



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

20.2.9

JULY 12, 2024

EFFECTIVE DATE

(07-12-2024)

PURPOSE

- (1) This transmits revised IRM 20.2.9, Interest on Carryback of Net Operating Loss.

MATERIAL CHANGES

- (1) Significant changes to the IRM are shown in the following table. Website addresses, legal references, IRM references, and tables were reviewed and updated as necessary. Minor editorial changes have been made throughout this IRM (for example, formatting, links, punctuation, citations, etc.).

Reference	Description
IRM 20.2.9.1	New subsection and associated subsections (IRM 20.2.9.1 through 20.2.9.1.7) for internal controls. Content formerly under IRM 20.2.9.1 moved to IRM 20.2.9.2.
IRM 20.2.9.2	Changed title from Determining the Overpayment Interest Period to Carryback Overview and added new content describing: <ul style="list-style-type: none">• Who can file an application or claim for a carryback adjustment or refund• The effect of an NOL deduction on the taxable year to which it is carried, IRM 21.5.9.5.10, Carryback Net Operating Loss (NOL)• Where to find detailed procedures on carrybacks IRM 21.5.9, Account Resolution, Carrybacks

Reference	Description
IRM 20.2.9.3	<p>Changed title from Transaction Codes for Claims Processing to 45-Day Rule.</p> <p>Added new paragraphs (1 -5) and expanded content describing the processing period during which overpayment interest is limited in certain situations.</p> <p>Added subsection IRM 20.2.9.3.1, The 45-Day Period is in Jeopardy and content describing the actions to take when the 45-day period is in jeopardy and a manual refund is required.</p>
IRM 20.2.9.4	<p>Combined content from prior IRM 20.2.9.2. Changed title from Carryback Recaptures to Determining the Overpayment Interest Period and removed content in paragraphs 1-3 and 6.</p>
IRM 20.2.9.5	<p>Changed title from Unused Investment Credit Carryback to Overpayment Interest Rates.</p> <p>Added new content, section and associated subsections (IRM 20.2.9.5 through 20.2.9.5.2):</p> <ul style="list-style-type: none">• IRM 20.2.9.5.1, Normal Rates - added content defining normal overpayment interest rates• IRM 20.2.9.5.2, GATT Rate - added content describing the two types of overpayment interest rates for corporations

Reference	Description
IRM 20.2.9.6	<p>Changed title from NOL Carryback and Recaptured Investment Credit to Underpayment Interest Rates.</p> <p>Added new content, subsection and associated subsections (IRM 20.2.9.6.1 through 20.2.9.6.2):</p> <ul style="list-style-type: none"> • IRM 20.2.9.6, Normal Rates - added content defining normal overpayment interest rates established under IRC 6621, • IRM 20.2.9.6.2, Large Corporate Underpayment - added content defining the Large Corporate Underpayment (LCU)
IRM 20.2.9.7	<p>Changed title from Combination of Adjustments—Form 2285, Concurrent Determinations of Deficiencies, to Carryback Recaptures.</p> <p>Added new content, section and associated subsections (IRM 20.2.9.7.1 through IRM 20.2.9.7.2):</p> <ul style="list-style-type: none"> • IRM 20.2.9.7.1, Unused Investment Credit Carryback - renumbered content formerly under IRM 20.2.9.5 • IRM 20.2.9.7.2, Carryback and Recaptured Investment Credit, content formerly under IRM 20.2.9.6 <p>Added new content describing how interest is paid on overpayments.</p>

Reference	Description
IRM 20.2.9.8	<p>Changed title from Summary to Combination of Adjustments-Form 2285, Concurrent Determinations of Deficiencies. Content formerly found under IRM 20.2.9.7</p> <p>Added 3 subsections:</p> <ul style="list-style-type: none"> • IRM 20.2.9.8.1, Application of Overpayment. Content formerly found under IRM 20.2.9.7.1 • IRM 20.2.9.8.2, Interest on Barred Assessments. Content formerly found under IRM 20.2.9.7.2 • IRM 20.2.9.8.3, Form 2285 Verification - revised title and content. Content formerly titled Corrections and found under IRM 20.2.9.7.3
Exhibit 20.2.9-1	<p>Organized content using an If/Then chart and added note explaining how to recompute the failure to pay penalty when, the penalty is restricted.</p> <p>Added note explaining how a TC 370 with Doc. Code 52 sets a permanent underpayment interest restriction for modules re-established from the retention register.</p>
Exhibit 20.2.9-2	Updated title from Form 2285 to Example of Combination Adjustment Computation. Content combined with content from Exhibit 20.2.9-3.
Exhibit 20.2.9-3	Renumbered as Exhibit 20.2.9-2.

EFFECT ON OTHER DOCUMENTS

This material supersedes IRM 20.2.9, dated 08/02/2013.

AUDIENCE

This IRM is intended for employees of all operating divisions who work with interest issues and adjustments.

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

20.2.9

Interest on Carryback of Net Operating Loss

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20.2.9.1
(07-12-2024)
Program Scope and Objectives

- (1) **Purpose:** The IRM section provides policy guidance for computing interest on carrybacks and addressing interest-related tax account issues.
- (2) **Audience:** This IRM is intended for servicewide use by all employees who handle computations of interest, including employees 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
 - IRS Independent Office of Appeals, (Appeals)
 - Criminal Investigations
 - Taxpayer Advocate Service (TAS)
 - Other IRS functions
- (3) **Policy Owner:** Responsibility for overseeing interest resides with SB/SE, Operations Support (OS), Business Support Office (BSO).
- (4) **Program Owner:** The Office of Servicewide Interest (OSI) is responsible for 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 20.2.9, Interest on Carryback of Net Operating Loss.
- (5) **Primary Stakeholders:** All operating divisions.

Note: While pending updates to this IRM publication, the Servicewide Electronic Research Program (SERP) - hosted IRMs 20.2 are considered the authoritative reference for the most current procedures and guidance.

20.2.9.1.1
(07-12-2024)
Background

- (1) Interest (charged) on underpayments and (paid) on overpayments is mandatory, unless otherwise provided by law. The Office of Servicewide Interest provides policy, training materials, interest tools, and manual interest procedures, when applicable, for overpayment and underpayment interest purposes. It is essential that managers, senior management officials, personnel, and examiners working with computations of underpayment interest correctly understand and follow technical guidance and information for interest rates and methods of computation.

20.2.9.1.2
(07-12-2024)
Authority

- (1) The following list of Internal Revenue Code (IRC) sections are specific to the Carryback Program:
 - IRC 6601, Interest on Underpayment, Nonpayment, or Extension of Time for Payment, of Tax
 - IRC 6611, Interest on Overpayments
 - IRC 6621, Determination of Date of Interest
 - IRC 6622, Interest Compounded Daily
 - IRC 172, Net Operating Loss Deduction
 - IRC 6411, Tentative Carryback and Refund Adjustments
 - IRC 39, Carryback and Carryforward of Unused Credits

20.2.9.1.3
(07-12-2024)
Responsibilities

- (1) The Office of Servicewide Interest is responsible for the content of this IRM, answering related questions, and inputting any work requests.

- (2) The program manager of Office of Servicewide Interest is responsible for oversight of the interest programs.
- (3) The Director, Business Support Office, is the executive responsible for policy and procedures.
- (4) The Taxpayer Bill of Rights (TBOR) *Taxpayer Bill of Rights* lists rights that already existed in the tax code, putting them in simple language and grouping them into 10 fundamental rights. Employees are responsible for being familiar and acting in accord with taxpayer rights. See IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights.

20.2.9.1.4
(07-12-2024)
**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, forwarding their findings to program partners/stakeholders. OSI also prepares reports of significant issues, such as corrections to computer programming that affect taxpayers.

20.2.9.1.5
(07-12-2024)
Program Controls

- (1) In accordance with IRC 6601(a), the payment of interest is required on underpayments of tax unless otherwise specified by law.
- (2) In accordance with IRC 6611(a), interest is allowed and paid on any overpayment of tax at the overpayment rate established under IRC 6621.
- (3) IRC 6621, provides the interest rates on overpayments and underpayments of tax, which are tied to the Federal short-term interest rate. Interest rates are determined quarterly based on changes to the Federal short-term rate.

20.2.9.1.6
(07-12-2024)
Terms and Definitions

- (1) For definitions of interest terms, See Exhibit 20.2.1-2, Definition of Terms in IRM 20.2.1.

20.2.9.1.7
(07-12-2024)
Related Resources

- (1) For additional information, such as the latest interest news, job aids, interest tool updates, training material, list of analysts, etc., see the Interest Knowledge Base *Interest Knowledge Base*.

20.2.9.2
(07-12-2024)
Carryback Overview

- (1) A taxpayer who has an overpayment of tax as a result of a Net Operating Loss (NOL), Net Capital Loss (NCL), Unused Credits, or a Claim-of-Right adjustment can file an application, for tentative refund, also referred to as a Tentative Carryback Application (TENT) or a claim also referred to as a Restricted Interest Carryback Claim (RINT), for adjustment or refund. The tax year in which the loss occurred is the loss year. The tax year the loss is carried to is the gain year.
- (2) An NOL deduction reduces taxable income for the taxable year to which the NOL is carried and may create an overpayment of taxes if the NOL is carried back to an earlier year. For additional information, see IRM 21.5.9.5.10, Carryback Net Operating Loss (NOL).

20.2.9.3
(07-12-2024)
45-Day Rule

- (3) For more detailed procedures on carrybacks, see IRM 21.5.9, Account Resolution, Carrybacks.

- (1) The 45-day rule provides for a processing period during which overpayment interest is limited in certain situations. See IRC 6611(e), IRC 6611(f) and IRC 6611(g).
- (2) Interest is not paid on a overpayment resulting from a carryback claim/application when it is refunded within 45 days from the **later** of the:
- Due date of the loss year return (determined without regard to any extension of time for filing)
 - Loss year return received date (used when the loss year return is received after its due date, determined without regard to any extension of time for filing such return)
 - Date the loss year return is received in processible form
 - Application/claim received date or
 - Application/claim processible date
- (3) Refer to the *Carryback 45-Day Interest-Free Charts* on SERP as an additional resource to determine whether the 45-day interest-free period has been met.

Note: The chart provides information regarding the IRS received date, the last date for IDRS input, the Martinsburg Computing Center (MCC) posting cycles, the 23C date, generated refund date and the last day to issue a manual refund.

Caution: Discontinue use of any local 45-day interest-free period charts. The *Carryback 45-Day Interest-Free Charts* located on SERP is required to be utilized when processing carryback cases.

- (4) The Office of Servicewide Interest has identified an issue with some IMF (Individual Master File) and BMF (Business Master File) computer-generated carryback refunds. In certain instances, overpayment interest is generating when the refund is issued within the 45-day interest-free period. For more information, see IRM 21.5.9.5.7.1, Carryback Interest - Actions to Take on All Carryback Cases when Computer-Generated Refund will be Issued within 45 days.
- (5) If the 45-day interest free period for a carryback application or claim is missed, refer to IRM 20.2.9.4, Determining the Overpayment Interest Period, which describes the date interest on the overpayment will begin. See IRM 20.2.4.8.1, Systemic Refunds, for the date interest on the overpayment will end.

20.2.9.3.1
(07-12-2024)
The 45-Day Period is in Jeopardy

- (1) When the 45-day period is in jeopardy, consideration should be given to issuing a manual refund when the overpayment to be refunded is \$5,000 or more.
- (2) When issuing a carryback manual refund, consider previously assessed failure to file, failure to pay penalties and interest, that will be affected by the adjustment actions. Any decrease in penalties or interest already paid must be included in the overpayment amount. In addition, unassessed accruals of penalty and/or interest may reduce the overpayment amount.

- (3) For additional details, including information on the various circumstances requiring the issuance of a manual refund, please refer to IRM 21.5.9.5.8, Carryback Manual Refund.

20.2.9.4
(07-12-2024)
Determining the
Overpayment Interest
Period

- (1) The law provides specific rules with respect to how interest is to be computed on overpayments arising from the carryback of the net operating loss or capital loss. IRC 6611(f)(4)(B)(i)(I) provides that for purposes of IRC 6611(e), the overpayment attributable to the carryback of the net operating loss or capital loss is treated as an overpayment for the loss year. IRC 6611(f)(4)(B)(i)(II) provides that IRC 6611(e) is applied with respect to that overpayment by treating the return for the loss year as not filed before claim for such overpayment is filed.
- (2) Compute interest on carryback claims/applications as follows:

If	And	Then
An application for a tentative refund (Form 1045 , Application for Tentative Refund, or Form 1139, Corporation Application for Tentative Refund) is processed	The resulting overpayment is not refunded within the 45-day period (see IRM 20.2.9.3, 45-Day Rule)	Compute interest on the overpayment from the later of the: <ul style="list-style-type: none">• The due date of the loss year return (determined without regard to any extension of time for filing)• Received date of delinquent loss year return (determined with regard to any extension of time for filing)• Date the loss year return is filed in processible form, provided that date is after the loss year returns due date or extended due date• Date the overpayment on the gain year arose

If	And	Then
A claim (Form 1040-X, Amended U.S. Individual Income Tax Return or Form 1120-X, Amended U.S. Corporation Income Tax Return) is processed	The resulting overpayment is not refunded within the 45-day period (see IRM 20.2.9.3, 45-Day Rule)	<p>Compute interest on the overpayment from the later of the:</p> <ul style="list-style-type: none"> • The due date of the loss year return (determined without regard to any extension of time for filing) • Received date of delinquent loss year return (determined with regard to any extension of time for filing) • Date the loss year return is filed in processible form, provided that date is after the loss year returns due date or extended due date • Date the overpayment on the gain year arose

Reminder: If a carryback claim/application is filed by a nonresident alien and is not processed within 45 days, thus allowing interest on the refund, the IRS is required to withhold tax on the interest. See IRM 21.8.2.9.13, Refunds on Form 1120-F/FSC That Include Interest, or IRM 21.8.1.15, Manual Refunds to Non-resident Aliens That Include Interest, for additional information.

20.2.9.5
(07-12-2024)
Interest Rates

- (1) The amount of interest paid on a carryback overpayment or charged on a carryback underpayment is determined by three factors: time (dates upon which interest begins and stops accruing), amount (sum upon which the interest accrues), and rate (interest accrual rate or rates). This subsection describes the interest rates applicable to carryback overpayments and underpayments.

20.2.9.5.1
(07-12-2024)
Overpayment Interest Rates

- (1) When the interest-free period for refunding an overpayment resulting from a carryback allowance is missed, interest must be paid on the refund - see IRM 20.2.9.3, 45-Day Rule, and IRM 20.2.9.4, Determining the Overpayment Interest Period.
- (2) The interest accrual rate or rates on the carryback overpayment is based on whether the taxpayer is an individual or corporation - IRC 6621(a)(1).
- (3) The overpayment rate for individuals is the federal short-term rate plus 3 percentage points. This is the "Fed - Federal" rate in ACT/InterestNet (DMI) and the standard overpayment rate for Command Code (CC) COMPA. See IRM 20.2.1.3.2, Rate, and IRM 20.2.1.5.2, Command Code COMPA.
- (4) The overpayment rate for corporations is the federal short-term rate plus 2 percentage points, except when the overpayment exceeds \$10,000 for a taxable period and the rate is the federal short-term rate plus 0.5 of a percentage point. These are the "Fed - Federal Corporate" and "GATT" rates in ACT/InterestNet (DMI), and the corporate and GATT rates for Command Code (CC) COMPA. See IRM 20.2.1.3.2, Rate, IRM 20.2.1.5.2, Command Code COMPA, and IRM 20.2.4.10, Special Overpayment Interest Rules for Corporations.
- (5) Please remember that, while the IRS currently approves and supports the use of CC COMPA and ACT/InterestNet (DMI) to perform manual interest computations, ACT/InterestNet (DMI) is the preferred interest computational tool. There are few instances when CC COMPA should be solely used. See IRM 20.2.1.5, Interest Computational Tools and Reports: Manually and Systemically Calculated Interest.

20.2.9.5.2
(07-12-2024)
Underpayment Interest Rates

- (1) Underpayment interest, at the underpayment rate, is charged on an outstanding liability from the due date of the **unpaid** liability to the date fully paid – IRC 6601(a).
- (2) A reduction in tax by a net operating loss carryback, net capital loss carryback, credit carrybacks, and foreign tax credit carrybacks does not affect the computation of underpayment interest until the filing date for the taxable year in which the carryback arises – IRC 6601(d)(1), IRC 6601(d)(2), and IRC 6601(d)(3). The term "filing date" means the last date prescribed for filing the return (determined without regard to extensions) – IRC 6601(d)(4) and IRC 6611(f)(4)(A).
- (3) Underpayment interest related to the amount of the carryback recapture is owed from the filing date for the year in which the carryback arose until the date on which the taxpayer repays the excessive amount. See IRS *Notice 88-119, 1988-2 C.B. 453*, Interest on Underpayments Following Allowance of Carryback-Related Overpayment.
- (4) The interest accrual rate for underpayments, carryback-related or otherwise, is generally the federal short-term rate plus 3 percentage points – IRC 6621(a)(2). This is the "FED - Federal" rate in ACT/InterestNet (DMI) and the standard underpayment rate for Command Code (CC) COMPA. See IRM 20.2.1.3.2, Rate, and IRM 20.2.1.5.2, Command Code COMPA.
- (5) If, however, the liability is deemed to be a "Large Corporate Underpayment" (LCU), the rate of interest is the federal short-term rate plus 5 percentage points - IRC 6621(c). This is the "LCU" rate in ACT/InterestNet (DMI) and Command Code (CC) COMPA. See IRM 20.2.1.3.2, Rate, and IRM 20.2.1.5.2, Command Code COMPA.

- (6) Please remember that, while the IRS currently approves and supports the use of CC COMPA and ACT/InterestNet (DMI) to perform manual interest computations, ACT/InterestNet (DMI) is the preferred interest computational tool. There are few instances when COMPA should be solely used. See IRM 20.2.1.5, Interest Computation Tools and Reports: Manually and Systemically Calculated Interest.

20.2.9.6
(07-12-2024)
Carryback Recaptures

- (1) When recapturing erroneous carryback allowances, due to a prior restriction or the current adjustment requires restriction, underpayment interest is computed manually using directions in the table below:

If	Then
Overpayment interest was not paid on the refund and the carryback was refunded before the loss year return due date	Underpayment interest is due from the loss year return due date (without regard to extensions) on the amount of the carryback recapture equal to the amount refunded.
Overpayment interest was not paid on the refund and the carryback was refunded on or after the loss year return due date	Underpayment interest is due from the refund schedule (23C) date on the amount of the carryback recapture equal to the amount refunded.

- (2) When overpayment interest was paid on the refund, follow the directions in the table below:

If	And	Then
Overpayment interest was paid on the refund	The refund was issued before January 1, 1987	Underpayment interest is due from the loss year return due date (without regard to extensions) for loss years 8210 and later or from the first day after the end of the loss year for 8209 and prior.
Overpayment interest was paid on the refund	The refund was issued on or after January 1, 1987	Underpayment interest on the carryback and TC 772 annual netting interest amount begins on the refund schedule (23C) date. See Rev. Proc. 94-60.

- (3) When reassessing an erroneous carryback allowance and interest is to be computed systemically, by IDRS/Master File, follow the instructions in the table below:

If	Then
Overpayment interest was paid on the refund	Enter the loss year return due date as the interest computation date (INT-CMPTN-DT) for TC 294/298 or TC 308.

If	Then
Overpayment interest was not paid on the refund	Enter the loss year return due date as the interest computation date (INT-CMPTN-DT) for TC 294/298 or TC 308.

Note: IDRS/Master File cannot accurately compute underpayment interest on the recovery of a prior TC 295/299 adjustment carrying an INT-CMPTN-DT dated earlier than the loss year return due date. Underpayment interest must be manually computed.

Note: For Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) adjustments see IRM 20.2.7.8, IRC 6404(g) Interest Suspension.

20.2.9.6.1
(07-12-2024)
**Unused Investment
Credit Carryback**

- (1) Compute overpayment interest as follows:
- For interest accruing on or before October 3, 1982, allow interest from the first day of the year following the year in which the credit arose.
 - For interest accruing after October 3, 1982, allow interest from the due date or the delinquent received date of the year in which the credit arose.
- (2) Assess a deficiency that is the result of an excessive or erroneous investment credit carryback any time before the statute expiration date of the taxable year that released the credit.

20.2.9.6.2
(07-12-2024)
**NOL Carryback and
Recaptured Investment
Credit**

- (1) A taxpayer may claim investment credit in one year and pay recaptured tax in another year. An NOL carryback could release an investment credit. Because the investment credit is no longer in use, the taxpayer does not owe the recaptured tax. Interest is only paid on the overpayment, when the 45-day interest-free period for the carryback application or claim is missed. See IRM 20.2.9.4, Determining the Overpayment Interest Period, to establish whether the 45-day interest-free period has been met. Additionally, refer to the *45-day interest-free chart* on SERP as an additional resource.

Example: Hawthorn Corporation purchased an asset in 2018 and claimed a \$300 investment credit. In 2020, they sold the asset. They were not entitled to any investment credit, so they paid the recapture tax of \$300. In 2021, they had a net operating loss. It was carried back to 2018 and eliminated the income and the tax. The Form 1139 reported not only the car-

ryback of the NOL to 2018, but also a refund of the recaptured tax in 2020. A statement was attached explaining why the refund of the recaptured tax was being claimed. Use a TC 295 with an interest computation date of April 15, 2022 (due date of the NOL) to allow the refund of the recaptured tax.

20.2.9.7
(07-12-2024)
**Combination of
Adjustments—Form
2285, Concurrent
Determinations of
Deficiencies**

- (1) An adjustment to a taxpayer's income may result in an underpayment or overpayment of tax on which interest is restricted or prohibited. Examination of the return may involve income adjustments under more than one section of the law (usually carryback adjustments). These underpayments and overpayments attributable to the different Code sections are often offset against each other resulting in a net no change, net underpayment, or net overpayment within the same tax module. A Form 2285, Concurrent Determinations of Deficiencies (Increases in Tax) and Overassessments (Decreases in Tax) in Cases Involving Restricted Interest Provisions of the Internal Revenue Code, should accompany the Examination or Appeals report to show the tax increase or decrease attributable to each applicable year. A copy of the Form 2285 should be sent to the taxpayer.
- (2) Examination and Appeals employees prepare Form 2285 when income tax adjustments fall under more than one section of the Code, and a combination of adjustments is needed. Instructions for processing multiple carryback adjustments can be found in IRM 21.5.9.5.6, Multiple Adjustments.
 - a. The amounts of the deficiencies and overpayments on which interest is to be computed are shown on line 11 of Form 2285, in columns (a) through (g).
 - b. The net tax amount due or allowed as an overpayment is shown in column (h).
- (3) When interest is manually computed and adjusted, documentation **must** be attached to Form 2285. See IRM 20.2.1.4.2.1 , Manual Calculation of Interest - Documentation. Manually calculate interest only when it is determined that the computer cannot systemically compute the interest.
 - a. Recompute the module using a "running module balance" including interest due on deficiencies shown in any of the columns from (a) through (g) and whether or not there is a net deficiency in column (h). See IRM 20.2.1.4.2(4), Manual Calculation of Interest.
 - b. Reduce the "running module balance" by overpayments shown in columns (a) through (g) and compute overpayment interest when the running module balance is overpaid.
 - c. Use current TXMOD or Master File tax module information.
- (4) Generally, combination adjustments have been assessed with restricting transactions for both overpayment and underpayment interest. However, IDRS/ Master File programming can accurately compute the interest in some situations. If possible, do not restrict the module, but instead use the following procedures:

IF a General Adjustment Is an	AND a Carryback Is an	THEN IDRS/Master File Programming Can Compute Interest When the Following Actions Are Carried Out
Underpayment	Allowance	<p>Input a TC 300 AND TC 309 with the interest computation date.</p> <p>Exception: When the G/A (+) amount equals the C/B (-) amount, IDRS/Master File cannot correctly compute the interest.</p> <p>Exception: When the G/A (+) amount is less than the C/B (-) amount, IDRS/Master File cannot correctly compute the interest.</p>
Underpayment	Recapture	Input TC 300 AND TC 308 with the interest computation date.
Abatement	Allowance	<p>Input TC 301 AND TC 309 with the interest computation date.</p> <p>Caution: TC 301 must post first. Use cycling procedures when posting TC 301 with a TC 309.</p>

IF a General Adjustment Is an	AND a Carryback Is an	THEN IDRS/Master File Programming Can Compute Interest When the Following Actions Are Carried Out
Abatement	Recapture	<p>Input TC 301 AND TC 308 with the interest computation date.</p> <p>Exception: When the G/A (-) amount equals the C/B (+) amount, IDRS/Master File cannot correctly compute the interest.</p> <p>Exception: When the G/A (-) amount is less than the C/B (+) amount, IDRS/Master File cannot correctly compute the interest.</p>

- (5) Whenever possible, input Form 2285 adjustments (including restricted interest modules) so all components are posted to IDRS/Master File. This action provides, as a supplement to the case file, a posted record of the combination adjustment for subsequent updates of the tax module.

Caution: When cycling or combining transaction codes on IDRS/Master File to adjust interest, monitor the adjustment to confirm that all have posted correctly.

Reminder: Use of appropriate hold codes may be required when cycling adjustments to prevent the issuance of erroneous notices and/or refunds. See Exhibit 20.2.9-2 for a case involving Form 2285 with multiple adjustments and restricted interest.

- (6) When updating manually assessed interest on a tax module, you must attach a copy of Form 2285 or other relevant information to identify the overpayment and/or underpayment amounts and dates.
- (7) Consider the use of the non-restricting TC 340 to update manually assessed combination adjustment interest. See IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340.

- (8) If the net tax adjustment is zero or a credit, but there is still a balance owing for underpayment interest, input CC REQ77 with TC 550 using the 23C date plus ten (10) years to extend the CSED.

Caution: Input of this adjustment as a single, net tax decrease is not recommended. Input as a single, net tax adjustment should only be used if there are statute concerns (for example, short statute for all adjustments - not a barred assessment adjustment per IRM 20.2.9.7.2, Interest on Barred Assessments).

Caution: Input of a single, net tax adjustment may require the manual restriction of certain penalties.

Example: Form 2285 Data:

General Adj.	1st Carryback	2nd Carryback	Net Tax
201112	201212	201312	-
\$500,000	<\$300,000>	<\$400,000>	<\$200,000>

Failure to pay penalty was previously assessed (TC 276) due to late paid tax on the original tax return of \$100,000. Form 2285 adjustments were input with a single, net tax decrease (TC 301-\$200,000). If the TC 301 is not accompanied with a manual posting of TC 270, IDRS/Master File will erroneously abate the failure to pay penalty by applying the TC 301 as of the due date of the return.

Caution: Always consider the effect of a single, net tax adjustment to systemic penalty computation routines and, if necessary, manually compute such penalties.

Reminder: Always monitor these adjustments to confirm posting accuracy.

20.2.9.7.1 (08-02-2013) Application of Overpayment

- (1) When Form 2285 is used to compute an overpayment and/or underpayment of tax, compute interest on that tax by using a “running module balance” with current TXMOD or Master File information.
 - a. Apply all interest considerations (for example, Rev. Rul. 99-40, Rev. Proc. 94-60) in recomputing the tax module.
 - b. Apply carryback allowances with the loss year filing date for years after October 3, 1982.
 - c. When applying carryback recaptures, consider Rev. Rul. 99-40 and within module netting procedures as appropriate. Allow overpayment interest on general adjustment decreases to the due date of the loss year return for the carryback recapture(s).

20.2.9.7.2
(07-12-2024)
**Interest on Barred
Assessments**

- (1) IRC 6501(a): If a deficiency exists on a tax module that is not attributable to a carryback allowance (net operating loss carryback, capital loss carryback, credit carryback) on the same tax module, the statutory period of time to make the assessment is generally the **later of** the following:
 - Three years from the return due date,
 - Three years from the date the return was filed, or
 - Exceptions found under IRC 6501(c).
- (2) IRC 6501(h) and IRC 6501(j): If a deficiency exists on a tax module that **is attributable** to a carryback allowance (net operating loss carryback, capital loss carryback, credit carryback) on the same tax module, the statute for assessment of the deficiency generally is the **later of** the following:
 - Three years from the due date of the **loss year** return in which the carryback allowance originated,
 - Three years from the date the **loss year** return in which the carryback allowance originated was filed, or
 - Exceptions found under IRC 6501(c).
- (3) IRC 6501(k): If the statutory periods outlined in paragraph (1) above have expired, a deficiency that is **not** attributable to a **tentative** carryback allowance (net operating loss carryback, capital loss carryback, credit carryback) on the same tax module may be assessed **up to the amount of the tentative carryback allowance, less any amount assessed per paragraph 2 above** by the **later of** the following:
 - Three years from the due date of the **loss year** return in which the carryback allowance originated, or
 - Three years from the date the **loss year** return in which the carryback allowance originated was filed.

Note: Interest on the deficiency not attributable to a tentative carryback allowance is not subject to the limitation upon the “amount” of the tentative carryback allowance. See Rev. Rul. 72-447.

Note: IRC 6501(k) was originally designated as IRC 6501(m) and was redesignated in 1984. See Treas. Reg 301.6501(m)-1(a)(2).

Reminder: By seeking a refund under IRC 6411, the IRS is able to recover a deficiency that is unrelated to the carryback including deficiency interest.

- (4) The examples below are for Paragraph 3 above:

Example: Deficiency not attributable to a tentative carryback allowance is assessed up to the amount of the tentative carryback allowance. Taxpayer files 1040X claiming an NOL carryback allowance from 201712 (loss year) to the 201512 (gain year) late filed return. The statute to assess the 201512 general adjustment (G/A) tax liability is expired (201512 ASSED -10/15/2019). The statute for the 201712 tax period expires 10/15/2021, three years from the extended due date of the loss year return. NOL statute of limitation period is open for assessment. Form 2285 Example 1

Form 2285 Item Number	Column (a) - G/A -Tax Year -2015 - Barred Assessment	Column (c) - CB-Loss Year - 2017 Allowance	Column (h) - After All Adjustments
11. Net Increase (Decrease) in Tax	\$50,000	\$50,000-	\$0.00

The 201512 G/A tax liability of \$50,000 is limited up to the amount of the 201712 carryback allowance of \$50,000 and will be assessed and posted. Underpayment interest on the TC 300 tax assessment (\$50,000) for 201512 is **not** limited by the amount of the 201712 carryback and will be computed and posted to the 201512 tax period.

- (5) For this example, the adjustments would be input and posted on the 201712 tax period using the following transaction codes and adjustments:

T/C	T/C Amount	Adjustments
300	\$50,000.00	Assessment limited to the carryback allowance of \$50,000.00.
309	\$50,000.00	INT-CMPTN-DT 04152019 - Statute expires 3 years from the extended due date of the 201712 loss year return (10152021). The loss year statute is open for assessment.
340	\$11,611.71	DB-INT-TO-DATE - 04152018 - Interest on the assessable TC 300 adjustment is not limited by the amount of the carryback.

Reminder: Update ASED 60 days from input date to allow TC 300 adjustment to post.

Note: ASED is extended out 60 days from input on gain year (201512) module in order to maintain an audit trail involving barred G/A assessments posting with carryback allowance adjustments.

Example: Deficiency not attributable to a tentative carryback allowance is assessed up to the amount of the tentative carryback allowance, less any amount assessed per paragraph 2 above. The tax periods

and statutes are the same as in Example 1 above. The IRS processed and refunded a NOL carryback allowance- 201712 (loss year) to 201512 (gain year). Taxpayer received a refund of \$50,000. An audit was performed and Form 2285 was prepared as follows:

Form 2285 Example 2

Form 2285 Item Number	Column (a) - G/A -Tax Year - 2015 -Barred Assessment	Column (c) - CB-Loss Year - 2017 Recapture	Column (h) - After All Adjustments
09. Carryback previously allowed	-	\$50,000	-
10. Corrected Carryback	-	\$30,000	-
11. Net Increase (Decrease) in Tax	\$40,000	\$20,000	\$60,000

The 201512 statute is expired (10/15/2019). The statute is open for assessment on the 201712 loss year 10/15/2021. Currently, a TC 295 - \$50,000, INT-CMPTN-DT 04152019 and TC 846 - \$50,000 are posted to the transcript.

- (6) For this example, the adjustments would be input and posted on the 201512 tax period using the following transaction codes and adjustments:

T/C	T/C Amounts	Adjustments
300	\$30,000	Statute expired (201512) to assess \$40,000. Assessment limited to \$30,000 (\$50,000 carryback previously posted and refunded minus \$20,000 carryback recapture).
308	\$20,000	INT-CMPTN-DT 04152019 - Statute expires 3 years from the extended due date of the 201712 loss year return (10/15/2021) (loss year statute is open for assessment).

T/C	T/C Amounts	Adjustments
340	\$700	Interest on the assessable TC 300 adjustment is not limited by the amount of the carryback

Reminder: Update ASED 60 days from input date to allow the TC 300 adjustment to post.

Note: ASED is extended out 60 days from input on gain year (201512) module in order to maintain an audit trail involving barred G/A assessments posting with carryback adjustments.

Note: If the carryback allowance full pays the general tax adjustment and only deficiency interest is owed, manually offset any overpayment from other tax periods to full pay the deficiency interest. Do not allow systemic offset. IDRS/ Master File will post the overpayment at the 23C Date of the general tax adjustment.

20.2.9.7.3
(07-12-2024)
Form 2285 Verification

- (1) The net increase or decrease in tax is shown on line 11, column (h) of Form 2285. Ensure that the net increase or decrease in tax matches what is shown in the audit report.
- (2) If there is a discrepancy, contact Technical Services to prepare a “corrected” Form 2285. Technical Services should likewise be contacted when any tax component of the net increase or decrease comprising line 11, column (h), does not match the audit report; for example, a conflicting availability, **Taxable Year Ended**, date assigned to a carryback allowance or recapture.
- (3) Upon receipt of the corrected Form 2285 from Technical Services, use the **running module balance** computational method to adjust the interest on the impacted tax module(s) accordingly - see IRM 20.2.1.4.2, Manual Calculation of Interest, IRM 20.2.4.12, Manually Computing Overpayment Interest, and IRM 20.2.5.2.3, Steps to Compute Interest.

Note: While the IRS currently approves and supports the use of CC COMPA and ACT/InterestNet (DMI) to perform manual interest computations, ACT/InterestNet (DMI) is the preferred interest computational tool. There are few instances when COMPA should be solely used – see IRM 20.2.1.5, Interest Computation Tools and Reports: Manually and Systemically Calculated Interest. This is particularly true for interest computations involving Form 2285 adjustments.

- (4) When interest is manually computed and adjusted, documentation showing how and why the interest was manually computed **must** be included with the adjustment source document - see IRM 20.2.1.4.2.1, Manual Calculation of Interest - Documentation.

Exhibit 20.2.9-1 (07-12-2024)
Interest Restrictions Reminder

Be sure to check for interest restrictions (TC 34X), which typically require a manual recomputation and assessment of underpayment interest.

If	Then
The effective date of a carryback is later than the previous DB-INT-TO-DT of the posted TC 340	Compute and assess any additional underpayment interest. Input a TC 340 with TC 295/299.
The effective date of the carryback is earlier than the TC 340 assessment date	Recompute underpayment interest and input a TC 341 for any interest reduction required.
There is no change in underpayment interest	Input TC 340 for zero with TC 295/299 to avoid an unpostable condition. Restrictive underpayment interest transactions (TC 34X) do not restrict the computer from calculating overpayment interest.

Note: If the failure to pay penalty is restricted, recompute the penalty as necessary. Use TC 270 to assess or TC 271 to abate. See IRM 20.2.1, Interest, Interest Introduction, Standards and Guidelines.

Note: A TC 370 with Doc. Code 52 sets a permanent underpayment interest restriction for modules re-established from the retention register, unless the TC 370 contains a Julian date of 999, in which case the module is not restricted.

Exhibit 20.2.9-2 (07-12-2024)**Example of Combination Adjustment Computation**

An examination of the Form 1120 accounts for Lamb Corporation resulted in a general adjustment tax increase of \$543,210 for year 201812, with net operating losses of \$280,111 and \$294,222 applied to that period from years 201912 and 202012, respectively. For purposes of this example, the large corporate underpayment (LCU) rate is inapplicable.

Using the current TXMOD print, interest is computed using a running module balance by entering the general adjustment with an effective date of April 15, 2019, and the carryback allowances with availability dates of April 15, 2020 and April 15, 2021. A **Run to Date** of September 12, 2022 is used.

In this case, the net adjustment is a tax decrease of \$31,123.00 with underpayment interest of \$39,634.30, resulting in a balance owing of \$8,511.30.

The adjustments will be input so that all components of Form 2285 are posted to IDRS/Master File.

Caution: Use of appropriate hold codes may be required when cycling adjustments to prevent the issuance of erroneous notices and refunds.

The input of a combination of transaction codes will allow the generation of systemic interest computations. See IRM 20.2.9.8, Combination of Adjustments-Form 2285, Concurrent Determinations of Deficiencies. Use Posting Delay Codes when applicable. See IRM 4.4.12.5.50, Item 43: Posting Delay Code or *Exhibit 8.20.7-1*, Form 5403, Appeals Closing Record (Instructions).

If the adjustment is input with a tax decrease in the amount of \$31,123, a TC 550 must be input to extend the CSCE (23C date plus 10 years).

Caution: Input of this adjustment as a single, net tax decrease must be avoided whenever possible. Input as a single, net tax adjustment is only to be used if there are statute concerns (for example, short statute for all adjustments - not a barred assessment adjustment per IRM 20.2.9.8.2, Interest on Barred Assessments).

**Example of 1st Adjustment Document (Form 5344, Examination Closing Record / Form 5403,
Appeals Closing Record)
Multiple Form 2285 Adjustments to Single Module**

Transaction Code	Amount	Interest Date
TC 300	\$543,210	-
TC 309	\$280,111-	INT-CMPTN-DT>04/15/2020
TC 340	\$0.00	DB-INT-TO-DT>09/12/2022

Exhibit 20.2.9-2 (Cont. 1) (07-12-2024)**Example of Combination Adjustment Computation****Example of 2nd Adjustment Document (Form 5344/Form 5403)
Multiple Form 2285 Adjustments to Single Module**

Transaction Code	Amount	Interest Date
TC 309	\$294,222.00-	INT-CMPTN- DT>04/15/2021
TC 340	\$39,634.30 COMP-INT-AMT>\$8,511.30	DB-INT-TO- DT>09/12/2022
Note: Use Posting Delay Code - 1	-	-

TXMOD of Assessed Tax Period

TXMODA 00-0XX1234 MFT>02 TX-PRD>201812 NM-CTRL>LAMB

RETURN TRANSACTION INFORMATION

T/C	POSTED	TRANS-AMT	CYCLE	T	DLN
150	04152019	1,645,654.00	201915	D	00311-096-00000-X

POSTED TRANSACTION SECTION

T/C	POSTED	TRANS-AMT	CYCLE	T	DLN
660	04152018	411,413.50-	201814	N/A	00397-170-00000-X
660	06152018	411,413.50-	201821	N/A	00397-170-00000-X
660	09152018	411,413.50-	201840	N/A	00397-270-00000-X
660	12252018	411,413.50-	201849	N/A	00397-350-00000-X
420	10232018	.00	201944	N/A	00977-296-00000-X
-	AIMS-NUM> 0101000086	-	-	-	-
560	04152021	.00	202112	-	00377-058-00000-X
-	ASED> 04152022	-	-	-	-

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Exhibit 20.2.9-2 (Cont. 2) (07-12-2024)**Example of Combination Adjustment Computation**

Date Transcript	Date Start	Date Adj/End	Description	Susp/Equal	Principal	Balance
04/15/2019	-	04/15/2019	150 Return Filed and Assessed Tax Liability	-	1,645,654.00	1,645,654.00
Various	-	04/15/2019	660 Estimated Tax	-	(1,645,654.00)	-
09/12/2022	-	04/15/2019	300 Additional Tax Assessment By Examination	-	543,210.00	543,210.00
09/12/2022	-	04/15/2020	309 Abatement of Prior Tax Assessment by Examination	-	(280,111.00)	263,099.00
09/12/2022	-	04/15/2021	309 Abatement of Prior Tax Assessment by Exam	-	(294,222.00)	(31,123.00)

Date	-	Description	Amount	Factor	Interest	Balance
04/15/2019	-	150 Return Filed and Assessed Tax Liability	1,645,654.00	-	-	-
-	-	300 Additional Tax Assessment by Examination	543,210.00	-	-	-
-	-	660 Estimated Tax	(1,645,654.00)	-	-	543,210.00
04/16/2019	04/15/2020	Underpay	543,210.00	0.053560903	20,094.82	572,304.82
04/15/2020	-	309 Abatement of Prior Tax Assessment by Examination	(280,111.00)	-	-	292,193.82
04/16/2020	04/15/2021	Underpay	29,222.00	0.034680761	10,133.50	302,327.32

Exhibit 20.2.9-2 (Cont. 3) (07-12-2024)**Example of Combination Adjustment Computation**

Date	-	Description	Amount	Factor	Interest	Balance
04/15/2021	-	309 Abatement of Prior Tax Assessment by Exam	(294,222.00)	-	-	8,105.32
04/16/2021	09/12/2022	Underpay	8,105.32	0.050088335	405.98	8,511.30

Account Summary:	As Computed	Per Transcript	Adjustment
Deficiency Interest	39,634.30	-	39,634.30
Overpayment Interest	-	-	-
Principal Balance	-	-	(31,123.00)
-	39,634.30	-	8,511.30

