after the original return due date (or filed date) up through 21 days after receipt of the amended return.
- (5) Section 303(b) of the Gulf Opportunity Zone Act of 2005 (GOZA), changed the notification period start date for amended returns received on or after December 21, 2005. For amended returns received on or after December 21, 2005, the 18-month notification period begins on the date the IRS received the amended return. Therefore, amended returns received on or after this date **no longer qualify** for IRC 6404(g) interest suspension because receipt of the amended return is the start of the 18-month notification period, and the amended return itself is the 6404(g) notice.

Example: A taxpayer timely filed Form 1040 for 2003. The IRS received an amended return on April 17, 2006. The 18-month period started on April

17, 2006, which is the same date the notice (Form 1040-X) was provided. **The IRC 6404(g) interest suspension does not apply.**

20.2.7.8.1
(12-20-2023)

**Undisclosed Reportable
and Listed Transactions**

- (1) Section 903 of the American Jobs Creation Act of 2004 (AJCA) eliminated IRC 6404(g) interest suspension for interest accruing after October 3, 2004, on listed transactions and undisclosed reportable transactions. The following year, section 303(a) of the Gulf Opportunity Zone Act (GOZA) included an off-Code provision that **retroactively repealed** interest suspension for the same group of taxpayers, including interest accruing on or before October 3, 2004. Retroactive repeal of IRC 6404(g) interest suspension under GOZA will not apply if the taxpayer qualified for one of the following exceptions:
 - a. If, as of January 23, 2006, the taxpayer participated in the IRS Settlement Initiative, Announcement 2005-80 (Global Settlement Initiative), or signed a settlement agreement (Form 906, Closing Agreement on Final Determination Covering Specific Matters) for the specific transaction.
 - b. The Secretary of the Treasury or the Secretary's delegate may grant interest suspension if the taxpayer acted reasonably and in good faith.
 - c. If, as of December 14, 2005, the assessment statute expiration date (ASED) for the tax year had expired, or the taxpayer had already signed a closing agreement (Form 906) regarding the transaction.
- (2) The following two "if and then" tables will help determine whether IRC 6404(g) is applicable. Table 1 explains the IRC 6404(g) interest suspension rules for taxpayers who participated in listed transactions (as defined in IRC 6707A(c)). Table 2 explains the IRC 6404(g) interest suspension rules for taxpayers who participated in undisclosed reportable transactions (as defined in IRC 6664(d)(3)(A)) and transactions referred to as **neither** transactions, which are defined as "not a listed or undisclosed transaction".

Table 1-Listed Transactions

If	and	Then
A taxpayer participated in a listed transaction	qualified for one of the exceptions noted in IRM 20.2.7.8.1	Allow an interest suspension up to 10/03/2004. See IRM 20.2.7.8.1.2 or IRM 20.2.7.8.1.3 for those authorized to grant the "good faith exception".
A taxpayer participated in a listed transaction	did not qualify for any exception noted in IRM 20.2.7.8.1	IRC 6404(g) does not apply.

Table 2-Reportable or Neither Transactions

If	and	Then
A taxpayer participated in a reportable transaction	the tax year is 2002 or prior	Allow IRC 6404(g) interest suspension.
A taxpayer participated in an undisclosed reportable transaction	the tax year is 2003 and subsequent	Do not allow IRC 6404(g) interest suspension unless the taxpayer qualified for one of the exceptions noted in IRM 20.2.7.8.1.
A taxpayer participated in a neither transaction	for any tax year	Allow IRC 6404(g) interest suspension.

20.2.7.8.1.1
(04-27-2016)
Good Faith Exception

- (1) The retroactive repeal of the interest suspension affected “listed transaction taxpayers” that did not participate in the Global Settlement Initiative and did not sign a Form 906 by January 23, 2006. Listed transaction taxpayers who, through no fault of their own, were unable to sign Form 906 by the cut-off date of January 23, 2006, may be eligible for the good faith exception. The American Jobs Creation Act of 2004 (AJCA) limited IRC 6404(g) interest suspension up through October 3, 2004.
- (2) A taxpayer’s conduct during the examination, including withdrawal from settlement negotiations and involvement in the transaction, will be considered when determining eligibility for the good faith exception. Forward any post-assessment interest abatement request(s) citing the good faith exception to Exam Technical Services. See Treas. Reg. 301.6404-4 for examples of taxpayers acting reasonably and in good faith.

20.2.7.8.1.2
(12-20-2023)
Post-Assessment Good Faith Claims

- (1) IRM 1.2.2.14.2, Delegation Order 20-2 (New), Approve Suspension of Interest on Certain Listed and Reportable Transactions Where Taxpayer Acted Reasonably and in Good Faith , lists IRS employees with the authority to grant the good faith exception on post-assessment (interest assessed) cases. IACs in Exam Technical Services, Small Business/Self Employed (SB/SE), may grant the good faith exception for assessed interest of less than \$100,000 per tax year. For assessed interest of \$100,000 or more, Exam Technical Services Manager (SB/SE) and the Director of Field Operations in Large Business and International (LB&I), have the authority to grant the good faith exception.

20.2.7.8.1.3
(12-20-2023)
Pre-Assessment Good Faith Exception

- (1) During an open examination (or on pre-assessed interest), the Exam Area Director (SB/SE) and Director of Field Operations (LB&I) have the authority to grant interest suspension under IRC 6404(g) on certain listed transactions where the taxpayer has acted reasonably and in good faith. Documentation (for example, memo, e-mail or 6404(g) lead sheet) of the Director’s concurrence to the good faith provision must be included in workpapers. Director’s approval is required only if the good faith exception is allowed.

20.2.7.8.2
(12-20-2023)
**Exclusion From IRC
6404(g) Interest
Suspension**

- (1) Interest suspension under IRC 6404(g) does not apply to the following situations:
 - a. Any penalty imposed by IRC 6651.
 - b. Any interest, penalty, addition to tax, or additional amount in a case involving fraud.
 - c. Any interest, penalty, addition to tax, or additional amount with respect to any tax liability shown on the return.
 - d. Any interest, penalty, addition to tax, or additional amount with respect to any gross misstatement (applicable to taxable years beginning after December 31, 2003).
 - e. Any interest, penalty, addition to tax, or additional amount with respect to an undisclosed reportable transaction (for which the requirement of IRC 6664(d)(3)(A) is not met) and any listed transaction as defined in IRC 6707A(c).
 - f. Any criminal penalty.
- (2) A gross misstatement is defined as follows:
 - a. A substantial omission of income as described in IRC 6501(e)(1) or IRC 6229(c)(2).
 - b. A gross valuation misstatement within the meaning of IRC 6662(h).
 - c. Misstatement to which the penalty under IRC 6702(a) applies.

20.2.7.8.3
(12-20-2023)
**Notification Period (36
or 18 Months)**

- (1) The IRS has 36 months (or 18 months effective for tax years ending on or before November 25, 2007) to notify the taxpayer of an additional liability and the basis for the liability, during which time interest continues to accrue. The 36 months (or 18 months) starts on the later of these dates:
 - The due date of the return (without regard to extensions), or
 - The date on which the return is filed.
- (2) When determining which notification period to use (36 months or 18 months), add 18 months to the return due date or the date on which the return is filed, whichever is later, of the tax year with the deficiency, and then follow the instructions in either (a) or (b):
 - a. If the end of the 18 months falls **on or before November 25, 2007**, the IRS has **18 months** to notify the taxpayer of the additional liability without suspending interest.
 - b. If the end of the 18 months falls **after November 25, 2007**, the IRS has **36 months** to notify the taxpayer of the additional liability without suspending interest.
- (3) The following “if and then” table explains how to identify the beginning day of the 36 months (or 18 months) period.

Identify the 36 (or 18) months Start date

If	Then
The tax return is received on or before the return due date (04/15 for calendar year filer)	Use the return due date (04/15).
The tax return is postmarked on the next business day because 04/15 (or 10/15) is a weekend or legal holiday	Use the postmarked date (example 04/16, 04/17, or 10/16).
There is an extension to file (10/15) and the tax return is received before the extended due date	Use the return received date (example 06/22, 08/07) on the transcript (command codes TXMODA or IMFOLT).
The postmark date (04/21) is after the return due date and there is no extension to file	The return is delinquent and does not qualify for the IRC 6404(g) interest suspension.

- (4) After determining the notification period (36 or 18 months), the next step is to identify the end date of the notification period. At the suggestion of Chief Counsel, the “months” in the 36 (or 18) month notification period is calculated as “36 (or 18) months minus 1 day.”
- If the 18 months minus 1 day falls on a Saturday, Sunday, or legal holiday, the next business day becomes the end date of the 18-month period, or
 - If the 36 months minus 1 day falls on a Saturday, Sunday, or legal holiday, the next business day becomes the end date of the 36-month period.

Example: A 2000 original tax return is filed on or before the return due date. The 18-month period starts on the return due date, **April 15, 2001**, and ends on Tuesday, **October 15, 2002**. For this scenario, the close of the 18-month period is October 14, 2002, a legal holiday; therefore, the next business day is the 18-month period end date. The 18 months ended before November 25, 2007, and if the IRS did not provide notice by October 15, 2002, suspend interest the day after the end of the 18 months.

Example: A 2012 original tax return (with an approved 4 month extension) is received by the IRS on June 19, 2013. The 36-month period starts on Wednesday, **June 19, 2013**, and ends on Sunday, **June 19, 2016**. For this scenario, the close of the 36-month period is Saturday, June 18, 2016; therefore the next business day is the 36-months period end date. The 36-months ended after November 25, 2007, and if the IRS did not provide notice by Monday, June 20, 2016, suspend interest after the end of the 36-months.

Example: A 2015 original tax return is filed by the return due date. The 36-months is from **April 18, 2016** (due to Emancipation Day), through Wednesday, **April 17, 2019**. For this scenario, the 36-months ended after November

25, 2007, and if the IRS did not provide notice by April 17, 2019, suspend interest after the end of the 36 months.

Example: A 2015 original tax return (with an approved 6 month extension) is filed by October 16, 2016, and 36-months from this date is October 15, 2019. Since October 15, 2019, is **after** November 25, 2007, the IRS has 36 months from the return filed date to notify the taxpayer of the additional liability.

Example: A 2006 return is filed by April 17, 2007. The 18-month period is still open as of November 25, 2007; therefore, the IRS will have 36 months from April 17, 2007, to notify the taxpayer of an additional liability without suspending interest.

Reminder: Interest accrues during the 36-month (or 18-month) notification period for IRC 6404(g) purposes.

20.2.7.8.4 (12-20-2023) Interest Suspension Period

- (1) The “interest suspension period” is the length of time the IRS must suspend interest for untimely notifying the taxpayer of an additional liability. Interest, penalties, additions to tax, and additional amounts shown on the proposed changes report (or amended returns provided to the IRS before December 21, 2005) are suspended starting the day after the 36-month (or 18-month) period end date.
- (2) The IRC 6404(g) interest suspension period ends 21 calendar days **after** the “6404(g) notice” date or the received date of the amended return/ correspondence (provided to the IRS before December 21, 2005). Interest resumes the 22nd day after the 6404(g) notice date. Here are examples of interest suspension periods:

Example: A 1998 tax return is filed on April 15, 1999. An examination changes report, Form 4549, Income Tax Examination Changes, with Form 886-A, Explanation of Items, was issued to the taxpayer on September 6, 2001. Interest suspension starts on October 17, 2000, and ends September 27, 2001. Interest resumes September 28, 2001.

Example: A 2000 tax return is filed on April 15, 2001. Form 1040-X, Amended U.S. Individual Income Tax Return, is received on March 1, 2004. Interest suspension starts on October 16, 2002, and ends March 22, 2004. Interest resumes March 23, 2004.

Example: A 2002 tax return was received June 19, 2003, with a valid extension of time to file by August 15, 2003. On December 2, 2005, the IRS sends the taxpayer an examination changes report, Form 4549, with Form 886-A. Interest suspension starts on December 21, 2004, and ends December 23, 2005. Interest resumes December 24, 2005.

20.2.7.8.5 (12-20-2023) IRC 6404(g) Notice

- (1) A notice for IRC 6404(g) purposes must be in writing and specifically state the amount of the proposed liability and the basis for the liability. The notice must provide the taxpayer with sufficient information to identify which items of income, deduction, loss, or credit the IRS proposes to adjust, and the reason for that adjustment. See Treas. Reg. 301.6404-4(a)(7), **Suspension of**

interest and certain penalties when the Internal Revenue Service does not timely contact the taxpayer. The notice requirement applies separately to each item or adjustment. An adequate IRC 6404(g) notice provided within the prescribed time period (18 or 36 months) **prevents** the suspension of interest only on those items or adjustments described in that notice.

- (2) In general, the following list describes the documents that are considered adequate notice for purposes of IRC 6404(g):
 - a. Math error notice.
 - b. Underreporter program notice.
 - c. Notice of final partnership administrative adjustment (FPAA) containing specific information about the basis for the adjustments to partnership items.
 - d. Form 4549 report with Form 886-A, See IRM 4.10.8, Report Writing.
 - e. 60-day letter or FPAA with Form 4605-A, Examination Changes-Partnerships, Fiduciaries, S Corporations, and Interest Charge Domestic International Sales Corporations (Unagreed and Excepted Agreed) and Form 886-S, Partners' Share of Income, Deduction and Credits. See IRM 4.31.2, TEFRA Examinations-Field Office Procedures.
 - f. CP 2000 notice.
 - g. Amended return or signed taxpayer correspondence (provided to the IRS before December 21, 2005).
 - h. Statutory notice of deficiency.
- (3) For the proposed changes report, an explanation of each item of adjustment using one of the following methods provides adequate notice:
 - Standard paragraphs in IRM 4.10.10, Standard Paragraphs and Explanation of Adjustments, or customized paragraphs created by examiners to explain the adjustment;
 - Form 886-A, which references each adjustment and gives the reason(s) for each adjustment; or
 - Copies of examination work papers that reference each adjustment and explains each item of adjustment and the basis for the adjustment.

20.2.7.8.5.1
(12-20-2023)
**Multiple IRC 6404(g)
Notices**

- (1) An examiner may issue more than one report for a tax return during the course of an examination. If a subsequent report **does not** contain new items or adjustments, there is only one IRC 6404(g) notice date.

Example: A 1998 tax return is filed on April 15, 1999. The examiner issued Form 4549 on December 1, 2000, with a liability of \$4,000 due to a disallowed deduction for charitable contributions. The taxpayer provides proof for part of the deductions. The examiner revised and issued a report with a liability of \$2,500 on February 6, 2001. For this example, since the revised report does not contain new items/adjustments, the IRC 6404(g) notice date is December 1, 2000, and interest resumes December 23, 2000.

- (2) If a subsequent report contains new items or adjustments, there are separate IRC 6404(g) notice dates, so interest must be manually computed.

Example: A 1998 tax return is filed on April 15, 1999. Automated Underreporter (AUR) generated a CP 2000 notice on December 1, 2000, attributable to omission of interest income which resulted in a tax liability of \$4,000.

The audit was later transferred to the field and Form 4549 was issued on May 31, 2001, with a tax liability of \$6,000 based on the omission of interest income and disallowed charitable contributions. For this example, the IRC 6404(g) notice dates are December 1, 2000, for the liability of \$4,000 and May 31, 2001, for the additional liability of \$2,000. Interest resumes on the \$4,000 liability from December 23, 2000, and on the \$2,000 liability from June 22, 2001.

- (3) An amended return provided to the IRS before December 21, 2005, and an examination report issued for the same tax year but with different issues, qualify as separate notices for IRC 6404(g) purposes. Both notices (Form 1040-X and the examination report) were issued after the 18-month period therefore the liability and basis on both notices are subject to the IRC 6404(g) interest suspension. Interest on the liability and basis shown on each notice resumes on different dates.

Example: A 1999 tax return is filed on April 15, 2000. The IRS received a Form 1040-X on May 3, 2002, with a liability of \$998, due to unreported income. An examination report was issued on January 10, 2003, with a liability of \$6,908 and an accuracy related penalty of \$1,382, due to disallowed Schedule A and Schedule C deductions. For the Form 1040-X liability of \$998, interest resumes on May 25, 2002, and for the examination report liability of \$8,290, interest resumes on February 1, 2003.

20.2.7.8.5.2
(12-20-2023)

**Recording IRC 6404(g)
Notice Date**

- (1) Examiners (for example, Customer Service Representative (CSR), Tax Specialist, Revenue Agent, Appeals Technical Employee (ATE), and so on.) must notate "IRC 6404(g) does not apply" or "IRC 6404(g) does apply" and the date the notice was provided on the following forms or equivalent:
- Form 3198, Special Handling Notice for Examination Case Processing, and mark the appropriate boxes.
 - Form 4549 in the "Other Information" section of the report. See IRM 4.10.8, Examination of Returns, Report Writing.
 - Form 4605-A in the "Remarks" section of the report. See IRM 4.31.6, Pass-Through Entity Handbook, Investor Level Statute Control (ILSC) Pass-Through Examinations-CPF Procedures.
 - For Appeals, use a 6404(g) Worksheet and refer to instructions in IRM 8.20.6.17.3(10)(b).
- (2) The following "if and then" table provides instructions on which date the examiner will record as the IRC 6404(g) notice date.

IRC 6404(g) Notice Date

If the notice was	Then the IRC 6404(g) notice date is
Hand-carried to the taxpayer/representative	The date the notice was given to the taxpayer/representative.
Sent by regular mail to the last known address	The date of mailing the notice.
Sent certified by United States Postal Service (USPS)	The date of the USPS stamp.
An amended return	The date the amended return was received in the IRS office/campus.*

Caution: *All amended returns provided to the IRS on or **after** December 21, 2005, no longer qualify for IRC 6404(g) interest suspension.

- (3) If the Tax Court dismisses certain proposed penalties that disqualified the case from IRC 6404(g) interest suspension, Appeals must determine whether IRC 6404(g) applies; notate the case file, and provide the necessary IRC 6404(g) information to their processing function to correctly close the case. See IRM 8.20.6.17.3, Appeal Filed by Petitioner, No Bond Filed.

20.2.7.8.5.3
(12-20-2023)
**Input of IRC 6404(g)
Notice Date on Master
File**

- (1) The IRC 6404(g) notice date is recorded onto IDRS and Master File (MF) by the input of Transaction Code (TC) 971 and Action Code (AC) 064. Only input TC 971 AC 064 if notification was **not** made within the 36 (or 18) month period. Do not input TC 971 AC 064 if notice was provided **within** the 36 (or 18) months as this will adversely affect systemic interest computations on subsequent adjustments.
- (2) The IRC 6404(g) notice date is entered in the "TRANS-DT" field of command code FRM77, and the liability amount eligible for IRC 6404(g) interest suspension (for example, tax, penalties, addition to tax) must be entered in the "FREEZE-RELEASE-AMT" field. If a TC 971 AC 064 was inadvertently input, use TC 972 with AC 064 to reverse it. IDRS and Master File cannot correctly determine an interest suspension period when there is more than one tax increase (TC 29X or TC 30X) on a module, even if the TC 290 or TC 300 is for a zero (.00) amount followed by secondary transactions with money amounts.
- (3) The TC 971 AC 064 confirms the untimely issuance of the notice, and starts the systemic interest suspension routine and then stops the routine 21 days from the notice date.
- (4) Rev. Rul. 2005-4 released in January 2005 extended the IRC 6404(g) interest suspension to taxable amended returns. Rather than require taxpayers to file a claim, a decision was made to allow IRC 6404(g) interest suspension and adjust the interest on posted taxable amended returns. The following procedure was used to provide for systemic calculation of interest when the suspension applies and modules did not have a prior TC 290 (document locator number blocking series 500-519, 550-589, 600-619, 650-679), or a TC 30X:

- The received date of the amended return was entered in the “AMD-CLMS-DT” field of CC ADJ54.
- The received date of the amended return was also entered as the IRC 6404(g) notice date with TC 971 AC 064.
- The Master File program then calculated interest factoring in the applicable suspension period based upon the amended claims date and TC 971 AC 064 showing the same date.

20.2.7.8.6
(12-20-2023)
**IRC 6404(g) Interest
Computation**

- (1) Interest is systemically computed when there is only one IRC 6404(g) notice date and the module is not otherwise blocked from systemic calculation. The example below illustrates the systemic IRC 6404(g) interest suspension routine.

Example: A 1998 tax return is filed on April 15, 1999. The IRS sent an examination changes report on December 1, 2000, showing a liability of \$4,000 due to disallowed charitable contributions.

Interest computed on the liability of \$4,000 from 04/15/1999 to 10/16/2000 is \$536.21. The close of the 18-month period (10/14/2000) was a Saturday, so the next business day is the 18-month end date.

Interest is suspended on \$4,536.21 (tax and interest up to 10/16/2000) from 10/17/2000 (day after the 18-month end date) to 12/22/2000 (21 calendar days after the IRC 6404(g) notice date).

Interest resumes on \$4,536.21 from 12/23/2000 to the applicable interest stop date (waiver plus 30 days, 23C date, or payment date, whichever is earlier). Refer to IRM 20.2.5 , Interest, Interest on Underpayments , for underpayment interest stop dates.

- (2) Master File and IDRS cannot correctly compute underpayment interest with an IRC 6404(g) interest suspension when there is more than one TC 29X or TC 30X adjustment on the module. A TC 290 or TC 300 for a zero amount, with an accompanying penalty adjustment or change in refundable credits, is considered an adjustment. Interest must be manually computed and input in these instances. If not, the adjustment will unpost with Unpostable Code 155, Reason Code 1 (reactivated 07/01/2009).

Example: A 1998 tax return is filed on April 15, 1999. AUR generated a CP 2000 on December 1, 2000, due to the omission of interest income resulting in a tax liability of \$4,000. The case is transferred to the field office. Once in the field, an examination report, which included the omission of interest income plus disallowed contributions, was issued on May 31, 2001, with a tax liability of \$6,000. The taxpayer paid in full on July 27, 2001.

- To illustrate the interest routine that occurs when there are multiple IRC 6404(g) notices, we must separate the liabilities according to their notice dates. Interest computed on the liability from the **first** IRC 6404(g) notice (CP 2000) is computed as follows:

04/15/1999 to 10/16/2000 on \$4,000 = \$536.21

10/17/2000 to 12/22/2000 on \$4,536.21 = \$0.00 (suspend interest)

12/23/2000 to 07/27/2001 on \$4,536.21 = \$230.30 (resume interest)

- Interest computed on the liability from the **second** IRC 6404(g) notice (examination report) is computed as follows:

04/15/1999 to 10/16/2000 on \$2,000 = \$268.10

10/17/2000 to 06/21/2001 on \$2,268.10 = \$0.00 (suspend interest)
 06/22/2001 to 07/27/2001 on \$2,268.10 = \$16.28

Note: The total tax liability is \$6,000 with interest (TC 340 or non-restricting TC 340) of \$1,050.89.

- (3) A **6404(g) Recovery Project** (identified with TC 971 AC 199) was conducted to allow the IRC 6404(g) interest suspension on amended return (Rev. Rul. 2005-4) adjustments (not AUR or Exam) that posted to Master File on or before January 7, 2005. Due to the impacted volume of cases, an interest program was developed to systemically compute the correct amount of interest due. Systemic computation of interest for the 6404(g) Recovery Project followed the above computations, with one exception:

Example: For example the interest suspension period ended 21 calendar days after the 23C date of an amended return adjustment (23C date of TC 290). Taxpayer Z, with a TC 290 posting date of 12/30/2004 (23C date), would have an interest suspension end date of 01/20/2005. The difference between the posted interest and the systemically computed interest was abated (or assessed via CC ADJ54 by employees in the Andover and Memphis campuses). Although these interest adjustments posted with document code 54, they are treated as a systemic action. Where the start of the interest suspension period was a Saturday, the program developed for this recovery project did not suspend interest until the next business day.

- (4) Technically, the return due date or return filed date, whichever is later, is the start of the 36-month (or 18-month) notification period. In order to bring about consistent IRC 6404(g) interest computations throughout IRS, a decision was made to use the date shown in the **return received date** field of CC TXMODA (or CC IMFOLT) as the start of the 36-month (or 18-month) notification period. The field is visual and the date, once entered, is set. Most of the time, the field contains the return due date or filed date rather than the received date of the return. Master File and IDRS use the date in this field for its IRC 6404(g) systemic interest routine. When manually computing and updating interest on the module, use the later of the return due date or return filed date as shown on the return.
- (5) Interest suspension on **listed transactions** and **undisclosed reportable transactions** ended on 10/03/2004 under section 903 of the American Jobs Creation Act of 2004, so the accrual of interest on these cases resumed on 10/04/2004. Examiners must correctly flag the portion of the liability attributed to undisclosed reportable/listed transactions on Form 3198 before sending the cases to Centralized Case Processing to close.

20.2.7.9 (12-20-2023) **IRC 6601(c), Suspension of Interest on Deficiencies**

- (1) Per IRC 6601(c), a deficiency as defined in IRC 6211 (relating to income, estate, gift and certain excise taxes) qualifies for an interest suspension if a notice and demand for payment is not issued within 30 days after a **filed** waiver, that is either (1) IRS receives a signed waiver (both spouses must sign the waiver on married filing joint returns), or (2) a waiver is executed by an IRS official.
- (2) Do not compute interest on the deficiency (or on the interest on the deficiency) for the period beginning on the 31st day after the waiver filing date and ending

on the notice and demand date (typically the 23C date). Since Master File (MF) programming will suspend underpayment interest during this period, it is not necessary to manually compute interest on the tax module for this reason alone. However, Master File programming cannot accurately compute interest involving more than one IRC 6601(c) suspension period. Therefore, manually compute interest on those tax modules and assess interest with TC 340 or a non-restricting TC 340. For more information on the use of a non-restricting TC 340, see IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340.

Caution: The input of an underpayment notice **hold code** with the adjustment will extend the IRC 6601(c) interest suspension period past the 23C date.

- (3) The most common waiver form is Form 870, Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment. Thus, agreements are often referred to as **870 waivers**. Other forms used by the IRS for applying IRC 6601(c) include but are not limited to the following:
- a. Form 870 AD, Offer to Waive Restrictions on Assessment and Collection of Tax Deficiency and to Accept Overassessment.
 - b. Form 890, Waiver of Restrictions on Assessment and Collection of Deficiency and Acceptance of Overassessment-Estate, Gift, and Generation-Skipping Transfer Tax.
 - c. Form 4089, Notice of Deficiency-Waiver.
 - d. Form 4549, Income Tax Examination Changes.

Caution: Whether or not a Substitute for Return (SFR) has posted does not affect the application of IRC 6601(c) interest suspension. Therefore, taxpayers may be entitled to an interest suspension if they meet the requirements of IRC 6601(c) after signing Form 870, Form 870 AD, Form 890, Form 4549, regardless of whether a Substitute for Return (SFR) has posted. Additionally, IRC 6601(c) interest suspension does not apply unless there is a deficiency. Therefore, taxpayers are not entitled to an interest suspension under IRC 6601(c) after filing a delinquent return if there is no longer a deficiency in the taxpayer's tax, regardless of whether a SFR has posted. If there is a deficiency amount in excess of the tax as shown on the secured delinquent return, that amount may qualify for an IRC 6601(c) interest suspension.

- (4) For TEFRA tax years starting after August 5, 1997, if an agreement is secured on Form 870 PT, Agreement for Partnership Items & Partnership Level Determinations as to Penalties, Additions to Tax, and Additional Amounts, Form 870 LT, Agreement for Partnership Items & Partnership Level Determinations as to Penalties, Additions to Tax, and Additional Amounts and Agreement for Affected Items, Form 870 PT (AD), Settlement Agreement for Partnership Items and Partnership Level Determinations as to Penalties, Additions to Tax, and Additional Amounts, or Form 870 LT (AD), Settlement Agreement for Partnership Items and Partnership Level Determinations as to Penalties, Additions to Tax and Additional Amounts and Agreement for Affected Items, the agreement date is the date the form is executed by an IRS official (or signed on behalf of the Commissioner). For more information on TEFRA agreements, see IRM 4.31.2.6.2.8, Agreed Cases, and IRM 4.31.3.12.7, Completion of Form 5344 - Examination Closing Record.

- (5) Excise tax imposed by Chapters 41 through 44 (IRC 4911 through IRC 4982) are subject to deficiency procedures and therefore qualify for IRC 6601(c) interest suspension.
- (6) The date the IRS receives a signed waiver or executes the waiver on behalf of the Commissioner is displayed in the "870-DATE>" field on the transcript of account (TXMODA, IMFOLT OR BMFOLT). For Automated Underreporter Programs (AUR) agreed adjustments, the waiver date shows in the "CR-INT-DT>" field on the transcript of account. See IRM 4.19.3.21.10.1(8), The Assessment Window, for additional information.

Caution: Entering an agreement date in the **870-DATE** or in the **CR-INT-DT** fields when IRC 6601(c) does **not** apply will trigger an unauthorized interest suspension. Do not do so.

20.2.7.9.1
(12-20-2023)
**IRC 6601(c) Suspension
Period Calculation**

- (1) Prior to July 2015, reversals of certain tax credits included on either the examination changes report or on the IRC 6601(c) waiver form, (for example, Form 870) required manual computation and updating of interest with TC 340. Rebate credits (for example, economic stimulus, recovery rebate) are an exception to the manual interest computation because those credits were reversed using the same transaction date as originally allowed. Thus, rebate credits do not receive an IRC 6601(c) interest suspension period. Manual interest updates are no longer required for adjustments posted in July 2015 and later.
- (2) The IRC 6601(c) interest suspension period applies only to the tax, credit reversals, penalties, and interest related to the TC 30X (or TC 29X for AUR) assessment. The example below shows the effect of a suspension period on an interest computation.

Example: A Form 1040 examination resulted in a tax increase of \$5,875 for the 2005 tax period. The IRS received a signed agreement to the tax increase on July 28, 2008. Interest on the tax, that accrued from the return due date to 30 days past the waiver date (August 27, 2008), is \$800.52. The notice and demand date (23C date) is September 8, 2008. Suspend interest on the additional tax (\$5,875) and related interest (\$800.52) from the 31st day after the filed waiver date (August 28, 2008) until the notice and demand date (23C date); September 8, 2008.

- (3) The reallocation of payments and credits for purposes of computing an interest suspension is a methodology no longer supported by the IRS. If a previous interest suspension amount was computed using the reallocation method, that adjustment should not be changed to the current method, but current and any future computations should be computed using the following method. Below are some scenarios of how to handle a payment allocation when an interest suspension period applies to an underpayment interest adjustment. When computing an interest suspension, for example, for IRC 6404(g) or IRC 6601(c) (also known as the 870 waiver), do **not** reallocate payments that have been previously used to pay assessed penalty and or interest for another assessment.

Example: A taxpayer sends a payment of \$6,000 which is used to pay the original tax of \$5,000, penalties of \$800 and interest of \$200. Later, there is an audit and the taxpayer agrees to \$2,000 in additional tax. The \$1,000

previously applied to penalties and interest should **not** be reallocated for purposes of computing an interest suspension. The liability amount subject to the suspension period will be based on the \$2,000 additional tax and its associated interest.

- (4) When calculating the IRC 6601(c) interest suspension amount, consider only the pertinent tax liability (including adjustments to refundable credits), and any related penalties, payments, and or credits associated with the filed waiver (for example, Form 4549, Form 870, and so on.). Also consider all module conditions at the time of calculation, and the proper application of all interest related laws, revenue rulings, revenue procedures, and so on. This includes all currently available credits that will be used to offset into the module to help pay this assessment.

Example: Using the same scenario as in the previous example, but in addition to the \$2,000 in tax, there is also an accuracy related penalty of \$400, a withholding credit of \$72 and an EIC recapture of \$84. The interest suspension amount will be based on the adjustment items directly attributable to the audit assessment; \$2,000 additional tax, related penalty of \$400, withholding credit of \$72 and EIC recapture of \$84, **plus** accrued interest to the beginning of the suspension period. Ensure that offsets into the underpayment module are applied and processed at the same time as the underpayment adjustment.

Example: After the audit of a taxpayer's 2018 and 2019 returns, he has a \$4,500 overpayment for 2019 that he wants applied to his \$8,000 underpayment for 2018. For the 2018 year, he pays the tax difference of \$3,500 and wants to be billed for any interest. The \$4,500 must be considered as a payment as of the availability date, in this case the 2019 return due date, when computing the interest suspension amount. Ensure that offsets into the underpayment module are applied and processed at the same time as the underpayment adjustment, so that Master File can consider it during the systemic interest computation.

- (5) Check CC SUMRY, IMFOLI or BMFOLI to make sure there are no pending credits that will be offset into the module. Also, a taxpayer's payment that is meant for tax liabilities for different tax years may post to only one module. Carefully analyze the case file to determine the taxpayer's intent as it relates to payments on the module when computing interest involving an 870 waiver.

Example: The taxpayer has agreed to \$14,000 total underpayment for 2016, 2017, and 2018. The examination changes report shows he owes \$3,000, \$5,000, and \$6,000, respectively. He writes a check for \$14,000 which is posted to the 2016 module instead of being divided as per the taxpayer's request. Unless interest is manually computed and input for another reason, move the payments to the modules the taxpayer intended and IDRS will correctly compute the interest suspension amount for each module.

- (6) After the interest suspension amount is determined, it is then used in the running module balance, suspending interest on that amount starting from 30 days after the filed waiver date and ending on the earlier of the date full paid or the notice and demand date (23C date). It is important to remember to stop the suspension on the date the liability becomes full paid in case there are

later adjustments. Also, if there is an underpayment event that occurs in the middle of the suspension period, the suspension will stop and start again with the increased balance.

- (7) Another way to compute the IRC 6601(c) interest suspension amount is to perform two separate interest computations **with** and **without** the adjustment and related transactions that are entitled to the interest suspension period. Stop both computations on the interest suspension period start date. Then, take the **interest difference** between the two computations and add all of the waiver related adjustments to arrive at the actual interest suspension amount. This second method is how Master File determines the interest suspension amount.
- (8) When computing the interest suspension amount, prior overpayment interest-free suspension periods should be considered. For example, refunds received without interest. See IRM 20.2.5.7, Revenue Ruling 99-40, Use of Money, for Rev. Rul. 99-40 adjustments. If there is a credit on the module due to an overpayment or abatement of tax, then it should also be used in the interest suspension computation amount for a subsequent assessment.

Example: An examination of the Form 1120, U.S. Corporation Income Tax Return, of STUVW, Inc. for the tax period ending December 31, 2017, is assessed a tax increase of \$8,200. The interest suspension is computed on the \$8,200 using Rev. Rul. 99-40, with interest beginning at 04-15-2018, not 03-15-2018. Later, the IRS accepts and processes a Form 843, Claim for Refund and Request for Abatement, requesting an additional Rev. Rul. 99-40 benefit. Based on a Form 2220, Underpayment of Estimated Tax by Corporations, for the subsequent tax year, and using the equal installment method, the assessment is divided evenly among the four installments with underpayment interest beginning on April 15, 2018, June 15, 2018, September 15, 2018, and December 15, 2018. Change the interest suspension amount to include the greater benefit of Rev. Rul. 99-40 because, based on IRM 20.2.5.7.2, Revenue Ruling 99-40 and Credit Elects (May/Sequa), it should have been considered at the time the initial suspension amount was determined.

- (9) If the original interest suspension amount was properly determined at the initial calculation, subsequent module activity should not alter the interest suspension amount. **Once the interest suspension amount has been determined, it should not be changed unless an error has been identified.**

Example: A wrong 870 waiver date was previously used.

Example: An examination of a Form 1120, of DEFGH Corp. for the tax period ending December 31, 2017, results in a tax increase of \$2,000,000. Prior to assessment, the taxpayer sends an electronic funds payment of \$2,000,000, which the IRS posts as an estimated tax payment (TC 660) to tax period 2019. The 870 waiver interest suspension does not include the payment. The taxpayer notifies IRS that the payment was designated to be an advanced payment on the 2017 deficiency. The underpayment interest suspension amount must be recalculated.

- (10) A subsequent TC 291/301 to reduce the tax does **not** change the interest suspension amount previously computed.

Example: An examination of the Form 1120 of GHIJK Corp. for the tax period ending December 31, 2019, results in a tax increase of \$9,000. The interest suspension is computed on the \$9,000 tax increase. Later, the IRS reduces the 2019 tax by \$500. The systemic interest routine by IDRS/MF and ACT/DML automatically considers the prior suspension amount which is not affected by any later tax abatement.

- (11) Since payments are applied to liabilities in effective date order, undesignated payments may be applied to certain penalties before tax.

Example: An undesignated payment is applied to an assessed failure to file penalty on a 2014 Form 1040 with an underpayment interest start date of 04-15-2015, before it is applied to a math error adjustment for the same return that was posted by an IRS employee on 04-20-2015, which carries an underpayment interest start date of 05-20-2015 (30 days past the adjustment notice date). For more information on application of payments, see IRM 20.2.5.2.1, Application of Payments.

Note: This IRM cannot address every possibility that may arise regarding payment allocation. If needed, please contact your designated technical lead or manager for assistance.

- (12) A copy of how the interest suspension amounts were determined should be included with the interest computation that is attached to the input document and case file, especially when there are multiple suspension periods.

Reminder: When more than one IRC 6601(c) suspension date is present on a tax module (due to multiple assessments), multiple interest suspension computations will be required.

20.2.7.9.2
(12-20-2023)
**Types of Deficiencies
Ineligible for an IRC
6601(c) Interest
Suspension**

- (1) Agreed cases closed by Exam via a Form 906, Closing Agreement on Final Determination Covering Specific Matters, do **not** receive an interest suspension period under IRC 6601(c) (often referred as the “870 waiver suspension”). The form by itself does not constitute a waiver. See IRM 8.13.1, Processing Closing Agreements in Appeals, for more information on interest and waivers on closing agreements.

20.2.7.10
(12-20-2023)
**IRC 6601(e)(3), Notice
and Demand
Suspension**

- (1) When a notice and demand is issued for a balance due, the taxpayer has a limited time period to pay the amount shown before additional interest resumes. See IRC 6601(e)(3).
- For notice and demand issued **before** January 1, 1997, if the amount shown on the notice is paid within **10 calendar days**, additional underpayment interest was not computed.
 - For notice and demand issued **after** December 31, 1996, follow the “If/And/Then” chart below:

Notice grace period

If the amount shown on the notice	And	Then
is less than \$100,000	is paid within 21 calendar days,	additional interest is not computed.
equals or exceeds \$100,000	is paid within 10 business days,	additional interest is not computed.

#

- (2) The notice grace period only applies **after** a notice and demand for payment goes out to the taxpayer showing an amount owed (including accruals). It does not apply to payments made before there is an assessment of tax, even if the payment posted as a TC 670.
- (3) The issuance of notice and demand is identified on Master File or IDRS by Notice Status Codes 19, 20, 21, 54, 56, and 58.
- (4) A Collection due process notice allows 30 days to pay. Per IRC 6330 these notices are delivered to the taxpayer before the property is levied or seized. This condition is identified by Transaction Code (TC) 971, Action Code (AC) 069. Additionally, the Federal Payment Levy Program (FPLP), identified by TC 971 AC 169, allows 30 days to pay. The FPLP attaches federal disbursements due an individual or business, such as, retirement, vendor/contractor payments, and social security.

#

- (5) Offsets from another module of the same or a different taxpayer are to be treated as payments when determining if the notice grace period applies. This applies to offsets of overpayments, as well as offsets of overpayment interest. See IRM 20.2.5.13, Underpayment Interest on Liabilities Paid by Credit/Offset.

#

applied by the IRS computer systems when a foreign address is present; this includes APO, FPO, and DPO addresses. When interest is manually computed, the 45-day grace period must be used instead of the normal 10/21 days for U.S. taxpayers who live in a foreign country.

- (7) IRC 6603 deposits are remittances made **prior** to a notice date. They stop interest, but are **not** considered payments in lieu of an agreement. Thus, they generally don't receive the notice grace period under IRC 6601(e)(3), unless the remittance was processed incorrectly. For example, the remittance posted as a TC 640, when it should have posted as a TC 670. See IRM 20.2.4.8.2, IRC 6603 Deposits, for more information.

20.2.7.11
(12-20-2023)

IRC 7508, Combat Zone

- (1) IRC 7508 prescribes a period of time to **disregard** when determining the liability of individuals who serve in a combat zone (CZ). Disregard interest accrual during the time period a taxpayer is located in one of the following:
 - a. An area designated as a combat zone.
 - b. A contingency operation designated by the Department of Defense (DOD).
 - c. A qualified hazardous duty area as defined by Congress.
 - d. Direct support of military operations in a combat zone certified by the DOD.
- (2) A Master File (MF) -C freeze on a module indicates a combat zone participant. The MF -C freeze remains on the account even after the taxpayer is no longer active in a CZ. When working an account that contains a MF -C freeze, additional research is required to determine the taxpayer's CZ status.
- (3) A combat indicator of "1", on the entity portion of a taxpayer's account, identifies a taxpayer currently serving in a combat zone. Any compliance activity such as assessing or collecting tax is prohibited. However, if the taxpayer has other issues or requests information, you may work these other issues and contact the taxpayer, if needed. A combat indicator of "2" is a taxpayer who is no longer in a combat zone. Refer to your functional area IRM when researching or working combat zone cases.
- (4) The transaction date of TC 500 with Closing Code 52, 54, or 56 is the date the taxpayer entered a CZ, and the transaction date of TC 500 with Closing Code 53, 55, or 57 is the date the taxpayer exited a CZ.
- (5) TC 500 CC 58 will be used when a combat zone veteran has been hospitalized due to injuries sustained in a combat zone. Upon input of the TC 500 CC 58 an indicator 3 will systemically update to IMFOLE signifying that the taxpayer is hospitalized. Upon their exit from the hospital a new TC 500 CC 59 will be input, and IMFOLE will systemically update to an indicator 2 (no longer in a combat zone). The TC 500 CC 58 will mirror the existing functionality of the TC 500 CC 52/54/56 by extending the ASER, suspending interest and penalties, and preventing collection, however, it will not prevent the extension of the CSER for the duration of hospitalization. TC 500 CC 59 will mirror the existing functionality of the 53/55/57 and allow for the re-entry into active collection 180 days from posting. See IRM 5.19.10.6.3, Combat Zone Freeze Codes.

20.2.7.11.1
(11-13-2018)

**Time Disregarded by
Reason of Combat Zone
Service**

- (1) The "period of time" to disregard for the purpose of performing **certain acts** because of service in a combat zone (CZ) starts when an individual enters a CZ and ends 180 days after exit from the CZ. Time in a combat zone includes all continuous time spent in a hospital outside the U.S., and up to 5 continuous years spent in a hospital inside the U.S., due to injuries sustained while in a combat zone. If a taxpayer enters or exits a CZ during a 'period of time' to perform certain acts, the CZ suspension period is extended that many more days in order to perform these acts. Certain acts may include, but are not limited to, the filing of a tax return, filing of a claim for refund, or petitioning the Tax Court.
- (2) With regard to return due dates (RDDs), this date may be further extended per Rev. Rul. 76-425. If a taxpayer is in a CZ during any given tax year, disre-

garded time can be extended for any part of the missed filing season period. The extension is calculated with consideration for the date of entry, the date of exit, and the tax filing season.

- Date of entry is the date the taxpayer entered the CZ identified by a TC 500 with closing code (CC) 52, 54, or 56.
 - Date of exit is the date the taxpayer exited the CZ identified by a TC 500 with CC 53, 55, or 57.
 - The “tax filing season” means that time from January 1 until the regular tax filing due date for the prior year. For example, for tax year 2016, the tax filing season was January 1, 2017, until April 18, 2017. Extensions of this time period can be referred to as “grace” time.
- (3) The following four scenarios provide guidance when determining the number of days to disregard (or exclude) when determining return due dates (RDDs) for the purpose of computing underpayment interest on a CZ individual income tax module.

Combat Zone Time Disregarded Scenarios

Scenarios	Example
<p>Scenario 1: If the taxpayer entered the CZ during a tax filing season, disregard time from the date the taxpayer exited the CZ as follows:</p> <ul style="list-style-type: none"> For the prior year's return, the taxpayer's time to file is extended by 180 days plus however many days were left in that filing season for the prior year's tax return as "grace" time. For the current year's return, the taxpayer's time to file is extended by 180 days plus the length of the full tax filing season as "grace" time. If the extension (including "grace" time) results in a date prior to the regular filing season due date, the return will be due on the regular filing season due date. 	<p>Example: 1 Taxpayer enters CZ on April 1, 2014, and exits CZ on August 1, 2014, plus 180 days = January 28, 2015 (end of the 180 days disregarded period).</p> <ol style="list-style-type: none"> 2013 return will be due February 11, 2015 (add the 14 filing season days or "grace time" to the end of the 180 day disregarded period.) CZ interest suspension from 04-15-2014 to 02-11-2015. 2014 return will be due on its regular return due date April 15, 2015. The disregarded period overlaps the filing season period from 12-31-2014 to 01-28-2015, which is 28 days. Add 28 days to the disregarded period end date is 02-25-2015, which is prior to the regular return due date, therefore, the return is due on the regular due date. No CZ interest suspension. 2015 return will be due April 15, 2016. The disregarded period ends prior to the regular return due date, therefore, use the regular return due date. No CZ interest suspension.
<p>Scenario 2- If the taxpayer entered the CZ during a tax year, but after the filing season for the prior year's return has passed, disregard time from the date the taxpayer exited the CZ as follows:</p> <ul style="list-style-type: none"> For the prior year's return, the taxpayer's time to file has already passed. The length of time in the CZ plus 180 days is disregarded for purposes of calculating interest. For the current year's return, the taxpayer's time to file is extended by 180 days plus the length of the full tax filing season as "grace" time. If this extension (including "grace" time) results in a date prior to the regular filing season due date, the return will be due on the regular filing season due date. 	<p>Example: 2 Taxpayer enters CZ on May 1, 2014, and exits CZ on October 1, 2014 plus 180 days = March 30, 2015 (end of the 180 days disregarded period.)</p> <ol style="list-style-type: none"> 2013 return due date was already past upon entry to CZ. Disregard the time from the CZ entry date to the CZ exit date plus 180 days, or March 30, 2015. 2014 return will be due June 27, 2015. The 180 day disregarded period overlaps the filing season period from 12-31-2014 to 03-30-2015, which is 89 days. Add 89 days to the end of the disregarded period. 2015 return will be due April 15, 2016. The 180 day disregarded period ends prior to the regular return due date, therefore, use the regular return due date.

Scenarios	Example
<p>Scenario 3 If the taxpayer was in the CZ for more than one tax year or tax filing season, disregard time from the date the taxpayer exited the CZ as follows:</p> <ul style="list-style-type: none"> • For the prior year's return with entry during the tax season, the taxpayer's time to file is extended 180 days plus however many days were left in that filing season for the prior year's tax return as "grace" time. • For the interim and/or current year(s) returns, the taxpayer's time to file is extended by 180 days plus the length of the full tax filing season. If this extension (including "grace" time) results in a date prior to the regular filing season due date, the return will be due on the regular filing season due date. 	<p>Example: 3 Taxpayer enters CZ on April 1, 2014, and exits CZ on June 1, 2015, plus 180 days.</p> <ol style="list-style-type: none"> 2013 return will be due December 12, 2015 (180 days plus 14 filing season days from the 2013 filing season added to the CZ exit date.) CZ interest suspension from 04-15-2014 to 12-12-2015. 2014 return will be due March 12, 2016 (180 days plus the full 2014 filing season of 105 days added to the CZ exit date.) CZ interest suspension from 04-15-2015 to 03-12-2016. 2015 return will be due April 15, 2016. (because the 180 days plus the full 2015 filing season of 109 days grace time added to the CZ exit date reaches a date (03-16-2016) that is earlier than the regular due date, the return will be due at the regular due date.)

Scenarios	Example
<p>Scenario 4- If the taxpayer re-enters the CZ during the suspension period, disregard time from the date the taxpayer exited, the taxpayer's time to file is extended by another 180 days plus unused prior grace time.</p> <ul style="list-style-type: none"> The 180 day period expires first. 	<p>Example: 4 Taxpayer enters CZ on March 1, 2014, and exits CZ on January 15, 2015, plus 180 days = July 14, 2015 (end of the first CZ 180 days disregarded period). Taxpayer re-enters CZ on July 29, 2015, and exits CZ again on September 1, 2015, plus 180 days = February 28, 2016 (end of the second CZ 180 day disregarded period).</p> <p>a. 2013 return will be due March 29, 2016 (180 days plus 30 days remaining from the prior grace time.) After the initial exit from the CZ, the 2013 return would have been due August 28, 2015 (180 days plus 45 days left in the 2013 filing season grace time added to the CZ exit date.) But because taxpayer re-entered the CZ during disregarded time, the filing due date is recalculated with a new 180 days plus unused prior grace time. CZ interest suspension from 04-15-2014 to 03-29-2016.</p> <p>b. 2014 return will be due May 28, 2016. The first CZ disregarded period overlapped the entire filing season (105 days), or October 27, 2015, except the taxpayer re-entered the CZ July 29, 2015, with 90 days filing season period remaining. Since the taxpayer re-entered the CZ during the disregarded period, a new 180 days plus unused filing season days are added to the end of the second CZ exit date. CZ interest suspension from 04-15-2015 to 05-28-2016.</p> <p>c. 2015 return will be due June 13, 2016 (180 days plus the full 2015 filing season of 106 days grace time added to the second CZ exit date. There was no overlap of CZ periods for the 2015 tax return.</p>

20.2.7.11.2
(12-20-2023)

Combat Zone Interest Suspension

- (1) The Master File and IDRS programs **can** correctly compute and suspend interest (and penalties) on combat zone (CZ) accounts if there is one CZ period, or in the case of multiple CZ periods, if the taxpayer reenters the CZ outside of the disregarded period. For example:

Multiple CZ Periods

TC 500 04/29/2006 cc 52, TC 500 12/10/2006 cc 53 (plus 180 days = 06-08-2007)

Multiple CZ Periods

TC 500 10/08/2007 cc 56, TC 500 06/08/2008 cc 57 (plus 180 days = 12-05-2008)

Example: 2005 Form 1040 tax year. Suspend interest on the liability from 04-29-2006 to 06-08-2007 (add 180 days to the first CZ exit date). Then suspend interest for the second CZ period from 10-08-2007 to 12-05-2008 (add 180 days to the second CZ exit date).

- (2) Where there are multiple in and out CZ periods and the taxpayer reentered the CZ within the disregarded period, Master File and IDRS **cannot** correctly compute interest. Therefore, manually compute interest and use TC 340 to assess interest on the module. For information on the use of TC 340, refer to IRM 20.2.5.6.2, Manual Computations, or non-restricting TC 340, refer to IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340. In this instance, where the taxpayer reentered the CZ within the disregarded period, the CZ period is considered as one continuous period starting from the first CZ entry date up through the last CZ exit date.

Multiple CZ periods within the disregarded time period tour

TC 500 04-29-2006 cc 52, TC 500 12-10-2006 cc 53 plus 180 days = 06-08-2007 (end of the 180 day disregarded period).

TC 500 05-31-2007 cc 56, TC 500 06-08-2008 cc 57 plus 180 days = 12-05-2008 (end of the 180 day disregarded period).

Example: 2005 Form 1040 tax year. Taxpayer entered the CZ after the return due date. Suspend interest on the liability from 04-29-2006 (the 1st CZ entry date) to 12-05-2008 (180 days after the second CZ exit date).

Example: 2006 Form 1040 tax year: The first CZ disregarded period overlap the entire filing season, therefore, add 105 days to the end of the second CZ disregarded period. The return is due March 20, 2009. Suspend interest on the liability from 04-15-2007 (return due date, RDD) to 03-20-2009 (180 days plus 105 full filing season days to the second CZ exit date).

Example: 2007 Form 1040 tax year: There is no overlap of CZ periods because the first CZ period plus 180 days disregarded period started 04-29-2006 and ended 06-08-2007, before the end of the 2007 tax period. However, you would add 180 plus 106 (the entire filing season (leap year) period) days to the CZ exit date, and suspend interest from 04-15-2008 to 03-21-2009. 2007 tax year started January 1, 2007. The 2007 tax return is due March 21, 2009.

20.2.7.11.3
(11-13-2018)
**Combat Zone
Overpayment**

- (1) Pursuant to IRC 7508(b)(2), all 45-day interest-free processing under IRC 6611(e), will not apply to overpayments that originate from combat zone (CZ) tax modules, provided the original tax return is timely filed (determined by taking into account IRC 7508 provisions). Including the 45-day interest-free periods for the following:

- a. Original return overpayments—IRC 6611(e)(1)
- b. Amended return overpayments—IRC 6611(e)(2)
- c. IRS-initiated adjustments—IRC 6611(e)(3)

Example: CZ taxpayer with refunds from tax years 2010 and 2011. Taxpayer in a CZ from 12/01/2011 up through 02/28/2012. Since the 2010 tax return was due prior to the combat zone entry date, overpayment interest on the refund is subject to both the late filing return rule and the 45-day interest free processing rule. The 2011 tax return was timely filed per IRC 7508, and is not subject to the 45-day interest free period.

- (2) **Do not** enter an amended claims date (AMD-CLMS-DT) on a timely filed return with a CZ indicator. An amended claims date would trigger the 45-day back-off rule causing less overpayment interest to be paid on the refund. For all overpayment interest rules, see IRM 20.2.4, Overpayment Interest.
- (3) **Do not** enter a Priority Code 3 for an IRS-initiated adjustment on command codes AMCLS or ADJ54 when the CZ indicator is present. A Priority Code 3 will also trigger the 45-day back-off rule, which rule does not apply to timely filed combat zone tax returns.

20.2.7.11.4
(05-09-2014)
**Prisoners of War (POW)
and Persons Missing in
Action (MIA)**

- (1) IRC 7508(c) entitles the spouse of a service person to the same postponement acts: an extension of time for filing and paying taxes. Other than a spouse of a service person from the Vietnam conflict, this rule does not apply to the spouse of a service person for any taxable year beginning more than two years after the date designated as the termination date of combat.
- (2) IRC 7508(d) provides that the period of service in a CZ includes the period during which a person is missing in action. For more information on CZ, see IRM 5.1.7.9, Accounts of Taxpayers Who Serve in a Combat Zone; IRM 5.19.1.5.11, Killed in Terrorist Action (KITA), Killed in Action (KIA), and Astronauts Killed in the Line of Duty; and Pub 3, Armed Forces' Tax Guide.

20.2.7.12
(12-20-2023)
Military Deferment

- (1) Under the Servicemembers Civil Relief Act (Title 50x, Section 4000, United States Code), a taxpayer in the Armed Forces (not in a combat zone) having a liability that was due before entering military service and whose ability to pay has been materially affected by joining the military service, may request to defer payment of the liability; otherwise known as military deferment. If granted, no interest will accrue during the deferral period, which starts from the day the taxpayer reports for active duty up through 180 days after release from military service (initial period of military service).
- (2) Collection (**Compliance Services Collection Operations**) will determine a taxpayer's eligibility for military deferment and input the identifying codes on the affected tax module; TC 500 with closing code 50 or 51 (closing code 51 is valid after 2003).

Note: Military deferment does not apply to an employee's share of social security and medicare taxes.

- (3) Members of the armed forces who **do not qualify for military deferment** may be eligible for a decrease in interest rate. The decrease in interest rate applies to an outstanding tax liability "incurred prior" to entering the military service (Title 50 Appendix, Section 3937, United States Code). The rate of interest

charged on tax liabilities incurred prior to entering the military service will be the applicable rate up to a maximum interest rate of 6% and only during the period of initial military service. Manually compute and assess interest during periods where the applicable interest rate exceeds the maximum 6%.

- (4) Military deferment cases are maintained by Centralized Case Processing Operations, Field Operations Resource Team (FORT) in Philadelphia. At the end of the deferral period, FORT will compute and assess interest accordingly. For more information on military deferment cases, refer to IRM 5.1.7.13.2, Interest and Limitation on Collection; IRM 5.19.1.5.11, Killed in Terrorist Action (KITA), Killed in Action (KIA), and Astronauts Killed in the Line of Duty, and Pub 3, Armed Forces' Tax Guide.

20.2.7.13
(12-20-2023)
IRC 7508A, Authority to postpone certain deadlines by reason of Federally declared disaster, significant fire, or terroristic or military actions

- (1) **For disasters declared after 12/31/1997 and before 09/11/2001**, where the IRS granted an extension of time to file (IRC 6081) and an extension of time to pay (IRC 6161) for a taxpayer located in a federally declared disaster area, IRC 6404(h) authorized the abatement of interest and penalties during the declared disaster period plus the time covered under the extension to file and the extension to pay.
- (2) **For disasters declared on or after 09/11/2001**, IRC 7508A authorizes the IRS to disregard (exclude) a period of up to one year when determining the interest liability for a taxpayer affected by a federally declared disaster. After each federally declared disaster, the IRS issues guidance detailing the type of relief given, the period of time relief is granted, and details of taxpayers eligible for the disaster relief. Most taxpayers "affected" by a federally declared disaster are systemically identified with a TC 971 and AC 086, 087, or 688. A taxpayer who was not systemically identified will have to self-identify by writing the name of the disaster across the top of his or her tax return that was affected by the disaster. See IRM 25.16.1.3, Identification of Covered Disaster Area, Postponement Period, and Affected Taxpayers.
- (3) When adjusting interest on a module where the disaster information was manually input, go to the *IRS Assistance Disaster Program* website to verify the effective dates of the applicable disaster or the *Organizational Support & Continuity of Operations* website.

#

20.2.7.13.1
(12-20-2023)
IRC 7508A Interest Computation

- (1) For a taxpayer meeting IRC 7508A criteria, suspend interest during the declared disaster period for which the IRS has granted a postponement of time to pay. The disaster period interest suspension should only apply to tax returns having an original return due date that falls **within** the disaster period. For disasters occurring before January 1, 2015, the interest suspension period applies to tax returns having an original or extended return due date that falls within the disaster period. Effective for disasters occurring on or after January 1, 2015, only those tax returns having an original return due date that falls within the disaster period qualify for interest suspension. IDRS and Master File will calculate the interest suspension automatically, so long as there are no conditions preventing systemic interest calculation on the tax module. Provided below are examples to help determine if a taxpayer qualifies for an IRC 7508A interest suspension.

Example: A 2014 Form 1040 with an original return due date of 04-15-2015. The taxpayer was affected by a federally declared disaster, which disaster the IRS granted a filing and payment relief from 03-22-2015 to 10-15-2015. Since the original return due date falls within the disaster period, suspend interest from the original return due date of 04-15-2015 to 10-15-2015.

Example: A 2014 Form 1120 with an original return due date of 03-15-2015. The taxpayer was affected by a federally declared disaster, which disaster the IRS granted a filing and payment relief from 03-22-2015 to 10-15-2015. There is no interest suspension because the **original** return due date is outside (or before the start) of the disaster period.

Example: A 2014 Form 1040 with an extension of time to file to 10-15-2015. The taxpayer was affected by a federally declared disaster, which disaster the IRS granted a filing and payment relief from 09-01-2015 to 12-31-2015. There is no interest suspension because the **original** return due date is outside (or before the start) of the disaster period.

- (2) For disasters occurring **prior** to January 2015, an affected taxpayer with an extension of time to file date that falls within the disaster period was granted interest relief.

Example: Tax year 2006 Form 1040 with an extension of time to file to 10-15-2007, when severe storms and flooding occurred on 08-18-2007 in the county where the taxpayer resides. The President declared the area a disaster and the IRS granted a filing and payment relief from 08-18-2007 to 11-15-2007. Suspend interest on this module from 08-18-2007 through 11-15-2007.

Example: Same taxpayer as mentioned above, except there is another tax year with a liability, Form 1040 for 2005. The tax year 2005 liability does **not** qualify for disaster relief because its return due date is prior to the declared disaster period.

- (3) A taxpayer affected by a disaster who receives a bill for interest or penalties accruing during the disaster (or postponement) period should contact the IRS to request an abatement of interest or an abatement of penalties. Tax years with pre-existing liabilities that are due before or after a disaster period do not qualify for disaster interest relief under IRC 7508A.
- (4) For more information on declared disaster cases, refer to IRM 25.16.1, Program Guidelines.

20.2.7.14
(12-20-2023)
**Request for Interest
Abatement**

- (1) If any of the interest provisions mentioned throughout this IRM section was overlooked during processing of a qualified return, a taxpayer can file a request to abate interest using Form 843, Claim for Refund and Request for Abatement. While the Form 843 is the preferred form to request an abatement or suspension of interest, IRS will review and consider all **signed** correspondence requests having the same required elements (for example, name, taxpayer identification number, interest period in question, signature under penalties of perjury, and the reason(s) for the abatement, and so on.) as that of the Form 843.

- (2) Taxpayers should submit a completed Form 843 as directed in the instructions to that form, as the filing address depends on a number of circumstances. All Form 843 for interest abatement (for example., computation, IRS error, net rate netting, and so on.) should be identified on IDRS and Master File with a TC 971 and an action code (AC) 660. Accounts Management is responsible for the input of a TC 971 with an AC 660 on to the taxpayer's account, but if the AC 660 information is missing on the assigned interest abatement case, enter the information on to IDRS.
- (3) Form 843 requests due to an IRS unreasonable error or delay (IRC 6404(e)(1)) are routed according to established instructions in IRM 21.5.2.4.10.1, Ministerial/Managerial Interest Abatement. A taxpayer might request the abatement of interest due to a ministerial or managerial act during the collection process or during an examination. Secure a completed **signed** Form 843. The Form 843 must include the following elements:
 - Description of the unreasonable error or delay caused by an IRS employee.
 - The time frame (from MM-DD-YYYY to MM-DD-YYYY) of the unreasonable error or delay for interest abatement.
 - Taxpayer(s) signature.

Note: Work the interest abatement request according to your area's established guidelines. See IRM 5.1.15.16.3, Interest Abatement, or IRM 4.8.8.5.7, Technical Services Interest Abatement Coordinator Procedures, but **do not send the request to a campus.**

- (4) For IRC 6404(e)(1) interest abatement requests where the alleged error or delay was due to an act of an Appeals employee, route the case to the Compliance IAC. If the taxpayer disagrees with the Compliance IAC's decision, issue a claim disallowance letter giving the taxpayer their appeal rights. Forward the taxpayer's written protest to Appeals for a hearing. Flag the outside of the case as well as the transmittal that the taxpayer alleges an unreasonable error or delay by an Appeals employee.
- (5) The following cases do not qualify for interest abatement:
 - a. Taxpayers who deducted Qualifying Therapeutic Discovery Project (QTDP) expenses on their 2009 and 2010 returns, and then received a non-taxable grant in 2010 and or 2011 for part or all of the expenses claimed, are not entitled to an underpayment interest suspension period when they are required to amend their 2009 and 2010 tax returns to reduce the expenses deducted. Neither section 9023 of the Affordable Care Act (ACA) nor Notice 2010-45, Qualifying Therapeutic Discovery Project Credit, allows for a restriction or abatement of the underpayment interest. To the extent the reduced expense deduction creates an underpayment in 2009 or 2010, or a deficiency if an amended return is not filed, underpayment interest will be charged under IRC 6601. Interest accrues from when the tax was due (generally, the due date for filing the original 2009 or 2010 return, without regard to extensions). Careful consideration must be given prior to causing a situation where the ability of IRS computer systems to calculate interest is circumscribed. Systemic calculation of interest for any tax module is overridden only when IRS computer systems are incapable of calculating the interest on their own. Any request to suspend or abate underpayment interest should be denied, citing the information above.

- b. Voluntary Disclosure Practice (VDP) cases are provided for in Form 906, Specific Matters Closing Agreements. The template language for VDP Forms 906 includes the following language concerning interest: "Interest is due as provided by law on taxpayer's underpayments of tax and penalties as determined under this agreement for tax years [period covered by the voluntary disclosure] and the suspension of interest provisions of IRC 6404(g) do not apply."

Note: Abatements should not be considered in any cases with a Form 906 countersigned by a representative of the IRS. Fully executed Forms 906 are final.

Note: Previously known as the Offshore Voluntary Disclosure Program (OVDP) prior to September 28, 2018. See IRM 4.63.3.26, Voluntary Disclosure Practice (Post OVDP).

20.2.7.14.1
(12-20-2023)

**Closing Other Interest
Abatement Requests**

- (1) A taxpayer request for abatement of unpaid income, estate, or gift taxes is prohibited by IRC 6404(b). The taxpayer must make full payment and file an amended return to claim a refund.
- (2) When a request for abatement of unpaid **interest** is received, review the taxpayer's request for completeness before forwarding the claim to another employee or function for processing. Full payment is not required on an interest abatement request.
- (3) The request should close as follows:

Instructions for "Other" Interest Abatement Requests

If the request is	Then
Disallowed in full	Send a disallowance letter with the reason for the decision made. Input TC 290 .00, RC 074, and BLK 98/99.
Partially disallowed	Send a partial disallowance letter with the reason for the decision made. Input TC 341 for the interest abatement amount and RC 074.
Fully allowed	Send claim allowance letter and Input TC 341 for interest abatement amount and RC 074.

- (4) Post interest accruals to the module before the input of an interest abatement. When a written protest is received because of a disallowed interest abatement request, forward the protest along with the disallowed case file to Appeals for reconsideration.
- (5) Use Letter 3477 (Letter 3477-C), Interest Suspension, to communicate IRS decisions on any IRC 6404(g) matter. IRC 6404(g) is **not** an interest abatement, but it is an interest suspension provision, and it is not eligible for judicial review in Tax Court or appeal rights.

20.2.7.14.2
(12-20-2023)
**Closing IRC 6404(e)(1)
Interest Abatement
Request**

- (1) The following “if and then” table provides instructions for the input of an IRC 6404(e)(1) interest abatement request on IDRS:

Instructions for IRC 6404(e)(1) Interest Abatement Requests

If the request is	Then
Disallowed in full	Input TC 290 for zero, Reason Code 080, and send disallowance letter.
Partially disallowed	Input TC 290 for zero, TC 341 for amount of interest abatement, Reason Code 081, and send partial disallowance letter.
Fully allowed	Input TC 290 for zero, TC 341 for amount of interest abatement, Reason Code 082, and send allowance letter.

Caution: When abating interest on a balance due module and the abatement does not remove the entire balance due, we recommend the input of two separate interest adjustments; one to post the accruals and the other to abate the interest per IRC 6404(e)(1).

- (2) If the interest abatement request is allowed (in part or in full), abate the portion of interest accruing from the date the unreasonable error (or unreasonable delay) occurred up to the date the unreasonable error (or delay) was corrected.
- (3) The employee who reviews the interest abatement request and makes the decision to allow the request **must** furnish the start and end dates of the ministerial or managerial act(s) to the interest computation function. For more information on disallowed interest abatement procedures, see IRM 21.5.3.4.6, No Consideration and Disallowance of Claims and Amended Returns.

Caution: IRC 6404(e)(1) only abates interest due on an **additional** liability, not on the original tax liability. This provision does not apply to employment taxes.

20.2.7.14.2.1
(11-13-2018)
**IRC 6404(e)(1) Interest
Calculation**

- (1) When working interest abatement requests due to an unreasonable error or delay by the IRS (at no fault of taxpayer or representative), consider only interest accruing during the identified period of error or delay. For example, if the correct payoff amount should have been \$100 but instead \$70 was given, consider only the interest accruing on the difference (\$30) for abatement.
- (2) The total interest remaining on the module (which includes the proposed or pending adjustment) **must** be correct as of the date the adjustment posts (or the 23C date). When allowing the interest abatement request in part (or in full), manually compute interest. See IRM 20.2.5.6.2, Manual Computations.
- a. Compute and input TC 34X as appropriate.
 - b. Use the applicable blocking series (see Document 6209, IRS Processing Codes and Information).

- c. Secure the signature of the official authorized to grant abatement on the adjustment document.
- d. Attach the interest computation report to the case or adjustment document.
- e. Make meaningful notes on the history sheet, workpapers, Form 5402, Appeals Transmittal and Case Memo, or on available electronic means (for example, CII, AMS, and so on).

Caution: The use of TC 34X in (a) above will prevent MF from systemically generating interest updates unless a non-restricting TC 340 is used. See IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340. The employee making the adjustment must be certain the net amount of interest remaining on the module is accurate.

20.2.7.15
(12-20-2023)
Appeal Rights

- (1) Taxpayers have the right to appeal the denial of an interest abatement request (regardless of account status). Taxpayers who wish to appeal the disallowance of their interest abatement request must send their protest (a brief statement detailing the reason(s) the IRS should reconsider the interest abatement request) to the office that issued the interest abatement disallowance letter. That office will forward the taxpayer's protest to Appeals. For more information on the appeal process, see IRM 8.7.7, Claim and Overassessment Cases.
- (2) IRC 6404(g) is an interest suspension provision, not an interest abatement. There is no appeal right pertaining to interest suspension under IRC 6404(g), nor is it eligible for judicial review in Tax Court.

20.2.7.16
(12-20-2023)
Disputes as to Interest Amount

- (1) The Office of Servicewide Interest in the Small Business/Self-Employed Division has responsibility for all interest; accrued, abated, assessed, offset, refunded or suspended systemically and manually. Report suspected systemic interest discrepancies to the User Support Unit in your respective campus. Disputes **within** the IRS over manual interest calculations should be settled according to the area or function's established guidelines. For discrepancies concerning the accuracy of the computed interest amount, contact the area that performed the interest computation for resolution. For interest discrepancies due to interpretation or application of interest law(s) which cannot be resolved locally, forward a description of the problem along with the supporting interest computation and case file documentation to the analyst with program responsibilities as listed on the *Servicewide Interest Virtual Library*.