



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

20.2.10

MARCH 31, 2025

EFFECTIVE DATE

(03-31-2025)

PURPOSE

- (1) This transmits revised IRM 20.2.10, Interest on Estate, Excise, Employment, and Foreign Taxes.

MATERIAL CHANGES

- (1) The following changes have been made throughout IRM 20.2.10, Interest on Estate, Excise, Employment, and Foreign Taxes:

Resource:	Material Changes:
IRM 20.2.10.1 Program Scope and Objectives	Deleted Program Goals , as this information is covered with inclusion of TBOR in IRM 20.2.10.1.3, Roles and Responsibilities.
IRM 20.2.10.1.3, Roles and Responsibilities.	Paragraph (4), text updated to include: <ul style="list-style-type: none">• reference to IRC 7803(a)(3)• for additional information link provided to the <i>Taxpayer Bill of Rights</i> TBOR.
IRM 20.2.10.1.6, Terms, Definitions and Acronyms	New subsection
IRM 20.2.10.1.7, Related Resources	Moved from 20.2.10.1.6 (08-01-2018 rev.).
IRM 20.2.10.3, Special Rules for Foreign Tax Credit and IRC 965 Transition Tax	Changes made include: <ul style="list-style-type: none">• title change from “Foreign Tax Credit - FTC”• original paragraphs (1) and (2) moved in entirety to IRM 20.2.10.3.1, Interest on Adjustment to Foreign Tax Credit (FTC).
IRM 20.2.10.3.1, Adjustments to Accrued Taxes - Foreign Tax Credit (FTC)	Updates include: <ul style="list-style-type: none">• Title change from Adjustments to Foreign Tax Credit (FTC).• Paragraphs (1) and (2) moved from previous 20.2.10.3 (08-01-2018 rev.).• Paragraph (2) “Note” updated to add IRM references to IRM 21.8.1, IMF International Adjustments, IRM 21.8.2, BMF International Adjustments, and IRM 4.60.2.8, Foreign-Initiated Adjustments Affecting a U.S. Tax Return and Foreign Tax Credits Claimed During an Examination.• Paragraph (3) rewritten for clarity.• Paragraph (5), new content added to last sentence explaining the repeal of IRC 902, and that deemed paid tax credits are still allowable for FTC purposes as provided by IRC 960.

Resource:	Material Changes:
IRM 20.2.10.3.1.1, Interest on Adjustments to FTC	Title change from "Adjustments to Foreign Tax Credit (FTC)"
IRM 20.2.10.3.1.1, Interest on Adjustments to FTC	New subsection. Content moved in entirety from IRM 20.2.10.3.2 (08-01-2018 rev.).
IRM 20.2.10.3.1.2, Filing FTC Claims and Amended Returns	New subsection. Content moved in entirety from IRM 20.2.10.3.3 (08-01/-2018 rev.)
IRM 20.2.10.3.2, Competent Authority - Mutual Agreement Procedures (MAP) , Background	<p>Changes made:</p> <ul style="list-style-type: none"> • New content added provides a brief background of the role of competent authority, and explains how the MAP articles of U.S. tax treaties and tax coordination agreements grant taxpayers the right to request the assistance of the appropriate competent authority. • Previous content, Interest on Adjustments to Foreign Tax Credit (FTC), moved to IRM 20.2.10.3.1.1.
IRM 20.2.10.3.2.1, Competent Authority - Interest Provisions	<p>New subsection::</p> <ul style="list-style-type: none"> • Paragraph (1) explains that typically, the normal interest rules of time (IRC 6611, IRC 6601) and rate (IRC 6621) apply to overpayments and/or underpayments resulting from adjustments attributable to competent authority agreements. • Paragraph (2) provides Chief Counsel contact information, for guidance if case involves other than normal interest rules, where interest was negotiated between the U.S. competent authority and the foreign competent authority.
IRM 20.2.10.3.3, Carrybacks and Carryovers of Excess Foreign Taxes Paid IRC 904(c)	<p>Updates;</p> <ul style="list-style-type: none"> • Title change to "Carrybacks and Carryovers of Excess Foreign Taxes Paid IRC 904(c)." • Content moved in entirety from IRM 20.2.3.5 (08-01-2018 rev.) and reorganized with interest information moved to new subsection 20.2.10.3.3.1, Computing Overpayment Interest on Excess Foreign Tax Carrybacks.
IRM 20.2.10.3.4, IRC 965 Transition Tax - Special Interest Provisions	New content added explains that IRC 965 contains a provision which requires certain taxpayers to pay a transition tax on the untaxed foreign earnings of certain specified foreign corporations.

Resource:	Material Changes:
IRM 20.2.10.3.4.1, Underpayment Interest - IRC 965	New content added explains how underpayment interest is computed when a U.S. taxpayer has a total new tax liability under IRC 965 and does not make the IRC 965(h) election.
IRM 20.2.10.3.4.2, IRC 965(h) Deferred Liability	New content explains how an IRC 965(h) election allows taxpayers to pay the IRC 965 transition tax in 8 annual installments.
IRM 20.2.10.3.4.2.1, Underpayment Interest - IRC 965(h) Installments	New content explains when underpayment interest begins to accrue when an installment is not timely paid.
IRM 20.2.10.3.4.2.2	New content added explains how Master File has been programmed to systemically compute interest on IRC 965 accounts with the use of specific Transaction Codes (TC), Action Codes (AC), and Credit Reference Numbers (CRN).
IRM 20.2.10.3.4.2.2.1, Systemic Interest Programming Limitations	New content added explains how programming limitations may have resulted in failure to pay penalty and/or interest charges when a taxpayer made a timely IRC 965(h) installment payment due to incorrect input of installment reversals.
IRM 20.2.10.3.4.2.3, IDRS Command Codes BMFOLM and IMFOLM	New content added explains these command codes were created to assist in identifying IRC 965(h) deferral payments present on an account.
IRM 20.2.10.3.4.2.3, IRC 965(i) - Deferred Election	New content added explains no new IRC 965 inclusions can be made after November 30, 2019, unless the taxpayer originally made an IRC 965(i)(4) election during the inclusion period (201712 - 201911). Information is provided on how a “triggering” event allows the taxpayer to make an IRC 965(h) election and pay the triggered liability in deferred installments.
IRM 20.2.10.4, Excise Taxes	Paragraph (3) added, stating overpayment interest on excise tax overpayment/refunds to individual or non-corporate entities are entitled to overpayment interest at the non-corporate rate.
IRM 20.2.10.4.1, Interest on Excise Taxes	Paragraph (5), corrected citation link to IRM 4.2.2.2, Campus Procedures for Excise Taxes, from IRM 21.7.8, Excise Taxes which has been obsoleted.
IRM 20.2.10.4.2, Special Rules for Chapter 33, Facilities and Services Excise Taxes	Title change from Underpayment of “Collected” Excise Taxes.. Redundant text removed.
IRM 20.2.10.4.2.1, Underpayment of Chapter 33 Excise Taxes	New content added explains a collected tax arrangement and defines the relationship between the collector and taxpayer . Information for underpayment interest computation was added.

Resource:	Material Changes:
IRM 20.2.10.4.2.2, Overpayment of Chapter 33 Excise Taxes	<p>New content:</p> <ul style="list-style-type: none"> • Instructions added for overpayment interest computation. • Information added explaining completion of Form 3198 for CCP (Campus Case Processing).
IRM 20.2.10.4.3, Interest Rules for Ultimate Vendor and Fuel Tax Claims	<p>Updated the following:</p> <ul style="list-style-type: none"> • Paragraph (1), last sentence removed replaced with additional paragraphs. If/Then table moved to paragraph (4). • Paragraph (2), Biodiesel, Alternative Fuel and Mixture Claims, content moved down to paragraph (5). New content added to provide information regarding MFT 40 processing. • Paragraph (3), new content added for processing electronic claims or claims (electronic or paper) requiring a manual refund are processed on the related income tax module (MFT 02, 05, 06, or 34). Advised interest must be manually computed and input as Master File cannot compute interest when a TC 150 is not present. • Paragraph (3), new content added for processing electronic claims or claims (electronic or paper) requiring a manual refund are processed on the related income tax module (MFT 02, 05, 06, or 34). Advised interest must be manually computed and input as Master File cannot compute interest when a TC 150 is not present. • Paragraph (4), added interest computation instruction when 20-day or 45-day interest free period is missed moved from paragraph (1). If/Then table IRM citation and title updated to IRM 20.2.4.8.1, Systemic Refunds. • Paragraph (5), first sentence added “Sustainable Aviation Fuel”. Last sentence, moved Alcohol fuel mixture claims expired in 2011 to first sentence of NOTE, which was changed to read, “Alcohol fuel mixture claims expired in 2011 and Alternative fuel mixture claims after 2011 may only offset IRC 4081 liability. These credits frequently expire; check IRC 6427(e)(6) for accurate expiration dates.” • Paragraphs (6) and (7), text removed and added to IRM 20.2.10.4.3.1, Special Interest Rules GATT Threshold Amount - MFT 40.

Resource:	Material Changes:
IRM 20.2.10.4.3.1, Special Rules - GATT Threshold Amount	New content added explains the rules for determining the GATT threshold amount involving MFT 40 and MFT 02 accounts. MFT 40 is not considered a separate module from MFT 02 when determining if GATT threshold has been met.
.	<ul style="list-style-type: none"> Paragraph (1), rewritten to include the latest tax extender bill, Inflation Reduction Act of 2022 (IRA), which extends the expiration of fuel tax credits to December 31, 2024. Paragraph (2), new content added to include the beginning and ending dates of the 180-day claim period for 2022 claims for alternative fuel credits and payments for the first second, and third quarters of 2022. Overpayment interest instructions add to “If/Then” table for 2022 claims. Paragraph (3), overpayment interest instruction added to 2018-2019 “If/Then” table. Paragraph (10), IRM citation and title changed to IRM 20.2.4.8.1, Systemic Refunds. Paragraph. Paragraph (11) IRM 4.24.22.4.1.6.3 title change to “Fuel Mixtures and Alternative Fuel Claims (Lines 12 and 13”
IRM 20.2.10.4.4.3, Computing TETR Interest	Title change: Replaced “Credit” with “Overpayment.”
IRM 20.2.10.4.4.4, TETR Instructions for an “Original” Form 8913 Claim - Corporate Taxpayers	Replaced tables, throughout, with bulleted lists for easier reading,
IRM 20.2.10.4.4.5, TETR Instructions for an “Additional” Form 8913 Claim - Corporate Taxpayers	Replaced tables, throughout, with bulleted lists for easier reading,
IRM 20.2.10.4.4.6, TETR Instructions for an “Amended Form 8913” Claim - Corporate Taxpayers	Replaced tables, throughout, with bulleted lists for easier reading,
IRM 20.2.10.4.5, Payments Related to Certain Retailers and Manufactures Excise Taxes	Paragraph (1) rewritten to eliminate confusing phrasing by including specific information regarding IRC 6416(b), to clearly identify which payments are considered overpayments and are subject to credit or refund without interest.
IRM 20.2.10.4.6, Gasoline Used in Farming	<ul style="list-style-type: none"> Paragraph (1) first sentence, removed “ultimate purchaser” as the ultimate purchaser of the fuel is not required to be an owner, tenant or operator of a farm. Paragraph (2) second sentence, changed to clarify the ultimate purchaser can make a claim for an excise tax payment or an income tax credit, but not both.

Resource:	Material Changes:
IRM 20.2.10.4.10, Heavy Highway Vehicles	New content added regarding tax exemption for vehicles used under 5,000 miles or less (7,500 for agricultural vehicles) depending on use.
IRM 20.2.10.4.10.1, 2011 Form 2290 Extended Return Due Date	<ul style="list-style-type: none"> Removed outdated information Paragraph (1) and added additional sentence in to see IRM 20.2.10.4.1(10-11-2016 revision) for interest information. Paragraphs (2) and (3) deleted.
IRM 20.2.10.4.11, Chemicals	Paragraph (1) rewritten for clarity.
IRM 20.2.10.5, Employment Taxes	Paragraph (4) added which explains when overpayment interest is allowed and from what date. Reference added to IRM 20.2.4.8.3.2, 45-Day Rule and Amended Returns and Claims, OBRA 1993, for details. to clarify amended claims date processing, subsequent paragraphs renumbered.
IRM 20.2.10.5.1, Underpayment Adjustments on Employment Taxes	Paragraph (3), IRM citation and title updated to IRM 20.1.4.21.5(7), Adjusted Returns (Forms 941-X, 943-X, 944-X, 945-X, and CT-1X).
IRM 20.2.10.5.2, Combined Annual Wage Reporting (CAWR) Assessments,	Citation in NOTE moved to paragraph (3) of IRM 20.2.10.5.1, Underpayment Adjustments on Employment Taxes
IRM 20.2.10.5.3, Household Employment Taxes,	Paragraph (1),. text regarding employer finding errors has been removed and replaced with an “ If/Then ” table for clarification purposes.
IRM 20.2.10.5.4, Underpayments of Federal Insurance Contributions Act (FICA) and Railroad Retirement Taxes (RRTA)	<ul style="list-style-type: none"> Paragraph (5)(b) updated dates in “Example” to make more current. Note updated to include citation to Form 2504-AD, Offer of Agreement to Assessment and Collection of Additional Tax and Offer of Acceptance of Overassessment (Employment Tax). Paragraph (8), title of IRM 20.2.5.7 changed to Revenue Ruling 99-40, Use of Money,
IRM 20.2.10.5(4), Employment Taxes	“Example” dates changed to make more current.
IRM 20.2.10.5.5.1, Underpayments of Federal income Tax Due to an Administrative Error	Second example removed, no added value.
IRM 20.2.10.5.6, Overpayments of FICA and RRTA Taxes	Paragraph (4), IRM citation changed to IRM 20.2.4.8.1, Systemic Refunds. Also, added an alpha list specifying order (first to last) of allowing overpayment interest.

Resource:	Material Changes:
IRM 20.2.10.5.7, Employer and Employee Portion of FICA Tax or RRTA Tax Withheld	<p>Updated the following:</p> <ul style="list-style-type: none"> • Paragraph (2) added link to IRM 21.7.2.4.6.4.1, Refund of Credit of Employer's Portion of FICA. • Paragraph (3) replaced with information involving erroneously withheld FICA involving a non-resident alien. • Paragraph (4) added information that Form 843, can no longer be used by employers to claim refunds of employment taxes.
IRM 20.2.10.5.8, COVID-19 Relief Provisions 2020 - Deferred Payment of Social Security Taxes	New content added to explain deferral periods, amounts, and payment due dates. Paragraph (1) first bullet, IRM reference changed to 21.7.2.8.1, Deferred Payment of Employer's Share of Social Security Taxes for 2020.
IRM 20.2.10.5.8.1, Systemic Underpayment Interest Processing	New content added to explain current Master File programming which uses IDRS TC 766 with credit reference number (CRN) 280 to post false credits during interest deferral periods, with subsequent reversals as payments are made, to eliminate interest and penalty charges during the deferral period.
IRM 20.2.10.5.8.2, Underpayment Interest - Manual Calculation	<ul style="list-style-type: none"> • Paragraph (1), added information to explain when deposits are due and the use of IDRS CC BMFOLM to display unpaid amounts of deferred Social Security taxes. • "Note" was added to advise that if any COVID deferral activity occurred on the account, special attention and analysis should be performed to ensure the account is accurate,
IRM 20.2.10.5.9, Trust Fund Recovery Penalty (TFRP)	<p>Paragraph 1</p> <ul style="list-style-type: none"> • An introductory sentence added to explains the penalty. • Second sentence, added cross references to IRM 8.25.1, Trust Fund Recovery Penalty, and IRM 5.19.14, Collection Process, Liability, Collection, Trust Fund Recovery Penalty (TFRP). • Fourth sentence, added cross reference to IRM 5.17.8.26, Trustee's Power to Avoid Preferences.

Resource:	Material Changes:
IRM 20.2.10.5.11, COBRA Benefits	<ul style="list-style-type: none"> Paragraph (1), removed information regarding a federal subsidy, as there is no general subsidy under COBRA. Paragraph (2), new content added to include reference to section 9501 of the American Rescue Plan Act (Pub. L. 117-2) for temporary adjustments to COBRA. Reorganized and updated information related to the American Recovery and Reinvestment Act of 2009 (ARRA 2009), Paragraph (3), inserted (Pub. L. 11-5) after ARRA and clarified ARRA 2009 provisions by replacing paragraphs (5), (6), (7) and (8) with a bullet list. Paragraph (4), new content added: "ARRA 2009 (Pub. L. 111-5) provided a federal subsidy of 65% of the COBRA premium to assist in paying the premium for eligible individuals for up to 15 months. Employers are allowed a credit against their employment tax for the amount of premium assistance provided to the employee." Paragraph (5), IRM citation changed to 21.7.2.7.3, COBRA Premium Assistance Credit - The American Rescue Plan Act of 2021 (ARP).
IRM 20.2.10.5.12 , Hire Benefits	<ul style="list-style-type: none"> Paragraph (1), added information to advise HIRE credit is no longer available (expired in 2011). Paragraph (2) added reference to IRM 20.2.4.8.4, 180-Day Rule, for information regarding the interest-free processing period on any overpayment resulting from tax deducted and withheld under Chapter 3 (withholding of tax on non-resident aliens and foreign corporations) or Chapter 4 (taxes to enforce reporting on certain foreign accounts) of the Internal Revenue Code.

Resource:	Material Changes:
IRM 20.2.10.5.13, Form 5884-C, Work Opportunity Tax Credit for Qualified Tax-Exempt Organizations,	Content updated: <ul style="list-style-type: none"> • Paragraph (1), text updated to add date of “VOW to Hire Heroes Act of 2011” enactment. Additional detail added. • Paragraph (2), extension date for WOTC updated and additional detail added. • Paragraph (3), text revised to include additional details involving the use of Form 5884-C, Work Opportunity Tax Credit for Qualified Tax-Exempt Organizations. • Paragraph (4), added “Note” to advise of systemic program limitations associated with the use of CRN 290 for administering the credit. Added reference to IRM 21.7.25.22.5, CRN 290 Impact on Penalties and Interest. • Paragraph (6), clarified return due date with the addition of “un-extended” after due date. • Paragraph (7), added reference to IRM 21.7.2.5.15, Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans, and Form 5884-D, Employee Retention Credit for Certain Tax-Exempt Organizations Affected by Qualified Disasters.
Exhibit 20.2.10-1, Which Forms to File,	Editorial updates made to update citations to current “Forms.”
Material Changes	Editorial changes made for clarity. Reviewed and updated grammar, email addresses, website links, plain language, titles, IRM references, IRS organization or organization terminology to business unit and reorganized content

EFFECT ON OTHER DOCUMENTS

This material supersedes IRM 20.2.10, dated August 1, 2018.

AUDIENCE

Any employee who needs to compute interest on estate, excise, employment, and foreign taxes.

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 Small Business/Self-Employed

20.2.10

Interest on Estate, Excise, Employment, and Foreign Taxes

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20.2.10.1
(08-01-2018)
Program Scope and Objectives

- (1) **Purpose:** This IRM provides policy guidance for computing interest on estate, excise, employment and certain international tax items.
- (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 (TS) Division,
 - IRS Independent Office of Appeals (Appeals),
 - Taxpayer Advocate Service (TAS), and
 - 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 overpayment and 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 20.2.10, Interest on Estate, Excise, Employment and Foreign Taxes.

20.2.10.1.1
(08-01-2018)
Background

- (1) 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 estate, excise, employment, and foreign tax issues correctly understand and follow technical guidance and information for interest rates and methods of computation.

20.2.10.1.2
(08-01-2018)
Authority

- (1) These procedures are covered under the following authority:
 - IRC 6601, Interest on Underpayment, Nonpayment or Extensions of Time for Payment, of Tax
 - IRC 6621, Determination of Rate of Interest
 - IRC 6622, Interest Compounded Daily

Note: Additional authorities can be found in the table located in IRM 20.2.5.6.1, Reasons to Manually Compute Interest.

20.2.10.1.3
(03-31-2025)
Roles and 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 (OSI) is responsible for oversight of the interest programs.
- (3) Overall responsibility for the interest programs resides with OSI. OSI coordinates policy and procedures concerning administration of the interest programs.
- (4) The Taxpayer Bill of Rights (TBOR) lists rights that already existed in the tax code, putting them in simple language and grouping them into 10 fundamental

rights. Employees are responsible for being familiar with and acting in accord with taxpayer rights. See IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights. For additional information about the TBOR, see *Taxpayer Bill of Rights*.

20.2.10.1.4
(08-01-2018)
**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, forwarding their findings to program partners/stakeholders. OSI also prepare reports of significant issues, such as corrections to computer programming that affect taxpayers.

20.2.10.1.5
(08-01-2018)
Program Controls

- (1) In accordance with IRC 6601(a) and IRC 6611, the payment of interest is required on underpayments of tax and overpayments of tax, respectively, unless otherwise specified by law.
- (2) 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.
- (3) Interest is statutory. It **cannot** be reduced or abated due to reasonable cause, nor can it be negotiated. See IRM 20.2.7, Abatement and Suspension of Debit Interest Overview, for situations in which interest can be lawfully reduced or abated.

20.2.10.1.6
(03-31-2025)
**Terms Definitions and
Acronyms**

- (1) The table below provides definitions of terms used throughout this IRM.

TERM	DEFINITION
ABATED INTEREST	The portion of the interest liability on a given module or account which has been reversed.
ACCRUED INTEREST	The unassessed portion of the total interest liability on a specified module or account at any given date. It is the difference between interest assessed and total interest due.
ADDITIONS TO THE TAX	Amounts imposed and added to the tax as a result of a taxpayer's failure to comply with specific laws and/or regulations. These additions are commonly referred to as penalties.

TERM	DEFINITION
ADVANCE PAYMENT	A payment made prior to assessment of a determined, pending, or proposed liability.
ALLOWABLE INTEREST	Interest (provided by law) which is allowed on an overpayment. Also known as overpayment or credit interest.
ANNUAL INTEREST NETTING	Method of computing interest which equalizes the rate difference between overpayment and underpayment interest within a single tax module during periods of mutual indebtedness.
APMA	Advance Pricing and Mutual Agreement
ARP	American Rescue Plan
ASSESSMENT DATE (23C DATE)	The date that a taxpayer's liability for tax, penalty, and applicable interest is recorded. It is also the date that the notice and demand for payment of that amount is issued to the taxpayer.
ASSESSED INTEREST	The portion of the interest liability on a given module or account which has been recorded to a given assessment date (23C Date).
ASSESSMENT STATUTE EXPIRATION DATE (ASED)	The date established by law by which the IRS must assess any tax due for a given tax period.
AVAILABILITY DATE OF CREDIT	The date an amount becomes available to credit against an outstanding liability or refund to the taxpayer.
CARRYBACK	The application of a net operating loss, net capital loss, and certain unused non-refundable tax credits to taxable years preceding the year in which the excess amount is generated. See terms, "Losing Module" and "Gaining Module", below. Also, see IRM 20.2.9, Interest on Carryback of Net Operating Loss.

TERM	DEFINITION
CARRYBACK YEAR	The year to which a net operating loss, net capital loss, or certain other unused non-refundable tax credits is carried back.
CASH BOND	A remittance intended to stop the running of underpayment interest made by a taxpayer who does not agree to the deficiency determined by the IRS (taxpayer retains appeal rights). In general, for deposits made after 10/22/2004, the cash bond terminology is obsolete and IRC 6603 deposits are used to stop the running of underpayment interest on disputed tax liabilities.
CLAIM	A request by a taxpayer for a refund, or a request for an adjustment of tax paid or credit not previously reported or allowed. A claim may be formal or informal. See IRM 21.5.3.2, What Are Claims for Credit, Refund, and Abatement?, and IRM 25.6.1.10.3.2, Claims for Credit or Refund - Form and Content.
COLLECTION STATUTE EXPIRATION DATE (CSED)	The date established by law by which the IRS must collect any amount due from a taxpayer for a given tax period. Interest can be assessed to the CSED date.
COMPOUND INTEREST	Interest computed on interest already assessed or accrued. Compound interest applies to interest accruing after December 31, 1982.
CYCLE	One week's processing at a Campus, Martinsburg, or Tennessee Computing Center. There are 52 cycles in a year. With CADE, Customer Account Data Engine, transaction processing is daily.

TERM	DEFINITION
DEFICIENCY	The amount by which the tax imposed by Subtitle A or B, or Chapter 41, 42, 43, or 44 exceeds the excess of the sum of the amount shown as the tax on a return filed by a taxpayer, plus any amounts previously assessed (or collected without assessment) as a deficiency over the amount of rebates made. (See <i>Provisions Restricting Interest</i> and IRC 6211).
DESIGNATED PAYMENT	A payment designated by a taxpayer to be applied to a particular tax, penalty, or interest liability. These payments are identified by TC 640, 680, or 690.
DESIGNATED PAYMENT CODES (DPC)	The rate difference between underpayment and overpayment interest rates. Differential interest rates began on January 1, 1987 and ended only for non-corporate taxpayers on December 31, 1998.
DUE DATE	The date a liability is due.
EFFECTIVE DATE	Generally, the date a transaction (either underpaid or overpaid) posts to a taxpayer's module. The effective date for beginning a computation of underpayment or overpayment interest may be different than the posted transaction date.
ERRONEOUS REFUND	A refund to which a taxpayer is not entitled. The term appears in IRC 6532(b), IRC 6602, and IRC 7405.

TERM	DEFINITION
EXTENDED RETURN DUE DATE	The date for which an extension of time to file a return has been granted. The extended return due date affects the date interest begins on certain penalties. Note: May also refer to a return due date extended by certain provisions such as for combat zone participants or taxpayers affected by a disaster declaration.
FREEZE	An instruction applied to a Master File tax account or module that restricts normal computer actions.
GAINING MODULE	The module to which a credit is applied. (See <i>Provisions Restricting Interest</i> and "Losing Module" below.)
GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)	Interest rate legislation effective after December 31, 1994 for large corporate overpayments exceeding \$10,000. The GATT rate is one and a half points below the corporate overpayment interest rate. See IRM 20.2.4.10.1, GATT Credit Interest - Computations on Overpayments.
INSTALLMENT PRIVILEGE	The right, as provided in the Internal Revenue Code (IRC), to pay a liability in installments.
INTEREST	Generally, the amount computed on an underpayment or overpayment of tax for the time a taxpayer has use of the government's money or for the time the government has use of a taxpayer's money. It is known as underpayment (debit) interest when a taxpayer owes the government and overpayment (credit) interest when the government owes a taxpayer. IRC 6601 and IRC 6611 provide the rules for computing interest on underpayments and overpayments.

TERM	DEFINITION
INTEREST ABATEMENT	The reduction of all or part of previously assessed interest.
INTEREST DUE	Total interest due on a module, which includes all assessed and accrued interest less interest paid.
INTEREST-FREE PERIOD ON OVERPAYMENTS	Period of time during which interest is not allowed (payable). See IRM 20.2.4, Overpayment Interest.
INTEREST-FREE PERIOD ON UNDERPAYMENTS	Period of time during which underpayment interest is not computed (charged); also known as an interest suspension period. See IRM 20.2.7, Abatement and Suspension of Debit Interest.
IRC SECTION 6603 DEPOSIT	Similar to a cash bond in that it is used to stop the running of interest on an unassessed underpayment. To receive interest on a returned deposit, a taxpayer must specify the "disputable tax" and pay the tax amount shown on a 30-Day Letter. If the deposit is specified as attributable to a "disputable tax" and it is returned to the taxpayer, overpayment interest is allowed at a reduced rate (federal short-term rate). See IRM 20.2.4.9.2, IRC 6603 Deposits.
IRS COMPUTED FORM	A partially completed form submitted by the taxpayer, asking the IRS to figure the tax.
LARGE CORPORATE UNDERPAYMENT (LCU) RATE	A two percentage point increase in the underpayment interest rate applicable to certain overpayments of C corporations per IRC 6621(c). See IRM 20.2.5.8, Large Corporate Underpayment (LCU).
LIABILITY	The amount owed on a tax module or tax account.

TERM	DEFINITION
LOSING MODULE	The module from which a credit originates before being moved to a liability module. (See “ Gaining Module ,” above.)
LOSS YEAR	As it pertains to carrybacks, the taxable year in which the loss arises per IRC 6611(f)(4)(B)(ii) (See IRM 20.2.9, Interest on Carryback of Net Operating Loss.
MANAGERIAL ACT	An administrative act that occurs during the processing of a taxpayer’s audit examination involving the temporary or permanent loss of records or the exercise of judgment or discretion relating to management of personnel. A decision concerning the proper application of federal tax law (or other federal or state law) is not a managerial act. Further, a general administrative decision, such as the IRS’s decision on how to organize the processing of tax returns or its delay in implementing an improved computer system, is not a managerial act for which interest can be abated. See Treasury Regulation 301.6404-2(b)(1).
MANUALLY COMPUTED INTEREST	Calculation of interest when IRS computer systems are incapable of performing the calculation.
MINISTERIAL ACT	A procedural or mechanical act that does not involve the exercise of judgement or discretion, and that occurs during the processing of a taxpayer’s audit examination after all prerequisites to the act, such as conferences and review by supervisors have taken place. A decision concerning the proper application of federal tax law (or other federal or state law) is not a ministerial act. See Treasury Regulation 301.6404-2(b)(2).

TERM	DEFINITION
MODULE	All information contained on the Master File for a specific type of tax for one tax period for one taxpayer. A module is a portion of a Master File tax account.
NET RATE INTEREST NETTING	The interest computation method to equalize/eliminate the interest rate differential between equal amounts of overpayments and underpayments during overlapping interest computation periods.
NON-MASTER FILE	A manual accounting system which processes documents, returns, or adjustments that cannot be posted to the Individual or Business Master File.
NORMAL INTEREST	Underpayment or overpayment interest that is computed based on conventional beginning and ending dates.
NOTICE DATE	The date a notice (bill) for payment is issued to a taxpayer.
OFFER-IN-COMPROMISE (OIC)	An agreement between a taxpayer and the government to settle a tax liability for payment of less than the full amount.
OFFSET	The transfer of an available credit from one type of tax or tax period to an outstanding liability of another type of tax or another tax period.
OUTSTANDING BALANCE	The unpaid amount of overpayment or underpayment existing in a module. On IDRS or Master File transcripts, a hyphen (-) following the figure indicates a credit balance while a figure standing alone will indicate a debit balance.
OVERPAYMENT	Any payment in excess of the total liability including tax, penalties, and interest for a specific type of tax and taxable period.

TERM	DEFINITION
OVERPAYMENT INTEREST	Interest on an overpayment allowed under IRC 6611. The statutory term is overpayment interest. It is sometimes called allowable interest.
OVERPAYMENT INTEREST RULES	The rules that define how interest is computed on overpayments.
PAYMENT DATE	The received date of a payment.
REBATE	The amount of an abatement, credit refund or other payment made on the grounds that the tax imposed by subtitle A or B, or Chapter 41, 42, 43, or 44 was less than the excess of the amount shown as the tax on a return filed by a taxpayer plus amounts previously assessed (or collected without assessment) as a deficiency over the rebates previously made. See term, “Deficiency,” above.
RECOMPUTATION	The computation of interest after all transactions with monetary amounts are sorted in effective date sequence.
REFUND	An overpayment, plus any interest, which is issued to the taxpayer.
REFUND STATUTE EXPIRATION DATE (RSED)	The date established by law that a taxpayer must file a claim for a credit or refund for a given tax period.
RESTRICTED INTEREST	Interest computed from other than the normal interest beginning and ending dates, including statutory exceptions of time (e.g., IRC 6601(c), IRC 6404(g)) or rate (e.g., IRC 6621(c), IRC 6621(d)). IRS computer systems are capable of systemically generating most normal interest calculations and some restricted interest calculations. When IRS computer systems are incapable of calculating interest, it must be manually computed and input.

TERM	DEFINITION
RETURN DUE DATE (RDD)	The required date by law that a return must be filed (with regard to extensions).
RETURN RECEIVED DATE	The date the return is received by the IRS. If the return is received before the due date (excluding extensions), it will be the same as the return due date.
Rev. Proc.	Revenue Procedure
RUNNING MODULE BALANCE	The balance of tax, penalty and interest, occurring as monetary amounts are sorted in effective date sequence. Overpayment or underpayment interest is suspended, as applicable, during any interest-free periods.
SCHEDULE DATE	The date on which an overpayment is certified for refund.
SUBSEQUENT PAYMENT	A payment (TC 670) made after a return is filed or in response to a subsequent liability.
SUBSTITUTE FOR RETURN (SFR)	A return prepared by the IRS under the authority of IRC 6020(b). The assessment can be based on information gathered from third party sources when the taxpayer fails to file his own return.
TAXPAYER DELINQUENT ACCOUNT	A computer generated print out stating that a taxpayer's balance due account or module has reached delinquent status. They are received systemically via the Integrated Collection System (ICS) in a revenue officer's inventory.
UNDERPAYMENT INTEREST	Interest charged when the taxpayer owes a liability to the government. The statutory term is underpayment interest. It is sometimes called deficiency interest.
UNDERPAYMENT INTEREST RULES	The rules that define how interest is computed on underpayments under IRC 6601.

TERM	DEFINITION
WAIVER	A document (usually a Form 870, Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Over-assessment) signed by a taxpayer certifying proposed over-assessments as correct or consents to the assessment and collection of a proposed deficiency.
WAIVER DATE	The date a waiver is effective. This is usually the IRS received date. In TEFRA or Appeals, if an IRS official's counter-signature is required, the waiver date is the date the form is counter-signed by the IRS official. The waiver date is also referred to as the "870 Date" or "Agreement Date."

(2) The table below provides acronyms and definitions used throughout this IRM.

Acronym	Definition
ABS	Abstract Number
ACT/DMI	Automated Computation Tool/ Decision Modeling Inc. (aka DMI Interest Net)
ADJ	Adjustment
AGI	Adjusted Gross Income
AIMS	Audit Information Management System
AM	Accounts Maintenance
AMS	Audit Management System
ARP	American Rescue Plan
ARRA	American Recovery and Reinvestment Act of 2009
ASED	Assessment Statute Expiration Date
AUR	Automated Underreporter
BMF	Business Master File
BMFOL	Business Master File On-Line

Acronym	Definition
CAWR	Combined Annual Wage Reporting
CCP	Centralized Case Processing
CFOL	Corporate Files On-Line
CFR	Code of Federal Records
COBRA	Consolidated Omnibus Budget Reconciliation Act
COVID	Coronavirus Disease
CP	Computer Paragraph
CRN	Credit Reference Number
CSED	Collection Statute Expiration Date
DLN	Document Locator Number
DOJ	Department of Justice
EIC	Earned Income Credit
EIN	Employer Identification Number
FFM	Frequent Flyer Miles
FICA	Federal Insurance Contributions Act
FTC	Foreign Tax Credit
GATT	General Agreement on Tariffs and Trade
HIRE	Hiring Incentives to Restore Employment Act of 2010
IDRS	Integrated Data Retrieval System
IMF	Individual Master File
IMFOL	Individual Master File On-Line
INT	Interest
IRA	Inflation Reduction Act of 2022
IRB	Internal Revenue Bulletin
IRC	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
MAP	Mutual Agreement Procedure
MFT	Master File Tax

Acronym	Definition
NMF	Non-Master File
RRTA	Railroad Retirement Tax Act
RSED	Refund Statute Expiration Date
TAS	Taxpayer Advocate Service
TBOR	Taxpayer Bill of Rights
TDA	Taxpayer Delinquent Account
TEFRA	Tax Equity and Fiscal Responsibility Act of 1982
TETR	Telephone Excise Tax Refund
NMF	Trust Fund Recovery Penalty
TIN	Taxpayer Identification Number
TS	Taxpayer Services
US	United States
USC	United States Code
WOTC	Work Opportunity Tax Credit

20.2.10.1.7
(08-01-2018)
Related Resources

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

20.2.10.2
(03-05-2013)
Interest on Estate Tax Returns

- (1) Estate tax may be extended or deferred and paid in installments as provided in IRC 6166, with interest assessed at a reduced rate. These tax modules are identified by a taxpayer identification number (TIN) ending in “V” (valid TIN) or “W” (invalid TIN) and MFT 52 TXPD 000000 with a Notice Status of 14. Instructions for determining the portion of estate tax that may be subject to the reduced rate are found in IRM 4.25.2, Campus Estate and Gift.
- (2) Interest on a portion of the estate tax is charged at 2% for decedents whose date of death is after December 31, 1997.
- (3) Interest on the amount that exceeds the 2% portion [as defined in IRC 6601(j)(2)] shall be paid at 45% of the normal interest rate as found in IRC 6621.

20.2.10.2.1
(10-11-1016)
Installment Payments on Form 706 Estate Tax Return

- (1) If all or a portion of an assessment (deferred amount) is paid in installments, compute and assess interest as shown below.
 - a. Interest on the deferred amount that is **not** past due is computed from the return due date (excluding extensions of time to file) to the last prior installment due date.

- b. Interest on the deferred amount that **is** past due is computed from the return due date (excluding extensions of time to file) to the date of payment using the normal interest rate as provided by IRC 6621.
 - c. Interest on the non-deferred amount is computed from the return due date (excluding extensions of time to file) to the date of payment using the normal interest rate.
 - d. If Form 890, Waiver of Restriction on Assessments and Collection of Deficiency and Acceptance of Overassessments - Estate, Gift, and Generation - Skipping Transfer Tax., is attached to the examination report, the IRS must issue notice and demand within 30 days of the date the waiver is signed to prevent the loss of interest. If the tax is over \$100,000 and not fully paid, see IRM 4.38.1.9.7.2, Processing Agreed and Unpaid Deficiencies, for expedite procedures.
 - e. If notice and demand is not sent within 30 days, interest on the deficiency cannot be charged from the 31st day after the waiver is signed to the date of notice and demand. See IRM 20.2.7.9, IRC 6601(c), Suspension of Interest on Deficiencies.
- (2) If an extension of time to pay an estate tax deficiency assessment has been granted under IRC 6161(b)(2), compute interest on the entire balance due from the due date of the return to the date of payment using the normal interest rate.
- (3) If an extension of time to pay the tax shown on the return (deferred amount) has been granted under IRC 6161(a)(2) or IRC 6163:
- a. Compute interest on the deferred amount from the due date of the return to the date of payment.
 - b. Compute interest for the period of the extension of time to pay an installment under IRC 6161(a)(2) at the rate of 2% on the 2% portion and the remainder at 45% of the normal interest rate, from the due date of the installment to the date of payment.
- (4) If the time for payment of estate tax is extended under IRC 6166 and a deficiency is assessed after the estate has made one or more timely interest payments:
- The 2% rate as per IRC 6601(j) is used to determine the amount of interest that should have been paid in each annual interest payment.
 - Interest on any underpayment of interest accrues at the prevailing rate under IRC 6601(a) from the date the interest should have been paid under IRC 6166(f)(1) if the return had shown the correct tax liability. See Rev. Rul. 89-32.
- Note:** The 2% rate was previously 4% for the estates of decedents who died before January 1, 1998. In addition, executors of estates of decedents who died before January 1, 1998, could have elected to use the new 2% rate for installments due after the date of the election. The election had to be made prior to January 1, 1999. See Rev. Proc. 98-15.
- (5) Refer to IRM 4.25.2, Campus Estate and Gift, for more information.

20.2.10.2.2
(08-01-2018)
**Deductions and Credits
Against Estate Tax**

- (1) Death taxes paid to any state, the District of Columbia, or a foreign country, are allowed as a deduction or credit against federal estate tax owed for estates of citizens or residents of the United States. Death taxes include estate, inheritance, legacy, or succession tax. The tax must actually be paid to be taken as a deduction or credit. See IRC 2058 and IRC 2014.
 - a. IRC 2058(a) allows the deduction for death taxes paid to a state or District of Columbia for estates of decedents who died after December 31, 2004. For estates of decedents who died before January 1, 2005, IRC 2011 allows the credit for death taxes paid to a state or District of Columbia. See IRM 20.2.10.1 (revision November 18, 2008).
 - b. IRC 2014(a) and Treas. Reg. 20.2014-1(a)(1) allow the credit for death taxes paid to a foreign country or U.S. territory of the United States.
- (2) This section explains the effect of the deduction and credit on interest computations.
- (3) Interest is computed based on the tax adjustment information shown on Form 1366, Tax Analysis Worksheet for Overassessments of Estate Tax Involving Restricted Interest.

20.2.10.2.3
(10-11-2016)
Time Frame for Claims

- (1) The deduction allowed under IRC 2058 must be claimed within 4 years after the filing of the estate tax return, except if:
 - a. A timely petition to Tax Court was filed, then within the 4-year period, or before the expiration of 60 days after the date the decision of the Tax Court becomes final, or
 - b. Under IRC 6161 and IRC 6166, an extension of time has been granted for payment of the tax shown on the return, or of a deficiency, then within 4 years of the period of extension, or
 - c. A claim for refund or credit of an overpayment has been filed within the time prescribed in IRC 6511, then the 4-year period or before the expiration of 60 days from the date of mailing of a certified/registered notice of disallowance of the claim, or before the expiration of 60 days after a decision by any court of competent jurisdiction becomes final with respect to a timely suit instituted upon such claim, whichever is later. See IRC 2058(b).
- (2) The credit allowed under IRC 2014 must be claimed within 4 years after the filing of the estate tax return, except if:
 - a. A timely petition to Tax Court was filed, then within the 4-year period or before the expiration of 60 days after the decision of the Tax Court becomes final, or
 - b. Under IRC 6161, an extension of time has been granted for payment of the tax shown on the return, or of a deficiency, then within 4 years of the period of the extension. See IRC 2014(e).
- (3) If the claim is timely filed, allow any refund of overpaid estate tax based on the IRC 2058 deduction or the IRC 2014 credit for taxes actually paid within the 4-year period, but do **not** allow interest on the refund.

20.2.10.2.4
(08-01-2018)

Recovery of Death Taxes Claimed as a Credit

- (1) If the executor or other person representing an estate recovers any state or foreign death tax claimed as a credit, that representative must, pursuant to Treas. Reg. 20.2016-1, notify the IRS within 30 days of the receipt of a refund by filing an amended return. If the IRS computes the amount of the redetermined federal estate tax (without regard to the statute of limitations provided in IRC 6501) it will be due upon notice and demand.

If	Then
the redetermined deficiency is the result of recovery of any part of a state (or District of Columbia) death tax claimed as a credit.	compute underpayment interest under the regular rules of IRC 6601.
the redetermined deficiency is the result of recovery of any foreign death tax claimed as a credit.	compute underpayment interest FROM: the date the executor of the estate (or another person) received the refund from the foreign government. See IRC 2016. TO: the full payment date, credit offset date, or the 23C date of the increased U.S. tax, whichever is the earliest. THEN: add this interest computation amount to any interest paid on the refund by the foreign government. The sum of the two amounts will be the interest assessment See Rev. Proc. 60-17 Sect. 12.05. Input with a TC 340 (use a non-restricting TC 340 whenever possible, See IRM 20.2.5.6.3), and Rev. Proc. 60-17, Sect. 12.05.

Note: IRC 2016 applies only to IRC 2014 for decedents who died and generation-skipping transfers after December 31, 2004.

20.2.10.2.5
(08-01-2018)

Combination Adjustments

- (1) If an examination determination involves a combination of general adjustments and an adjustment of the deduction or credit claimed on the return for state death taxes under IRC 2058, or foreign death taxes under IRC 2014, the Examination function will flag the case file for the restricted interest examiner. The file will contain Form 1366, Tax Analysis Worksheet for Overassessments of Estate Tax Involving Restricted Interest.
- (2) Using Columns C and D of Form 1366, if a deficiency is shown in one column and an overassessment in the other, deduct the lesser amount from the greater amount to determine the net result.

If the net result is	Then
a deficiency in Column C,	compute underpayment interest under the regular rules of IRC 6601.
a deficiency in Column D that results from a recovery of an amount claimed and paid as foreign death taxes,	compute underpayment interest FROM: the date the executor of the estate (or another person) received the refund from the foreign government. See IRC 2016. TO: the full payment date, credit offset date, or the 23C date of the increased U.S. tax, whichever is the earliest. THEN: add this interest computation amount to any interest paid on the refund by the foreign government. The sum of the two amounts will be the interest assessment See Rev. Proc. 60-17 Sect. 12.06. Input with a TC 340 (use a non-restricting TC 340 whenever possible use a non-restricting TC 340 whenever possible, see IRM 20.2.5.6.3, and Rev. Proc. 60-17, Sect. 12.06).
a deficiency in Column D that results from the recovery of an amount claimed and paid as state (or District of Columbia) death taxes,	compute underpayment interest under the regular rules of IRC 6601. (Interest is NOT restricted from accruing on this deficiency).
an overpayment in Column C,	compute overpayment interest under the regular rules of IRC 6611(b),(e), and (g).
an overpayment in Column D,	do not allow overpayment interest. Input TC 770 for zero. See Rev. Proc. 60-17 Sect. 12.03.

- (3) In some instances, a redetermination is prepared after adjustments have been made to the amounts claimed as a state death tax deduction or foreign death tax credits and the resulting deficiencies or overassessments have been assessed or scheduled.
- If the amount of the deduction or credit changes, prepare another Form 1366 showing the adjustments in each column as corrected. The amount in Column A should be identical to the amount on the original Form 1366.
 - Redetermine the interest on the basis of the corrected Form 1366 and adjust the interest assessed or allowed.

If the redetermination results in	Then
a deficiency in Column D resulting from a correction to the amount of an overassessment previously allowed on the basis of a state or foreign death tax claim,	compute underpayment interest FROM: the refund schedule date (since interest was not allowed on the previous overpayment). TO: the full payment date, credit offset date, or the 23C date of the increased U.S. tax, whichever is the earliest.
an overassessment in Column D,	do not allow overpayment interest. Input TC 770 for zero.
an overassessment in both Columns C and D,	apportion the allowance of overpayment interest between the general adjustment in Column C and the restricted overassessment in Column D.

20.2.10.3
(03-31-2025)
**Special Rules for
Foreign Tax Credit and
IRC 965 Transition Tax**

- (1) This subsection provides special interest rules for the following foreign tax items:
- Adjustments to Accrued Taxes- Foreign Tax Credit (FTC), see IRM 20.2.10.3.1,
 - Competent Authority - Mutual Agreement Procedure (MAP) - Background, see IRM 20.2.10.3.2,
 - Carrybacks and Carryovers of Excess Foreign Taxes Paid - IRM 20.2.10.3.3,
 - IRC 965 Transition Tax - Special Interest Provisions IRC 904(c), see IRM 20.2.10.3.4.

20.2.10.3.1
(03-31-2025)
**Adjustments to Accrued
Taxes - Foreign Tax
Credit (FTC)**

- (1) Pursuant to IRC 901, a taxpayer is entitled to a tax credit for creditable taxes paid to a foreign government. The foreign tax credit (FTC) alleviates U.S. taxpayers of the double tax burden imposed when the foreign source income is taxed by both the United States and the foreign country from which it is derived.
- (2) Depending on the taxpayer, FTC is claimed on either:
- Form 1116, Foreign Tax Credit for Individual, Estate, or Trust, (see Pub 514, Foreign Tax Credit for Individuals, for additional information), or
 - Form 1118, Foreign Tax Credit - Corporations.
- Note:** For additional information on international adjustments see IRM 21.8.1, IMF International Adjustments, IRM 21.8.2, BMF International Adjustments, and IRM 4.60.2.8, Foreign-Initiated Adjustments Affecting a U.S. Tax Return and Foreign Tax Credits Claimed During an Examination.

- (3) A taxpayer (either an individual or a corporation) computes its foreign tax credit under IRC 901 with respect to creditable foreign taxes that it pays or accrues during the taxable year. In addition, a domestic corporation may claim a foreign tax credit for such taxes that are paid or accrued directly or indirectly by a controlled foreign corporation in which the domestic corporation is a United States shareholder and that the domestic corporation is deemed to pay under IRC 960.
- (4) The individual or corporation must provide the following information:
- The date(s) and the amount(s) on which each of the foreign taxes was accrued, paid, and/or refunded.
 - Tax year or years that were affected by the redetermination.
 - Sufficient information to determine any interest due from or owing to the taxpayer.
 - The amount of overpayment interest paid (if any) by the foreign government and the dates received.
 - The foreign currency and the exchange rate used to translate each amount to U.S. dollars (because all of the amounts must be reported in U.S. dollars).
 - Form 1116 or Form 1118 (see form instructions).
- (5) Under prior law, foreign tax redeterminations were, with respect to foreign taxes paid or accrued by a foreign corporation deemed paid by a U.S. corporate shareholder under IRC 960 (or IRC 902). The Tax Cuts and Jobs Act repealed IRC 902 effective for tax years of foreign corporations beginning after December 31, 2017 and, for tax years of U.S. shareholders of such foreign corporations in which such tax years of the foreign corporations end. While IRC 902 was repealed, deemed paid tax credits are still allowable for FTC purposes as provided by IRC 960. Generally, for foreign tax redeterminations with respect to pre-2018 tax years that occurred in tax years beginning after 2017, and affect foreign taxes deemed paid, amended returns must be filed. However, taxpayers may elect to account for redeterminations with respect to pre-2018 taxable years that occur in taxable years of foreign corporations ending with or within taxable years of their United States shareholders ending on or after November 2, 2020, by adjusting the foreign corporation's pools of post-1986 undistributed earnings and foreign income taxes for its last pre-2018 taxable year.

20.2.10.3.1.1
(03-31-2025)

**Interest on Adjustments
to Foreign Tax Credit
(FTC)**

- (1) For interest on adjustments to FTC:

If	Then
the adjustment results from a refund of foreign tax previously allowed as an FTC and a corresponding increase in the taxpayer's tax liability,	compute underpayment interest on the increase FROM: the date the taxpayer received the refund of foreign taxes paid TO: the full payment date, credit offset date, or the 23C date of the increased U.S. tax, whichever is the earliest. THEN: add this interest computation amount to any interest paid on the refund by the foreign government. The sum of the two amounts will be the interest assessment input with a TC 340 (use a non-restricting TC 340 whenever possible. See IRM 20.2.5.6.3, Non-Restricting Transaction Code (TC) 340. However, the above amount can't be more than the amount that would have been assessed under normal interest procedures found in IRC 6601 and IRM 20.2, Interest. See Treas. Reg. 1.905-4(e).
the adjustment results from accrued but unpaid taxes claimed as an FTC,	compute underpayment interest on the corresponding increase in tax From: the due date of the return. To: the date of payment of the tax.
the adjustment results in an increase in the FTC previously allowed and a corresponding decrease in the tax liability,	compute overpayment interest under the regular rules of IRC 6611(b), IRC 6611(f)(2), IRC 6611(e), and IRC 6611(g).

- (2) When calculating underpayment interest, the term "normal interest procedures" is defined as recomputing the entire module using running module methodology to incorporate all the adjustments on the tax year ensuring an accurate computation is made. See IRM 20.2.1.4.2(4), Manual Calculation of Interest.
- (3) When interest is included in the refund from the foreign government, two interest computations must be performed per Treas. Reg. 1.905-4(e). The lesser interest amount is input with a TC 340. If it is determined that the lesser interest amount is from the first computation, input TC 340 for the interest computed to the applicable stop date with the TC 29X. Input a second TC 340 with cycle delay for the amount of overpayment interest paid that was included in the foreign refund. Input history item on AMS: the second TC 340 represents

overpayment interest paid on the foreign tax refunded by the foreign government. This ensures that for any future interest updated, the original interest computation can be backed into.

- (4) If the lesser interest amount is using the return due date as the effective date, input FTC with a TC 290/300. Input TC 340 and/or TC 772 as computed under regular rules.
- (5) If underpayment interest is computed using the refund date, input the FTC with a TC 298/308 showing the refund date for each refund that has a different date.
- (6) The taxpayer must verify the date and the amount of the refund received from the foreign government.

20.2.10.3.1.2

(03-31-2025)

Filing FTC Claims and Amended Returns

- (1) A claim for credit or refund attributable to an FTC for foreign taxes paid or accrued must generally be filed within 10 years from the unextended due date of the return for the year in which the foreign taxes were paid or accrued.
- (2) A separate amended return must be filed for each year where a foreign tax credit is adjusted. The foreign tax credits from multiple years cannot be combined into one year to make the tax adjustment.
- (3) When insufficient information is provided, it may be necessary to contact the taxpayer or power of attorney before either making an assessment or denying a claim. (See IRM 20.2.10.3.1, Adjustments to Foreign Tax Credit (FTC), for the required information.)
- (4) For additional information see:
 - IRM 21.8.1, IMF International Adjustments, or
 - IRM 21.8.2, BMF International Adjustments

20.2.10.3.2

(03-31-2025)

Competent Authority - Mutual Agreement Procedure (MAP) Background

- (1) U.S. tax treaties allow a taxpayer to request a Mutual Agreement Procedure (MAP) if the taxpayer believes that it is, or will be, subject to taxation inconsistent with the treaty or coordination agreement. For additional information see:
 - Rev. Proc. 2015-40
 - Rev. Proc. 2006-23 (applies to U.S. Territories)

Note: The terms “MAP” and “competent authority” are frequently used interchangeably when acting as modifier (e.g., MAP request and competent authority request).

- (2) The MAP articles of U.S. tax treaties and tax coordination agreements grant taxpayers the right to request the assistance of the appropriate competent authority specified in the treaty/agreement when a taxpayer believes that the actions of the United States or the applicable U.S. treaty partner/U.S. territory result or will result in the taxpayer being subject to taxation not in accordance with the applicable treaty/tax coordination agreement. This situation typically arises from U.S. or foreign-initiated adjustments resulting from an examination but can also arise from other U.S. or foreign-initiated actions, including when taxes are withheld by a withholding agent.
- (3) The U.S. competent authority’s jurisdiction over competent authority issue(s) in a competent authority request begins when the U.S. competent authority

accepts such competent authority request (in the case of competent authority request made to U.S. competent authority) or the U.S. competent authority is notified by the competent authority of a U.S. treaty partner/U.S. territory of a competent authority request. For related guidance on when Examination or the U.S. competent authority has control over a competent authority issue(s), see IRM 4.60.2, Mutual Agreement Procedures and Report Guidelines.

Note: The term “U.S. territory” refers to a U.S. territory which has a tax coordination agreement in effect with the United States; specifically American Samoa, Guam, the Northern Mariana Islands, the U.S. Virgin Islands, and Puerto Rico (collectively, “U.S. territories”).

- (4) When the U.S. competent authority has jurisdiction over the related competent authority issue affecting a tax return, a TC 971 AC 080 is posted on the account on Master File. Activity Code (AC) 080 indicates the return(s) has an accepted, unresolved/open competent authority request associated with the U.S.
- (5) Where competent authority resolution is not reached between the United States and the U.S. treaty partner/U.S. territory, or when the taxpayer does not accept the terms of a tentative competent authority resolution, the U.S. competent authority concludes its review of the issues and returns jurisdiction over the issue(s) in the competent authority request to Examination accompanied by a disposition memorandum.

20.2.10.3.2.1 (03-31-2025) **Competent Authority Adjustments - Interest Provisions**

- (1) Typically, the normal interest rules of time (IRC 6611, IRC 6601) and rate (IRC 6621) apply to overpayments and/or underpayments resulting from adjustments attributable to competent authority agreements. See IRM 20.2.4, Overpayment Interest, and IRM 20.2.5, Interest on Underpayments, which respectively describe these rules in detail.

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20.2.10.3.3 (03-31-2025) **Carrybacks and Carryovers of Excess Foreign Taxes Paid**

- (1) Taxpayers can carryback or carryover amounts by which the foreign taxes that they pay or accrue exceed the foreign tax credit limitation (“excess foreign taxes”). See IRC 904(c). However, taxpayers may not carryover or carryback excess foreign taxes that are deemed paid or accrued under IRC 960(d) (attributable to gross income inclusions of a domestic corporation or that otherwise relate to income included under IRC 951(1)(a)(A)).
- (2) Per IRC 6611(e) and IRC 6611(f)(4)(B), no interest will be paid on carryback refunds if issued within 45 days of the date the claim is received by the IRS. See paragraph (2) IRM 20.2.10.3.3.1, Computing Overpayment Interest on Excess Foreign Tax Carrybacks.
- (3) If an FTC carryover refund is claimed on the taxpayer’s **original** return and refunded within the 45-day period, no interest will be paid as provided in IRC 6611(e)(1). If, however, the FTC carryover refund is claimed on an **amended**

return and refunded within the 45-day period, interest will be paid to the date the amended return was filed as provided in IRC 6611(e)(2).

- (4) If the erroneous application of a carryback under IRC 904(c) or IRC 907(f) results in a deficiency, that deficiency must generally be assessed within one year after the expiration of the period within which a deficiency may be assessed for the year of the excess taxes described in IRC 904(c) or IRC 907(f) which result in such carryback. See IRC 6501(i).

Note: The “If/Then” table below describes the situation where excess foreign taxes are erroneously carried back from 2023 and claimed in 2022, resulting in a deficiency for 2022. In that situation, then the deficiency must be assessed with one year of the assessment statute expiration date of the 2023 tax year.

If	Then
excess foreign taxes are erroneously carried back from 2023 and claimed in 2022, resulting in a deficiency for 2022,	assess the deficiency within one year of the assessment statute expiration date of the 2023 tax year.

20.2.10.3.3.1 (03-31-2025)

Computing Overpayment Interest on Excess Foreign Tax Carrybacks

- (1) Overpayment interest on refunds attributable to the carryback of excess foreign taxes follow the same rules applicable to a net operating loss (NOL) carryback. See IRM 20.2.9, Interest on Carryback of Net Operating Loss, for computing overpayment interest.
- (2) Generally, interest is not paid on an overpayment resulting from a carryback claim/application when it is refunded within 45 days of the **later** of the following dates:
- 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 filed 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) When an overpayment originating from a carryback claim/application is not refunded within the 45-day interest-free period, interest is due. The interest start date is never earlier than the due date of the return for the year in which the excess foreign taxes were generated. See IRC 6611(f)(2). Compute interest on the overpayment from the **later** of the:
- loss year return due date (determined without regard to any extension of time for filing),
 - date the loss year return was received in processible form, provided the processible date is after the return due date, including any extension of time for filing,
 - received date of the delinquent loss year return, meaning the return was received after its due date or extended due date,
 - date the overpayment on the gain year return arose.

Note: Interest ends on the date the overpayment is refunded, less the applicable back-off period of IRC 6611(b)(2) for computer-generated/systemic refunds. See IRM 20.2.4.8.1, Systemic Refunds.

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- (5) No interest will be paid on carryback and carryover refunds if issued within 45 days of the date the claim is received by the IRS. See IRC 6611(e) and IRC 6611(f)(4)(B).

20.2.10.3.4 (03-31-2025) IRC 965 Transition Tax - Special Interest Provisions IRC 904(c)

- (1) IRC 965 is a provision of the Tax Cuts and Jobs Act that requires certain taxpayers to pay a transition tax on the accumulated foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the United States. For this purpose, a specified foreign corporation is a foreign corporation that either is a controlled foreign corporation (within the meaning of IRC 957) or has one or more United States shareholders that is a domestic corporation. See IRM 3.14.2.6.5, IRC 965 Transition Tax Overview, for additional information.
- (2) IRC 965 inclusion period was December 1, 2017 through November 30, 2019. After November 30, 2019, no new IRC 965 inclusions can be made.
- (3) Taxpayers report 100 percent of the IRC 965 net tax liability, which is included in the total tax assessed and is part of the TC 150 amount. Taxpayers who report IRC 965 on their tax return will have a TC 971 with action code (AC) 114 on the appropriate tax module. TC 971 AC 114 represents the IRC 965 Total Tax Liability minus any amount that was deferred under IRC 965(i).

Note: TC 971 AC 114 is applicable to BMF MFT(s): 02, 05, 06, 34, 44 and IMF MFT 30.

20.2.10.3.4.1 (03-31-2025) Underpayment Interest - IRC 965

- (1) When a U.S. taxpayer has a total net tax liability under IRC 965 and does not make the IRC 965(h) election, the last date prescribed for payment is the due date, not the extended due date, of the return reporting the total net tax liability under IRC 965. If the total net IRC 965 tax liability is not paid by the due date of the return, underpayment interest will accrue from the due date of the inclusion year return.
- (2) **Large Corporate Underpayment (LCU):** IRC 965, does not in itself impose a tax; rather, it provides for an increase in the subpart F income of certain foreign corporations that are deferred foreign income corporations. This, in turn, increases the subpart F inclusion of any United States shareholders (as defined in IRC 951(b)) of the deferred foreign income corporation. The Code of Federal Regulations (CFR),²⁶ CFR 301.6621-3(b)(2)(ii), defines “threshold underpayment of tax” as excess of a tax imposed by the Internal Revenue Code (exclusive of interest, penalties, additional amounts and additions to tax) for the taxable period over the amount of such tax paid on or before the last date prescribed for payment.

Note: Any tax imposed by the Code, including tax imposed as a result of an increase to a subpart F inclusion, is considered in determining whether the “threshold underpayment of tax” is met for purposes of IRC 6621(c). See IRM 20.2.5.8, Large Corporate Underpayment (LCU), for additional information.

20.2.10.3.4.2
(03-31-2025)
**IRC 965(h) Deferred
Liability**

- (1) An IRC 965(h) election is a deferral election to pay the IRC 965 transition tax in 8 annual installments.
- (2) Taxpayers who make an IRC 965(h) election pay the IRC 965 transition tax in 8 annual installments of the following amounts:
 - 8% in years 1 through 5
 - 15% in year 6
 - 20% in year 7
 - 25% in year 8
- (3) See the following IRM(s), for additional information:
 - IRM 5.19.26, Liability Collection, Campus Procedures for IRC 965 - Transition Tax on Untaxed Foreign Earnings
 - IRM 21.5.13.2, IRC 965 Transition Tax Overview

20.2.10.3.4.2.1
(03-31-2025)
**Underpayment Interest -
IRC 965(h) Installments**

- (1) The annual installment due date is the due date of the tax return for the year of the installment (not the extended due date). If not timely paid, underpayment interest accrues from the due date of the required installment. Also, an addition to tax could be assessed for failure to timely pay an installment which would accelerate the entire balance of IRC 965(h) net tax liability
- (2) The annual installment due date was extended in the following circumstances:
 - Relief was available for individual taxpayers who made an IRC 965(h) election on their 2017 return but missed the first of eight annual installments. To qualify for this relief an individual's total transition tax liability was less the \$1 million and the first and second installments were paid in full by April 15, 2019.
 - Federal tax filing deadlines from April 1, 2020, to July 14, 2020, were postponed to July 15, 2020, due to COVID-19. This also postponed the due date for IRC 965(h) installment payments for affected taxpayers.
 - The postponement of individual filing deadlines from April 15, 2021, to May 17, 2021, similarly postponed the IRC 965(h) installment payment due date for affected taxpayers.
- (3) Certain conditions on a module will effect the underpayment interest period. See the table below:

Condition:	Then underpayment interest accrues from:
<p>Subsequent Assessment: If deficiency procedures apply, audit adjustments changing the deferral amount under IRC 965(h) require a re-computation of the IRC 965(h) deferral amounts. The revised deferral amount under IRC 965(h) will generally be spread over the 8-year installment period and underpayments of past due installments are due currently, along with any changes to the non-IRC 965 tax at the time of the RAR.</p> <p>Note: If the additional IRC 965(h) net tax liability deficiency was due to negligence, intentional disregard of rules and regulations, or fraud with the intent to evade tax, the proration rule will not apply. The deficiency (as well as any applicable interest and penalties must be paid on notice and demand.</p>	<p>Per IRC 965(h)(3), if an election is made under IRC 965(h) and a deficiency has been assessed with respect to such net tax liability, interest will accrue on the prorated portion of the deficiency from:</p> <ul style="list-style-type: none"> • Installment not yet due - No underpayment interest is due on the prorated portion of the subsequent deficiency. • Installment currently due - The prorated subsequent deficiency amount will be collected at the same time as such installment. If not timely paid, underpayment interest will accrue, on the amount of the prorated deficiency, from the due date of the related installment to the date the deficiency is paid. • Installment period has passed - The deficiency payment is due upon notice and demand from the Secretary on the amount of the deficiency not prorated to a an installment not yet due, or currently due. Underpayment interest is due from the due date of 1st installment (RDD) to the date the subsequent deficiency is paid. <p>Note: Per 26 CFR 301.6621-3(c)(2), if deficiency procedures apply, the applicable date for underpayment interest is the 30th day after the earlier of the date on which the IRS sends the taxpayer the first letter of proposed deficiency (30-Day letter) that allows the taxpayer an opportunity for administrative review in the IRS Office of Appeals, or the date on which the IRS sends a deficiency notice (90-Day letter) under IRC 6212.</p>
<p>Bankruptcy: In the case of a liquidation or sale of substantially all of the U.S. person's assets in a bankruptcy case, section IRC 965(h)(3) provides a special rule for when the remaining IRC 965(h) installments are due.</p>	<p>The last date prescribed for payment of the remaining installments under IRC 965(h) is the day before the bankruptcy petition is filed. Underpayment interest will begin to accrue on the date the bankruptcy petition is filed.</p>

Condition:	Then underpayment interest accrues from:
Acceleration: In the event of acceleration, IRC 965(h)(3) provides that the unpaid portion of all remaining installments shall become due on the date of the event which precipitated acceleration.	Acceleration is not automatically triggered by an underpayment of an IRC 965(h) installment. Instead, acceleration only occurs once the addition to tax has been assessed. Underpayment interest on the accelerated amounts, <i>will begin to accrue on the date the IRS assesses an IRC 6651(a)(2) addition to tax.</i>

20.2.10.3.4.2.2
(03-31-2025)
Systemic Interest Processing

- (1) Master File has been programmed to systemically compute interest on IRC 965 accounts with the use of specific Transaction Codes (TC), Action Codes (AC), and Credit Reference Numbers (CRN).
- (2) Because the IRC 965 net tax liability was assessed in full and the IRC 965(h) election defers full payment into 8 annual installments, the IRC 965(h) net tax liability balance due for year 1 must be adjusted. This is done with the input of a “**faux**” credit. The “**faux**” credit is posted as Transaction Code (TC) 766 with an Credit Reference Number (CRN) 263 in an amount equal to the remaining installment balance due for years 2 through 8. As a result, the taxpayer will only remit 8% of the IRC 965(h) net tax liability due in year 1. The “**faux**” credit balances the tax module for the year of reporting. As subsequent installment payments are remitted for the remaining IRC 965(h) net tax liability, a credit reversal (TC 263 CRN 767) is posted to the taxpayer’s originating year tax module (2017 or 2018). Each time the taxpayer remits an installment payment a credit reversal is posted until the 965(h) net tax liability is paid in full. The 965(h) election can only be revoked by paying in full the unpaid IRC 965(h) net tax liability.
- (3) The IRS does not have the authority to refund or credit elect payments in excess of the currently due IRC 965(h) installment until the entire liability for the year is paid, including the full net tax liability under IRC 965.
- (4) See IRM 21.5.13, IRC 965 Transition Tax Procedures - Accounts Management, for additional systemic processing information.

20.2.10.3.4.2.2.1
(03-31-2025)
Systemic Interest Programming Limitations

- (1) Due to programming limitations, failure to pay penalty and/or interest may have been charged when a taxpayer made a timely IRC 965(h) installment payment. Incorrect posting(s) of TC 767 CRN 263, credit reversals, may have occurred with:
 - The processing of a TC 290/TC 298 CRN 263, or
 - During original return processing with the return due date as the transaction date instead of the payment date or installment due date.
- (2) Corrections are made with the input of TC 298 CRN 263 (minus) for the dollar amount of the overpayment with an interest computation date to set the transaction date of the TC 767 CRN 263.

20.2.10.3.4.2.3
(03-31-2025)

**IDRS Command Codes -
BMFOLM and IMFOLM**

- (1) CFOL command Codes **BMFOL** and **IMFOL** with Definer **M** were created to assist in identifying the IRC 965(h) deferral payments on the account.
- (2) BMFOLM/IMFOLM will assist in determining the amount of the IRC 965 deferral amount paid, as well as the remaining deferral amount still owed. It will determine if an installment amount was paid, underpaid, or overpaid with the overpayment being credited to the next installment.
- (3) For additional display screen information see:
 - IRM 21.5.13.4.3, IRC 965(h) Liability Schedule Screen (Command Code BMFOLM), or
 - IRM 21.5.13.3.3, IRC 965(h) Liability Schedule Screen (Command Code IMFOLM).

20.2.10.3.4.3
(03-31-2025)

**IRC 965(i) Election to
Defer Assessment of
Liability**

- (1) No new IRC 965 assessments can be made after November 30, 2019, unless the taxpayer originally made an IRC 965(i)(4) election during the inclusion period (201712 - 201911). A taxpayer who made an IRC 965(i) election has an inclusion year of 2017 or 2018 but defers the assessment of the IRC 965(i) net tax liability until a triggering event occurs.
- (2) A triggering event requiring the assessment and payment of the IRC 965(i) net tax liability can happen in any subsequent period. If the taxpayer subsequently experiences a triggering event requiring the repayment of the inclusion tax, the IRC 965(i) liability will be assessed and payable in the year the taxpayer has the triggering event. With certain exceptions, the taxpayer may choose, at the time of the triggering event, to make an IRC 965(h) election and pay the triggered liability in deferred installments.

Note: If an IRC 965(i) election is made in conjunction with an IRC 965(h) election in the inclusion year, a TC 971 AC 114 for the amount of the IRC 965 total tax liability minus the IRC 965(i) amount, should be displayed on the inclusion year module.

- (3) **Form 965-A** is attached to the inclusion year return indicating that a timely IRC 965(i) election was made during the inclusion period and remains intact for the reporting year and must be filed for each subsequent year until the entire IRC 965 net tax liability is paid.

Note: The taxpayer may have made an IRC 965(i) election in more than one inclusion year. If the Form 965-A indicates more than one IRC 965(i) election was made, the IRC 965(i) liability amounts are combined and entered in the Miscellaneous Field.

- (4) Triggering Events:
 - The corporation ceases to be an S corporation (i.e., the S corporation changes its status).
 - Liquidation, sale, exchange or other disposition of substantially all the assets of the S corporation, including bankruptcy.
 - Cessation of business by the S corporation, the S corporation ceases to exist, or any similar circumstances, and the electing shareholder transfers any share of stock in the S corporation (including by reason of death).

- A material misrepresentation or omission on a transfer agreement.

- (5) An 965(i) deferral is indefinite and will remain intact until a triggering event occurs, at which time the 965(i) deferred liability is assessed. See IRM 3.14.1.6.9.16, IRC 965 Transition Tax, for a list of triggering events and additional information.

20.2.10.4
(03-31-2025)
Excise Taxes

- (1) Excise tax liabilities are reported on Form 720, Quarterly Federal Excise Tax Return, Form 730, Monthly Tax Return for Wagers, Form 11-C, Occupational Tax and Registration Return for Wagering, Form 2290, Heavy Highway Vehicle Use Tax Return, Form 6627, Environmental Taxes, and Form 8725, Excise Tax on Greenmail.
- (2) Excise tax credits and refunds are claimed on Schedule C of Form 720, Form 8849, Claim for Refund of Excise Taxes, Form 730, Form 2290, Form 4136, Credit for Federal Tax Paid on Fuel(s), Form 6478, Biofuel Producer Credit, Form 8864, Biodiesel, Renewable Diesel, or Sustainable Aviation Fuels Credit, Form 8906, Distilled Spirits Credit, Overpayment, and Form 8913, Credit for Federal Telephone Excise Tax Paid.
- (3) For purposes of interest on excise tax refunds/overpayments, individual and non-corporate entities are entitled to overpayment interest at the non-corporate rate regardless of whether the overpayment posts to an excise tax module or a Form 1040 tax module. See IRM 20.2.1.3.2, Rate. Also, for additional information, see IRM 20.2.4.10, Special Overpayment Interest Rules for Corporations, and IRM 20.2.5.8, Large Corporate Underpayment (LCU).

20.2.10.4.1
(03-31-2025)
Interest on Excise Taxes

- (1) Interest on an underpayment of excise tax, unless otherwise provided, is charged from the due date of the return to the date the liability is paid in full.
- (2) Unless specifically stated otherwise, interest on the overpayment of excise tax is determined using the **later** of the:
 - due date of the return (determined without regard to any extension of time for filing),
 - date the return is received in processible form (provided the processible date is after the due date, including an extensions of time for filing),
 - delinquent return received date, meaning the return was received after its due date or extended due date, or
 - payment received date or credit date.
- (3) In the case of a refund, overpayment interest is computed from the dates bulleted above TO the refund scheduled date, less the applicable back-off period of IRC 6611(b)(2) for computer-generated/systemic refunds. See IRM 20.2.4.8.1, Systemic Refunds.
- (4) In the case of an offset to an outstanding liability with a **future** effective date, interest is paid FROM the later of the dates bulleted above TO the due date of the liability the overpayment is applied against. No interest is paid on an offset applied against unpaid liabilities due on or before the bulleted FROM dates above. See IRM 20.2.4.7, Offsets.
- (5) In the case of an offset to an outstanding liability with a **later** effective date, interest is paid **FROM** the later of the dates bulleted above TO the due date of

the liability the overpayment is applied against. No interest is paid on an offset applied against unpaid liabilities due on or before the bulleted FROM dates above. See IRM 20.2.4.7, Offsets.

- (6) For excise taxes applicable to corporate returns (e.g., fuel tax claims), the lower corporate and GATT (General Agreement on Tariffs and Trade) interest rates apply. Once the \$10,000 threshold has been met for that module, then overpayment interest is computed at the GATT rate for all subsequent claims. See IRM 20.2.4.10, Special Overpayment Interest Rules for Corporations, for additional information, including calculation of the GATT threshold.
- (7) Many excise tax adjustments are statutorily made without interest. See IRM 4.24.22, Campus Procedures for Excise Taxes.

20.2.10.4.2 (03-31-2025) **Special Rules for IRC 4261, Chapter 33, Facilities and Services Taxes**

- (1) IRC 4261, Imposition of Tax, Chapter 33, Facilities and Services imposes excise taxes on certain facilities and services. IRC 4261, Chapter 33, includes taxes imposed under Subchapter B, Communications and Subchapter C, Transportation by Air. These excise taxes are often referred to as “collected taxes.”
 - The person paying for the facility or service is liable for the tax and is known as the “taxpayer.”
 - The person receiving payment for the facility or service is known as the “collector.” With this tax arrangement, in most situations, the collector generally files Form 720 to report and pay the taxes. See IRC 4263(c), Special Rules, Payment of Tax, (providing that if any tax imposed by IRC 4261 is not paid at the time payment for transportation is made, then, to the extent the tax is not collected under any other provision of Chapter 33, the tax must be paid by the carrier, and not the collector, providing the initial segment of transportation that begins or ends in the United States.)

20.2.10.4.2.1 (03-31-2025) **Underpayment of Chapter 33 Excise Taxes**

- (1) Interest on the underpayment of excise tax, unless otherwise provided, is charged from the due date of the return to the date the liability is full paid.
- (2) Compute interest on the underpayment to the date paid regardless of whether the taxpayer makes a delinquent payment of the tax to the collector or whether a direct assessment of the tax is made against the taxpayer by the IRS.

20.2.10.4.2.2 (03-31-2025) **Overpayment of Chapter 33 Excise Taxes**

- (1) Claims for refund of overpayment of Chapter 33 excise taxes may be submitted by either the collector or taxpayer.
- (2) For information related to claims for refund of overpayment of Chapter 33 excise taxes, received from the collector, see IRM 20.2.10.4.1, Interest on Excise Taxes.
- (3) Claims for refund of overpayment of taxes received from the “taxpayer” require special consideration because the claimant is usually not the entity that filed Form 720 and remitted the tax to the government. Examples of these types of claims for refund may include claims submitted directly by an airline’s passenger, as well as include requests from hotels, rental car companies, credit card companies, or other entities who purchased the right to award airline frequent flier miles (FFM) to their customers.

- (4) Special interest rules apply when the taxpayer files a claim for refund of overpayment of excise taxes, for taxes collected and remitted by a collector. See IRM 20.2.4.10, Special Interest Rules for Corporations.
- (5) Unless specifically stated otherwise, dates used in interest calculations are based on the collector's remittance of the tax to the government. On claims for refund filed by the taxpayer for taxes remitted by the collector, interest on the overpayment of excise tax is determined using the **later** of the:
 - Due date of the return filed by the collector (determined without regard to any extension of time for filing).
 - Date the return is filed by the collector is received in processible form (provided the return processible date is after the due date, including any extensions of time for filing).
 - Received date of the delinquent return filed by the collector (meaning the return was received after its due date or extended due date).
 - Date tax is paid by the collector.
- (6) In the case of a refund, overpayment interest is computed TO the date of the refund, less the appropriate back-off period of IRC 6611 (b)(2) for computer-generated/systemic refunds - see IRM 20.2.4.8.1, Systemic Refunds.
- (7) In the case of an offset to an outstanding liability with later effective date, interest is paid **FROM** the later of the dates bulleted above **TO** the due date of the liability the overpayment is applied against. No interest is paid on an offset applied against unpaid liabilities due on or before the bulleted FROM dates above. See IRM 20.2.4.7, Offsets. Because interest accrues according to the dates outlined in IRM 20.2.10.4.2.2(5), the following information must be included on Form 3198, Special Handling Notice for Examination Case Processing, so Campus can make the correct interest calculation:
 - a. Special Features (page 1 of Form 3198) - check box: **Restricted interest applies to yr.** and provide applicable periods.
 - b. Special Features (page 1 of Form 3198) - check box: **Other instructions** and write in **See page 2**.
 - c. Special/Restricted Interest Features (page 2 of Form 3198) - check box: "Other Code Section". Write in "Interest begins MM-DD-YYYY" for each quarter being refunded, according to dates outlined in IRM 20.2.10.4.2.2(5).
 - d. Letter instructions for CCP (page 2 of Form 3198) - check box: "Other instructions." Enter interest start date for each quarter refunded, according to dates outlined in IRM 20.2.10.4.2.2(5).

20.2.10.4.3
(03-31-2025)
**Interest Rules for
Ultimate Vendor and
Fuel Tax Claims**

- (1) **Ultimate Vendor Claims.** An Ultimate Vendor claim is an interest-bearing fuel claim per IRC 6427. Claims by registered ultimate vendors of undyed diesel fuel, undyed kerosene, gasoline, aviation gasoline, and kerosene used in aviation (Form 720, *Schedule C*; Form 8849, Schedule 2) are paid with interest if the refund is not issued within 45 days of receipt (20 days for electronic claims) of a processible claim. No interest is paid when the 20-day or 45-day period is met per IRC 6427(i)(3)(B).
- (2) Generally, interest-bearing excise tax fuel claims, filed on Form 8849, Claim for Refund of Excise Taxes, are processed on the income tax module. However, MFT 40 is used to process fuel excise tax refunds, including some interest-bearing claims filed on Form 8849, such as Ultimate Vendor claims, when the

refund can be issued systemically within the 20-day or 45-day interest-free period as Master File is **not** programmed to calculate interest on MFT 40. Requirements for Ultimate Vendor claims processed on MFT 40 include:

- a. Claim is not filed electronically,
 - b. Claim can be timely processed (refer to Document 6209, Section 16, Julian Date, Cycle and Notice Calendars, for the appropriate IDRS input table to ensure the refund is issued within the 45-day interest free period),
 - c. Claimant does not file weekly claims,
 - d. No offsets to previously existing balances are required, and
 - e. Claim meets requirements outlined in IRM 4.24.22.4.5.3, Form 8849, Schedule 2, Sales by Registered Ultimate Vendor Claims, IRM 4.24.22.4.5.4, Certain Fuel Mixtures and Alternative Fuel Credits, or IRM 4.24.22.4.5.7, Form 8849, Schedule 8, Registered Credit Card Issuers.
- (3) In some instances, MFT 40 is also used to process interest - bearing claims that are systemically processed. See IRM 4.24.22.4.5.1.1, MFT 40 Interest Bearing Claims Systemically Processed, for additional information.

Note: Close monitoring for unpostables on MFT 40 is needed. Any potential interest bearing claim that is unpostable will be refunded via manual refund using the claimant's income tax MFT (not MFT 40). If there are pending previous claims, there is a possibility two refunds will be issued in one check.

- (4) Electronic Ultimate Vendor claims and claims (electronic or paper) which require a manual refund are processed on the tax module (MFT 02, 05, 06, or 34) for the related income tax return filed by the taxpayer. Ultimate Vendor claims may be received and processed prior to a return posting (TC 150). Electronic claims processed and issued as a systemic refund (TC 846) within 20 days of receipt must have allowable interest manually computed and entered with TC 770 for zero because Master File cannot systemically perform the interest calculation.
- (5) When the 20-day or 45-day interest-free period is **missed**, overpayment interest must be manually computed. Interest is generally computed from the **later** of the claim received date or date claim was received in processible form to the refund schedule date (less the back-off period of IRC 6611(b)(2), for computer-generated refunds. See IRM 20.2.4.8.1, Systemic Refunds. Because Master File does not calculate interest using the received date of a claim, interest must be manually computed and input with TC 770 when the interest-free period is missed.

Note: For Ultimate Vendor gasoline claims, the 20-day rule only applies if the Ultimate Vendor provides certification pursuant to IRC 6416(a)(4)(C).

If the claim is	Then
allowed and timely processed within 45 days (20 days for electronic claims) of the later of the claim received date or processible date,	issue a manual refund without interest, no later than the 42nd day (15th day for electronic claims) after the: <ul style="list-style-type: none"> claim received date, or claim processible date.
allowed but not timely processed within 45 days (20 days for electronic claims),	interest is paid FROM the later of the: <ul style="list-style-type: none"> claim received date, or claim processible date. of the claim received date or processible date to the refund schedule date, less the applicable back-off period for computer-generated refunds. TO: See IRM 20.2.4.8.1, Systemic Refunds. Manual refunds must not be issued from MFT 40. Note: If issuing a manual refund, manually compute the interest and input with a TC 770.
allowed for electronic claims that are processed and systemically issued as a refund (TC 846) within 20 days of the later of the claim received date or processible date,	interest is not allowed. However, a manual computation is required because Master File cannot systemically perform the interest computation. Input a TC 770 for zero. Reminder: If a manual refund (TC 840) is issued, overpayment interest must be entered with TC 770 for zero.

- (6) **Biodiesel Fuel Mixture, Alternative Fuel Mixture, and Sustainable Aviation Fuel Claims.** IRC 6427(e)(1) and IRC 6427(e)(2) allow claims for certain fuel mixtures credits and the alternative fuel credit (Form 720, Schedule C; or Form 8849, Schedule 3). are used to claim these credits. These credits follow the same rules as claims by registered ultimate vendors described in paragraph (1) and in accordance with the above “If and Then” chart. See IRC 6427(i)(3)(B).

Note: Alcohol fuel mixture claims expired in 2011 and Alternative fuel mixture claims after 2011 may only offset IRC 4081. Alternative fuel mixture claims after 2011 may only offset IRC 4081 liability. These credits frequently expire; check IRC 6427(e)(6) for accurate expiration dates.

20.2.10.4.3.1
(03-31-2025)

**Special Rules - GATT
Threshold Amount - MFT
40**

- (1) The lower corporate and GATT interest rates apply to overpayments of excise taxes when a corporate indicator (the literal “GATT” shown on CC TXMOD) is present on the entity portion of the module. See IRM 20.2.4.10.1, GATT Interest-Computations on Overpayments, for additional information.
- (2) The “taxable period” for purposes of IRC 6621(a)(1) is the taxable period for which the refund is being made. Since fuel excise tax refunds claimed on Form 8849, Claim for Refund of Excise Taxes, are paid either from the taxpayer’s income tax account (usually an 1120 account) or systemically from MFT 40, the appropriate taxable period for determining the GATT threshold is the year for which the income tax return is filed.
- (3) For purposes of determining the \$10,000 threshold under IRC 6621(a)(1), for fuel excise tax refunds claimed on Form 8849, Claim for Refund of Excises Taxes, the following items are included:
 - Fuel excise tax refunds claimed on Form 8849, Claim for Refund of Excise Taxes, processed on MFT 40 during the taxable year of the related income tax module.

Note: Different types of fuel excise taxes do not need to be separated for purposes of determining the GATT threshold.

 - Fuel excise tax refunds and credits previously refunded or offset from the income tax module during the taxable year.
- (4) Once the \$10,000 GATT threshold has been met for the tax module, overpayment interest is computed at the GATT rate, **including all subsequent claims**. See IRM 20.2.4.10.1, GATT Interest-Computations on Overpayments, for additional information.

20.2.10.4.3.2
(03-31-2025)

**Special Interest Rules
for Some Fuel Tax
Credits**

- (1) Certain fuel tax credits have periodically expired and then been retroactively and/or prospectively reinstated since 2010. The most recent extender bill is the Inflation Reduction Act of 2022 (IRA), Pub. L. 117-169, 136 Stat. 1818. Originally, the Tax Relief Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Pub. L. 111-312, provided for a one-time claim for payment on a taxpayer’s calendar year 2010 return for biodiesel mixtures, alternative fuels, and alternative fuel mixtures sold or used after December 31, 2009. The credits have since been extended for tax years 2012, 2014, 2015, and 2017, 2018, 2019, 2020, 2021, and 2022, and are now set to expire on December 31, 2024.
 - All the acts provide for a credit of biodiesel and renewable diesel used as fuel, as well as biodiesel and renewable diesel fuel mixtures as determined under IRC 6426(c). The biodiesel and renewable diesel fuel and mixture credits had not expired prior to enactment of the IRA, but the IRA extended the expiration date of these credits from December 31, 2022, to December 31, 2024.
 - All the acts also provide for a credit for alternative fuel, alternative fuel mixtures and sustainable aviation fuel as determined under IRC 6426(d), IRC 6426(e), and IRC 6427(e). Under the IRA, these credits now also expire on December 31, 2024.
- (2) **For 2022 credits:**

- The 180-day claim period for alternative fuel credits and payments for the first, second, and third quarters of 2022 begins on October 13, 2022, and ends on April 11, 2023. Any claim that is submitted before October 13, 2022, is deemed filed on October 13, 2022. Claims are filed using Form 8849, Claim for refund of Excise Taxes, Schedule 3.
- Claimants may offset IRC 4081 liability with claims relating to alternative fuel mixtures on Form 720-X, Amended Quarterly Federal Excise Tax Return.
- See IRB 2022-39
- Shown below is an “If/Then” table. The “If” column describes when to issue a refund or when not to issue a refund. The “Then” column explains when overpayment interest is allowed or not allowed. When overpayment interest is allowed **from and to** dates are provided.

If the claim for 2022 credits is	Then
issued as a refund within the 60-day interest-free period that begins on the later of the: <ol style="list-style-type: none"> 1. received date of the claim, 2. processible date of the claim, or 3. October 13, 2022 	no overpayment interest is allowed. Meet the interest-free period by issuing a manual refund no later than the 58th day after the claim received date, processible date, or October 13, 2022, whichever is later.
not issued as a refund with the interest-free period,	allow overpayment interest from the later of the claim received date, processible date, or October 12, 2022, to the refund schedule date, less the applicable back-off period for computer-generated refunds. See IRM 20.2.4.8.1, Systemic Refunds. Manually compute and input interest with a TC 770.

(3) For 2018-2019 credits:

- The 180-day claim period for 2018-2019 biodiesel mixtures and alternative fuel credits begin on February 14, 2020 and end on August 11, 2020. Any claim that is submitted before February 14, 2020, is deemed filed on February 14, 2020. Claims are filed using Form 8849, Claim for Refund of Excise Taxes, Schedule 3.
- Claimants may offset 4081 liability with claims relating to alternative fuel mixtures on Form 720-X, Amended Quarterly Federal Excise Tax Return.
- See IRB 2020-08.
- Shown below is an “If/Then” table. The “If” column describes when to issue a refund or when not to issue a refund. The “Then” column explains when overpayment interest is allowed or not allowed. When overpayment interest is allowed from and to dates are provided.

If the claim for 2018 or 2019 credits is	Then
issued as a refund within the 60-day interest-free period that begins on the later of the: <ol style="list-style-type: none"> received date of the claim, processable date of the claim, or February 14, 2020. 	no overpayment interest is allowed. Meet the interest-free period by issuing a manual refund no later than the 58th day after the claim received date, processible date, or February 14, 2020, whichever is later.
not issued as a refund within the interest-free period,	allow interest from the later of the claim received date, processible date, or February 14, 2020, to the refund schedule date, less the applicable back-off period for computer-generated refunds. See IRM 20.2.4.8.1, Systemic Refunds. Manually compute and input interest with TC 770.

(4) **For 2017 credits:**

- The 180-day claim period for 2017 biodiesel mixtures and alternative fuel credits begins April 2, 2018 and ends September 29, 2018. Any claim that is submitted before April 2, 2018 is deemed filed on April 2, 2018. Claims are filed using Form 8849, Claim for Refund of Excise Taxes, Schedule 3.
- All alternative fuel mixture credit claims allowed by IRC 6426(e) must be made on Form 720-X, Amended Quarterly Federal Excise Tax Return.
- See IRB 2018-21.
- Shown below is an “If/Then” table. The “If” column describes when to issue a refund or when not to issue a refund. The “Then” column explains when overpayment interest is allowed or not allowed. When overpayment interest is allowed **from and to** dates are provided.

If the claim for 2017 credits is	Then
issued as a refund within the 60-day interest-free period that begins on the later of the: <ol style="list-style-type: none"> received date of the claim, processable date of the claim, or April 2, 2018. 	allow overpayment interest from the later of the claim received date, processible date, or April 2, 2018, to the refund schedule date, less the applicable back-off period for computer-generated refunds. See IRM 20.2.4.8.1, Systemic Refunds. Manually input the overpayment interest and input with TC 770.

If the claim for 2017 credits is	Then
not issued as a refund within the interest-free period,	allow overpayment interest from the later of the claim received date, processible date, or April 2, 2018, to the refund schedule date, less the applicable back-off period for computer-generated refunds. See IRM 20.2.4.8.1, Systemic Refunds. Manually input the overpayment interest and input with TC 770.

(5) **For 2015 credits:**

- Claims for the 2015 biodiesel mixtures and alternative fuels credits must be filed between February 8, 2016 and August 8, 2016 using Form 8849, Claim for Refund of Excise Taxes, Schedule 3.
- Claimants may offset 4081 liability with claims relating to alternative fuel mixtures on Form 720-X, Amended Quarterly Federal Excise Tax Return.
- Refundable income tax credit claims must be filed on Form 4136, Credit for Federal Tax Paid on Fuel(s).
- See IRB 2016-05.

(6) **For 2014 credits:**

- Claims for the 2014 biodiesel mixtures and alternative fuels credits must be filed between February 9, 2015 and August 8, 2015 using Form 8849, Schedule 3.
- Claimants may offset 4081 liability with claims relating to alternative fuel mixtures on Form 720-X.
- Refundable income tax credit claims must be filed on Form 4136.
- See IRB 2015-3.

(7) **For 2012 credits:**

- Claims for the 2012 biodiesel mixtures, biodiesel, alternative fuel, and alternative fuel mixtures credits must be filed by July 1, 2013 using Form 720-X.
- For amounts greater than the tax liability, a claim for payment of the excess is filed on Form 8849, Claim for Refund of Excise Taxes.
- Refundable income tax credit claims must be filed on Form 4136.
- See IRB 2013-26.

(8) **For 2010 claims:**

- Claims must be filed on Form 8849, Claim for Refund of Excise Taxes, between February 2, 2011 and August 1, 2011.
- See IRB 2011-10.

(9) For all other tax periods, normal claim processing applies.

- (10) IRS has 60 days to refund these claims without paying interest. The 60-day period starts from the later of when the claim is received in processible form or the earliest date it can be considered as filed. If the 60-day period is not met,

interest will be paid from the received date of the processible claim or the earliest date it can be considered as filed, whichever is later. Interest is paid using IRC 6621 overpayment rates.

Example: A processible claim for 2022 credits is received January 9, 2023. IRS has until March 10, 2023 (January 9 plus 60 days) to pay the claim without interest. After that date, the taxpayer is entitled to overpayment interest from March 10, 2023 (the earliest date the claim is considered as filed).

Caution: Because Master File does not calculate interest using the received date of a claim, interest must be manually computed and input with TC 770 when the interest-free period is missed.

- (11) For a more detailed explanation and further instructions, please see IRM 4.24.22.4.1.6.3, Fuel Mixtures and Alternative Fuel Claims (Lines 12 and 13).

20.2.10.4.4 (10-11-2016) Telephone Excise Tax Refund (TETR) Claims

- (1) Taxpayers could request a credit or refund of the telephone excise tax on non-taxable service that was billed after February 28, 2003, and before August 1, 2006, only on their 2006 federal income tax returns. For this purpose, the 2006 income tax return meant the income tax return for calendar year 2006 or for the first taxable year including December 31, 2006. Details were covered by IRB 2006-25 (Notice 2006-50) and IRB 2007-5 (Notice 2007-11), which amplified, clarified, and modified IRB 2006-25. The refund statute was open for six years from July 26, 2006, to July 26, 2012.

Caution: When a TETR refund has been issued with TETR overpayment interest, any subsequent refunds will not be allowed overpayment interest up to the amount of the original TETR overpayment interest. Subsequent refunds that are due overpayment interest will need to be manually computed.

20.2.10.4.4.1 (08-01-2018) TETR Claims Filed Prior to 2006

- (1) Some taxpayers filed protective claims for TETR refunds for periods prior to the periods covered in Notice 2006-50, located in IRB 2006-25 referencing taxes billed on or prior to February 28, 2003).
- (2) If a claim was filed within the period of limitations and a notice of claim disallowance has not been sent, then the refund period of limitations remains open regardless of what other action may have been taken on the account. Interest will be paid on the refund from the later of: the return due date; or the payment date.
- (3) If a notice of claim disallowance has been sent and more than two years have passed from the date of the notice of claim disallowance and the taxpayer has not filed a refund suit or obtained an extension of the time to file a refund suit, then the refund period has expired and the claim may not be paid. If two-year period has not expired or the taxpayer signed an extension of time to file a refund suit, the refund statute remains open. Interest will be paid from the later of the return due date, or the payment date.

- (4) Net rate interest netting as described in IRC 6621(d) is permitted on the overpayment interest portion of a TETR claim when submitted with Form 8913, Credit for Federal Telephone Excise Tax Paid. Normal netting methods apply when netting tax periods prior to 200612 as described in IRM 20.2.10.4.4.1. For instructions for netting TETR interest using the ACT/DML interest program, see IRM 20.2.14, Netting of Overpayment and Underpayment Interest.

20.2.10.4.4.2
(08-01-2018)

**TETR Claims Filed in
2006 and Later**

- (1) For periods covered by Notice 2006-502, located in Part III of IRB 2006-25 :
- Claims will only be allowed when filed with a Form 8913, Credit for Federal Telephone Excise Tax Paid, unless, as individuals, the safe harbor amount was claimed. This applies to claims filed before or after Notice 2006-50, (located in Part III, IRB 2006-25) was issued. (See Protective claims filed without Form 8913 should not be allowed for the tax periods covered in IRB 2006-25 (Notice 2006-50).
 - If the procedures found in IRB 2006-25, Part III, Notice 2006-50 and IRB 2007-5, Part III, Notice 2007-11 have been followed, refunds will be issued with interest.
 - If the taxpayer used the interest factors provided in the 2006, Instructions for Form 8913, Credit for Federal Telephone Excise Tax Paid, (see table below) then the allowable interest has been covered through May 30, 2007. Additional interest will be allowed from May 30, 2007 to the current refund date, including the appropriate back-off period for systemically generated refunds (i.e., 9/13/16/20 days). See IRM 20.2.4.8.1, Systemic Refunds.
 - The taxpayer is instructed to compute interest on lines 1 through 14 of Form 8913, Credit for Federal Telephone Excise Tax Paid, to 45 days beyond the later of the return due date or the return received date. If the claim is not processed and the refund issued within 45 days of the received date, additional interest must be allowed from the date the taxpayer computed interest, to the current refund date, including the appropriate back-off period.
- (2) Shown below is the table of interest factors as provided in the 2006, Instructions for Form 8913, Credit for Federal Telephone Excise Tax Paid, This table was used by the taxpayer to compute interest on lines 1 through 14 of Form 8913.

Line 8913	from Form	Interest Start Date	Interest Factor
Line 1		August 1, 2003	.260351533
Line 2		November 1, 2003	245625746
Line 3		February 1, 2004	.233142332
Line 4		May 1, 2004	.220072831
Line 5		August 1, 2004	.205856373
Line 6		November 1, 2004	.192782734
Line 7		February 1, 2005	.177872636
Line 8		May 1, 2005	.162644579

Line 8913	from Form	Interest Start Date	Interest Factor
Line 9		August 1, 2005	.145195286
Line 10		November 1, 2005	.127050415
Line 11		February 1, 2006	.107341197
Line 12		May 1, 2006	.088602722
Line 13		August 1, 2006	.068658029
Line 14		November 1, 2006	.047327318

- (3) Net rate interest netting, as described in IRC 6621(d), is permitted on the allowable interest portion of a TETR claim. For instructions for netting TETR interest using the ACT/DMI interest program, see IRM 20.2.14, Netting of Overpayment and Underpayment Interest.

Note: Net rate interest netting of allowable TETR interest on IMF tax modules will not normally take place because of the interest rate equalization, after January 1, 1999, of the credit and underpayment interest rates for non-corporate taxpayers (tax motivated interest (TMT) excepted).

20.2.10.4.4.3
(03-31-2025)
**Computing TETR
Overpayment Interest**

- (1) Under normal circumstances, the taxpayer would be required to file a Form 720, Quarterly Federal Excise Tax Return, for each of the 14 TETR tax periods in order to claim the telephone excise tax refund. However, this requirement was waived and Form 8913, Credit for Federal Telephone Excise Tax Paid, was developed so that taxpayers could file just one form with the 2006 income tax return to claim the credit for all 14 tax periods. Each of the 14 lines shown on Form 8913, represent a quarter for which the taxpayer is entitled to a TETR tax refund.
- (2) For taxpayers subject to the corporate and GATT (General Agreement on Tariffs and Trade) interest rates, overpayment interest is computed at the corporate interest rate on the first \$10,000 of each separate amount claimed for the 14 tax periods. "Each" overpayment exceeding \$10,000 is subject to the GATT interest rate. Once the threshold has been met for each period, interest is computed at the GATT rate. Do not collectively aggregate the overpayments for each of the 14 tax periods shown on Form 8913 when making these overpayment interest calculations. See IRM 20.2.4.10, Special Overpayment Interest Rules for Corporations, for more information on computing interest using corporate and GATT interest rates. In order to properly apply the corporate and GATT rates, each of the 14 periods must be entered as separate modules in the ACT/DMI program.
- (3) The taxpayer's entry on line 1, Column (d), of Form 8913 is entered to ACT/DMI as a Transaction Code (TC) 766 with a start date of 1 day **prior** to the interest start date as shown in the chart on Page 4 of the instructions for Form 8913. When computing interest for Form 8913 using ACT/DMI, use the dates shown in Figure 20.2.10-1.

Note: ACT/DML begins interest accruals the day **after** the date entered as the start date.

TETR Interest Start Date Chart

Line From Form 8913	ACT/DML Interest Start Date
Line 1	July 31, 2003
Line 2	October 31, 2003
Line 3	January 31, 2004
Line 4	April 30, 2004
Line 5	July 31, 2004
Line 6	October 31, 2004
Line 7	January 31, 2005
Line 8	April 30, 2005
Line 9	July 31, 2005
Line 10	October 31, 2005
Line 11	January 31, 20 06
Line 12	April 30, 2006
Line 13	July 31, 2006
Line 14	October 31, 2006

Figure 20.2.10-1

20.2.10.4.4.4
(03-31-2025)

**TETR Instructions for an
“Original” Form 8913
Claim - Corporate
Taxpayers**

- (1) The following paragraphs provide step-by-step processing instructions for an **Original**, Form 8913, Credit for Federal Telephone Excise Tax Paid:
- (2) **Step 1:** If the taxpayer is a corporation as defined in IRM 20.2.4.9 (2), Special Overpayment Interest Rules for Corporations, and therefore subject to the lower corporate and GATT interest rates, each line of Form 8913, Credit for Federal Telephone Excise Tax Paid, (lines 1-14) must be set up in ACT/DML as a separate module.

- Using the ACT/DML software program, interest is to be computed from the dates indicated using the chart in Figure 20.2.10-1, to 45 days beyond the original return due date or received date, whichever is later.

Example: The original return was received on 03/15/2007; the interest is computed to 04/29/2007. Or, the original return was received on 09/15/2007; interest is computed to 10/30/2007. The “interest TO date” is based solely on the “original” return received date, not the received date of the amended return.

- Use the **Description** box in the **Edit Existing Module** screen to differentiate each individual line. For example, for line 1, enter **Form 8913 line 01**.

(3) **Step 2:**

- Add TC 766 for line 1 of Form 8913, Credit for Federal Telephone Excise Tax Paid, into the first module using the amount the taxpayer entered on line 1, Column (d).
- Compute interest to 45 days beyond the original return due date or received date, whichever is later.
- Repeat step 1, IRM 20.2.10.4.4.4(2), and IRM 20.2.10.4.4.4(3), for each of the 14 lines on Form 8913.

Note: Because each line is a separate computation, it may be helpful to use a blank Form 8913 and fill in the computed interest amounts in Column (e). This will simplify the actions to be taken in Step 3.

(4) **Step 3:**

- Accept the figures in Column (d) and the total on line 15 of the **Original** Form 8913 claim.
- Using the interest amounts computed on ACT/DML and input in Column (e), enter the total interest amount on line 15 of the Form 8913 claim.

Note: ACT/DML will total the interest amount by using the Multi-Module screen. Click on the **Multi-Module** tab, highlight and select the modules of all 14 lines. Enter the date to be computed to as determined in step 1, and click on **Process**. Click on **Reports** in the **Analysis Reports** screen (top left hand box), select the 020 Report and **View** or **Print** (as applicable). The total amounts for all 14 lines can be found at the bottom of the last page.

(5) **Step 4:** Locate the following Form 8913 lines:

- Line 15, Column (d) is the credit reference number (CRN) 253 amount for the adjustment and will be entered with the due date of the return as the transaction date.
- Line 15 Column (e) is the CRN 254 interest amount for the adjustment and will also be entered with the due date of the return.

Note: It is important to post the credit with the due date (not the current 23C Date) in order for these credits to be available to pay tax as of the due date, or if overpaid, to accrue additional interest from the date interest was computed to in steps 1 and 2. Use of CRN 253 and 254 will allow the adjustment to post with the return due date.

(6) **Step 5:** Create a separate module on ACT/DML for the 2006 tax period. Follow the steps below:

- Enter the entire module and include the TC 766 total amount and the TC 770 total amount computed from the Form 8913, entering these transactions into ACT/DML with the due date of the return.
- Enter the ACT/DML credit suspension (TC 1011) for the total amount of the TC 766 and TC 770. Suspend from the due date of the return, to the date interest was computed in steps 1 and 2 (i.e., 45 days after original return received date). The overpayment interest amount (TC

770) will now be considered a credit as of the due date of the return but will only accrue additional overpayment interest beginning on the date interest was computed to in step 1.

- Enter the ACT/DMI credit suspension (TC 1011) for the total amount of the TC 766 and TC 770. Suspend from the due date of the return, to the date interest was computed in steps 1 and 2 (i.e., 45 days after original return received date). The overpayment interest amount (TC 770) will now be considered a credit as of the due date of the return but will only accrue additional overpayment interest beginning on the date interest was computed to in step 1.
- Remove the **O** from the **Excl** column of ACT/DMI **Update Modules** screen on the TC 770 entry. It will not be included in the total amount of overpayment interest shown in the ACT/DMI 490 Report.
- Compute interest to the current 23C Date, minus the appropriate back-off days.

Note: Do **not** use TC 1011 if the original TETR overpayment interest was offset or applied as a credit elect, because it will erroneously suspend the overpayment interest twice.:

(7) **Step 6:** Once the total amounts have been determined on ACT/DMI, follow the steps below:

- Input the adjustment with the TC 766 amount as CRN 253 and the TC 770 amount as CRN 254 computed to 45 days beyond the original return due date or received date, whichever is later. Using CRN 253 and CRN 254 will allow the TC 766 and TC 770 to post **with the due date of the return**.
- Use TC 770 (NOT CRN 254) for the additional overpayment interest which accrued from 45 days beyond the due date or original return received date, to the 23C Date, minus the appropriate back-off days. This TC 770 will post with the 23C Date.

20.2.10.4.4.5
(03-31-2025)

**TETR Instructions for an
“Additional” Form 8913
Claim - Corporate
Taxpayers**

(1) **Step 1:** See IRM 20.2.10.4.4.4.

(2) **Step 2:** Using ACT/DMI complete the following:

- Add TC 766 for line 1 of Form 8913, Credit for Federal Telephone Excise Tax Paid,
- For an **additional** Form 8913, also enter a separate TC 766 for the original Form 8913, line 1, Column (d) amount. The date of the TC 766 will be the corresponding date found in the chart in Exhibit 20.2.10-1 above. The two forms must be entered into one module because the taxpayer is entitled to the \$10,000 threshold only once for each line.
- Compute interest to 45 days beyond the original return due date or received date, whichever is later.
- Repeat step 1, IRM 20.2.10.4.4.4(1) and step 2, IRM 20.2.10.4.4.4(2) for each of the 14 lines on Form 8913, add TC 766 for line 1 of Form 8913, Credit for Federal Telephone Excise Tax Paid, then follow the steps below:

Note: Because each line is a separate computation, it may be helpful to use a blank Form 8913 and fill in the computed interest amounts in Column (e). This will simplify the actions to be taken in step 3.

Add TC 766 for line 1 of Form 8913, Credit for Federal Telephone Excise Tax Paid, then follow the steps below:

(3) **Step 3:** Continued ACT/DML instructions:

- Accept the figures in Column (d) and the total on line 15, of Form 8913.
- Use the interest amounts computed on ACT/DML, which includes both the original and additional forms and enter in Column (e). Then add the total interest amount for line 15 of Form 8913.

Note: ACT/DML will total the interest amount by using the Multi-Module screen. Click on the “Multi-Module” tab, highlight and select the modules of all 14 lines. Enter the date to be computed to as determined in step 1, and click on “Process” Click on “Reports.” In the **Analysis Reports** screen top left hand box, select the 020 Report, then select **View** or **Print**. The total amounts for all 14 lines can be found at the bottom of the last page.

(4) **Step 4:** Continued ACT/DML instructions:

- The amount on line 15, Column (d), Form 8913, is the CRN 253 amount of the adjustment and will be entered with the due date of the return.
- Take the amount of overpayment interest shown on line 15 Column (e) and subtract the amount of the TC 770 CRN 254 previously posted with the original TC 766. This reduced figure is the amount of the CRN 254 that will be input along with your CRN 253 adjustment.
- Take the amount of overpayment interest shown on line 15 Column (e) and subtract the amount of the TC 770 CRN 254 previously posted with the original TC 766. This reduced figure is the amount of the CRN 254 that will be input along with your CRN 253 adjustment.

Note: It is important to post both transactions with the due date (not current 23C Date) in order for these credits to be available to pay tax as of the due date, or if overpaid, to accrue additional overpayment interest from the date interest was computed to in steps 1 and 2. Use of CRN 253 and 254 will allow the adjustment to post with the return due date.

(5) **Step 5:** See IRM 20.2.10.4.4.4(6).

(6) **Step 6:** See IRM 20.2.10.4.4.4(7).

(7) Remember that additional overpayment interest is allowed from 45 days beyond the due date or original return received date, to the 23C Date, minus the appropriate back-off days. Use TC 770 (**NOT** CRN 254). This TC 770 will post with the 23C Date.

20.2.10.4.4.6
(03-31-2025)

TETR Instructions for an “Amended” Form 8913 Claim - Corporate Taxpayers

(1) The paragraphs below provide additional instructions for processing an **Amended** Form 8913 claim.

(2) **Step 1:** See IRM 20.2.10.4.4.4(2).

(3) **Step 2:** ACT/DML processing instructions for an **Amended** Form 8913 claim:

- Add TC 766 for line 1 of Form 8913 into the first module using the amount the taxpayer entered on line 1, Column (d).

- Compute interest to 45 days beyond the original return due date or received date, whichever is later.
- Repeat step 1, IRM 20.2.10.4.4.4 (2) and step 2, IRM 20.2.10.4.4.4 (3) for each of the 14 lines on Form 8913.

Note: Because each line is a separate computation, it may be helpful to use a blank Form 8913 and fill in the computed interest amounts in Column (e). This will simplify the actions to be taken in step 3.

(4) **Step 3:**

- Repeat step 1, IRM 20.2.10.4.4.4 (2) and step 2, IRM 20.2.10.4.4.4 (3) for each of the 14 lines on Form 8913.
- Use the interest amounts computed on ACT/DMI, which includes both the original and additional forms and enter in Column (e). Then add the total interest amount from line 15 of Form 8913.

Note: ACT/DMI will total the interest amount by using the Multi-Module screen. Click on the **Multi-Module** tab, highlight and select the modules of all 14 lines. Enter the date to be computed **TO** as determined in step 1, and click on **Process**. Click on **Reports**. In the **Analysis Reports** screen top left hand box, select the 020 Report, then select **View** or **Print**. The total amounts for all 14 lines can be found at the bottom of the last page.

(5) Step 5: See IRM 20.2.10.4.4.4 IRM 20.2.10.4.4.4(6).

(6) Step 6: See IRM 20.2.10.4.4.4 IRM 20.2.10.4.4.4(7).

20.2.10.4.4.7
(03-05-2013)
**TETR Instructions for
Non-Corporate
Taxpayers**

- (1) If the taxpayer is not a "corporation" as defined in IRM 20.2.4.10, (2), Special Overpayment Interest Rules for Corporations, and can use the non-corporate interest rates. Form 8913, Credit for Federal Telephone Excise Tax Paid, and the rest of the 2006 tax account can all be computed on one ACT/DMI module. The amounts from Form 8913, Column (d) will be input with the dates shown in the chart found in Figure 20.2.10-1. The "Interest-to-Date" will be the normal 23C Date, minus any applicable back-off days.

20.2.10.4.5
(03-31-2025)
**Payments Related to
Certain Retailers and
Manufacturers Excise
Taxes**

- (1) IRC 6416(b) identifies certain payments as overpayments subject to credit or refund **without** interest. These overpayments, as shown below, are generally claimed on Form 720, Quarterly Federal Excise Tax Return, Schedule C, or Form 8849, Claim for Refund of Excise Taxes, Schedule 6:
- price readjustments,
 - specified uses and resales,
 - tax-paid articles for further manufacture,
 - tires,
 - return of certain installment accounts,
 - truck chassis, bodies and semitrailers used for further manufacturing.

20.2.10.4.6
(08-01-2018)
**Gasoline Used in
Farming**

- (1) IRC 6420 provides for a payment (without interest) to the ultimate purchaser of gasoline, if the gasoline is used on a farm for farming purposes and the ultimate purchaser is an owner, tenant, or operator of a farm. The farm must be located in the U.S.

- (2) Annual excise tax claims are made on Form 8849, Claim for Refund of Excise Taxes, Schedule 6. The overpayment may alternatively be refunded or taken as an income tax credit as provided for in IRC 6420(g). Overpayment interest is not allowed for either the refund or the credit.

Note: An annual income tax claim is filed on Form 4136, Credit for Federal Tax Paid on Fuels.

20.2.10.4.7
(08-01-2018)
Fuels Not Used for Taxable Purposes (Form 8849 and Ultimate Purchaser)

- (1) IRC 6421 provides for a payment (without interest) if gasoline is used in an off highway business use; in inter-city, local or school buses; or sold to any person for an exempt purpose. IRC 6427 provides for a payment (without interest) if a tax has been imposed on the sale of fuel and the purchaser uses the fuel for a nontaxable purpose or resells the fuel. Claims are made on Form 720, Schedule C, Form 720-X, Amended Quarterly Federal Excise Tax Return, Quarterly Federal Excise Tax Return, or Form 8849, Claim for Refund of Excise Taxes, Schedule 1. Depending on the type of taxpayer, the overpayment may be refunded or taken as an income tax credit as provided for in IRC 6421(i) or IRC 6427 (k).
- (2) Overpayment interest is not allowed on either type of credit.
- (3) If the claim amount needs to be offset for a balance due on another module, the credit transfer date will be the received date of the claim.

20.2.10.4.8
(03-05-2013)
Laid-off Wagers

- (1) IRC 6419(b) identifies as an overpayment the tax on a wager that is laid off by the taxpayer (Form 8849, Claim for Refund of Excise Taxes, Schedule 6, or Form 730, Monthly Tax Return for Wagers, line 5). These overpayments are refunded without interest.

20.2.10.4.9
(03-05-2013)
Vaccines

- (1) IRC 4132(b) identifies as an overpayment any tax on a vaccine that is returned to the manufacturer or destroyed (Form 720, Quarterly Federal). The tax shall be abated, credited or refunded **without interest**.

20.2.10.4.10
(03-31-2025)
Heavy Highway Vehicles

- (1) IRC 4483(d) exempts tax on the use of heavy highway vehicles used for 5,000 miles or less (7,500 for agricultural vehicles) Tax paid on is identified as an overpayment. The overpayment amount is reported as a credit on Line 5 of Form 2290, Heavy Highway Vehicle Use Tax Return. The amount on Line 5 cannot exceed the amount on Line 4, Total Tax. Any excess credit must be claimed as a refund on Form 8849, Claim for Refund of Excise Taxes, and Schedule 6 (Form 8849). (Form 2290, Heavy Highway Vehicle Use Tax Return, Line 5). The credit or refund of the tax is made *without interest*.

20.2.10.4.10.1
(10-11-2016)
2011 Form 2290 Extended Return Due Date

- (1) Treasury Decision (T.D.) 9537, Highway Use Tax; Filing and Payment for Taxable Period Beginning July 1, 2011 (contained in IRB 2011-35) provided final and temporary regulations that changed the due date for filing Form 2290, Heavy Highway Use Tax Return, for tax periods July 1, 2011, August 1, 2011, and September 1, 2011 to November 30, 2011. The original due dates were August 31, September 30, and October 31, 2011, respectively.
- (2) Interest accrued on any unpaid amounts for the above noted tax periods on December 1, 2011.

20.2.10.4.11
(03-31-2025)

Chemicals

- (3) Returns for the above stated tax periods were not processed by the IRS prior to November 1, 2011.

- (1) IRC 4662(d) identifies as an overpayment: any IRC 4661 tax paid on a taxable chemical that is used in the manufacture or production of any other substance that is a taxable chemical; and any tax paid on a taxable chemical that is used as (or used in the manufacture of) a qualified fuel, fertilizer, or animal feed substance. IRC 4662(e) exempts from the tax any taxable chemical that is exported or sold to a second purchaser for export. The credit or refund of the IRC 4661 tax is made **without interest**. The tax imposed by IRC 4661(a) expired after December 31, 1995 and was reinstated effective July 1, 2022, by section 80201 of the Infrastructure Investment and Jobs Act of 2021, Pub. L. 117-58, and is effective through 12/31/2031.
- (2) IRC 4682 identifies as an overpayment any tax paid on an ozone-depleting chemical that is under certain conditions, diverted or recovered as part of a recycling process, used in further manufacturing, used as a feedstock, exported, or used as a propellant in a metered-dose inhaler (Form 720, Quarterly Federal Excise Tax Return, Schedule C, or Form 8849, Claim for Refund of Excise Taxes, Schedule 6). The credit or refund of the tax is made **without interest**.
- (3) IRC 4671(d)(2) applies to the tax imposed by IRC 4671(a) the refund and credit rules provided in IRC 4662(d)(2),(3), and (4) (related to certain uses of qualified fertilizer substances, qualified fuel substances, and qualified animal feed substances). The credit or refund of the IRC 4611 tax is made **without interest**.

20.2.10.4.12
(08-01-2018)

**Tax on Removal of a
Taxable Fuel**

- (1) IRC 4081 imposes a tax on removal, entry, or sale of certain types of fuel. Underpayment interest is computed from the return due date (RDD) on any second tax assessed to the account.
- (2) IRC 4081(e) provides for a refund of those taxes in certain cases. Claims for refund made under this Code section must be filed on Form 8849, Claim for Refund of Excise Taxes, Schedule 5. See IRM 4.24.22.4.5.5, Form 8849, Schedule 5, IRC Section 4081(e) Claims, for processing procedures.
- a. The credit availability date for credits allowed under IRC 4081(e) is the normal return due date, not the extended return due date. These credits are posted to Master File as a TC 766 (input with the appropriate credit reference number) using the normal (un-extended) return due date and are refunded **without interest**.
- b. In the event any second tax is paid with subsequent payments (made after the RDD), those payments may be refunded **with** interest. Because the latest credits on the module are refunded first, the subsequent payments would be refunded before the IRC 4081(e) (TC 766) credit.

20.2.10.5
(03-31-2025)

Employment Taxes

- (1) If a correction is necessary to the amount of tax originally reported and paid for employment taxes imposed by the Internal Revenue Code (IRC) sections referenced below, a tax adjustment can be made using interest-free procedures.
- IRC 3101, Federal Insurance Contribution Act Tax on Employees
 - IRC 3111, Federal Insurance Contribution Act Tax on Employers

- IRC 3201, Railroad Retirement Tax Act Tax on Employees
 - IRC 3221, Railroad Retirement Tax Act Tax on Employers
 - IRC 3402, Income Tax Collected at Source -
- (2) Generally, overpayments of these taxes are adjusted **without interest** under IRC 6413(a) and underpayments are adjusted **without interest** under IRC 6205(a).
- (3) In some circumstances, interest on an overpayment or underpayment of employment taxes will accrue:
- a. If a taxpayer does not qualify for an overpayment adjustment or an underpayment adjustment under IRC 6413(a) or IRC 6205, respectively.
 - b. If a taxpayer qualifies for an underpayment adjustment but fails to timely pay the amount due (IRC 6205).
 - c. If, in lieu of a request for an overpayment adjustment, a taxpayer files a claim for credit or refund for overpayment of employment taxes under IRC 6402 or IRC 6414.
- (4) Pursuant to IRC 6611(e)(2), if the taxpayer files a claim for a credit or refund for any overpayment of tax imposed by title 26, and the overpayment is refunded within 45 days after the received date of the processible claim (180 days in the case of an overpayment resulting from tax deducted and withheld under Chapter 3 or 4), then no interest is allowed on that overpayment from the date the claim is filed until the day the refund is made. This provision of the law is administered in IRS computer programming via amended claims date (AMD-CLMS-DT) processing. See IRM 20.2.4.8.3.2, 45-Day Rule and Amended Returns and Claims, OBRA 1993, for details.
- (5) Per Treas. Reg. 31.6205-1(b)(2)(i), if a taxpayer discovers an error in the amount of employment taxes that should have been paid, the taxpayer may qualify to pay that additional tax without being charged underpayment interest. To qualify for an interest-free adjustment, the corrected return must be filed by the due date of the return for the period when the error was discovered (ascertained). However, the tax **must** be paid when the corrected return is filed in order to qualify for the interest-free adjustment.

Example: On August 12, 2019, an employer discovers (ascertains) the taxpayer has reported and paid less FICA tax than was due on his original Form 941, Employer's QUARTERLY Federal tax Return, for the 201903 tax period, and submits a payment of \$10,000 on August 23, 2019 for what he anticipates the additional tax liability to be. For the period in which the error was discovered, the Form 941 due date is October 31, 2019. To qualify for an interest free tax adjustment under IRC 6205, the taxpayer files Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund, on October 4, 2019 to correct the error which is before the due date of the tax return for the period in which the error was discovered. The assessment of additional FICA tax totaling \$10,000 carries an effective date (liability date) of October 4, 2019. Overpayment interest is not allowed to accrue on the \$10,000 payment from its availability date of August 23, 2019 to the assessment date of October 4, 2019.

Example: The facts are the same as in Example 1, except payment of \$8,000 is sent on October 4, 2019. The remaining \$2,000 needed to fully pay the liability is paid on May 1, 2020. The underpayment interest-free period only applies to the \$8,000 payment. The additional unpaid liability of \$2,000 is charged underpayment interest from October 4, 2019 to May 1, 2020 and the employer is sent a notice for the additional penalties and interest due.

(6) If either credit or underpayment interest applies, then follow normal interest rules. For a claim entitled to overpayment interest, see IRM 20.2.4.7.5, Applying Overpayments as Credits to Liabilities for the Same Tax Period. For underpayment interest, see IRM 20.2.5, Interest on Underpayments.

20.2.10.5.1
(03-31-2025)
**Underpayment
Adjustments on
Employment Taxes**

(1) An employer who has underreported and/or underpaid FICA tax, RRTA tax or income tax withholding, must correct the error on the form that corresponds to the return being corrected (e.g., if the original return filed was a Form 941, Employer’s QUARTERLY Federal Tax Return, corrections are reported on Form 941-X, Adjusted Employer’s QUARTERLY Federal Tax Return or Claim for Refund). See Exhibit 20.2.10-1, Which Form to File. The adjusted return on which the correction is shown must provide:

- A detailed explanation of the correction
- The date the error was ascertained
- The return period being corrected, and
- Other information as explained in the regulations or instructions relating to the adjusted return.

(2) An error is ascertained when the employer has sufficient knowledge of the error to be able to correct it. See Treas. Reg. 31.6205-1(a)(4).

(3) If all of the above information is provided and the adjustment is reported by the due date of the return for the return period in which the error is discovered (as-certained), input the adjustment with the appropriate blocking series, using a Transaction Code (TC) 298 or 308 and an interest computation date (INT-CMPTN-DT) equal to the received date of the adjusted return. If the

computed from the interest computation date and the failure to deposit (FTD) penalty may apply. See IRM 20.1.4.21.5 (7), Adjusted Returns (Forms 941-X,

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- (4) When an adjusted return is not received by the due date for filing the return for the return period in which the employer discovered the error, the adjustment is not considered to have been timely reported. In this instance, interest is due on the underpayment from the due date (without regard to an extension of time for filing) of the original return for the period in which the error occurred.
- (5) Once the following notices have been sent out to the taxpayer, any additional underpayment adjustments are **not** eligible for an interest-free period after the earlier of the following:
 - a. Receipt of notice and demand for payment based on an assessment.
 - b. Receipt of Letter 3523, Notice of Employment Tax Determination Under IRC Section 7436 (Notice of Determination). See IRM 8.7.16.11.1, Letter 3523-A, Notice of Employment Tax Determination Under IRC Section 7436.

Note: The interest-free provisions of IRC 6205 and IRC 6413(a) do not apply to Federal Unemployment Tax Act (FUTA) returns. The amount must then be paid with normal interest as described in IRC 6601. See Treas. Reg. 31.6205-1(a)(6). For additional information see IRM 4.23.8.3 (8), Interest - Free Adjustments In General.

- (6) These same rules apply to adjustments made by IRS. If it is determined that the taxpayer is eligible for the interest-free provisions of IRC 6205(a)(2), then Form 3198, Special Handling Notice for Examination Case Processing, needs to be marked. TC 308 will be input using the agreement date as the interest computation date on the closing document. If the taxpayer full pays with the agreement, then there will be no additional interest due. See IRM 4.23.8.3, Interest-Free Adjustments - In General. Otherwise, interest will start on the agreement date for the unpaid amount until full paid. Failure to deposit penalty may also apply.
- (7) An underpayment interest suspension period based on IRC 6601(c), also known as an "870 waiver," does **not** apply to employment tax returns, including Schedule H. To prevent an erroneous interest suspension, an agreement date should **not** be entered on the closing document or Form 2859, Request for Quick or Prompt Assessment.

20.2.10.5.2
(08-01-2018)
**Combined Annual Wage
Reporting (CAWR)
Assessments**

- (1) Combined annual wage reporting (CAWR) proposed assessments may result in an interest-free adjustment for FICA tax reported on Form 941.
 - a. If the taxpayer agrees with the proposed CAWR increase (whether or not an adjusted return was filed or a payment was made), the adjustment is interest-free if the discrepancy is in income tax withholding, FICA tax, or RRTA tax. Input the adjustment with the appropriate blocking series and a TC 298 or TC 308, using as the interest computation date the received date of the CAWR agreement.

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b. If the taxpayer does not pay the entire balance at the time of agreement

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are made and a manual computation of interest is required, ensure corresponding adjustments to penalties and interest are made. See IRM 20.2.10.5.1, Underpayment Adjustments on Employment Taxes.

- (2) After receipt of notice and demand for payment based on a CAWR assessment, no interest-free adjustment of such tax can be made by filing an adjusted return or by agreeing to the assessment by signing Form 2504, Agreement to Assessment and Collection of Additional Tax and Acceptance of Overassessment (Employment Tax Adjustments Not Subject to IRC 7436).
- (3) For complete instructions on the input of CAWR assessments, see IRM 4.19.4, CAWR Reconciliation Balancing.

20.2.10.5.3
(03-31-2025)
Household Employment
Taxes

- (1) The **interest-free** provisions for adjustments on BMF employment taxes also cover errors of household employment taxes reported on IMF Form 1040 , Schedule H, Household Employment Taxes See IRM 21.6.4.4.8, Schedule H, Household Employment Taxes, for more information.

Note: The interest-free provisions of IRC 6205 and IRC 6413(a) do not apply to FUTA taxes.

If the employer discovers an error on	Then the employer will file
<ul style="list-style-type: none">Form 1040 Schedule H, Household Employment Taxes, that was filed with Form 1040, U.S. Individual Income Tax Return,Form 1040-NR, U.S. Non-resident Alien Income Tax Return, orForm 1040-SS, U.S. Self-Employment Tax Return,	a Form 1040-X, Amended U.S. Individual Income Tax Return, and attach a corrected Form 1040 Schedule H, Household Employment Taxes.
Form 1040 Schedule H, Household Employment Taxes, that was filed with Form 1041, U.S. Income Tax Return for Estates and Trusts	an amended Form 1041 and attach a corrected Form 1040 Schedule H, Household Employment Taxes
Form 1040 Schedule H, Household Employment Taxes, that was filed as a stand-alone return,	another stand-alone Form 1040 Schedule H, Household Employment Taxes, with the corrected information.

- (2) Underpayment adjustments are **interest-free** if reported by the due date of the return for the return period in which the error was discovered and payment is

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Exception: If withheld income tax is involved, see IRM 20.2.10.5.5, Underpayments of Income Tax Withheld from Wages.

- (3) If the corrected Form 1040 , Schedule H, Household Employment Taxes, is filed by the due date of the return for the period in which the error was discovered, but payment is not made by the time the corrected Form 1040 Schedule

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20.2.10.5.5.1.

- (4) Employment tax regulations effective January 1, 2009, require payment of employment tax increases (including Form 1040 Schedule H) for income tax withheld and social security and Medicare taxes at the time the adjusted return or Form 1040 Schedule H, Household Employment Taxes, is filed (FUTA taxes

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Note: Instructions for Form 1040 Schedule H, Household Employment Taxes, state that the tax must be paid when the taxpayer files the corrected Form 1040 Schedule H, Household Employment Taxes.

20.2.10.5.4
(03-31-2025)
**Underpayments of
Federal Insurance
Contributions Act (FICA)
and Railroad Retirement
Tax Act (RRTA)**

- (1) If the employer discovers the error **before** the return is filed, the employer has to report and pay the correct amount of tax with the return. **THIS IS NOT AN ADJUSTMENT.** If the employer does **not** report and pay the correct amount by the due date of the return, the error cannot later be corrected through an interest-free adjustment. Interest is computed from the normal due date (without regard to an extension of time for filing) of the original return for the tax period in which the error occurred.
- (2) If the employer discovers the error **after** the return is filed, the error can be corrected by reporting the additional amount due on an adjusted return for the period in which the error occurred. The adjusted return is made on the form that corresponds to the return being corrected. See Exhibit 20.2.10-1, Which Form to File.
- a. The adjusted return must be filed by the due date for filing the return for the return period in which the error was discovered and within the statute of limitations as per IRC 6501 for the return period being corrected.
- b. If full payment is made with the timely filed adjusted return, then no underpayment interest is due. See Treas. Reg. 31.6205-1(b)(2). The underpayment can be paid using the Electronic Federal Tax Payment System (EFTPS) or by sending a check with the adjusted return. Credit card payments will be accepted for certain adjusted returns (e.g., Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund).
- (3) If the adjusted return is filed timely (by the due date for filing the return for the return period in which the employer discovered the error), but payment is not

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of the adjusted return until paid in full. Plus, the failure to deposit penalty may apply when payments are not made timely. If the correct interest computation date (INT-CMPTN-DT) is used with TC 298 or TC 308, Master File will correctly compute the interest unless underpayment interest on the module otherwise requires restriction. The interest computation date is the received date of the adjusted return for the period in which the error occurred. See IRM 20.2.10.5.1.

Note: The interest-free provision of IRC 6205 does not apply to penalties. Underpayment Interest on any penalties is due and will start from the return due date, extended return due date, or assessment date, whichever is applicable.

- (4) If the adjusted return is not filed by the due date for filing the return for the return period in which the error was discovered, underpayment interest is due on the underpayment from the due date of the original return for the period in which the error occurred.

Example: The taxpayer submitted a Form 941-X reporting an increase to FICA taxes for the tax period ending March 31, 2018. He indicated that the errors were “discovered” on September 20, 2019 (during the 3rd quarter of 2019). His Form 941-X was filed on November 29, 2019. Because the return was not filed by the due date for filing the return for the return period in which the error was discovered (i.e., October 31, 2019), underpayment interest is computed from April 30, 2018, the due date of the original return. The adjustment will be input with a TC 290 or TC 300 and underpayment interest does not need to be restricted unless other conditions warrant it.

- (5) Generally, the correction of an error may be made under the above procedures during an audit of the return, provided the employer corrects the error before notice and demand or Letter 3523 is issued. See Treas. Reg. 31.6205-1(a)(6).
 - a. Interest-free adjustments will **not** be allowed in cases in which the taxpayer’s returns for prior years were audited and additional tax was found to be due with respect to the same issue involved in the current audit.
 - b. Interest-free adjustments will **not** be allowed in cases in which the taxpayer knowingly under reports an employment tax liability in subsequent years.

Example: The taxpayer submitted a Form 941-X reporting an increase to FICA taxes for the tax period ending March 31, 2019. The taxpayer indicated that the errors were “discovered” on September 21, 2019 (during the 3rd quarter of 2019). The taxpayer’s Form 941-X was filed on November 30, 2019. Because the return was not filed by the due date for filing the return for the return period in which the error was discovered (i.e., October 31, 2019), underpayment interest is computed from April 30, 2019, the due date of the original return. The adjustment will be input with a TC 290 or TC 300 and underpayment interest does not need to be restricted unless warranted by other conditions. Underpayment interest will be assessed on such adjustments in accordance with IRC 6601.

Note: Unless otherwise excepted, Form 2504, Agreement to Assessment and Collection of Additional Tax and Acceptance of Overassessment (Employment Tax Adjustments Not Subject to IRC 7436), Form 2504-T, Agreement to As-

assessment and Collection of Additional Employment Tax and Acceptance of Overassessment (Employment Tax Adjustments Subject to IRC 7436), and Form 2504-S, Agreement to Assessment and Collection of Additional Tax and Acceptance of Overassessment (Employment Tax Adjustments Subject to IRC 7436; Worker Classification or Section 530 Issues Not Addressed in this Exam) and such other forms as may be required, are considered to be adjusted returns for purposes of an interest-free adjustment. See Treas. Reg. 31.6205-1(a)(7)..

- (6) Corrections on a return prepared under IRC 6020(b) do not typically qualify for an interest-free adjustment. Underpayment interest on this type of return is computed from the due date of the original return. IRC 6020(b) gives the IRS the authority to file a tax return for a business when it does not file a required return.

Exception: Interest-free adjustments can apply to IRC 6020(b) modules if the taxpayer signs the prepared IRC 6020(b) return or signs an agreement (such as Form 2504) and files a return. See IRM 4.4.9, Delinquent and Substitute for Return Processing.

- (7) An original return that was previously not filed may qualify for the interest-free provisions of IRC 6205 if:

- An employer erroneously filed a return reporting FICA tax, but was instead required to file a return reporting RRTA tax.
- An employer erroneously filed a return reporting RRTA tax, but was instead required to file a return reporting FICA tax, or
- A return was not filed because of failure to treat any individual(s) as an employee(s).

Note: See Treas. Reg. 31.6205-1(b)(2)(ii) and (iii).

- (8) Rev. Rul. 99-40 (i.e., May/Sequa), as it relates to credit elects to determine interest start dates of unpaid installments or deposits, **does not** apply to employment taxes. See IRM 20.2.5.7, Revenue Ruling 99-40, Use of Money, for more information on Rev. Rul. 99-40. However, it does apply to refunds without interest because the IRS had the use of the taxpayer's money. This includes, but is not limited to, Form 941, Employer's QUARTERLY Federal Tax Return, Form 943, Employer's Annual Federal Tax Return for Agricultural Employees,, Form 944, Employer's ANNUAL Federal Tax Return, and Form 945, Annual Return of Withheld Federal Income Tax.

Reminder: Under IRC 6601(a) interest on an underpayment can only be charged when the tax is both due and unpaid.

20.2.10.5.5
(03-31-2025)
**Underpayments of
Income Tax Withheld
from Wages**

- (1) If no income tax or less than the correct amount of income tax is withheld and the error is discovered **before** the return is filed for the period in which the wages were paid, the employer shall report and pay the correct amount of tax required to be withheld on the return (this is not an adjustment). If the employer does not report and pay the correct amount of tax by the time the return is filed, the employer cannot later correct the error through an interest-

free adjustment. Interest is computed from the due date of the original return for the period in which the error occurred.

Example: Prior to filling out the employer's Form 941 for the period ending June 30, 2019, the employer realizes federal income tax on certain taxable fringe benefits should have been withheld. Since the employer discovered the error prior to filing Form 941, the employer must report and pay the correct amount of tax on the employer's second quarter Form 941 due July 31, 2019. This is **NOT** an adjustment.

(2) If the under withholding of income tax is discovered **after** the return has been filed, the error can be corrected by reporting the additional amount due on an adjusted return (e.g., Form 941-X), for the return period in which the wages were paid. The adjusted return is eligible for interest-free treatment if:

- The adjusted return is filed by the due date for filing the return for the return period in which the error is discovered, and
- The error is discovered within the same calendar year that the wages were paid.

Note: Income tax withholding cannot be corrected for prior year returns unless it involves an administrative error, IRC 3509 applies, or the adjustment is reported on Form 2504, Agreement to Assessment and Collection of Additional Tax and Acceptance of Overassessment (Employment Tax Adjustments Not Subject to IRC 7436), or Form 2504-T, Agreement to Assessment and Collection of Additional Tax and Acceptance of Overassessment (Employment Tax Adjustments Subject to IRC 7436). See IRM 20.2.10.5.5(3)(b) and IRM 20.2.10.5.5.1 below.

(3) If the adjustment is made on the form that corresponds to the return being corrected, see Exhibit 20.2.10-1.

(4) If the employer discovers an error resulting in an underpayment of income tax withheld in the same calendar year in which the wages or compensation was paid, reports the underpayment by the due date of the return for the quarter in which the error is discovered, and all required tax is paid by the time the

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the underpayment. See Treas. Reg. 31.6205-1(c)(2).

Example: The taxpayer submitted a Form 941-X reporting increases of both FICA tax and income tax withholding for the 1st quarter 2019. The taxpayer indicated the error was "discovered" on November 5, 2019, (during the 4th quarter of 2019). The taxpayer's Form 941-X and payment of tax were received December 17, 2019. Since the additional tax was reported by the 4th quarter due date of January 31, 2020, the entire additional tax is assessed on the 1st quarter tax module with Blocking Series 20X and TC 298 or Blocking Series 47X and TC 308 with December 17, 2019 entered in the Interest Computation Date (INT-CMPTN-DT) field. **NO UNDERPAYMENT INTEREST IS DUE** because the tax was paid by

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of Form 941-X).

- a. If the underpayment is reported timely (by the due date of the return for the period in which the error was "discovered"), but the amount of tax

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- b. If an underpayment of income tax withholding is not reported on an adjusted return by the due date of the return for the period in which the error was discovered, interest is computed from the due date of the original return for the quarter in which the wages were paid.

Example: An underpayment of income tax withholding occurs for the first quarter of 2019. It was discovered May 6, 2019 but the underpayment is not reported and paid until August 14, 2019. Because it was not reported by the due date of the 2nd quarter (July 31, 2019), interest is computed from the due date of the 1st quarter, April 30, 2019. The entire additional tax is assessed with a TC 290 on the 1st quarter tax module. No interest restriction is necessary unless the module was previously restricted or otherwise requires restriction.

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20.2.10.5.5.1
(03-30-2018)

Underpayments of Federal Income Tax Due to an Administrative Error

- (1) If a taxpayer reported less federal income tax withholding on a return than was actually withheld, the error may be corrected as an interest-free adjustment under IRC 6205. This applies to errors found on returns for the current calendar year as well as to errors found on returns for prior calendar years. This is known as a correction of an administrative error. See IRM 21.7.2.4.4.3.1, Administrative Errors. The rules for qualifying for an interest-free adjustment are the same as for correcting underpayments of FICA tax and RRTA tax. See IRM 20.2.10.5.4.

Example: An employer withheld income tax of \$7,500.00 from employee wages and reported the \$7,500.00 figure on the employees' Form W-2, "Wage and Tax Statement". However, due to an error in addition, the employer reported \$7,900.00 in withholding on its Form 941 for the year. The employer files a Form 941-X seeking a refund of \$400.00. This situation would constitute an administrative error.

20.2.10.5.5.2
(03-31-2025)

Income Tax Over Withheld

- (1) If an employer discovers that income tax was over withheld from an employee's wages and paid to IRS, the employer may correct the error by making an adjustment to correct the overpayment if the error was discovered in the same calendar year in which the wages were paid. The employer must repay or reimburse the employee for the over collection in any subsequent quarter during the same calendar year.

If	Then
repaid,	the employer must obtain and keep, as part of his records, a receipt from the employee. See Treas. Reg. 31.6413(a)-1(b)(1)(i).
not repaid	the employer can reimburse the employee by applying the over collection against subsequent tax required to be withheld from wages paid during the same calendar year in which the over collection occurred.

Note: Adjustment of income tax withholding is applicable only if the employer has repaid or reimbursed the employee during the same calendar year in which the wages were paid or if the adjustment is made to correct an administrative error (i.e., the amount reported on the prior return was not actually withheld from the employees' wages). Once the employer repays or reimburses the employee for the over collection, the employer may **adjust, without interest**, the over collection on an adjusted return for the quarter in the calendar year in which the over collection occurred. The amount of the adjustment will be applied without interest to the current quarter or current yearly return as applicable. Since interest is not allowable, input a TC 770 with a zero amount, when needed

- (2) The adjustment is made on the form that corresponds to the return being corrected. See Exhibit 20.2.10-1, Which Form to File. No refund to the employer is allowed under IRC 6414 for the amount of any overpayment of income tax which the employer withheld from an employee.
- (3) If the amount reported on the prior year return was more than the amount actually withheld from the employee's wages, an employer may file a claim for refund **with interest**, instead of amending the return for the return period in which the error was made.
- (4) The claim for refund is made on the form that corresponds to the return being corrected. See Exhibit 20.2.10-1.
- (5) The regulations under IRC 6413 provide a 90-day rule under which an overpayment adjustment is not permitted if the adjusted return would be filed within 90 days of the expiration of the period of limitations. See Treas. Reg. 31.6413(a)-2(d)(2).

20.2.10.5.5.3
(08-01-2018)
**Interest on Income Tax
Withholding
Assessments Abated
under IRC 3402(d)**

- (1) When an employer fails to withhold income tax from employees' wages, the employer is liable for payment of the tax required to be withheld, unless the employer can show that the tax not withheld has been paid by the employee. See IRC 3402(d).
- (2) The employer is liable for interest and any penalties due for failure to withhold and pay over the tax, even if the tax was paid by the employee. Underpayment interest runs from the due date of the return for the period for which the employer failed to withhold to the earlier of the date of payment by the employer or employee. Underpayment interest can only be charged if the tax is due and unpaid. The date the tax liability is paid is the correct end date for

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- (4) When the tax liability has been paid, Form 4669 is filed in order to reduce any previous underpayment interest. Use TC 299 or TC 309 with the overpayment interest start date (INT-CMPTN-DT), rather than restricting the module, unless it is already restricted. Exam cases should annotate Form 3198, Special Handling Notice for Examination Case Processing, indicating which start date to use. This will be the date the tax liability was fully paid.

Example: An employee pays the tax liability on April 15, 2019 for his 2018 return. The employer files Form 4669, Statement of Payments Received, stating that the required tax has now been paid. The employer is only liable from the due date of the Form 941 on January 31, 2019 until the tax payment date of April 15, 2019. Therefore, a TC 299 or TC 309 will be input using April 15, 2019. Master File will only charge underpayment interest from February 1, 2019 until April 15, 2019.

- (5) On all amounts **not** subject to IRC 3402(d) abatement, interest is computed from the due date of the return until the date of assessment or payment, whichever is earlier. Interest continues until the liability is fully paid.
- (6) The above procedures apply only if the adjustment doesn't qualify for interest-free treatment under IRC 6205. If the adjustment does meet the requirements of IRC 6205, then no interest is charged.
- (7) See IRM 4.23.8.4, IRC 3402(d) - Relief for Employer when Employees have Paid Income Tax on Wages, for additional information.

20.2.10.5.5.4 (10-11-2016) Form 941-M, Employer's Monthly Federal Tax Return

- (1) For periods beginning after December 31, 2011, Form 941-M, Employer's MONTHLY Federal Tax Return, is no longer accepted due to the electronic filing requirement for deposits.
- (2) Form 941-M was developed for those taxpayers having difficulty filing quarterly returns. Although the forms had a monthly filing requirement, the actual due date for an employment tax return is **quarterly**. Manually computing and restricting interest was unnecessary, since all three months in a quarter were usually held and submitted with a dummy Form 941. Form 941-M could **not** be submitted for processing by itself.

20.2.10.5.6 (03-31-2025) Overpayments of FICA and RRTA Taxes

- (1) If the over collection and overpayment is discovered after the return is filed, the employer (after repaying or reimbursing the employee) may correct the overpayment of both the employer and the employee's share of the FICA tax or RRTA tax by filing an adjusted return for the period in which the error occurred. The overpayment will be applied as a credit to the current tax period. The adjusted return must be filed before the expiration of the period of limitations as described in IRC 6511. This "adjustment" is made **without** interest. See IRM 20.2.10.5.6(6).

- (2) An error is discovered when the employer has sufficient knowledge of the error to be able to correct it. See Treas. Reg. 31.6413(a)-2(a)(4).
 - (3) The adjusted return is made on the form that corresponds to the return being corrected. See Exhibit 20.2.10-1.
 - (4) If the employer elects to file a “claim for refund” instead of an adjusted return and apply the credit to the current tax period, overpayment interest is allowed from the later of the following dates, to the refund schedule date minus any applicable back-off period. See IRM 20.2.4.8, Refunds.
 - due date of the return (determined without regard to any extension of time for filing), for the period in which the overpayment occurred,
 - date the return is received in processible form (provided the processible date is after the due date, including any extension of time for filing),
 - delinquent return received date, meaning the return was received after its due date or extended due date,
 - payment received date or credit date. .
 - (5) When allowing overpayment interest on employment tax returns, take into consideration the special return due date rule. Form 941, Employer’s Quarterly Federal Tax Return, Form 943, Employer’s Annual Federal Tax Return for Agricultural Employees, Form 944, Employer’s Annual Federal Tax Return, and Form 945, Annual Return of Withheld Federal Income Tax, may be filed on or before the 10th day of the second calendar month following the end of the tax period, if timely deposits are made in full payment of the amount of tax reported. See Treas. Reg. 31.6071(a)-1(a)(1). These returns should not be considered **late filed**.
- Example:** An employer timely deposits the full amount of tax reported on the original Form 941 for the first quarter (in order for deposits to be timely they must be deposited on or before April 30th). The employer’s return is received for processing on May 9th. Based on the special return due date rule, the return is considered timely filed. Later, the employer, files a Form 941-X, Adjusted Employer’s Quarterly Federal Tax Return or Claim for Refund, as a “claim for refund” and because the original return was timely filed, overpayment interest was paid from April 30th, the normal return due date for the first quarter.
- (6) To file a claim for refund of an overpayment of FICA or RRTA tax, the employer must repay or reimburse the employee’s share of FICA or RRTA tax to the employee or secure the written consent of the employee for allowance of the refund or credit. However, if after reasonable efforts, the employer cannot locate the employee or the employee, once contacted, will not provide the requested consent, the employer is not required to repay or reimburse the employee. If the employer cannot locate the employee or if the employee, once contacted, will not provide the requested consent, the employer can file a claim **only** for the employer’s share of FICA or RRTA taxes.
 - (7) The claim for refund is made on the form that corresponds to the return being corrected (e.g., Form 941-X, Adjusted Employer’s Quarterly Federal Tax Return or Claim for Refund). See Exhibit 20.2.10-1.
 - (8) The regulations under IRC 6413 provide a 90-day rule under which an overpayment adjustment is **not** permitted if the adjusted return would be filed within

90 days of the expiration of the period of limitations. See Treas. Reg. 31.6413(a)-2(d)(2). The employer must choose the claim for refund option on the appropriate "X" form. See Exhibit 20.2.10-1.

20.2.10.5.7
(03-31-2025)
Employee and Employer Portion of FICA Tax or RRTA Tax Withheld

- (1) If an employee worked for two or more employers during a year, the employee may have had too much FICA or Tier 1 RRTA tax withheld. The employee can claim the excess FICA or Tier 1 RRTA tax as a credit against the employee's income tax on Form 1040, U.S. Individual Income tax Return.
- (2) If any one employer withheld too much FICA or Tier 1 RRTA tax, see Treasury Regulation 31.6402(a)-2(b). If the employer does not adjust the over collection, the employee can file a claim for refund using Form 843, Claim for Refund and Request for Abatement. See IRM 21.7.2.4.4.1, Refund or Credit of Employer's Portion of FICA.

Note: Overpayment interest on a FICA tax or Tier 1 RRTA overpayment issued to an individual employee is to be paid at the non-corporate rate, regardless of whether or not the overpayment is posted to the Form 941, Employer's Quarterly Federal Tax Return, Form CT-1, Employer's Annual Railroad Retirement Tax Return, account or Form 1040, U.S. Individual Income Tax Return, account. If the employer is not a corporate entity, then interest on the employer portion of the refund is paid at the non-corporate interest rate. See IRM 21.7.2.4.4.2, Excess Social Security and Medicare Tax Withheld - Employee Claims for Refund, for procedures on processing these claims.

- (3) If a non-resident alien receives a refund of erroneously withheld FICA taxes (e.g., students arriving on F, J or M visas who may be exempt from paying FICA taxes), refer to IRM 21.8.1, IMF International Adjustments, IRM 21.8.2, BMF International Adjustments, or IRM 21.7.12, Non-Master File (NMF) Adjustments. IRS is required to withhold taxes from the employer computed at the applicable treaty rate prior to issuing a refund to a non-resident alien. The net interest amount, if any, is refunded at the non-corporate rate. See IRM 21.8.2.7.3, Processing Employee Claims, for adjustment procedures, and IRM 21.8.2.7.4, Claims from Employer.
- (4) Although Form 843, Claim For Refund and Request for Abatement, continues to be used for other purposes (e.g., claims for interest and penalties), it can no longer be used by employers to claim refunds of employment taxes or Tier 1 RRTA.

20.2.10.5.8
(03-31-2025)
COVID-19 Relief Provisions 2020 - Deferred Payment of Social Security Taxes

- (1) The following COVID-19 related relief provisions allowed all employers to defer some deposits and payment of Social Security and Tier 1 Railroad Retirement Taxes otherwise due for 2020.
 - Section 2302 of P.L. 116-136, Coronavirus Aid, Relief and Economic Security, (CARES) Act, allowed **all employers** to defer the deposit and payment of the **employer's** portion of social security and certain railroad retirement taxes. See IRM 21.7.2.8.1, Deferred Payment of Employer's Share of Social Security Taxes for 2020, for full details.

Note: The deferred amount of the employer's share of social security tax is a deferral of deposits and **not** a deferral of liability.

- Notice 2020-65 (see IRB 2020-38 issued after a related Presidential Memorandum was signed on August 8, 2020, provided additional guidance which provided employers the **option** to defer the withholding and payment of **employee's** share of social security taxes on certain wages paid to employees until the period beginning on January 1, 2021, and ending on April 30, 2021.
- Subsequently, the Consolidated Appropriations Act 2021 signed into law December 27, extended the period that the deferred taxes are withheld and paid ratably. The extension period is now for the entire year – from January 1, 2021, through December 31, 2021. *Notice 2021-11* made changes to Notice 2020-65 (see IRB 2020-38) to reflect the extended deferral period.

- (2) See IRM 21.7.2.7.6, COVID-19 Related Employment Tax Relief and Forms 941-XX, for detailed information.

Note: The guidance provided in IRM 21.7.2.7.6, COVID-19 Related Employment Tax Relief and Forms 941-XX, does not address a number of known future issues, that will be required once the first deferral payment due date passes on December 31, 2021 (e.g., manual partial step-downs of new and revised deferral requests). These matters and others will be addressed later with subsequent procedural enhancements and revisions.

20.2.10.5.8.1
(03-31-2025)
**Systemic Underpayment
Interest Processing**

- (1) To avoid the posting of interest and penalties during a deferred period, Master File has been programmed to post TC 766 with credit reference number (CRN) 280 to affected employment tax modules. The TC 766 CRN 280 is later reversed in part or in full as of the appropriate due date for making the deferred payment. See IRM 21.7.2.8.3, Credit Reference Number (CRN) 280, Computer Maximum Deferral Figure, UPC 306-3, and Reason Code 195, for additional information.
- (2) CRN 280 amounts are not to be misconstrued as refundable credits. Rather, CRN 280 amounts are a “false” credit used solely for the purpose of “masking” balance due amounts arising because of the deferred payments. The amounts are “masked” **until** the earlier of the date payment is made or the due date for making the deferred payments.
- (3) For deferred payment administration purposes, deposits and payments will generally be considered as being applied in the following order:
1. first to non-deferred taxes, then to
 2. outstanding amounts of penalties and interest, then to
 3. deferred employee's share of social security tax, then to
 4. employer's share of social security taxes

20.2.10.5.8.2
(03-31-2025)
**Underpayment Interest -
Manual calculation**

- (1) Section 2302(a)(2) of the CARES Act provides that deposits of the employer's share of Social Security tax or Tier 1 railroad retirement taxes that would otherwise be required to be made during the payroll deferral period may be deferred until the “applicable” date. See IRM 21.7.2.7, COVID-19 Related Employment Tax Relief, for additional information. The “applicable” dates for deposits are:
- December 31, 2021, 50 percent of the eligible deferred amount.
 - December 31, 2022, the remaining 50 percent.

Note: The unpaid **employee** share of social security tax is due on December 31, 2021.

- (2) The amounts of unpaid social security taxes can be located using IDRS Command Code BMFOL with definer “M” which currently displays three field values with regards to unpaid amounts of deferred social security taxes:
 - “UNPAID EMPLOYEE SHARE OF SS TAX DUE BY 12/31/2021”
 - “UNPAID DEFERRED SOCIAL SECURITY TAX DUE BY 12/31/2021”
 - “UNPAID DEFERRED SOCIAL SECURITY TAX DUE BY 12/31/2022”

Note: If any COVID-19 deferral activity occurred on the account, special attention and analysis should be performed to ensure the account is accurate.

- (3) If the employer does not fully pay taxes that were deferred by December 31, 2021, applicable interest, penalties, and additions to tax will begin to accrue on the unpaid amounts on January 1, 2022. For underpayment interest, see IRM 20.2.5, Interest on Underpayments.

20.2.10.5.9 (03-31-2025) Trust Fund Recovery Penalty (TFRP)

- (1) The Trust Fund Recovery Penalty (TFRP) is a penalty assessed under IRC 6672 on any person required to collect, account for, and pay over taxes held in trust who willfully attempts to evade or defeat any such tax or the payment of such tax. See IRM 8.25.1, Trust Fund Recovery Penalty (TFRP) Overview and Authority, and IRM 5.19.14, Trust Fund Recovery Penalty (TFRP). The trust fund recovery penalty (TFRP) was created to encourage prompt payment of trust fund taxes (IRC 7501) and to ensure ultimate collection of such taxes from a secondary source in any event. This includes payment of employment taxes (income tax withholding, social security taxes, Medicare taxes, or railroad retirement taxes), or collected excise taxes. The employer or collector holds withholdings or collections in trust for the United States until they are paid (usually by making Federal tax deposits) regardless of whether any funds were placed in a segregated account or were simply part of a general account. See IRM 5.17.8.26, Trustee’s Power to Avoid Preferences. This penalty is imposed when trust fund taxes cannot be immediately collected from the employer or collector. See IRC 6672. The following is suggested to make it clear that tracing rules don’t apply; see *Begier v. IRS*, 496 U.S. 53 (1990).
- (2) The TFRP is assessed on MFT 55 and posts as a Transaction Code (TC) 240, Reference Number 618. Any abatements of this penalty will post to the module with a TC 241, Reference Number 618, and will carry the same 23C date as the TC 240.
- (3) Credits posting to the module with a TC 241, Reference Number 697 or 699 are based on actual payments made on a related account.
- (4) Payments may also be posted with TC 670, 680 or 70X.

20.2.10.5.9.1 (10-11-2016) Interest on TFRP

- (1) Since the TFRP itself is not an employment tax, underpayment interest on the TFRP is charged from the 23C date of the TC 240, Reference Number 618, until paid in full.
- (2) Underpayment and overpayment interest is computed at the rates established under IRC 6621.

Note: Master File is capable of making the correct interest calculation under most circumstances. Do not unnecessarily restrict the module.

20.2.10.5.10
(10-11-2016)

**Foreign Affiliates of
Domestic Corporations**

- (1) Domestic corporations that employ U.S. citizens or residents in their foreign affiliates may enter into agreements under IRC 3121(l) whereby FICA coverage is extended to those citizens or residents. Under these agreements, the corporations pay the amounts equivalent to FICA taxes imposed by IRC 3101 and IRC 3111. Whether the amount is overpaid or underpaid, adjustments are **without** interest.
- (2) **Special Rule for Overpayment Not “Adjusted”** - A domestic corporation may file a claim for refund of any overpayment made under an agreement under IRC 3121(l). The law provides a special two-year limit from the date of the overpayment for claiming such a refund. The claim must be plainly marked “Claim under IRC 3121(l)” on the applicable amended form. See Exhibit 20.2.10-1. Adjustment documents for such overpayments should bear a similar notation.

20.2.10.5.11
(03-31-2025)

COBRA Benefits

- (1) The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) provides an employee the right to elect to continue paying health care premiums to their employer when due to a “qualifying event” the employee has lost coverage under the employer’s group health plan. A federal subsidy of 65% if the COBRA premium is available to assist in paying the premium for eligible individuals for up to 15 months. Employers are allowed a credit against their employment tax for the amount of premium assistance provided to the employee.
- (2) The American Recovery and Reinvestment Act of 2009 (ARRA 2009), as modified by subsequent legislation, provided premium assistance for COBRA continuation coverage for certain individuals and their families (referred to as assistance eligible individuals) who lost health plan coverage due to an involuntary termination of employment during the period beginning September 1, 2008 and ending May 31, 2010.
- (3) ARRA 2009 (Pub. L. 111-5) provided federal subsidy of 65% of the COBRA premium to assist in paying the premium for eligible individuals for up to 15 months. Employers are allowed a credit against their employment tax for the amount of premium assistance provided to the employee.
 - a. The credit is reported on Form 941, Employer’s Quarterly Federal Tax Return, Form 943, Employer’s Annual Federal Tax Return for Agricultural Employees, or Form 944, Employer’s Annual Federal Tax Return, and is treated as a deposit made on the first day of the return period (year or quarter). Employers can apply the credit to offset their federal tax deposits, generate a refund, or both. If refunding, normal overpayment interest rules per IRC 6611 apply.
 - b. A COBRA premium assistance credit is input using credit reference number (CRN) 299 (which generates TC 766) and a credit effective date of the first day of the tax return period. If reversing or reducing the credit, the credit reference number is input as a negative (-) amount.
 - c. Recapture of COBRA credits is eligible for an interest-free adjustment per IRC 6205.

- (4) Section 9501 of the American Rescue Plan Act (ARP), (Pub. L. 117-2) provides a temporary 100 percent reduction in the premium otherwise payable by certain individuals and their families who elect COBRA continuation coverage through the Internal Revenue Code (Code), the Employee Retirement Income Security Act of 1974 (ERISA), or the Public Health Service Act (PHS Act) due to a loss of coverage as the result of a reduction in hours or an involuntary termination of employment between April 1, 2021 and September 30, 2021.
- (5) See IRM 21.7.2.7.3, COBRA Premium Assistance Credit - The American Rescue Plan Act of 2021 (ARP), for additional information.

20.2.10.5.12
(03-31-2025)
HIRE Benefits

- (1) HIRE (Hiring Incentives to Restore Employment Act of 2010) credit is no longer available (expired in 2011), consequently HIRE instructions have been removed from this IRM. See IRM 20.2.10.5.12.1 (08-01-2018 revision) for HIRE information.
- (2) In addition, see IRM 20.2.4.8.4, 180-Day Rule, for information regarding the interest-free processing period on any overpayment resulting from tax deducted and withheld under Chapter 3 (withholding of tax on non-resident aliens and foreign corporations) or Chapter 4 (taxes to enforce reporting on certain foreign accounts) of the Internal Revenue Code.

20.2.10.5.13
(03-31-2025)
**Form 5884-C, Work
Opportunity Tax Credit
for Qualified Tax-Exempt
Organizations Hiring
Qualified Veterans**

- (1) VOW to Hire Heroes Act of 2011 expanded the work opportunity tax credit (WOTC) to businesses that hire and pay wages to certain eligible unemployed veterans who began work on or after November 22, 2011, Section 261(g) of the VOW to Hire Heroes Act (P.L. 112-56). Qualified tax-exempt organizations (organizations described in **IRC 501(c)** and exempt from tax under **IRC 501(a)**) claim this credit against the employer portion of social security tax on wages paid to all employees during the one year period beginning on the day a qualified veteran begins working for the organization.
- (2) Subsequent legislation has extended the WOTC to include all targeted group members as well as qualified veterans who begin work for the organization on or before December 31, 2025.
- (3) Qualified tax-exempt organizations use Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans. The credit is reported on Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans, to claim the work opportunity credit for qualified first-year wages paid to qualified veterans. The organization files Form 5884-C after it files its employment tax return for the employment tax period for which it is claiming the credit. Form 5884-C is filed separately from any other returns, and the credit cannot be claimed on an original or amended employment tax return or an adjusted employment tax return.

Note: The credit claimed on Form 5884-C does not affect the tax liability reported on the organization's employment tax returns.

- (4) CRN 290 is used to adjust the WOTC claimed on Form 5884-C. Use a negative (-) when decreasing the credit. However, by law, this credit is **NOT** a refundable credit.

- (5) **Overpayment interest:** For purposes of calculating any applicable overpayment interest a CRN 290 credit is considered to be available as of the return due date for the tax period for which the Form 5884-C was filed.

Note: The 45-day interest rule for claims and amended returns applies to Form 5884-C claiming (or increasing) a CRN 290 credit. See IRM 20.2.4.8.3.3, 45-Day Rule and IRS Initiated Adjustments, for more information, including instructions for inputting the date the processable claim was received by the IRS as the Amended Claims Date on ADJ54.

- (6) **Underpayment interest:** The credit is applied against the employer's share of the social security tax liability using the first day of the tax period for which the Form 5884-C was filed. However, for purposes of calculating underpayment interest the credit is available on the normal return due date of the tax period for which the Form 5884-C was filed.

- (7) See IRM 21.7.2.5.15, Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans, and Form 5884-D, Employee Retention Credit for Certain Tax-Exempt Organizations Affected by Qualified Disasters, for more information. Interest on

20.2.10.6
(10-11-2016)
**Federal Unemployment
Tax**

- (1) IRC 3302(a) provides for allowing a credit against the tax imposed by IRC 3301 for the amount of contributions paid by the employer into a state unemployment fund in any taxable year. An additional credit is also allowed under IRC 3302(b).
- (2) Credits allowed under IRC 3302, to the extent not previously allowed, are considered an overpayment.
- (3) No interest is allowed or paid on such an overpayment. See IRC 6413(d).
- (4) When the taxpayer reduces tax as a result of an increase in state credits, input TC 770 with a zero amount.
- (5) Returns for prior periods reporting FUTA tax cannot be adjusted interest-free. IRC 6205 and IRC 6413(a) do **not** apply to FUTA tax.

Interest on Estate, Excise, Employment, and Foreign Taxes 20.2.10

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Exhibit 20.2.10-1 (03-31-2025)

Which Form to File

If the return originally filed was	To make corrections, the employer (payer) will file
Form 940, Annual Federal Unemployment Tax Act (FUTA) Tax Return	Form 940, Annual Federal Unemployment Tax Act (FUTA) Tax Return (check box "amended" under Type of Return).
Form 941, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund, or Form 941-SS, Employer's Quarterly Federal Tax Return - American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands. Note: Form 941-SS is no longer available to file for quarters beginning after December 31, 2023.	Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund.
Form 943, Employer's Annual Federal Tax Return for Agricultural Employees	Form 943-X, Adjusted Employer's Annual Tax Return for Agricultural Employees or Claim for Refund.
Form 944, Employer's Annual Federal Tax Return	Form 944-X, Adjusted Employer's ANNUAL Federal Tax Return or Claim for Refund.
Form 945, Annual Return of Withheld Federal Income Tax	Form 945-X, Adjusted Annual Return of Withheld Federal Income Tax or Claim for Refund.
Form 941-PR, Employer's Quarterly Federal Tax Return (Puerto Rico Version) Note: Beginning Tax year 2024 (1st quarter) Form 941 replaces Form, 941-PR.	Form 941-X (PR), Ajuste a la Declaración Federal TRIMESTRAL del Patrono o Reclamo de Reembolso. Note: Beginning Tax Year 2024 (first quarter) Form 941-X replaces Form 941-X(PR).
Form 943-PR, Employer's Quarterly Federal Tax Return (Puerto Rico Version) Note: Beginning Tax year 2023, Form 943 replaces Form 943-PR.	Form 943-X (PR), Ajuste a la Declaración Federal Anual del Patrono de Empleados Agrícolas o Reclamo de. Note: Beginning Tax year 2023, Form 943-X replaces Form, 943-PR.
Form 944-(sp), Employer's Annual Federal Tax Return (Spanish Version)	Form 944-X (sp), Ajuste a la Declaración Federal Anual de Impuestos del Patrono o Reclamo de Reembolso.
Form CT-1, Employer's Annual Railroad Retirement Tax Return or Claim for Refund	Form CT-1X, Adjusted Employer's Annual Railroad Retirement Tax Return or Claim for Refund.

