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PART 301—PROCEDURE AND ADMINISTRATION

Information and Returns

RETURNS AND RECORDS

RECORDS, STATEMENTS, AND SPECIAL RETURNS

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301.7701(b)–4 Residency time periods.
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301.7701(b)–6 Taxable year.
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301.7701(i)–0 Outline of taxable mortgage pool provisions.
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301.9100–5T Time and manner of making certain elections under the Tax Equity and Fiscal Responsibility Act of 1982.
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301.9100–20T Election to treat certain distributions as made on the last day of the taxable year.
301.9100–21 References to other temporary elections under various tax acts.
301.9100–22 Time, form, and manner of making the election under section 1101(g)(4) of the Bipartisan Budget Act of 2015 for returns filed for partnership taxable years beginning after November 2, 2015 and before January 1, 2018.

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Section 301.1474–1 also issued under 26 U.S.C. 1474(f).

Section 301.6011–2 also issued under 26 U.S.C. 6011(e).

Section 301.6011–3 also issued under 26 U.S.C. 6011.

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Section 301.6011–6 also issued under 26 U.S.C. 6011(a).

Section 301.6011–7 also issued under 26 U.S.C. 6011(e).

Section 301.6033–4 also issued under 26 U.S.C. 6033.

Section 301.6036–1 also issued under 26 U.S.C. 6036.

Section 301.6037–2 also issued under 26 U.S.C. 6037.

Section 301.6039E–1 also issued under 26 U.S.C. 6039E.

Section 301.6050M–1 also issued under 26 U.S.C. 6050M.

Section 301.6061–1 also issued under 26 U.S.C. 6061.

Section 301.6081–2 also issued under 26 U.S.C. 6081(a).

Section 301.6103(c)–1 also issued under 26 U.S.C. 6103(c).

Section 301.6103(h)(4)–1 also issued under 26 U.S.C. 6103(h)(4) and 26 U.S.C. 6103(q).

Section 301.6103(j)(1)–1 also issued under 26 U.S.C. 6103(j)(1).

Section 301.6103(j)(1)–1T also issued under 26 U.S.C. 6103(j)(1);

Section 301.6103(j)(5)–1 also issued under 26 U.S.C. 6103(j)(5).

Section 301.6103(k)(6)–1 also issued under 26 U.S.C. 6103(k)(6);

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Section 301.6103(l)(14)–1 also issued under 26 U.S.C. 6103(l)(14).

Section 301.6103(l)(21)–(1) also issued under 26 U.S.C. 6103(l)(21) and 6103(q).

Section 301.6103(m)–1 also issued under 26 U.S.C. 6103(q).

Section 301.6103(n)–1 also issued under 26 U.S.C. 6103(n).

Section 301.6103(n)–2 also issued under 26 U.S.C. 6103(n).

Section 301.6103(n)–2 also issued under 26 U.S.C. 6103(q).

Section 301.6103(p)(2)(B)–1 also issued under 26 U.S.C. 6103(p)(2).

Section 301.6103(p)(2)(B)–1T also issued under 26 U.S.C. 6103(p)(2).

Sections 301.6103(p)(4)–1 and 301.6103(p)(7)–1T also issued under 26 U.S.C. 6103(p)(4) and (7) and (q),

Section 301.6104(a)–6(d) is also issued under 5 U.S.C. 552.

Section 301.6104(b)–1(d)(4) is also issued under 5 U.S.C. 552.

Section 301.6104(d)–1(d)(3)(i) is also issued under 5 U.S.C. 552.

Section 301.6104(d)–2 also issued under 26 U.S.C. 6104(d)(3).

Section 301.6104(d)–3 also issued under 26 U.S.C. 6104(d)(3).

Section 301.6104(d)–4 also issued under 26 U.S.C. 6104(e)(3).

Section 301.6104(d)–5 also issued under 26 U.S.C. 6104(e)(3).

Section 301.6109–1 also issued under 26 U.S.C. 6109 (a), (c), and (d).

Section 301.6109–3 also issued under 26 U.S.C. 6109.

Section 301.6111–1T also issued under 26 U.S.C. 6111.

Section 301.6111–2T also issued under 26 U.S.C. 6111(f)(4).

Section 301.6111–3 also issued under 26 U.S.C. 6111.

Section 301.6111–3T also issued under 26 U.S.C. 6111.

Section 301.6112–1T also issued under 26 U.S.C. 6112.

Section 301.6114–1 also issued under 26 U.S.C. 6114.

Section 301.6221(a)–1 also issued under 26 U.S.C. 6221.

Section 301.6222–1 also issued under 26 U.S.C. 6222 and 6223.

Section 301.6222(a)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6222(a)–2T also issued under 26 U.S.C. 6230(k).

Section 301.6222(b)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6222(b)–2T also issued under 26 U.S.C. 6230(k).

Section 301.6222(b)–3T also issued under 26 U.S.C. 6230 (i) and (k).

Section 301.6223(a)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6223(a)–2T also issued under 26 U.S.C. 6230(k).

Section 301.6223(b)–1T also issued under 26 U.S.C. 6230 (i) and (k).

Section 301.6223(b)–2T also issued under 26 U.S.C. 6230(k).

Section 301.6223(c)–1T also issued under 26 U.S.C. 6223(c) and 6230 (i) and (k).

Section 301.6223(e)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6223(e)–2T also issued under 26 U.S.C. 6230 (i) and (k).

Section 301.6223(f)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6223(g)–1T also issued under 26 U.S.C. 6223(g) and 6230 (i) and (k).

Section 301.6223(h)–1T also issued under 26 U.S.C. 6230 (i) and (k).

Section 301.6224(a)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6224(b)–1T also issued under 26 U.S.C. 6230 (i) and (k).

Section 301.6224(c)–1T also issued under 26 U.S.C. 6230 (i) and (k).

Section 301.6224(c)–2T also issued under 26 U.S.C. 6230(k).

Section 301.6224(c)–3T also issued under 26 U.S.C. 6230 (i) and (k).

Section 301.6225–1 also issued under 26 U.S.C. 6225.

Section 301.6225–2 also issued under 26 U.S.C. 6223 and 6225.

Section 301.6225–3 also issued under 26 U.S.C. 6225.

Section 301.6226–1 also issued under 26 U.S.C. 6223 and 6226.

Section 301.6226–2 also issued under 26 U.S.C. 6226.

Section 301.6226–3 also issued under 26 U.S.C. 6226.

Section 301.6226(a)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6226(b)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6226(e)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6226(f)–1T also issued under 26 U.S.C. C. 6230(k).

Section 301.6227–1 also issued under 26 U.S.C. 6223 and 6227.

Section 301.6227–2 also issued under 26 U.S.C. 6227.

Section 301.6227–3 also issued under 26 U.S.C. 6227.

Section 301.6229(c)(2)–1 is also issued under 26 U.S.C. 6230(k).

Section 301.6229(c)(2)–1T also issued under 26 U.S.C. §6230(k).

Section 301.6231–1 also issued under 26 U.S.C. 6231.

Section 301.6231(a)(6)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6231(a)(7)–1 also issued under 26 U.S.C. 6230 (i) and (k).

Section 301.6231(a)(7)–2 also issued under 26 U.S.C. 6230 (i) and (k).

Section 301.6231(a)(12)–1T also issued under 26 U.S.C. 6230(k) and 6231(a)(12).

Section 301.6231(c)–1 also issued under 26 U.S.C. 6231(c)(1) and (3).

Section 301.6231(c)–2 also issued under 26 U.S.C. 6231(c)(1) and (3).

Section 301.6231(c)–3T also issued under 26 U.S.C. 6230(k) and 6231(c).

Section 301.6231(c)–4T also issued under 26 U.S.C. 6230(k) and 6231(c).

Section 301.6231(c)–5T also issued under 26 U.S.C. 6230(k) and 6231(c).

Section 301.6231(c)–6T also issued under 26 U.S.C. 6230(k) and 6231(c).

Section 301.6231(c)–7T also issued under 26 U.S.C. 6230(k) and 6231(c).

Section 301.6231(c)–8T also issued under 26 U.S.C. 6230(k) and 6231(c).

Section 301.6231(d)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6231(e)–1T also issued under 26 U.S.C. 6230(k).

Section 301.6231(e)–2T also issued under 26 U.S.C. 6230(k).

Section 301.6231(f)–1T also issued under 26 U.S.C. 6230 (i) and (k) and 6231(f).

Section 301.6232–1 also issued under 26 U.S.C. 6232.

Section 301.6233–1T also issued under 26 U.S.C. 6230(k) and 6233.

Section 301.6233(a)–1 also issued under 26 U.S.C. 6233.

Section 301.6233(b)–1 also issued under 26 U.S.C. 6233.

Section 301.6234–1 also issued under 26 U.S.C. 6234.

Section 301.6235–1 also issued under 26 U.S.C. 6235.

Section 301.6241–1 also issued under 26 U.S.C. 6241.

Section 301.6241–2 also issued under 26 U.S.C. 6241.

Section 301.6241–3 also issued under 26 U.S.C. 6241.

Section 301.6241–4 also issued under 26 U.S.C. 6241.

Section 301.6241–5 also issued under 26 U.S.C. 6241.

Section 301.6241–6 also issued under 26 U.S.C. 6241.

Section 301.6311–2 also issued under 26 U.S.C. 6311.

Section 301.6323(f)–(1)(c) also issued under 26 U.S.C. 6323(f)(3).

Section 301.6325–1T also issued under 26 U.S.C. 6326.

Section 301.6343–1 also issued under 26 U.S.C. 6343.

Section 301.6343–2 also issued under 26 U.S.C. 6343.

Section 301.6402–2(g) also issued under 26 U.S.C. 6402(n).

Section 301.6402–3 also issued under 95 Stat. 357 amending 88 Stat. 2351.

Section 301.6402–7 also issued under 26 U.S.C. 6402(i) and 6411(c).

Section 301.6404–2 also issued under 26 U.S.C. 6404.

Section 301.6404–3 also issued under 26 U.S.C. 6404(f)(3).

Section 301.6621–1 also issued under 26 U.S.C. 6230(k).

Section 301.6689–1 also issued under 26 U.S.C. 6689(a), 26 U.S.C. 6227(d), and 26 U.S.C. 6241(11).

Section 301.6689–1T also issued under 26 U.S.C. 6689(a).

Section 301.6708–1 also issued under 26 U.S.C. 6708

Section 301.7216–2, paragraphs (o) and (p) also issued under 26 U.S.C. 7216(b)(3).

Section 301.7502–1 also issued under 26 U.S.C. 7502.

Section 301.7502–2 also issued under 26 U.S.C. 7502.

Section 301.7507–1 also issued under 26 U.S.C. 597.

Section 301.7507–9 also issued under 26 U.S.C. 597.

Section 301.7508–1 also issued under 26 U.S.C. 7508(a)(1)(K).

Section 301.7508A-1 also issued under 26 U.S.C. 7508(a)(1)(K) and 7508A(a).

Section 301.7605–1 also issued under section 6228(b) of the Technical and Miscellaneous Revenue Act of 1988.

Sections 301.7623–1 through 301.7623–4 also issued under 26 U.S.C. 7623.

Section 301.7624–1 also issued under 26 U.S.C. 7624.

Sections 301.7701(b)–1 through 301.7701(b)–9 also issued under 26 U.S.C. 7701(b)(11).

Section 301.7701(i)–1(g)(1) also issued under 26 U.S.C. 7701(i)(2)(D).

Section 301.7701(i)–4(b) also issued under 26 U.S.C. 7701(i)(3).

Section 301.7705–1 also issued under 26 U.S.C. 7705(h).

Section 301.7705–2 also issued under 26 U.S.C. 7705(h).

Section 301.9000–1 also issued under 5 U.S.C. 301 and 26 U.S.C. 6103(q) and 7804;

Section 301.9000–2 also issued under 5 U.S.C. 301 and 26 U.S.C. 6103(q) and 7804;

Section 301.9000–3 also issued under 5 U.S.C. 301 and 26 U.S.C. 6103(q) and 7804;

Section 301.9000–4 also issued under 5 U.S.C. 301 and 26 U.S.C. 6103(q) and 7804;

Section 301.9000–5 also issued under 5 U.S.C. 301 and 26 U.S.C. 6103(q) and 7804;

Section 301.9000–6 also issued under 5 U.S.C. 301 and 26 U.S.C. 6103(q) and 7804;

Section 301.9100–1T also issued under 26 U.S.C. 6081.

Section 301.9100–2T also issued under 26 U.S.C. 6081.

Section 301.9100–3T also issued under 26 U.S.C. 6081.

Section 301.9100–4T also issued under 26 U.S.C. 168(f)(8)(G).

Section 301.9100–7T also issued under 26 U.S.C. 42, 48, 56, 83, 141, 142, 143, 145, 147, 165, 168, 216, 263, 263A, 448, 453C, 468B, 469, 474, 585, 616, 617, 1059, 2632, 2652, 3121, 4982, 7701; and under the Tax Reform Act of 1986, 100 Stat. 2746, sections 203, 204, 243, 311, 646, 801, 806, 905, 1704, 1801, 1802, and 1804.

Section 301.9100–8 also issued under 26 U.S.C. 1(i)(7), 41(h), 42(b)(2)(A)(ii), 42(d)(3), 42(f)(1), 42(g)(3), 42(i)(2)(B), 42(j)(5)(B), 121(d)(9), 142(i)(2), 165(l), 168(b)(2), 219(g)(4), 245(a)(10), 263A(d)(1), 263A(d)(3)(B), 263A(h), 460(b)(3), 643(g)(2), 831(b)(2)(A), 835(a), 865(f), 865(g)(3), 865(h)(2), 904(g)(10), 2056(b)(7)(c)(ii), 2056A(d), 2523(f)(6)(B), 3127, and 7520(a); the Technical and Miscellaneous Revenue Act of 1988, 102 Stat. 3324, sections 1002(a)(23)(B), 1005(c)(11), 1006(d)(15), 1006(j)(1)(C), 1006(t)(18)(B), 1012(n)(3), 1014(c)(1), 1014(c)(2), 2004(j)(1), 2004(m)(5), 5012(e)(4), 6181(c)(2), and 6277; and under the Tax Reform Act of 1986, 100 Stat. 2746, section 905(a).

Sections 301.9100–9T, 301.9100–10T and 301.9100–11T also issued under 26 U.S.C. 1103 (g) and (h) and 6158(a).

Sections 301.9100–13T, 301.9100–14T and 301.9100–15T also issued under 26 U.S.C. 108(d)(8) and 1017(b)(3)(E).

Section 301.9100–16T also issued under 26 U.S.C. 463(d).

Section 301.9100–22T is also issued under section 1101(g)(4) of Public Law 114–74.

SOURCE: 32 FR 15241, Nov. 3, 1967, unless otherwise noted.

EDITORIAL NOTE: In the text of this part, integral section references are to sections of the Internal Revenue Code of 1954; decimal section references are to the Code of Federal Regulations.

References in the text to the ''Code'' are references to sections of the Internal Revenue Code of 1954.

Information and Returns

RETURNS AND RECORDS

RECORDS, STATEMENTS, AND SPECIAL RETURNS

§ 301.269B–1 Stapled foreign corporations.

In accordance with section 269B(a)(1), a stapled foreign corporation is subject to the same taxes that apply to a domestic corporation under title 26 of the Internal Revenue Code. For provisions concerning taxes other than income for which the stapled foreign corporation is liable, apply the same rules as set forth in § 1.269B–1(a) through (f)(1)(i), and (g) of this Chapter, except that references to *income tax* shall be replaced with the term *tax*. In addition, for purposes of collecting those taxes solely from the stapled foreign corporation, the term *tax* means any tax liability imposed on a domestic corporation under title 26 of the United States Code, including additions to tax, additional amounts, penalties, and interest related to that tax liability.

[T.D. 9216, 70 FR 43760, July 29, 2005]

§ 301.1474–1 Required use of magnetic media for financial institutions filing Form 1042–S or Form 8966.

(a) *Financial institutions filing certain information returns.* If a financial institution is required to file a Form 1042–S, ''Foreign Person's U.S. Source Income Subject to Withholding,'' (or such other form as the IRS may prescribe) under § 1.1474–1(d) of this chapter, the financial institution must file the information required by the applicable forms and schedules on magnetic media. Additionally, if a financial institution is required to file Form 8966, ''FATCA Report,'' (or such other form as the IRS may prescribe) to report certain information about U.S. accounts, substantial U.S. owners of foreign entities, or owner-documented FFIs as required under this chapter, the financial institution must file the

required information on magnetic media or other machine-readable form. Returns filed on magnetic media must be made in accordance with applicable regulations, revenue procedures, publications, forms, instructions, and the IRS.gov Internet site. In prescribing regulations, revenue procedures, publications, forms, and instructions, including those on the IRS.gov Internet site, the Commissioner may direct the type of magnetic media or other machine-readable form used for filing.

(b) *Waiver*. The Commissioner may grant waivers from the requirements of this section in cases of undue hardship. A request for waiver must be made in accordance with applicable revenue procedures or publications. The waiver also will be subject to such terms and conditions regarding the method of filing as may be prescribed by the Commissioner.

(c) *Failure to file*. If a financial institution fails to file a Form 1042–S or a Form 8966 on magnetic media when required to do so by this section, the financial institution is deemed to have failed to comply with the information reporting requirements under section 6721 of the Code. See section 6724(c) for failure to meet magnetic media requirements. In determining whether there is reasonable cause for failure to file the return, § 301.6651–1(c) and rules similar to the rules in § 301.6724–1(c)(3) (undue economic hardship related to filing information returns on magnetic media) will apply.

(d) *Meaning of terms*. The following definitions apply for purposes of this section—(1) *Magnetic media*. The term *magnetic media* means any magnetic media permitted under applicable regulations, revenue procedures, publications, forms, or instructions. These generally include magnetic tape, tape cartridge, and diskette, as well as other media, such as electronic filing, specifically permitted under the applicable regulations, revenue procedures, publications, forms, or instructions.

(2) *Financial institution*. The term *financial institution* has the meaning set forth in section 1471(d)(5) of the Code and the regulations thereunder.

(e) *Effective/applicability date*. This section applies to any Form 1042–S or Form 8966 (or any other form that the IRS may prescribe) filed with respect to calendar years ending after December 31, 2013.

[T.D. 9610, 78 FR 5994, Jan. 28, 2013, as amended by T.D. 9809, 82 FR 2192, Jan. 6, 2017]

§ 301.6001–1 Notice or regulations requiring records, statements, and special returns.

For provisions requiring records, statements, and special returns, see the regulations relating to the particular tax.

TAX RETURNS OR STATEMENTS

General Requirement

§ 301.6011–1 General requirement of return, statement or list.

(a) For provisions requiring returns, statements, or lists, see the regulations relating to the particular tax.

(b) The Internal Revenue Service may prescribe in forms, instructions, or other appropriate guidance the information or documentation required to be included with any return or any statement required to be made or other document required to be furnished under any provision of the internal revenue laws or regulations.

[T.D. 9040, 68 FR 4921, Jan. 31, 2003]

§ 301.6011–2 Required use of magnetic media.

(a) *Meaning of terms*. The following definitions apply for purposes of this section:

(1) *Magnetic media*. The term *magnetic media* means any media permitted under applicable regulations, revenue procedures or publications, or, in the case of returns filed with the Social Security Administration, Social Security Administration publications. These generally include magnetic tape, tape cartridge, and diskette, as well as other media (such as electronic filing) specifically permitted under the applicable regulations, procedures, or publications.

(2) *Machine-readable paper form*. The term ''machine-readable paper form'' means—

(i) Optical-scan paper form; or

(ii) Any other machine-readable paper form permitted under applicable

regulations, revenue procedures, or Social Security Administration publications.

(3) *Person*. The term ''person'' includes any person that is required to file a return that is described in paragraph (b) of this section. Thus, the term ''person'' includes the United States, a State, the District of Columbia, a foreign government, a political subdivision of a State or of a foreign government, or an international organization. In addition, in the case of an affiliated group of corporations filing a consolidated return, each member of the affiliated group is a separate person.

(b) *Returns required on magnetic media*. (1) If the use of Form 1042–S, 1094 series,1095–B, 1095–C, 1098, 1098–E, 1098–T, 1099 series, 5498 series, 8027, W-2G, or other form treated as a form specified in this paragraph (b)(1) is required by the applicable regulations or revenue procedures for the purpose of making an information return, the information required by the form must be submitted on magnetic media, except as otherwise provided in paragraph (c) of this section. Returns on magnetic media must be made in accordance with applicable revenue procedures or publications (see § 601.601(d)(2)(ii)(*b*) of this chapter). Pursuant to these procedures, the consent of the Commissioner of Internal Revenue (or other authorized officer or employee of the Internal Revenue Service) to a magnetic medium must be obtained by submitting Form 4419 (Application for Filing Information Returns Magnetically/Electronically) prior to submitting a return described in this paragraph (b)(1) on the magnetic medium.

(2) If the use of Form W-2 (Wage and Tax Statement), Form 499R-2/W-2PR (Withholding Statement (Puerto Rico)), Form W-2VI (U.S. Virgin Islands Wage and Tax Statement), Form W-2GU (Guam Wage and Tax Statement), Form W-2AS (American Samoa Wage and Tax Statement), or other form treated as a form specified in this paragraph (b)(2) is required for the purpose of making an information return, the information required by the form must be submitted on magnetic media, except as otherwise provided in paragraph (c) of this section. Returns described in this paragraph (b)(2) must be made in accordance with applicable Social Security Administration procedures or publications (which may be obtained from the local office of the Social Security Administration).

(3) The Commissioner may prescribe by revenue procedure that additional forms are treated, for purposes of this section, as forms specified in paragraph (b)(1) or (b)(2) of this section.

(c) *Exceptions*—(1) *Low-volume filers/250-threshold*—(i) *In general*. No person is required to file information returns on magnetic media unless the person is required to file 250 or more returns during the calendar year. Persons filing fewer than 250 returns during the calendar year may make the returns on the prescribed paper form, or, alternatively, such persons may make returns on magnetic media in accordance with paragraph (b) of this section.

(ii) *Machine-readable forms*. Returns made on a paper form under this paragraph (c)(1) shall be machine-readable if applicable revenue procedures provide for a machine-readable paper form.

(iii) *No aggregation*. Each type of information return described in paragraphs (b)(1) and (2) of this section is considered a separate return for purposes of this paragraph (c)(1). Therefore, the 250-threshold applies separately to each type of form required to be filed.

(iv) *Examples*. The provisions of paragraph (c)(1)(iii) of this section are illustrated by the following examples:

Example 1. For the calendar year ending December 31, 1998, Company X is required to file 200 returns on Form 1099–INT and 350 returns on Form 1099–MISC. Company X is not required to file Forms 1099–INT on magnetic media but is required to file Forms 1099–MISC on magnetic media.

Example 2. During the calendar year ending December 31, 1998, Company Y has 275 employees in Puerto Rico and 50 employees in American Samoa. Company Y is required to file Forms 499R–2/W-2PR on magnetic media but is not required to file Forms W-2AS on magnetic media.

Example 3. For the calendar year ending December 31, 1998, Company Z files 300 original returns on Form 1099–DIV and later files 70 corrected returns on Form 1099–DIV. Company Z is required to file the original returns on magnetic media. However, Company Z is not required to file the corrected returns on

magnetic media because the corrected returns fall under the 250-threshold. See § 301.6721–1(a)(2)(ii).

(2) *Waiver*. (i) The Commissioner may waive the requirements of this section if hardship is shown in a request for waiver filed in accordance with this paragraph (c)(2)(i). The principal factor in determining hardship will be the amount, if any, by which the cost of filing the information returns in accordance with this section exceeds the cost of filing the returns on other media. Notwithstanding the foregoing, if an employer is required to make a final return on Form 941, or a variation thereof, and expedited filing of Forms W-2, Forms 499R–2/W-2PR, Forms W-2VI, Forms W-2GU, or Form W-2AS is required, the unavailability of the specifications for magnetic media filing will be treated as creating a hardship (see § 31.6071(a)–1(a)(3)(ii) of this chapter). A request for waiver must be made in accordance with applicable revenue procedures or publications (see § 601.601(d)(2)(ii)(*b*) of this chapter). Pursuant to these procedures, a request for waiver should be filed at least 45 days before the due date of the information return in order for the Service to have adequate time to respond to the request for waiver. The waiver will specify the type of information return and the period to which it applies and will be subject to such terms and conditions regarding the method of reporting as may be prescribed by the Commissioner.

(ii) The Commissioner may prescribe rules that supplement the provisions of paragraph (c)(2)(i) of this section.

(d) *Paper form returns*. Returns submitted on paper forms (whether or not machine-readable) permitted under paragraph (c) of this section shall be in accordance with applicable Internal Revenue Service or Social Security Administration procedures.

(e) *Applicability of current procedures*. Until procedures are prescribed which further implement the mandatory filing on magnetic media provided by this section, a return to which this section applies shall be made in the manner and shall be subject to the requirements and conditions (including the requirement of applying for consent to the magnetic medium) prescribed in the regulations, revenue procedures and Social Security Administration publications relating to the filing of such return on magnetic media.

(f) *Failure to file*. If a person fails to file an information return on magnetic media when required to do so by this section, the person is deemed to have failed to file the return. In addition, if a person making returns on a paper form under paragraph (c) of this section fails to file a return on machine-readable paper form when required to do so by this section, the person is deemed to have failed to file the return. See sections 6652, 6693, and 6721 for penalties for failure to file certain returns. See also section 6724 and the regulations under section 6721 for the specific rules and limitations regarding the penalty imposed under section 6721 for failure to file on magnetic media.

(g) *Effective dates*. (1) Except as otherwise provided in paragraph (g)(2) or (3) of this section, this section applies to returns required to be filed after December 31, 1986.

(2) Paragraphs (a)(1), (b)(1), (b)(2), (c)(1)(i), (c)(1)(iii), (c)(1)(iv), (c)(2), (d), (e), and (f) of this section are effective for information returns required to be filed after December 31, 1996. For information returns required to be filed after December 31, 1989, and before January 1, 1997, see section 6011(e).

(3) This section applies to returns on Forms 1098-E, ''Student Loan Interest Statement,'' and 1098–T, ''Tuition Statement,'' filed after December 31, 2003.

[T.D. 8081, 51 FR 10348, Mar. 25, 1986, as amended by T.D. 8097, 51 FR 30352, Aug. 26, 1986; T.D. 8140, 52 FR 19137, May 21, 1987; T.D. 8636, 60 FR 66142, Dec. 21, 1995; T.D. 8772, 63 FR 35519, June 30, 1998; T.D. 8992, 67 FR 20907, Apr. 29, 2002; T.D. 9029, 67 FR 77687, Dec. 19, 2002; T.D. 9660, 79 FR 13231, Mar. 10, 2014; T.D. 9804, 81 FR 91768, Dec. 19, 2016; T.D. 9923, 85 FR 74047, Nov. 19, 2020]

§ 301.6011–3 Required use of magnetic media for partnership returns.

(a) *Partnership returns required on magnetic media*. If a partnership with more than 100 partners is required to file a partnership return pursuant to § 1.6031(a)–1 of this chapter, the information required by the applicable forms and schedules must be filed on magnetic media, except as otherwise

provided in paragraph (b) of this section. Returns filed on magnetic media must be made in accordance with applicable revenue procedures or publications. In prescribing revenue procedures or publications, the Commissioner may determine that partnerships will be required to use any one form of magnetic media filing. For example, the Commissioner may determine that partnerships with more than 100 partners must file their partnership returns electronically. In filing its return, a partnership must register to participate in the magnetic media filing program in the manner prescribed by the Internal Revenue Service in applicable revenue procedures or publications.

(b) *Waiver*. The Commissioner may waive the requirements of this section if hardship is shown in a request for waiver filed in accordance with this paragraph (b). A determination of hardship will be based upon all of the facts and circumstances. One factor in determining hardship will be the reasonableness of the incremental cost to the partnership of complying with the magnetic media filing requirements. Other factors, such as equipment breakdowns or destruction of magnetic media filing equipment, also may be considered. A request for waiver must be made in accordance with applicable revenue procedures or publications. The waiver will specify the type of partnership return and the period to which it applies. The waiver will also be subject to such terms and conditions regarding the method of filing as may be prescribed by the Commissioner.

(c) *Failure to file*. If a partnership fails to file a partnership return on magnetic media in the manner required and when required to do so by this section, the partnership will be deemed to have failed to file the return in the manner prescribed for purposes of the information return penalty under section 6721. See § 301.6724–1(c)(3) for rules regarding the waiver of penalties for undue economic hardship relating to filing returns on magnetic media.

(d) *Meaning of terms*. The following definitions apply for purposes of this section:

(1) *Magnetic media*. The term *magnetic media* means any magnetic media permitted under applicable regulations, revenue procedures, or publications. These generally include magnetic tape, tape cartridge, and diskette, as well as other media (such as electronic filing) specifically permitted under the applicable regulations, procedures, or publications.

(2) *Partnership*. The term *partnership* means a partnership as defined in § 1.761–1(a) of this chapter.

(3) *Partner*. The term *partner* means a member of a partnership as defined in section 7701(a)(2).

(4) *Partnership return*. The term *partnership return* means a form in Series 1065 (including Form 1065, U.S. Partnership Return of Income, and Form 1065–B, U.S. Return of Income for Electing Large Partnerships), along with the corresponding Schedules K–1 and all other related forms and schedules that are required to be attached to the Series 1065 form.

(5) *Partnerships with more than 100 partners*. A partnership has more than 100 partners if, over the course of the partnership's taxable year, the partnership had more than 100 partners, regardless of whether a partner was a partner for the entire year or whether the partnership had over 100 partners on any particular day in the year. For purposes of this paragraph (d)(5), however, only those persons having a direct interest in the partnership must be considered partners for purposes of determining the number of partners during the partnership's taxable year.

(e) *Examples*. The following examples illustrate the provisions of paragraph (d)(5) of this section. In the examples, the partnerships utilize the calendar year, and the taxable year in question is 2000:

Example 1. Partnership P had five general partners and 90 limited partners on January 1, 2000. On March 15, 2000, 10 more limited partners acquired an interest in P. On September 29, 2000, the 10 newest partners sold their individual partnership interests to C, a corporation which was one of the original 90 limited partners. On December 31, 2000, P had the same five general partners and 90 limited partners it had on January 1, 2000. P had a total of 105 partners over the course of partnership taxable year 2000. Therefore, P must

file its 2000 partnership return on magnetic media.

Example 2. Partnership Q is a general partnership that had 95 partners on January 1, 2000. On March 15, 2000, 10 partners sold their individual partnership interests to corporation D, which was not previously a partner in Q. On September 29, 2000, corporation D sold one-half of its partnership interest in equal shares to five individuals, who were not previously partners in Q. On December 31, 2000, Q had a total of 91 partners, and on no date in the year did Q have more than 100 partners. Over the course of the year, however, Q had 101 partners. Therefore, Q must file its 2000 partnership return on magnetic media.

Example 3. Partnership G is a general partnership with 100 partners on January 1, 2000. There are no new partners added to G in 2000. One of G's partners, A, is a partnership with 53 partners. A is one partner, regardless of the number of partners A has. Therefore, G has 100 partners and is not required to file its 2000 partnership return on magnetic media.

(f) *Effective date.* In general, this section applies to partnership returns for taxable years ending on or after December 31, 2000. However, electing large partnerships under section 775 and partnerships using foreign addresses on their Series 1065 forms are not required to file using magnetic media for taxable years ending before January 1, 2001.

[T.D. 8843, 64 FR 61503, Nov. 12, 1999]

§ 301.6011–5 Required use of magnetic media for corporate income tax returns.

(a) *Corporate income tax returns required on magnetic media*—(1) A corporation required to file a corporate income tax return on Form 1120, ''U.S. Corporation Income Tax Return,'' under § 1.6012–2 of this chapter must file its corporate income tax return on magnetic media if the corporation is required by the Internal Revenue Code or regulations to file at least 250 returns during the calendar year. Returns filed on magnetic media must be made in accordance with applicable revenue procedures, publications, forms, or instructions. In prescribing revenue procedures, publications, forms, or instructions, the Commissioner may direct the type of magnetic media filing. (See § 601.601(d)(2) of this chapter.)

(2) All members of a controlled group of corporations must file their corporate income tax returns on magnetic media if the aggregate number of returns required to be filed by the controlled group of corporations is at least 250.

(b) *Waiver.* The Commissioner may grant waivers of the requirements of this section in cases of undue hardship. A request for waiver must be made in accordance with applicable revenue procedures or publications. The waiver also will be subject to the terms and conditions regarding the method of filing as may be prescribed by the Commissioner.

(c) *Failure to file.* If a corporation fails to file a corporate income tax return on magnetic media when required to do so by this section, the corporation is deemed to have failed to file the return. (See section 6651 for the addition to tax for failure to file a return). In determining whether there is reasonable cause for failure to file the return, § 301.6651–1(c) and rules similar to the rules in § 301.6724–1(c)(3) (undue economic hardship related to filing information returns on magnetic media) will apply.

(d) *Meaning of terms.* The following definitions apply for purposes of this section:

(1) *Magnetic media.* The term *magnetic media* means any magnetic media permitted under applicable regulations, revenue procedures, or publications. These generally include magnetic tape, tape cartridge, and diskette, as well as other media, such as electronic filing, specifically permitted under the applicable regulations, procedures, publications, forms, or instructions. (See § 601.601(d)(2) of this chapter).

(2) *Corporation.* The term *corporation* means a corporation as defined in section 7701(a)(3).

(3) *Controlled group of corporations.* The term *controlled group of corporations* means a group of corporations as defined in section 1563(a).

(4) *Corporate income tax return.* The term *corporate income tax return* means a Form 1120, ''U.S. Corporation Income Tax Return,'' along with all other related forms, schedules, and statements that are required to be attached to the Form 1120, and all members of the Form 1120 series of returns, including amended and superseding returns.

(5) *Determination of 250 returns.* For purposes of this section, a corporation or controlled group of corporations is required to file at least 250 returns if, during the calendar year ending with or within the taxable year of the corporation or the controlled group, the corporation or the controlled group is required to file at least 250 returns of any type, including information returns (for example, Forms W–2, Forms 1099), income tax returns, employment tax returns, and excise tax returns. In the case of a short year return, a corporation is required to file at least 250 returns if, during the calendar year which includes the short taxable year of the corporation, the corporation is required to file at least 250 returns of any type, including information returns (for example, Forms W–2, Forms 1099), income tax returns, employment tax returns, and excise tax returns. If the corporation is a member of a controlled group, the determination of the number of returns includes all returns required to be filed by all members of the controlled group during the calendar year ending with or within the taxable year of the controlled group.

(e) *Example.* The following example illustrates the provisions of paragraph (d)(5) of this section:

Example. The taxable year of Corporation X, a fiscal year taxpayer with assets in excess of $10 million, ends on September 30. During the calendar year ending December 31, 2007, X was required to file one Form 1120, ''U.S. Corporation Income Tax Return,'' 100 Forms W–2, ''Wage and Tax Statement,'' 146 Forms 1099–DIV, ''Dividends and Distributions,'' one Form 940, ''Employer's Annual Federal Unemployment (FUTA) Tax Return,'' and four Forms 941, ''Employer's Quarterly Federal Tax Return.'' Because X is required to file 252 returns during the calendar year that ended within its taxable year ending September 30, 2008, X is required to file its Form 1120 electronically for its taxable year ending September 30, 2008.

(f) *Effective/applicability dates.* This section applies to corporate income tax returns for corporations that report total assets at the end of the corporation's taxable year that equal or exceed $10 million on Schedule L of their Form 1120, for taxable years ending on or after December 31, 2006, except for the application of the short year rules in paragraph (d)(5) of this section, which is applicable for taxable years ending on or after November 13, 2007.

[T.D. 9363, 72 FR 63811, Nov. 13, 2007]

§ 301.6011–6 Statement of series and series organizations [Reserved]

§ 301.6011–7 Specified tax return preparers required to file individual income tax returns using magnetic media.

(a) *Definitions.* (1) *Magnetic media.* For purposes of this section, the term *magnetic media* has the same meaning as in § 301.6011–2(a)(1).

(2) *Individual income tax return.* The term *individual income tax return* means any return of tax imposed by subtitle A on individuals, estates, and trusts.

(3) *Specified tax return preparer.* The term *specified tax return preparer* means any person who is a tax return preparer, as defined in section 7701(a)(36) and § 301.7701–15, unless that person reasonably expects to file 10 or fewer individual income tax returns in a calendar year. If a person who is a tax return preparer is a member of a firm, that person is a specified tax return preparer unless the person's firm members in the aggregate reasonably expect to file 10 or fewer individual income tax returns in a calendar year. Solely for the 2011 calendar year, a person will not be considered a specified tax return preparer if that person reasonably expects, or if the person is a member of a firm, the firm's members in the aggregate reasonably expect, to file fewer than 100 individual income tax returns in the 2011 calendar year. Solely for purposes of this section, a person is considered a member of a firm if the person is an employee, agent, member, partner, shareholder, or other equity holder of the firm.

(4) *File or Filed.* (i) For purposes of section 6011(e)(3) and these regulations only, an individual income tax return is considered to be ''filed'' by a tax return preparer or a specified tax return preparer if the preparer submits the individual income tax return to the IRS on the taxpayer's behalf, either electronically (by e-file or other magnetic media) or in non-electronic (paper) form. Submission of an individual income tax return by a tax return preparer or a specified tax return preparer

in non-electronic form includes the transmission, sending, mailing or otherwise delivering of the paper individual income tax return to the IRS by the preparer, any member, employee, or agent of the preparer, or any member, employee, or agent of the preparer's firm.

(ii) An individual income tax return will not be considered to be filed, as defined in paragraph (a)(4)(i) of this section, by a tax return preparer or specified tax return preparer if the tax return preparer or specified tax return preparer who prepared the return obtains, on or prior to the date the individual income tax return is filed, a hand-signed and dated statement from the taxpayer (by either spouse if a joint return) that states the taxpayer chooses to file the individual income tax return in paper format, and that the taxpayer, and not the preparer, will submit the paper individual income tax return to the IRS. The IRS may provide guidance through forms, instructions or other appropriate guidance regarding how tax return preparers and specified tax return preparers can document a taxpayer's choice to file an individual income tax return in paper format.

(iii) The rules contained in this section do not alter or affect a taxpayer's obligation to file returns under any other provision of law. The definition of *file* or *filed* by a tax return preparer or specified tax return preparer contained in paragraph (a)(4)(i) of this section applies only for the purposes of section 6011(e)(3) and these regulations and does not apply for any other purpose under any other provision of law.

(b) *Magnetic media filing requirement.* Except as provided in paragraphs (a)(4)(ii) and (c) of this section, any individual income tax return prepared by a specified tax return preparer in a calendar year must be filed on magnetic media if the return is filed by the specified tax return preparer.

(c) *Exclusions.* The following exclusions apply to the magnetic media filing requirement in this section:

(1) *Undue hardship waiver.* The IRS may grant a waiver of the requirement of this section in cases of undue hardship. An undue hardship waiver may be granted upon application by a specified tax return preparer consistent with instructions provided in published guidance and as prescribed in relevant forms and instructions. A determination of undue hardship will be based upon all facts and circumstances. The undue hardship waiver provided to a specified tax return preparer may apply to a series or class of individual income tax returns or for a specified period of time, subject to the terms and conditions regarding the method of filing prescribed in such waiver.

(2) *Administrative exemptions.* The IRS may provide administrative exemptions from the requirement of this section for certain classes of specified tax return preparers, or regarding certain types of individual income tax returns, as the IRS determines necessary to promote effective and efficient tax administration. The IRS may provide administrative exemptions and any criteria or procedures necessary to claim an administrative exemption through forms, instructions, or other appropriate guidance.

(d) *Reasonably expect to file*—(1) *In general.* The determination of whether a tax return preparer reasonably expects, or if the preparer is a member of a firm, the firm's members in the aggregate reasonably expect, to file 10 or fewer individual income tax returns (or, in the case of the 2011 calendar year, fewer than 100 individual income tax returns) is made by adding together all of the individual income tax returns the tax return preparer and, if the preparer is a member of a firm, the firm's members reasonably expect to prepare and file in the calendar year. In making this determination, individual income tax returns that the tax return preparer reasonably expects will not be subject to the magnetic media filing requirement under paragraph (a)(4)(ii) of this section or are excluded from the requirement under (c)(2) of this section are not to be counted. Individual income tax returns excluded from the magnetic media filing requirement under paragraph (c)(1) of this section are to be counted for purposes of making this determination.

(2) *Time for making determination of reasonable expectations.* The determination regarding reasonable expectations is made separately for each calendar

year in order to ascertain whether the magnetic media filing requirement applies to a tax return preparer for that year. For each calendar year, the determination of whether a tax return preparer and the preparer's firm reasonably expect to file 10 or fewer individual income tax returns (or, in the case of the 2011 calendar year, fewer than 100 individual income tax returns) is made based on all relevant, objective, and demonstrable facts and circumstances prior to the time the tax return preparer and the preparer's firm first file an individual income tax return during the calendar year.

(e) *Examples*. The following examples illustrate the rules of paragraphs (a) through (d) of this section.

Example 1. Tax Return Preparer A is an accountant who recently graduated from college with an accounting degree and has opened his own practice. A has not prepared individual income tax returns for compensation in the past and does not plan to focus his practice on individual income tax return preparation. A intends instead to focus his practice on providing specialized accounting services to certain health care service providers. A has no plans to, and does not, employ or engage any other tax return preparers. A estimates that he may be asked by some clients to prepare and file their individual income tax returns for compensation, but A expects that the number of people who do ask him to provide this service will be no more than seven in 2012. In fact, A actually prepares and files six paper Forms 1040 (U.S. Individual Income Tax Return) in 2012. Due to a growing client base, and based upon his experience in 2012, A expects that the number of individual income tax returns he will prepare and file in 2013 will at least double, estimating he will prepare and file 12 Form 1040 returns in 2013. A does not qualify as a specified tax return preparer for 2012 because A reasonably expects to file 10 or fewer returns (seven) in 2012. Consequently, A is not required to electronically file the individual income tax returns he prepares and files in 2012. A's expectation is reasonable based on his business projections, individual income tax return filing history, and staffing decisions. A is a specified tax return preparer in 2013, however, because based on those same factors A reasonably expects to file more than 10 individual income tax returns (12) during that calendar year. A, therefore, must electronically file all individual income tax returns that A prepares and files in 2013 that are not otherwise excluded from the electronic filing requirement.

Example 2. Same facts as in *Example 1*, except three of Tax Return Preparer A's clients specifically chose to have A prepare their individual income tax returns in paper format in 2012 with the clients mailing their respective returns to the IRS. A expects that these three clients will similarly choose to have him prepare their returns in paper format in 2013, with the clients being responsible for mailing their returns to the IRS. A is not required to electronically file these three returns in 2013 because the taxpayers chose to file their returns in paper format. A obtained a hand-signed and dated statement from each of those taxpayers, indicating that they chose to file their returns in paper format. These three individual income tax returns are not counted in determining how many individual income tax returns A reasonably expects to file in 2013. Because the total number of individual income tax returns A reasonably expects to file in 2013 (nine) does not exceed 10, A is not a specified tax return preparer for calendar year 2013, and A is not required to electronically file any individual income tax return that he prepares and files in 2013.

Example 3. Tax Return Preparer B is a solo general practice attorney in a small county. Her practice includes the preparation of wills and assisting executors in administering estates. As part of her practice, B infrequently prepares and files Forms 1041 (U.S. Income Tax Return for Estates and Trusts) for executors. In the past three years, she prepared and filed an average of five Forms 1041 each year and never exceeded more than seven Forms 1041 in any year. Based on B's prior experience and her estimate for 2012, made prior to the time she first files an individual income tax return in 2012, she reasonably expects to prepare and file no more than five Forms 1041 in 2012. Due to the unforeseen deaths of several of her clients in late 2011, B actually prepares and files 12 Forms 1041 in 2012. B does not find out about these deaths until after she has already filed the first Form 1041 in 2012 for another client. B is not required to electronically file these returns in 2012. She does not qualify as a specified tax return preparer for calendar year 2012 because prior to the time she filed the first Form 1041 in 2012, she reasonably expected to file 10 or fewer individual income tax returns in 2012.

Example 4. Same facts as *Example 3*, except, in addition to the five Forms 1041 that she expects to prepare and file in 2012, Tax Return Preparer B also expects to prepare and file 10 paper Forms 1040 (U.S. Individual Income Tax Return) in 2012, based upon the requests that she has received from some of her clients. Because the total number of individual income tax returns B reasonably expects to file in 2012 (fifteen) exceeds 10, B is a specified tax return preparer for calendar year 2012, and B must electronically file all individual income tax returns that B prepares and files in 2012 that are not otherwise

excluded from the electronic filing requirement.

Example 5. Firm X consists of two tax return preparers, Tax Return Preparer C who owns Firm X, and Tax Return Preparer D who is employed by C in Firm X. Based upon the firm's experience over the past three years, C and D reasonably expect to file nine and ten individual income tax returns for compensation, respectively, in 2012. Both C and D must electronically file the individual income tax returns that they prepare in 2012, unless the returns are otherwise excluded from the electronic filing requirement, because they are members of the same firm and the aggregated total of individual income tax returns that they reasonably expect to file in 2012 (nineteen), exceeds 10 individual income tax returns.

(f) *Additional guidance.* The IRS may implement the requirements of this section through additional guidance, including by revenue procedures, notices, publications, forms and instructions, including those issued electronically.

(g) *Effective/applicability date.* This section is effective on March 30, 2011, and applicable to individual income tax returns filed after December 31, 2010.

[T.D. 9518, 76 FR 17528, Mar. 30, 2011]

§ 301.6011(g)-1 Disclosure by taxable party to the tax-exempt entity.

(a) *Requirement of disclosure*—(1) *In general.* Except as provided in paragraph (d)(2) of this section, any taxable party (as defined in paragraph (c) of this section) to a prohibited tax shelter transaction (as defined in section 4965(e) and § 53.4965–3 of this chapter) must disclose by statement to each tax-exempt entity (as defined in section 4965(c) and § 53.4965–2 of this chapter) that the taxable party knows or has reason to know is a party to such transaction (as defined in paragraph (b) of this section) that the transaction is a prohibited tax shelter transaction.

(2) *Determining whether a taxable party knows or has reason to know.* Whether a taxable party knows or has reason to know that a tax-exempt entity is a party to a prohibited tax shelter transaction is based on all the facts and circumstances. If the taxable party knows or has reason to know that a prohibited tax shelter transaction involves a tax-exempt, tax indifferent or tax-favored entity, relevant factors for determining whether the taxable party knows or has reason to know that a specific tax-exempt entity is a party to the transaction include—

(i) The extent of the efforts made to determine whether a tax-exempt entity is facilitating the transaction by reason of its tax-exempt, tax indifferent or tax-favored status (or is identified in published guidance, by type, class or role, as a party to the transaction); and

(ii) If a tax-exempt entity is facilitating the transaction by reason of its tax-exempt, tax indifferent or tax-favored status (or is identified in published guidance, by type, class or role, as a party to the transaction), the extent of the efforts made to determine the identity of the tax-exempt entity.

(b) *Definition of tax-exempt party to a prohibited tax shelter transaction.* For purposes of section 6011(g), a tax-exempt entity is a party to a prohibited tax shelter transaction if the entity is defined as such under § 53.4965–4 of this chapter.

(c) *Definition of taxable party*—(1) *In general.* For purposes of this section, the term *taxable party* means—

(i) A person who has entered into and participates or expects to participate in the transaction under §§ 1.6011–4(c)(3)(i)(A), (B), or (C), 20.6011–4, 25.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter; or

(ii) A person who is designated as a taxable party by the Secretary in published guidance.

(2) *Special rules*—(i) *Certain listed transactions.* If a transaction that was otherwise not a prohibited tax shelter transaction becomes a listed transaction after the filing of a person's tax return (including an amended return) reflecting either tax consequences or a tax strategy described in the published guidance listing the transaction (or a tax benefit derived from tax consequences or a tax strategy described in the published guidance listing the transaction), the person is a taxable party beginning on the date the transaction is described as a listed transaction in published guidance.

(ii) *Persons designated as non-parties.* Published guidance may identify which persons, by type, class or role, will not be treated as a party to a prohibited

tax shelter transaction for purposes of section 6011(g).

(d) *Time for providing disclosure statement*—(1) *In general.* A taxable party to a prohibited tax shelter transaction must make the disclosure required by this section to each tax-exempt entity that the taxable party knows or has reason to know is a party to the transaction within 60 days after the last to occur of—

(i) The date the person becomes a taxable party to the transaction within the meaning of paragraph (c) of this section;

(ii) The date the taxable party knows or has reason to know that the tax-exempt entity is a party to the transaction within the meaning of paragraph (b) of this section; or

(iii) July 6, 2010.

(2) *Termination of a disclosure obligation.* A person shall not be required to provide the disclosure otherwise required by this section if the person does not know or have reason to know that the tax-exempt entity is a party to the transaction within the meaning of paragraph (b) of this section on or before the first date on which the transaction is required to be disclosed by the person under §§ 1.6011–4, 20.6011–4, 25.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter.

(3) Disclosure is not required with respect to any prohibited tax shelter transaction entered into by a tax-exempt entity on or before May 17, 2006.

(e) *Frequency of disclosure.* One disclosure statement is required per tax-exempt entity per transaction. See paragraph (h) of this section for rules relating to designation agreements.

(f) *Form and content of disclosure statement.* The statement disclosing to the tax-exempt entity that the transaction is a prohibited tax shelter transaction must be a written statement that—

(1) Identifies the type of prohibited tax shelter transaction (including the published guidance citation for a listed transaction); and

(2) States that the tax-exempt entity's involvement in the transaction may subject either it or its entity manager(s) or both to excise taxes under section 4965 and to disclosure obligations under section 6033(a) of the Internal Revenue Code.

(g) *To whom disclosure is made.* The disclosure statement must be provided—

(1) In the case of a non-plan entity as defined in § 53.4965–2(b) of this chapter, to—

(i) Any entity manager of the tax-exempt entity with authority or responsibility similar to that exercised by an officer, director or trustee of an organization; or

(ii) If a person described in paragraph (g)(1)(i) of this section is not known, to the primary contact on the transaction.

(2) In the case of a plan entity as defined in § 53.4965–2(c) of this chapter, including a fully self-directed qualified plan, IRA, or other savings arrangement, to any entity manager of the plan entity who approved or otherwise caused the entity to become a party to the prohibited tax shelter transaction.

(h) *Designation agreements.* If more than one taxable party is required to disclose a prohibited tax shelter transaction under this section, the taxable parties may designate by written agreement a single taxable party to disclose the transaction. The transaction must then be disclosed in accordance with this section. The designation of one taxable party to disclose the transaction does not relieve the other taxable parties of their obligation to disclose the transaction to a tax-exempt entity that is a party to the transaction in accordance with this section, if the designated taxable party fails to disclose the transaction to the tax-exempt entity in a timely manner.

(i) *Penalty for failure to provide disclosure statement.* See section 6707A for the penalty applicable to the failure to disclose a prohibited tax shelter transaction in accordance with this section.

(j) *Effective date/applicability date.* This section will apply with respect to transactions entered into by a tax-exempt entity after May 17, 2006.

[T.D. 9492, 75 FR 38709, July 6, 2010]

Income Tax Returns

§ 301.6012–1 Persons required to make returns of income.

For provisions with respect to persons required to make returns of income, see §§ 1.6012–1 to 1.6012–4, inclusive, of this chapter (Income Tax Regulations).

§ 301.6013–1 Joint returns of income tax by husband and wife.

For provisions with respect to joint returns of income tax by husband and wife, see §§ 1.6013–1 to 1.6013–7, inclusive, of this chapter (Income Tax Regulations).

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7670, 45 FR 6932, Jan. 31, 1980]

§ 301.6014–1 Income tax return—tax not computed by taxpayer.

For provisions relating to the election not to show on an income tax return the amount of tax due in connection therewith, see §§ 1.6014–1 and 1.6014–2 of this chapter (Income Tax Regulations).

[T.D. 7102, 36 FR 5498, Mar. 24, 1971]

§ 301.6015–1 Declaration of estimated income tax by individuals.

For provisions relating to requirements of declarations of estimated income tax by individuals, see §§ 1.6015 (a)–1 through 1.6015 (j)–1 of this chapter (Income Tax Regulations).

[T.D. 7427, 41 FR 34033, Aug. 12, 1976]

§ 301.6016–1 Declarations of estimated income tax by corporations.

For provisions concerning the requirement of declarations of estimated income tax by corporations, see §§ 1.6016–1 to 1.6016–4, inclusive, of this chapter (Income Tax Regulations).

§ 301.6017–1 Self-employment tax returns.

For provisions relating to the requirement of self-employment tax returns, see § 1.6017–1 of this chapter (Income Tax Regulations).

Estate and Gift Tax Returns

§ 301.6018–1 Estate tax returns.

For provisions relating to requirement of estate tax returns, see §§ 20.6018–1 to 20.6018–4, inclusive, of this chapter (Estate Tax Regulations).

§ 301.6019–1 Gift tax returns.

For provisions relating to requirement of gift tax returns, see §§ 25.6019–1 to 25.6019–4, inclusive, of this chapter (Gift Tax Regulations).

Miscellaneous Provisions

§ 301.6020–1 Returns prepared or executed by the Commissioner or other Internal Revenue Officers.

(a) *Preparation of returns*—(1) *In general.* If any person required by the Internal Revenue Code or by the regulations to make a return fails to make such return, it may be prepared by the Commissioner or other authorized Internal Revenue Officer or employee provided such person consents to disclose all information necessary for the preparation of such return. The return upon being signed by the person required to make it shall be received by the Commissioner as the return of such person.

(2) *Responsibility of person for whom return is prepared.* A person for whom a return is prepared in accordance with paragraph (a)(1) of this section shall for all legal purposes remain responsible for the correctness of the return to the same extent as if the return had been prepared by him.

(b) *Execution of returns*—(1) *In general.* If any person required by the Internal Revenue Code or by the regulations to make a return (other than a declaration of estimated tax required under section 6654 or 6655) fails to make such return at the time prescribed therefore, or makes, willfully or otherwise, a false, fraudulent or frivolous return, the Commissioner or other authorized Internal Revenue Officer or employee shall make such return from his own knowledge and from such information as he can obtain through testimony or otherwise. The Commissioner or other authorized Internal Revenue Officer or employee may make the return by gathering information and making

computations through electronic, automated or other means to make a determination of the taxpayer's tax liability.

(2) *Form of the return*. A document (or set of documents) signed by the Commissioner or other authorized Internal Revenue Officer or employee shall be a return for a person described in paragraph (b)(1) of this section if the document (or set of documents) identifies the taxpayer by name and taxpayer identification number, contains sufficient information from which to compute the taxpayer's tax liability, and purports to be a return. A Form 13496, ''IRC Section 6020(b) Certification,'' or any other form that an authorized Internal Revenue Officer or employee signs and uses to identify a set of documents containing the information set forth in this paragraph as a section 6020(b) return, and the documents identified, constitute a return under section 6020(b). A return may be signed by the name or title of an Internal Revenue Officer or employee being handwritten, stamped, typed, printed or otherwise mechanically affixed to the return, so long as that name or title was placed on the document to signify that the Internal Revenue Officer or employee adopted the document as a return for the taxpayer. The document and signature may be in written or electronic form.

(3) *Status of returns*. Any return made in accordance with paragraph (b)(1) of this section and signed by the Commissioner or other authorized Internal Revenue Officer or employee shall be good and sufficient for all legal purposes except insofar as any Federal statute expressly provides otherwise. Furthermore, the return shall be treated as the return filed by the taxpayer for purposes of determining the amount of the addition to tax under sections 6651(a)(2) and (3).

(4) *Deficiency procedures*. For deficiency procedures in the case of income, estate, and gift taxes, see sections 6211 through 6216, inclusive, and §§ 301.6211–1 through 301.6215–1, inclusive.

(5) *Employment status procedures*. For pre-assessment procedures in employment taxes cases involving worker classification, see section 7436 (proceedings for determination of employment status).

(6) *Examples*. The application of this paragraph (b) is illustrated by the following examples:

Example 1. Individual A, a calendar-year taxpayer, fails to file his 2003 return. Employee X, an Internal Revenue Service employee, opens an examination related to A's 2003 taxable year. At the end of the examination, X completes a Form 13496, ''IRC Section 6020(b) Certification,'' and attached to it the documents listed on the form. Those documents explain examination changes and provide sufficient information to compute A's tax liability. The Form 13496 provides that the Service employee identified on the form certifies that the attached pages constitute a return under section 6020(b). When X signs the certification package, the package constitutes a return under paragraph (b) of this section because the package identifies A by name, contains A's taxpayer identifying number (TIN), has sufficient information to compute A's tax liability, and contains a statement stating that it constitutes a return under section 6020(b). In addition, the Service will determine the amount of the additions to tax under section 6651(a)(2) by treating the section 6020(b) return as the return filed by the taxpayer. Likewise, the Service will determine the amount of any addition to tax under section 6651(a)(3), which arises only after notice and demand for payment, by treating the section 6020(b) return as the return filed by the taxpayer.

Example 2. Same facts as in *Example 1*, except that, after performing the examination, X does not compile any examination documents together as a related set of documents. X also does not sign and complete the Form 13496 nor associate the forms explaining examination changes with any other document. Because X did not sign any document stating that it constitutes a return under section 6020(b) and the documents otherwise do not purport to be a section 6020(b) return, the documents do not constitute a return under section 6020(b). Therefore, the Service cannot determine the section 6651(a)(2) addition to tax against nonfiler A for A's 2003 taxable year on the basis of those documents.

Example 3. Individual C, a calendar-year taxpayer, fails to file his 2003 return. The Service determines through its automated internal matching programs that C received reportable income and failed to file a return. The Service, again through its automated systems, generates a Letter 2566, ''30 Day Proposed Assessment (SFR–01) 910 SC/CG.'' This letter contains C's name, TIN, and has sufficient information to compute C's tax liability. Contemporaneous with the creation of the Letter 2566, the Service, through its

automated system, electronically creates and stores a certification stating that the electronic data contained as part of C's account constitutes a valid return under section 6020(b) as of that date. Further, the electronic data includes the signature of the Service employee authorized to sign the section 6020(b) return upon its creation. Although the signature is stored electronically, it can appear as a printed name when the Service requests a paper copy of the certification. The electronically created information, signature, and certification is a return under section 6020(b). The Service will treat that return as the return filed by the taxpayer in determining the amount of the section 6651(a)(2) addition to tax with respect to C's 2003 taxable year. Likewise, the Service will determine the amount of any addition to tax under section 6651(a)(3), which arises only after notice and demand for payment, by treating the section 6020(b) return as the return filed by the taxpayer.

Example 4. Corporation M, a quarterly taxpayer, fails to file a Form 941, ''Employer's Quarterly Federal Tax Return,'' for the second quarter of 2004. Q, a Service employee authorized to sign returns under section 6020(b), prepares a Form 941 by hand, stating Corporation M's name, address, and TIN. Q completes the Form 941 by entering line item amounts, including the tax due, and then signs the document. The Form 941 that Q prepared and signed constitutes a section 6020(b) return because the Form 941 purports to be a return under section 6020(b), the form contains M's name and TIN, and it includes sufficient information to compute M's tax liability for the second quarter of 2004.

(c) *Cross references*—(1) For provisions that a return executed by the Commissioner or other authorized Internal Revenue Officer or employee will not start the running of the period of limitations on assessment and collection, see section 6501(b)(3) and § 301.6501(b)-1(e).

(2) For determining the period of limitations on collection after assessment of a liability on a return executed by the Commissioner or other authorized Internal Revenue Officer or employee, see section 6502 and § 301.6502–1.

(3) For additions to the tax and additional amounts for failure to file returns, see section 6651 and § 301.6651–1, and section 6652 and § 301.6652–1, respectively.

(4) For additions to the tax for failure to pay tax, see section 6651 and § 301.6651–1.

(5) For criminal penalties for willful failure to make returns, see sections 7201, 7202 and 7203.

(6) For criminal penalties for willfully making false or fraudulent returns, see sections 7206 and 7207.

(7) For civil penalties for filing frivolous income tax returns, see section 6702.

(8) For authority to examine books and witnesses, see section 7602 and § 301.7602–1.

(d) *Effective/Applicability date.* This section is applicable on February 20, 2008.

[T.D. 9380, 73 FR 9189, Feb. 20, 2008]

§ 301.6021–1 Listing by district directors of taxable objects owned by nonresidents of internal revenue districts.

Whenever there are in any internal revenue district any articles subject to tax, which are not owned or possessed by or under the care or control of any person within such district, and of which no list has been transmitted to the district director, as required by law or by regulations prescribed pursuant to law, the district director, or other authorized internal revenue officer or employee, shall enter the premises where such articles are situated, shall make such inspection of the articles as may be necessary, and shall make lists of the same according to the forms prescribed. Such lists, being subscribed by the district director or other authorized internal revenue officer or employee, shall be sufficient lists of such articles for all purposes.

INFORMATION RETURNS

Information Concerning Persons Subject to Special Provisions

§ 301.6031(a)–1 Return of partnership income.

For provisions relating to the requirement of returns of partnership income, see § 1.6031(a)–1 of this chapter.

[T.D. 8841, 64 FR 61502, Nov. 12, 1999]

§ 301.6032–1 Returns of banks with respect to common trust funds.

For provisions relating to requirement of returns of banks with respect

to common trust funds, see § 1.6032–1 of this chapter (Income Tax Regulations).

§ 301.6033–1 Returns by exempt organizations.

For provisions relating to the requirement of returns by exempt organizations, see § 1.6033–1 of this chapter (Income Tax Regulations).

§ 301.6033–4 Required use of magnetic media for returns by organizations required to file returns under section 6033.

(a) *Returns by organizations required to file returns under section 6033 on magnetic media.* An organization required to file a return under section 6033 on Form 990, ''Return of Organization Exempt from Income Tax,'' or Form 990–PF, ''Return of Private Foundation or Section 4947(a)(1) Trust Treated as a Private Foundation,'' must file its Form 990 or 990–PF on magnetic media if the organization is required by the Internal Revenue Code or regulations to file at least 250 returns during the calendar year ending with or within its taxable year. Returns filed on magnetic media must be made in accordance with applicable revenue procedures, publications, forms, or instructions. In prescribing revenue procedures, publications, forms, or instructions, the Commissioner may direct the type of magnetic media filing. (See § 601.601(d)(2) of this chapter).

(b) *Waiver.* The Commissioner may grant waivers of the requirements of this section in cases of undue hardship. A request for waiver must be made in accordance with applicable revenue procedures or publications. The waiver also will be subject to the terms and conditions regarding the method of filing as may be prescribed by the Commissioner.

(c) *Failure to file.* If an organization required to file a return under section 6033 fails to file an information return on magnetic media when required to do so by this section, the organization is deemed to have failed to file the return. (See section 6652 for the addition to tax for failure to file a return.) In determining whether there is reasonable cause for failure to file the return, § 301.6652–2(f) and rules similar to the rules in § 301.6724–1(c)(3) (undue economic hardship related to filing information returns on magnetic media) will apply.

(d) *Meaning of terms.* The following definitions apply for purposes of this section:

(1) *Magnetic media.* The term *magnetic media* means any magnetic media permitted under applicable regulations, revenue procedures, or publications. These generally include magnetic tape, tape cartridge, and diskette, as well as other media, such as electronic filing, specifically permitted under the applicable regulations, procedures, publications, forms or instructions. (See § 601.601(d)(2) of this chapter).

(2) *Return required under section 6033.* The term *return required under section 6033* means a Form 990, ''Return of Organization Exempt from Income Tax,'' and Form 990–PF, ''Return of Private Foundation or Section 4947(a)(1) Trust Treated as a Private Foundation,'' along with all other related forms, schedules, and statements that are required to be attached to the Form 990 or Form 990–PF, and all members of the Form 990 series of returns, including amended and superseding returns.

(3) *Determination of 250 returns.* For purposes of this section, an organization is required to file at least 250 returns if, during the calendar year ending with or within the taxable year of the organization, the organization is required to file at least 250 returns of any type, including information returns (for example, Forms W–2, Forms 1099), income tax returns, employment tax returns, and excise tax returns. In the case of a short year return, an organization is required to file at least 250 returns if, during the calendar year which includes the short taxable year of the organization, the organization is required to file at least 250 returns of any type, including information returns (for example, Forms W–2, Forms 1099), income tax returns, employment tax returns, and excise tax returns.

(e) *Example.* The following example illustrates the provisions of paragraph (d)(3) of this section. In the example, the organization is a calendar year taxpayer:

Example. In 2006, Organization T, with total assets in excess of $10 million, is required to file one Form 990, ''Return of Organization

Exempt from Income Tax,'' 200 Forms W–2, ''Wage and Tax Statement,'' one Form 940, ''Employer's Annual Federal Unemployment (FUTA) Tax Return,'' four Forms 941, ''Employer's Quarterly Federal Tax Return,'' and 60 Forms 1099–MISC, ''Miscellaneous Income.'' Because T is required to file 266 returns during the calendar year, T must file its 2006 Form 990 electronically.

(f) *Effective/applicability dates.* This section applies to any organization required to file Form 990 for a taxable year ending on or after December 31, 2006, that has total assets as of the end of the taxable year of $10 million or more. This section applies to any organization required to file Form 990–PF for taxable years ending on or after December 31, 2006, except for the application of the short year rules in paragraph (d)(3) of this section, which is applicable for taxable years ending on or after November 13, 2007.

[T.D. 9363, 72 FR 63811, Nov. 13, 2007]

§ 301.6033–5 Disclosure by tax-exempt entities that are parties to certain reportable transactions.

(a) *In general.* For provisions relating to the requirement of the disclosure by a tax-exempt entity that it is a party to certain reportable transactions, see § 1.6033–5 of this chapter (Income Tax Regulations).

(b) *Effective date/applicability date.* This section applies with respect to transactions entered into by a tax-exempt entity after May 17, 2006.

[T.D. 9492, 75 FR 38710, July 6, 2010]

§ 301.6034–1 Returns by trusts described in section 4947(a)(2) or claiming charitable or other deductions under section 642(c).

For provisions relating to the requirement of returns by trusts described in section 4947(a)(2) or claiming charitable or other deductions under section 642(c), see § 1.6034–1 of this chapter (Income Tax Regulations).

[T.D. 8026, 50 FR 20757, May 20, 1985]

§ 301.6036–1 Notice required of executor or of receiver or other like fiduciary.

(a) *Receivers and other like fiduciaries*—(1) *Exemption for bankruptcy proceedings.* (i) A bankruptcy trustee, debtor in possession or other like fiduciary in a bankruptcy proceeding is not required by this section to give notice of appointment, qualification or authorization to act to the Secretary or his delegate. (However, see the notice requirements under the Bankruptcy Rules.)

(ii) Paragraph (a)(1)(i) of this section is effective for appointments, qualifications and authorizations to act made on or after January 29, 1988. For appointments, qualifications and authorizations to act made before the foregoing date, 26 CFR 301.6036–1 (a)(1) and (4)(i) (revised as of April 1, 1986) apply.

(2) *Proceedings other than bankruptcy.* A receiver in a receivership proceeding or a similar fiduciary in any proceeding (including a fiduciary in aid of foreclosure), designated by order of any court of the United States or of any State or Territory or of the District of Columbia as in control of all or substantially all the assets of a debtor or other party to such proceeding shall, on, or within 10 days of, the date of his appointment or authorization to act, give notice thereof in writing to the district director for the internal revenue district in which the debtor, or such other party, is or was required to make returns. Moreover, any fiduciary in aid of foreclosure not appointed by order of any such court, if he takes possession of all or substantially all the assets of the debtor, shall, on, or within 10 days of, the date of his taking possession, give notice thereof in writing to such district director.

(3) *Assignment for benefit of creditors.* An assignee for the benefit of a creditor or creditors shall, on, or within 10 days of, the date of an assignment, give notice thereof in writing to the district director for the internal revenue district in which the debtor is or was required to make returns. For purposes of this subparagraph, an assignee for the benefit of creditors shall be any person who, by authority of law, by the order of any court, by oral or written agreement, or in any other manner acquires control or possession of or title to all or substantially all the assets of a debtor, and who under such acquisition is authorized to use, reassign, sell, or in any manner dispose of such assets so that the proceeds from the use, sale, or other disposition may be paid to or

may inure directly or indirectly to the benefit of a creditor or creditors of such debtor.

(4) *Contents of notice*—(i) *Proceedings other than bankruptcy*. The written notice required under paragraph (a)(2) of this section shall contain:

(*a*) The name and address of the person making such notice and the date of his appointment or of his taking possession of the assets of the debtor or other person whose assets are controlled,

(*b*) The name, address, and, for notices filed after December 21, 1972, the taxpayer identification number of the debtor or other person whose assets are controlled.

(*c*) In the case of a court proceeding:

(*1*) The name and location of the court in which the proceedings are pending,

(*2*) The date on which such proceedings were instituted,

(*3*) The number under which such proceedings are docketed, and

(*4*) When possible, the date, time, and place of any hearing, meeting of creditors, or other scheduled action with respect to such proceedings.

(ii) *Assignment for benefit of creditors*. The written notice required under subparagraph (3) of this paragraph shall contain:

(*a*) The name and address of, and the date the asset or assets were assigned to, the assignee,

(*b*) The name, address, and, for notice filed after December 21, 1972, the taxpayer identification number of the debtor whose assets were assigned.

(*c*) A brief description of the assets assigned,

(*d*) An explanation of the action expected to be taken with respect to such assets, and

(*e*) When possible, the date, time, and place of any hearing, meeting of creditors, sale, or other scheduled action with respect to such assets.

(iii) The notice required by this section shall be sent to the attention of the Chief, Special Procedures Staff, of the district office to which it is required to be sent.

(b) *Executors, administrators, and persons in possession of property of decedent*. For provisions relating to the requirement of filing, by an executor, administrator, or person in possession of property of a decedent, of a preliminary notice in the case of the estate of a decedent dying before January 1, 1971, see § 20.6036–1 of this chapter (Estate Tax Regulations).

(c) *Notice of fiduciary relationship*. When a notice is required under § 301.6903–1 of a person acting in a fiduciary capacity and is also required of such person under this section, notice given in accordance with the provisions of this section shall be considered as complying with both sections.

(d) *Suspension of period on assessment*. For suspension of the running of the period of limitations on the making of assessments from the date a proceeding is instituted to a date 30 days after receipt of notice from a fiduciary in any proceeding under the Bankruptcy Act or from a receiver in any other court proceeding, see section 6872 and § 301.6872–1.

(e) *Applicability*. Except as provided in paragraph (a)(1)(ii) of this section, the provisions of this section shall apply to those persons referred to in this section whose appointments, authorizations, or assignments occur on or after the date of publication of these regulations in the FEDERAL REGISTER as a Treasury decision.

(f) *Cross references*. (1) For criminal penalty for willful failure to supply information, see section 7203.

(2) For criminal penalties for willfully making false or fraudulent statements, see sections 7206 and 7207.

(3) For time for performance of acts where the last day falls on a Saturday, Sunday, or legal holiday, see section 7503 and § 301.7503–1.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7218, 37 FR 24748, Nov. 21, 1972; T.D. 7238, 37 FR 28738, Dec. 29, 1972; T.D. 8172, 53 FR 2600, Jan. 29, 1988]

§ 301.6037–1 Return of electing small business corporation.

For provisions relating to requirement of return of electing small business corporation, see § 1.6037–1 of this chapter (Income Tax Regulations).

§ 301.6037–2 Required use of magnetic media for returns of electing small business corporation.

(a) *Returns of electing small business corporation required on magnetic media.* An electing small business corporation required to file an electing small business return on Form 1120S, ''U.S. Income Tax Return for an S Corporation,'' under § 1.6037–1 of this chapter must file its Form 1120S on magnetic media if the small business corporation is required by the Internal Revenue Code and regulations to file at least 250 returns during the calendar year ending with or within its taxable year. Returns filed on magnetic media must be made in accordance with applicable revenue procedures, publications, forms, or instructions. In prescribing revenue procedures, publications, forms, or instructions, the Commissioner may direct the type of magnetic media filing. (See § 601.601(d)(2) of this chapter).

(b) *Waiver.* The Commissioner may grant waivers of the requirements of this section in cases of undue hardship. A request for waiver must be made in accordance with applicable revenue procedures or publications. The waiver also will be subject to the terms and conditions regarding the method of filing as may be prescribed by the Commissioner.

(c) *Failure to file.* If an electing small business corporation fails to file a return on magnetic media when required to do so by this section, the corporation is deemed to have failed to file the return. (See section 6651 for the addition to tax for failure to file a return.) In determining whether there is reasonable cause for failure to file the return, § 301.6651–1(c) and rules similar to the rules in § 301.6724–1(c)(3) (undue economic hardship related to filing information returns on magnetic media) will apply.

(d) *Meaning of terms.* The following definitions apply for purposes of this section:

(1) *Magnetic media.* The term *magnetic media* means any magnetic media permitted under applicable regulations, revenue procedures, or publications. These generally include magnetic tape, tape cartridge, and diskette, as well as other media, such as electronic filing, specifically permitted under the applicable regulations, procedures, publications, forms, or instructions. (See § 601.601(d)(2) of this chapter).

(2) *Corporation.* The term *corporation* means a corporation as defined in section 7701(a)(3).

(3) *Electing small business corporation return.* The term *electing small business corporation return* means a Form 1120S, ''U.S. Income Tax Return for an S Corporation,'' along with all other related forms, schedules, and statements that are required to be attached to the Form 1120S, and all members of the Form 1120S series of returns, including amended and superseding returns.

(4) *Electing small business corporation.* The term *electing small business corporation* means an S corporation as defined in section 1361(a)(1).

(5) *Determination of 250 returns.* For purposes of this section, a corporation is required to file at least 250 returns if, during the calendar year ending with or within the taxable year of the corporation, the corporation is required to file at least 250 returns of any type, including information returns (for example, Forms W–2, Forms 1099), income tax returns, employment tax returns, and excise tax returns. In the case of a short year return, a corporation is required to file at least 250 returns if, during the calendar year which includes the short taxable year of the corporation, the corporation is required to file at least 250 returns of any type, including information returns (for example, Forms W–2, Forms 1099), income tax returns, employment tax returns, and excise tax returns.

(e) *Example.* The following example illustrates the provisions of paragraph (d)(5) of this section. In the example, the corporation is a calendar year taxpayer:

Example. In 2007, Corporation S, an electing small business corporation with assets in excess of $10 million, is required to file one Form 1120S, ''U.S. Corporation Income Tax Return,'' 100 Forms W–2, ''Wage and Tax Statement,'' 146 Forms 1099-DIV, ''Dividends and Distributions,'' one Form 940, ''Employer's Annual Federal Unemployment (FUTA) Tax Return,'' and four Forms 941, ''Employer's Quarterly Federal Tax Return.'' Because S is required to file 252 returns during the calendar year, S is required to file its 2007 Form 1120S electronically.

(f) *Effective/applicability dates.* This section applies to returns of electing small business corporations that report total assets at the end of the corporation's taxable year that equal or exceed $10 million on Schedule L of Form 1120S for taxable years ending on or after December 31, 2006, except for the application of the short year rules in paragraph (d)(5) of this section, which is applicable for taxable years ending on or after November 13, 2007.

[T.D. 9363, 72 FR 63812, Nov. 13, 2007]

§ 301.6038–1 Information returns required of U.S. persons with respect to certain foreign corporations.

For provisions relating to information returns required of U.S. persons with respect to certain foreign corporations, see §§ 1.6038–1 and 1.6038–2 of this chapter (Income Tax Regulations).

§ 301.6039–1 Information returns and statements required in connection with certain options.

For provisions relating to information returns and statements required in connection with certain options, see §§ 1.6039–1 and 1.6039–2 of this chapter (Income Tax Regulations).

[T.D. 7275, 38 FR 11346, May 7, 1973]

§ 301.6039E–1 Information reporting by passport applicants.

(a) *In general.* Every individual who applies for a U.S. passport or the renewal of a passport (passport applicant), other than a passport for use in diplomatic, military, or other official U.S. government business, shall include with his or her passport application the information described in paragraph (b)(1) of this section in the time and manner described in paragraph (b)(2) of this section.

(b) *Required information*—(1) *In general.* The information required under paragraph (a) of this section shall include the following information:

(i) The passport applicant's full name and, if applicable, previous name;

(ii) The passport applicant's permanent address and, if different, mailing address;

(iii) The passport applicant's taxpayer identifying number (TIN), if such a number has been issued to the passport applicant. A TIN means the individual's social security number (SSN) issued by the Social Security Administration. A passport applicant who does not have an SSN must enter zeros in the appropriate space on the passport application; and

(iv) The passport applicant's date of birth.

(2) *Time and manner for furnishing information.* A passport applicant must provide the information required by this section with his or her passport application, whether by personal appearance or mail, to the Department of State (including United States Embassies and Consular posts abroad).

(c) *Penalties*—(1) *In general.* If the information required by paragraph (b)(1) of this section is incomplete or incorrect, or the information is not filed in the time and manner described in paragraph (b)(2) of this section, then the passport applicant may be subject to a penalty equal to $500 per application. Before assessing a penalty under this section, the IRS will provide to the passport applicant written notice of the potential assessment of the $500 penalty, requesting the information being sought, and offering the applicant an opportunity to explain why the information was not provided with the passport application. A passport applicant has 60 days from the date of the notice of the potential assessment of the penalty (90 days from such date if the notice is addressed to an applicant outside the United States) to respond to the notice. If the passport applicant demonstrates to the satisfaction of the Commissioner (or the Commissioner's delegate) that the failure is due to reasonable cause and not due to willful neglect, after considering all the surrounding circumstances, then the IRS will not assess the penalty.

(2) *Example.* The following example illustrates the provisions of paragraph (c) of this section.

Example. C, a citizen of the United States, makes an error in supplying information on his passport application. Based on the nature of the error and C's timely response to correct the error after being contacted by the IRS, the Commissioner concludes that the mistake is due to reasonable cause and not due to willful neglect. Accordingly, no penalty is assessed.

(d) *Effective/applicability date.* This section applies to passport applications submitted after July 18, 2014.

[T.D. 9679, 79 FR 41891, July 18, 2014]

Information Concerning Transactions With Other Persons

§ 301.6041–1 Returns of information regarding certain payments.

For provisions relating to the requirement of returns of information regarding certain payments, see §§ 1.6041–1 to 1.6041–6, inclusive, of this chapter (Income Tax Regulations).

§ 301.6042–1 Returns of information regarding payments of dividends and corporate earnings and profits.

For provisions relating to the requirement of returns of information regarding payments of dividends and corporate earnings and profits, see §§ 1.6042–1 to 1.6042–4, inclusive, of this chapter (Income Tax Regulations).

§ 301.6043–1 Returns regarding liquidation, dissolution, termination, or contraction.

For provisions relating to the requirement of returns of information regarding liquidations, dissolutions, terminations, or contracts, see §§ 1.6043–1, 1.6043–2, and 1.6043–3 of this chapter (Income Tax Regulations).

[T.D. 7563, 43 FR 40222, Sept. 11, 1978]

§ 301.6044–1 Returns of information regarding payments of patronage dividends.

For provisions relating to the requirement of returns of information regarding payments of patronage dividends, see §§ 1.6044–1 to 1.6044–5, inclusive, of this chapter (Income Tax Regulations).

§ 301.6046–1 Returns as to organization or reorganization of foreign corporations and as to acquisitions of their stock.

For provisions relating to requirement of returns as to organization or reorganization of foreign corporations and as to acquisitions of their stock, see §§ 1.6046–1 to 1.6046–3, inclusive, of this chapter. (Income Tax Regulations.)

§ 301.6047–1 Information relating to certain trusts and annuity and bond purchase plans.

For provisions relating to the requirement of returns of information regarding certain trusts and annuity and bond purchase plans, see § 1.6047–1 of this chapter (Income Tax Regulations).

§ 301.6049–1 Returns regarding payments of interest.

For provisions relating to the requirement of returns regarding payments of interest, see §§ 1.6049–1 to 1.6049–3, inclusive, of this chapter (Income Tax Regulations).

§ 301.6050A-1 Information returns regarding services performed by certain crewmen on fishing boats.

For provisions relating to the requirement of returns of information regarding services performed by certain crewmen on fishing boats, see § 1.6050A-1 of this chapter (Income Tax Regulations) and § 301.6652–1 of this chapter (Regulations on Procedure and Administration).

[T.D. 7716, 45 FR 57124, Aug. 27, 1980]

§ 301.6050M–1 Information returns relating to persons receiving contracts from certain Federal executive agencies.

For provisions relating to the requirements of returns of information relating to persons receiving contracts from certain Federal executive agencies, see § 1.6050M–1 of this chapter (Income Tax Regulations).

[T.D. 8275, 54 FR 50372, Dec. 6, 1989]

Information Regarding Wages Paid Employees

§ 301.6051–1 Receipts for employees.

For provisions relating to statements for employees regarding remuneration paid during calendar year, see § 31.6051–1 of this chapter (Employment Tax Regulations).

§ 301.6052–1 Information returns and statements regarding payment of wages in the form of group-term life insurance.

For provisions relating to information returns and statements required in connection with the payment of

wages in the form of group-term life insurance, see §§1.6052–1 and 1.6052–2 of this chapter (income tax regulations).

[T.D. 7275, 38 FR 11346, May 7, 1973]

§ 301.6056–1 Rules relating to reporting by applicable large employers on health insurance coverage offered under employer-sponsored plans.

(a) *In general*. Section 6056 requires an applicable large employer subject to the requirements of section 4980H to report certain health insurance coverage information to the Internal Revenue Service, and to furnish certain related employee statements to its full-time employees. Paragraph (b) of this section contains definitions for purposes of this section. Paragraph (c) of this section prescribes general rules for filing the required information with the IRS and furnishing the required employee statements to employees. Paragraphs (d) and (e) of this section describe the information required to be reported on a section 6056 information return and the time and manner for filing. Paragraph (f) of this section provides information about the statement required to be furnished to a full-time employee. Paragraph (g) of this section prescribes the time and manner of furnishing the statement, including extensions of time to furnish, to a full-time employee. Paragraph (h) addresses corrections of returns. Paragraph (i) of this section describes the information return penalties applicable to section 6056 returns. Paragraph (j) of this section describes alternative reporting methods available to certain applicable large employers with certain employees. Paragraph (k) of this section describes certain special rules applicable to applicable large employers that are governmental units.

(b) *Definitions*—(1) *In general*. The definitions in this paragraph (b) apply for purposes of this section.

(2) *Applicable large employer*. The term *applicable large employer* has the same meaning as in section 4980H(c)(2) and § 54.4980H–1(a)(4) of this chapter.

(3) *Applicable large employer member*. The term *applicable large employer member* has the same meaning as in § 54.4980H–1(a)(5) of this chapter.

(4) *Dependent*. The term *dependent* has the same meaning as in § 54.4980H–1(a)(11) of this chapter.

(5) *Eligible employer-sponsored plan*. The term *eligible employer-sponsored plan* has the same meaning as in section 5000A(f)(2) and §1.5000A–2(c)(1) of this chapter.

(6) *Full-time employee*. The term *full-time employee* has the same meaning as in section 4980H and § 54.5980H–1(a)(21) of this chapter, as applied to the determination and calculation of liability under section 4980H(a) and (b) with respect to any individual employee, and not as applied to the determination of status as an applicable large employer, if different.

(7) *Governmental unit*. The term *governmental unit* refers to the government of the United States, any State or political subdivision thereof, or any Indian tribal government (as defined in section 7701(a)(40)) or subdivision of an Indian tribal government (as defined in section 7871(d)).

(8) *Agency or instrumentality of a governmental unit*. [Reserved]

(9) *Minimum essential coverage*. The term *minimum essential coverage* has the same meaning as in section 5000A(f) and the regulations issued under that section.

(10) *Minimum value*. The term *minimum value* has the same meaning as in section 36B and any applicable regulations.

(11) *Person*. The term *person* has the same meaning as in section 7701(a)(1) and applicable regulations.

(c) *Content and timing of reporting by applicable large employer members*—(1) *In general*. Each applicable large employer member required to make a return and furnish a related statement to its full-time employees under section 6056 for a calendar year must make a return and furnish the related statement using such form(s) as may be prescribed by the Internal Revenue Service. An applicable large employer member will satisfy its reporting requirements under section 6056 if it files with the Internal Revenue Service a return for each full-time employee using Form 1095–C or another form the IRS designates, and a transmittal form using Form 1094–C or another form the IRS designates, as

prescribed in this section and in the instructions to the forms. Each Form 1095–C and the transmittal Form 1094–C will together constitute an information return to be filed with the Internal Revenue Service.

(2) *Reporting facilitated by third parties.* A separate section 6056 information return must be filed for each applicable large employer member. If more than one section 6056 information return is being filed for an applicable large employer member, there must be one authoritative section 6056 transmittal (Form 1094–C) reporting aggregate employer-level data for all full-time employees of the applicable large employer member, in accordance with forms and instructions. Additionally, there must be only one section 6056 employee statement (Form 1095–C) for each full-time employee with respect to that full-time employee's employment with the applicable large employer member, so that all required information for a particular full-time employee of the applicable large employer member is reflected on a single Form 1095–C.

(d) *Information required to be reported to the Internal Revenue Service*—(1) *In general.* Except as provided in paragraph (j) of this section (relating to alternative reporting methods for eligible applicable large employer members), every applicable large employer member must make a section 6056 information return with respect to each full-time employee. Each section 6056 information return must show—

(i) The name, address, and employer identification number of the applicable large employer member,

(ii) The name and telephone number of the applicable large employer member's contact person,

(iii) The calendar year for which the information is reported,

(iv) A certification as to whether the applicable large employer member offered to its full-time employees (and their dependents) the opportunity to enroll in minimum essential coverage under an eligible employer-sponsored plan, by calendar month,

(v) The months during the calendar year for which minimum essential coverage under the plan was available,

(vi) Each full-time employee's share of the lowest cost monthly premium (self-only) for coverage providing minimum value offered to that full-time employee under an eligible employer-sponsored plan, by calendar month;

(vii) The number of full-time employees for each month during the calendar year,

(viii) The name, address, and taxpayer identification number of each full-time employee during the calendar year and the months, if any, during which the employee was covered under the plan, and

(ix) Any other information specified in forms, instructions, or published guidance, see §§ 601.601(d) and 601.602 of this chapter.

(2) *Form of the return.* A return required under this paragraph (d) may be made on Forms 1094–C and 1095–C or other form(s) designated by the Internal Revenue Service, or a substitute form. A substitute form must include the information required to be reported on Forms 1094–C and 1095–C and must comply with applicable revenue procedures or other published guidance relating to substitute statements. See § 601.601(d)(2) of this chapter.

(e) *Time and manner for filing return.* An applicable large employer member must file the return and transmittal form required under paragraph (d)(2) of this section on or before February 28 (March 31 if filed electronically) of the year succeeding the calendar year to which it relates in accordance with any applicable guidance and the instructions to the form. An applicable large employer member must file the return and transmittal form at the address specified on the return form or its instructions. For extensions of time for filing returns under this section, see §§ 1.6081–1 and 1.6081–8 of this chapter. See § 301.6011–2 for rules relating to electronic filing.

(f) *Statements required to be furnished to full-time employees*—(1) *In general.* Except as provided in paragraph (j) of this section, every applicable large employer member required to file a return under section 6056 must furnish to each of its full-time employees identified on the return a written statement showing—

(i) The name, address and employer identification number of the applicable large employer member, and

(ii) The information required to be shown on the section 6056 return with respect to the full-time employee.

(2) *Form of the statement.* A statement required under this paragraph (f) may be made either by furnishing to the full-time employee a copy of Form 1095–C or another form the IRS designates as prescribed in this section and in the instructions to such forms, or a substitute statement. A substitute statement must include the information required to be shown on the return filed with the IRS and must comply with requirements in published guidance (see § 601.601(d)(2) of this chapter) relating to substitute statements. An IRS truncated taxpayer identification number may be used as the identifying number for an individual in lieu of the identifying number appearing on the corresponding information return filed with the IRS.

(g) *Time and manner for furnishing statements*—(1) *Time for furnishing*—(i) *In general.* Each statement required by this section for a calendar year must be furnished to a full-time employee on or before January 31 of the year succeeding that calendar year in accordance with applicable Internal Revenue Service procedures and instructions

(ii) *Extensions of time*—(A) *In general.* For good cause upon written application of the person required to furnish statements under this section, the Internal Revenue Service may grant an extension of time not exceeding 30 days in which to furnish such statements. The application must be addressed to the Internal Revenue Service, and must contain a full recital of the reasons for requesting the extension to aid the Internal Revenue Service in determining the period of the extension, if any, that will be granted. A request in the form of a letter to the Internal Revenue Service, signed by the applicant, suffices as an application. The application must be filed on or before the date prescribed in paragraph (g)(1) of this section.

(B) *Automatic extension of time.* The Commissioner may, in appropriate cases, prescribe additional guidance or procedures, published in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter), for automatic extensions of time to furnish to one or more full-time employees the statement required under section 6056.

(2) *Manner of furnishing.* If mailed, the statement must be sent to the full-time employee's last known permanent address or, if no permanent address is known, to the employee's temporary address. For purposes of this paragraph (g), an applicable large employer member's first class mailing to the last known permanent address, or if no permanent address is known, the temporary address, discharges the requirement to furnish the statement. An applicable large employer member may furnish the statement electronically in accordance with § 301.6056–2.

(h) *Correction of returns.* See § 301.6056–1(i)(2).

(i) *Penalties*—(1) *In general.* For provisions relating to the penalty for failure to file timely a correct information return required under section 6056, see section 6721 and the regulations under that section. For provisions relating to the penalty for failure to furnish timely a correct statement to full-time employees required under section 6056, see section 6722 and the regulations under that section. See section 6724 and the regulations under that section for rules relating to the waiver of penalties if a failure to file timely or accurately is due to reasonable cause and is not due to willful neglect.

(2) *Application of section 6721 and 6722 penalties to section 6056 reporting.* For purposes of section 6056 reporting, if the information reported on a return (including a transmittal) or a statement required by this section is incomplete or incorrect as a result of a change in circumstances (such as a retroactive change in coverage), a failure to timely file or furnish a corrected document is a failure to file or furnish a correct return or statement under sections 6721 and 6722.

(j) *Alternative reporting methods for eligible applicable large employer members.* In lieu of the general reporting method described in paragraph (d) of this section, eligible applicable large employer members may use the following alternative reporting methods described in this paragraph (j).

(1) *Certification of qualifying offer*. An applicable large employer member is an eligible applicable large employer member and is treated as meeting its reporting obligation under section 6056 if:

(i) The applicable large employer member certifies on the section 6056 transmittal form, in accordance with the form and the instructions to the form, that it made a qualifying offer. A qualifying offer is an offer to one or more of its full-time employees for all months during the year for which the employee was a full-time employee and which are not within a limited non-assessment period (as defined in § 54.4980H–1(a)(26) of this chapter), of minimum essential coverage providing minimum value at an employee cost for employee-only coverage not exceeding 9.5 percent of the mainland single federal poverty line, and that includes an offer of minimum essential coverage to the employees' spouses and dependents. For this purpose, the applicable federal poverty line is the federal poverty line as defined in § 54.4980H–1(a)(19) of this chapter, as calculated and applied to the 48 contiguous states and the District of Columbia;

(ii) The applicable large employer member provides on the Form 1095–C or other form as designated by the IRS, in accordance with the form and the instructions to the form, the information with respect to each full-time employee to whom a qualifying offer, as defined in paragraph (j)(1)(i) of this section, is made for all twelve months of the applicable calendar year;

(iii) The applicable large employer member provides a statement to each full-time employee to whom a qualifying offer (as defined in paragraph (j)(1)(i) of this section) was made for all twelve months of the applicable calendar year, in such form and manner as prescribed by the Secretary, or a copy of the Form 1095–C filed with the IRS with respect to that full-time employee; and

(D) The applicable large employer member files section 6056 returns and furnishes section 6056 employee statements with respect to all other full-time employees under the general reporting method described in paragraph (d) of this section, in accordance with forms and instructions.

(2) *Option to report without separate identification of full-time employees if certain conditions related to offers of coverage are satisfied (98 percent offers)*. An applicable large employer member that otherwise meets its reporting obligation under section 6056 is not required to identify on its section 6056 return whether a particular employee is a full-time employee for one or more calendar months of the reporting year or report the total number of its full-time employees for the reporting year, if it certifies that it offered minimum essential coverage providing minimum value that was affordable under section 4980H to at least 98 percent of the employees (and their dependents) with respect to whom it reports for purposes of section 6056 in accordance with paragraph (d) of this section (regardless of whether the employee is a full-time employee for purposes of section 4980H for a calendar month during the year).

(k) *Special rules for governmental units*—(1) *Person appropriately designated*. In the case of any applicable large employer member that is a governmental unit or any agency or instrumentality thereof, the person or persons appropriately designated under section 6056(e) for purposes of the filing and furnishing requirements of section 6056 must be part of or related to the same governmental unit as the applicable large employer member. The applicable large employer member must make (or revoke) the designation before the earlier of the deadline for filing the returns or furnishing the statements required by this section. A person that has been appropriately designated under section 6056(e) must file a separate section 6056 return and transmittal for each applicable large employer member for which the person is reporting. The person appropriately designated under section 6056(e) assumes responsibility for the section 6056 requirements on behalf of the applicable large employer member for which the person is designated. Notwithstanding the designation, a separate section 6056 information return must be filed for each applicable large employer member that is a governmental unit. If more than one section

6056 information return is being filed for an applicable large employer member, there must be one authoritative section 6056 transmittal (Form 1094–C) reporting aggregate employer-level data for all full-time employees of the applicable large employer member, in accordance with forms and instructions. In addition, notwithstanding the designation, there must be only one section 6056 employee statement (Form 1095–C) for each full-time employee with respect to that full-time employee's employment with the applicable large employer member, so that all required information for a particular full-time employee of the applicable large employer member is reflected on a single Form 1095–C.

(2) *Written designation*. The designation under section 6056(e) must be made in writing, must be signed by both the applicable large employer member and the designated person, and must be effective under all applicable laws. The designation must set forth the name, address, and employer identification number of the designated person, and appoint such person as the person responsible for reporting under section 6056 on behalf of the applicable large employer member. The designation must contain information identifying the category of full-time employees (which may be full-time employees eligible for a specified health plan, or in a particular job category, as long as the specific employees covered by the designation can be identified) for which the designated person is responsible for reporting under section 6056 on behalf of the applicable large employer member. If the designated person is responsible for reporting under section 6056 for all full-time employees of an applicable large employer member, the designation must so indicate. The designation must contain language that the designated person agrees and certifies that it is the appropriately designated person under section 6056(e), and an acknowledgement that the designated person is responsible for reporting under section 6056 on behalf of the applicable large employer member and subject to the requirements of section 6056, including for purposes of information reporting requirements under sections 6721, 6722, and 6724. The designation must also set forth the name and employer identification number of the applicable large employer member, identifying the applicable large employer member as the person subject to the requirements of section 4980H. An equivalent applicable statutory or regulatory designation containing the language described in this paragraph (k)(2) will be treated as a written designation for purposes of section 6056(e) and this section. The designation will not be submitted to the IRS and should be maintained under the normal record-retention rules under section 6103.

(3) *Application to alternative reporting methods*. A person designated under this paragraph (k) may use the alternative reporting method identified in paragraph (j)(1) of this section for the full-time employees for which it is reporting with respect to a particular governmental unit if that particular governmental unit meets the eligibility requirements with respect to those employees, but may use the alternative reporting method identified in paragraph (j)(2) of this section only if the governmental unit on whose behalf it is reporting would itself be eligible to use that alternative reporting method.

(l) *Additional guidance*. The Commissioner may prescribe additional guidance of general applicability, published in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter) to provide additional rules under section 6056, including rules permitting use of alternative optional methods to meet reporting requirements.

(m) *Effective/applicability date*. This section applies for calendar years beginning after December 31, 2014. Reporting entities will not be subject to penalties under sections 6721 or 6722 for failure to comply with the section 6056 reporting requirements for 2014 (for information returns filed and for statements furnished to employees in 2015).

[T.D. 9661, 79 FR 13247, Mar. 10, 2014]

§ 301.6056–2 Electronic furnishing of statements.

(a) *Electronic furnishing of statements*—(1) *In general*. An applicable large employer member required by

§ 301.6056–1 to furnish a statement (furnisher) to a full-time employee (a recipient) as required by section 6056 may furnish the section 6056 employee statement (the statement) in an electronic format in lieu of a paper format, provided that the furnisher meets the requirements of paragraphs (a)(2) through (a)(6) of this section. An applicable large employer member who meets the requirements of paragraphs (a)(2) through (6) of this section is treated as furnishing the statement in a timely manner.

(2) *Consent*—(i) *In general.* The recipient must have affirmatively consented to receive the statement in an electronic format. The recipient may make the consent electronically in any manner that reasonably demonstrates that the recipient can access the statement in the electronic format in which it will be furnished to the recipient. Alternatively, the recipient may make the consent in a paper document if the recipient confirms the consent electronically.

(ii) *Withdrawal of consent.* The consent requirement of this paragraph (a)(2) is not satisfied if the recipient withdraws the consent and the withdrawal takes effect before the statement is furnished. The furnisher may provide that a withdrawal of consent takes effect either on the date it is received by the furnisher or on a subsequent date. The furnisher may also provide that a recipient's request for a paper statement will be treated as a withdrawal of the recipient's consent.

(iii) *Change in hardware or software requirements.* If a change in the hardware or software required to access the statement creates a material risk that the recipient will not be able to access the statement, the furnisher must, prior to changing the hardware or software, provide the recipient with a notice. The notice must describe the revised hardware and software required to access the statement and inform the recipient that a new consent to receive the statement in the revised electronic format must be provided to the furnisher. After implementing the revised hardware and software, the furnisher must obtain from the recipient, in the manner described in paragraph (a)(2)(i) of this section, a new consent or confirmation of consent to receive the statement electronically.

(iv) *Examples.* The following examples illustrate the rules of this paragraph (a)(2):

Example 1. Furnisher F sends Recipient R a letter stating that R may consent to receive the statement required under section 6056 electronically on a Web site instead of in a paper format. The letter contains instructions explaining how to consent to receive the statement electronically by accessing the Web site, downloading the consent document, completing the consent document and emailing the completed consent back to F. The consent document posted on the Web site uses the same electronic format that F will use for the electronically furnished statement. R reads the instructions and accesses the Web site, downloads and completes the consent document, and emails the completed consent back to F. R has consented to receive the statement required under section 6056 electronically in the manner described in paragraph (a)(2)(i) of this section.

Example 2. Furnisher F sends Recipient R an email stating that R may consent to receive the statement required under section 6056 electronically instead of in a paper format. The email contains an attachment instructing R how to consent to receive the statement electronically. The email attachment uses the same electronic format that F will use for the electronically furnished statement. R opens the attachment, reads the instructions, and submits the consent in the manner provided in the instructions. R has consented to receive the statement required under section 6056 electronically in the manner described in paragraph (a)(2)(i) of this section.

Example 3. Furnisher F posts a notice on its Web site stating that Recipient R may receive the statement required under section 6056 electronically instead of in a paper format. The Web site contains instructions on how R may access a secure Web page and consent to receive the statement electronically. The consent via the secure Web page uses the same electronic format that F will use for the electronically furnished statement. R accesses the Web site and follows the instructions for giving consent. R has consented to receive section 6056 statements electronically in the manner described in paragraph (a)(2)(i) of this section.

(3) *Required disclosures*—(i) *In general.* Prior to, or at the time of, a recipient's consent, a furnisher must provide to the recipient a clear and conspicuous disclosure statement containing each

of the disclosures described in paragraphs (a)(3)(ii) through (viii) of this section.

(ii) *Paper statement*. The furnisher must inform the recipient that the statement will be furnished on paper if the recipient does not consent to receive it electronically.

(iii) *Scope and duration of consent*. The furnisher must inform the recipient of the scope and duration of the consent. For example, the recipient must be informed whether the consent applies to each statement required to be furnished after the consent is given until it is withdrawn in the manner described in paragraph (a)(3)(v)(A) of this section or only to the first statement required to be furnished following the date of the consent.

(iv) *Post-consent request for a paper statement*. The furnisher must inform the recipient of any procedure for obtaining a paper copy of the recipient's statement after giving the consent described in paragraph (a)(2)(i) of this section and whether a request for a paper statement will be treated as a withdrawal of consent.

(v) *Withdrawal of consent*. The furnisher must inform the recipient that—

(A) The recipient may withdraw a consent by writing (electronically or on paper) to the person or department whose name, mailing address, telephone number, and email address is provided in the disclosure statement,

(B) The furnisher will confirm the withdrawal and the date on which it takes effect in writing (either electronically or on paper), and

(C) A withdrawal of consent does not apply to a statement that was furnished electronically in the manner described in this paragraph (a) before the date on which the withdrawal of consent takes effect.

(vi) *Notice of termination*. The furnisher must inform the recipient of the conditions under which a furnisher will cease furnishing statements electronically to the recipient (for example, termination of the recipient's employment with furnisher-employer).

(vii) *Updating information*. The furnisher must inform the recipient of the procedures for updating the information needed to contact the recipient. The furnisher must inform the recipient of any change in the furnisher's contact information.

(viii) *Hardware and software requirements*. The furnisher must provide the recipient with a description of the hardware and software required to access, print, and retain the statement, and the date when the statement will no longer be available on the Web site. The furnisher must advice the recipient that the statement may be required to be printed and attached to a Federal, State, or local income tax return.

(4) *Format*. The electronic version of the statement must contain all required information and comply with applicable revenue procedures relating to substitute statements to recipients.

(5) *Notice*—(i) *In general*. If the statement is furnished on a Web site, the furnisher must notify the recipient that the statement is posted on a Web site. The notice may be delivered by mail, electronic mail, or in person. The notice must provide instructions on how to access and print the statement. The notice must include the following statement in capital letters, ''IMPORTANT TAX RETURN DOCUMENT AVAILABLE.'' If the notice is provided by electronic mail, the foregoing statement must be on the subject line of the electronic mail.

(ii) *Undeliverable electronic address*. If an electronic notice described in paragraph (a)(5)(i) of this section is returned as undeliverable, and the correct electronic address cannot be obtained from the furnisher's records or from the recipient, then the furnisher must furnish the notice by mail or in person within 30 days after the electronic notice is returned.

(iii) *Corrected statement*. If the furnisher has corrected a recipient's statement as directed in § 301.6056–1(k) and the original statement was furnished electronically, the furnisher must furnish the corrected statement to the recipient electronically. If the original statement was furnished through a Web site posting and the furnisher has corrected the statement, the furnisher must notify the recipient that it has posted the corrected statement on the Web site within 30 days of such posting in the manner described in paragraph (a)(5)(i) of this section. The corrected

statement or the notice must be furnished by mail or in person if—

(A) An electronic notice of the Web site posting of an original statement or the corrected statement was returned as undeliverable, and

(B) The recipient has not provided a new email address.

(6) *Access period.* Statements furnished on a Web site must be retained on the Web site through October 15 of the year following the calendar year to which the statements relate (or the first business day after October 15, if October 15 falls on a Saturday, Sunday, or legal holiday). The furnisher must maintain access to corrected statements that are posted on the Web site through October 15 of the year following the calendar year to which the statements relate (or the first business day after such October 15, if October 15 falls on a Saturday, Sunday, or legal holiday) or the date 90 days after the corrected forms are posted, whichever is later.

(7) *Paper statements after withdrawal of consent.* A furnisher must furnish a paper statement if a recipient withdraws consent to receive a statement electronically and the withdrawal takes effect before the statement is furnished. A paper statement furnished after the statement due date under this paragraph (a)(7) is timely if furnished within 30 days after the date the furnisher receives the withdrawal of consent.

(b) *Effective/applicability date.* This section applies for calendar years beginning after December 31, 2014. Reporting entities will not be subject to penalties under section 6722 with respect to the reporting requirements for 2014 (for statements furnished in 2015).

[T.D. 9661, 79 FR 13250, Mar. 10, 2014]

§ 301.6057–1 Employee retirement benefit plans; identification of participant with deferred vested retirement benefit.

(a) *Annual registration statement*—(1) *In general.* Under section 6057(a), the plan administrator (within the meaning of section 414(g)) of an employee retirement benefit plan must file with the Internal Revenue Service information relating to each plan participant who separates from service covered by the plan and is entitled to a deferred vested retirement benefit under the plan, but is not paid this retirement benefit. Plans subject to this filing requirement are described in subparagraph (3) of this paragraph. Subparagraph (4) describes how the information is to be filed with the Internal Revenue Service. In the case of a plan to which only one employer contributes, the time for filing the information with respect to each separated participant is described in subparagraph (5). In the case of a plan to which more than one employer contributes the time for filing the information with respect to a participant is described in paragraph (b)(2) of this section. Paragraph (b) of this section also provides other rules applicable only to plans to which more than one employer contributes.

(2) *Deferred vested retirement benefit.* For purposes of this section, a plan participant's deferred retirement benefit is considered a vested benefit if it is vested under the terms of the plan at the close of the plan year described in paragraph (a)(5) or (b)(4) of this section (whichever is applicable) for which information relating to any deferred vested retirement benefit of the participant must be filed. A participant's deferred retirement benefit need not be a nonforfeitable benefit within the meaning of section 411(a) for the filing requirements described in this section to apply. Accordingly, information relating to a participant's deferred vested retirement benefit must be filed as required by this section notwithstanding that the benefit is subject to forfeiture by reason of an event or condition occurring subsequent to the close of the plan year described in paragraph (a)(5) or (b)(4) of this section (whichever is applicable) for which information relating to any deferred vested retirement benefit of the participant must be filed.

(3) *Plans subject to filing requirement.* The term ''employee retirement benefit plan'' means a plan to which the vesting standards of section 203 of part 2 of subtitle B of title I of the Employee Retirement Income Security Act of 1974 (88 Stat. 854) apply for any day in the plan year. (For purposes of this section, ''plan year'' means the plan year as determined for purposes of

the annual return required by section 6058(a)). Accordingly, a plan need not be a qualified plan within the meaning of section 401(a) to be subject to these filing requirements. A plan to which more than one employer contributes must file the report of deferred vested retirement benefits described in this section, but see paragraph (b) of this section for special rules applicable to such a plan. The filing requirements described in this section and § 301.6057–2 (relating to notification of change in plan status) do not apply to a governmental or church plan described in section 414 (d) or (e).

(4) *Filing requirements.* Information relating to the deferred vested retirement benefit of a plan participant must be filed on schedule SSA as an attachment to the Annual Return/Report of Employee Benefit Plan (form 5500 series). Schedule SSA shall be filed on behalf of an employee retirement benefit plan for each plan year for which information relating to the deferred vested retirement benefit of a plan participant is filed under paragraph (a)(5) or (b)(2) of this section. There shall be filed on schedule SSA the name and social security number of the participant, a description of the nature, form, and amount of the deferred vested retirement benefit to which the participant is entitled, and such other information as is required by section 6057(a) or schedule SSA and the accompanying instructions. The form of the benefit reported on schedule SSA shall be the normal form of benefit under the plan, or, if the plan administrator (within the meaning of section 414(g)) considers it more appropriate, any other form of benefit.

(5) *Time for reporting deferred vested retirement benefit*—(i) *In general.* In the case of a plan to which only one employer contributes, information relating to the deferred vested retirement benefit of a plan participant must be filed no later than on the schedule SSA filed for the plan year following the plan year within which the participant separates from service covered by the plan. Information relating to a separated participant may, at the option of the plan administrator, be reported earlier (that is, on the schedule SSA filed for the plan year in which the participant separates from service covered by the plan). For purposes of this paragraph a participant is not considered to separate from service covered by the plan solely because the participant incurs a break in service under the plan. In addition, for purposes of this paragraph, in the case of a plan which uses the elapsed time method described in Department of Labor regulations for crediting service for benefit accrual purposes, a participant is considered to separate from service covered by the plan on the date the participant severs from service covered by the plan.

(ii) *Exception.* Notwithstanding subdivision (i), no information relating to the deferred vested retirement benefit of a separated participant is required to be filed on schedule SSA if, before the date such schedule SSA is required to be filed (including any extension of time for filing granted pursuant to section 6081), the participant (A) is paid some or all of the deferred vested retirement benefit under the plan, (B) returns to service covered by the plan, or (C) forfeits all of the deferred vested retirement benefit under the plan.

(b) *Plans to which more than one employer contributes*—(1) *Application.* Section 6057 and this section apply to a plan to which more than one employer contributes with the modifications set forth in this paragraph. For purposes of section 6057 and this section, whether or not more than one employer contributes to a plan shall be determined by the number of employers who are required to contribute to the plan. Thus, for example, this paragraph applies to plans maintained by more than one employer which are collectively bargained as described in section 413(a), multiple-employer plans described in section 413(c) and the regulations thereunder, multiemployer plans described in section 414(f), and plans adopted by more than one employer of certain controlled and common control groups described in section 414 (b) and (c).

(2) *Time for reporting deferred vested retirement benefit*—(i) *In general.* In the case of a plan to which more than one employer contributes, information relating to the deferred vested retirement benefit of a plan participant must be filed no later than on the schedule

SSA filed for the plan year within which the participant completes the second of two consecutive one-year breaks in service (as defined in the plan for vesting percentage purposes) in service computation periods (as defined in the plan for vesting percentage purposes) which begin after December 31, 1974. At the option of the plan administrator, information relating to a participant's deferred vested retirement benefit may be filed earlier (that is, on the schedule SSA filed for the plan year in which the participant incurs the first one-year break in service or, in the case of a separated participant, on the schedule SSA filed for the plan year in which the participant separates from service).

(ii) *Special rules*—For purposes of this subparagraph (1)—

(A) For the definition of the term ''1-year break in service'' in the case of a plan which uses the elapsed time method described in Department of Labor Regulations for crediting service for vesting percentage purposes, see §1.411(a)–6(c)(2).

(B) In the case of a plan which does not define the term ''1-year break in service'' for vesting percentage purposes, a plan participant shall be deemed to incur a 1-year break in service under the plan in any plan year within which the participant does not complete more than 500 hours of service covered by the plan.

(iii) *Transitional rule*. Notwithstanding subdivision (i), if the second consecutive 1-year break in service described in subdivision (i) is incurred in a plan year beginning before January 1, 1978, information relating to the participant's deferred vested retirement benefit is not required to be filed earlier than on the schedule SSA filed for the first plan year beginning after December 31, 1977.

(iv) *Exception*. Notwithstanding subdivision (i) or (iii) of this subparagraph, no information relating to a participant's deferred vested retirement benefit is required to be filed on schedule SSA if, before the date such schedule SSA is required to be filed (including any extension of time for filing granted pursuant to section 6081), the participant (A) is paid some or all of the deferred vested retirement benefit under the plan, (B) accrues additional retirement benefits under the plan, or (C) forfeits all of the deferred vested retirement benefit under the plan.

(3) *Information relating to deferred vested retirement benefit*—(i) *Incomplete records*. Section 6057(a) and paragraph (a)(4) of this section require the filing on schedule SSA of a description of the deferred vested retirement benefit to which the participant is entitled. If the plan administrator of a plan to which more than one employer contributes maintains records of a participant's service covered by the plan which are incomplete as of the close of the plan year with respect to which the plan administrator files information relating to the participant on schedule SSA, the plan administrator may elect to file the information required by schedule SSA based only upon these incomplete records. The plan administrator is not required, for purposes of completing schedule SSA, to compile from sources other than such records a complete record of a participant's years of service covered by the plan. Similarly, if retirement benefits under the plan are determined by taking into account a participant's service with an employer which is not service covered by the plan, but the plan administrator maintains records only with respect to periods of service covered by the plan, the plan administrator may complete schedule SSA taking into account only the participant's period of service covered by the plan.

(ii) *Inability to determine correct amount of participant's deferred vested retirement benefit*. If the amount of a participant's deferred vested retirement benefit which is filed on schedule SSA is computed on the basis of plan records maintained by the plan administrator which—

(A) Are incomplete with respect to the participant's service covered by the plan (as described in subdivision (i)), or

(B) Fail to account for the participant's service not covered by the plan which is relevant to a determination of the participant's deferred vested retirement benefit under the plan (as described in subdivision (i)),

then the plan administrator must indicate on schedule SSA that the amount

of the deferred vested retirement benefit shown therein may be other than that to which the participant is actually entitled because the amount is based upon incomplete records.

(iii) *Inability to determine whether participant vested in deferred retirement benefit.* Where, as described in subdivision (i), information to be reported on schedule SSA is to be based upon records which are incomplete with respect to a participant's service covered by the plan or which fail to take into account relevant service not covered by the plan, the plan administrator may be unable to determine whether or not the participant is vested in any deferred retirement benefit. If, in view of information provided either by the incomplete records or the plan participant, there is a significant likelihood that the plan participant is vested in a deferred retirement benefit under the plan, information relating to the participant must be filed on schedule SSA with the notation that the participant may be entitled to a deferred vested retirement benefit under the plan, but information relating to the amount of the benefit may be omitted. This subdivision (iii) does not apply in a case in which it can be determined from plan records maintained by the plan administrator that the participant is vested in a deferred retirement benefit. Subdivision (ii), however, may apply in such a case.

(c) *Voluntary filing*—(1) *In general.* The plan administrator of an employee retirement benefit plan described in paragraph (a)(3) of this section, or any other employee retirement benefit plan (including a governmental or church plan), may at its option, file on schedule SSA information relating to the deferred vested retirement benefit of any plan participant who separates at any time from service covered by the plan, including plan participants who separate from service in plan years beginning before 1976.

(2) *Deleting previously filed information.* If, after information relating to the deferred vested retirement benefit of a plan participant is filed on schedule SSA, the plan participant—

(i) Is paid some or all of the deferred vested retirement benefit under the plan, or

(ii) Forfeits all of the deferred vested retirement benefit under the plan, the plan administrator may, at its option, file on schedule SSA (or such other form as may be provided for this purpose) the name and social security number of the participant with the notation that information previously filed relating to the participant's deferred vested retirement benefit should be deleted.

(d) *Filing incident to cessation of payment of benefits*—(1) *In general.* As described in this section, no information relating to the deferred vested retirement benefit of a plan participant is required to be filed on schedule SSA if before the date such schedule SSA is required to be filed, some of the deferred vested retirement benefit is paid to the participant, and information relating to a participant's deferred vested retirement benefit which was previously filed on schedule SSA may be deleted if the participant is paid some of the deferred vested retirement benefit. If payment of the deferred vested retirement benefit ceases before all of the benefit to which the participant is entitled is paid to the participant, information relating to the deferred vested retirement benefit to which the participant remains entitled shall be filed on the schedule SSA filed for the plan year following the last plan year within which a portion of the benefit is paid to the participant.

(2) *Exception.* Notwithstanding subparagraph (1) of this paragraph, no information relating to the deferred vested retirement benefit to which the participant remains entitled is required to be filed on schedule SSA if, before the date such schedule SSA is required to be filed (including any extension of time for filing granted pursuant to section 6081), the participant (i) returns to service covered by the plan, (ii) accrues additional retirement benefits under the plan, or (iii) forfeits the benefit under the plan.

(e) *Individual statement to participant.* The plan administrator of an employee retirement benefit plan defined in paragraph (a)(3) of this section must provide each participant with respect to whom information is required to be filed on schedule SSA a statement describing the deferred vested retirement

benefit to which the participant is entitled. The description provided the participant must include the information filed with respect to the participant on schedule SSA. The statement is to be delivered to the participant or forwarded to the participant's last known address no later than the date on which any schedule SSA reporting information with respect to the participant is required to be filed (including any extension of time for filing granted pursuant to section 6081).

(f) *Penalties*. For amounts imposed in the case of failure to file the report of deferred vested retirement benefits required by section 6057(a) and paragraph (a) or (b) of this section, see section 6652(e)(1). For the penalty relating to a failure to provide the participant the individual statement of deferred vested retirement benefit required by section 6057(e) and paragraph (e) of this section, see section 6690.

(g) *Effective dates*—(1) *Plans to which only one employer contributes*. In the case of a plan to which only one employer contributes, this section is effective for plan years beginning after December 31, 1975, and with respect to a participant who separates from service covered by the plan in plan years beginning after that date.

(2) *Plans to which more than one employer contributes*. In the case of a plan to which more than one employer contributes, this section is effective for plan years beginning after December 31, 1977, and with respect to a participant who completes two consecutive 1-year breaks in service under the plan in service computation periods beginning after December 31, 1974.

[T.D. 7561, 43 FR 38004, Aug. 25, 1978]

§ 301.6057–2 Employee retirement benefit plans; notification of change in plan status.

(a) *Change in plan status*. The plan administrator (within the meaning of section 414(g)) of an employee retirement benefit plan defined in § 301.6057–1(a)(3) (including a plan to which more than one employer contributes, as described in § 301.6057–1(b)(1)) must notify the Internal Revenue Service of the following changes in plan status—

(1) A change in the name of the plan.

(2) A change in the name or address of the plan administrator,

(3) The termination of the plan, or

(4) The merger or consolidation of the plan with another plan or the division of the plan into two or more plans.

(b) *Notification*. A notification of a change in status described in paragraph (a) of this section, must be filed on the Annual Return/Report of Employee Benefit Plan (form 5500 series) for the plan year in which the change in status occurred. The notification must be filed at the time and place and in the manner prescribed in the form and any accompanying instructions.

(c) *Penalty*. For amounts imposed in the case of failure to file a notification of a change in plan status required by section 6057(b) and this section, see section 6652(e)(2).

(d) *Effective date*. This section is effective for changes in plan status occurring within plan years beginning after December 31, 1975.

[T.D. 7561, 43 FR 38006, Aug. 25, 1978]

§ 301.6057–3 Required use of magnetic media for filing requirements relating to deferred vested retirement benefit.

(a) *Magnetic media filing requirements under section 6057*. A registration statement required under section 6057(a) or a notification required under section 6057(b) with respect to an employee benefit plan must be filed on magnetic media if the filer is required by the Internal Revenue Code or regulations to file at least 250 returns during the calendar year that includes the first day of the plan year. Returns filed on magnetic media must be made in accordance with applicable revenue procedures, publications, forms, instructions, or other guidance on the IRS.gov Internet Web site. In prescribing revenue procedures, publications, forms, instructions, or other guidance on the IRS.gov Internet Web site, the Commissioner may direct the type of magnetic media filing. See § 601.601(d)(2)(ii)(*b*) of this chapter.

(b) *Economic hardship waiver*. The Commissioner may waive the requirements of this section in cases of undue economic hardship. The principal factor in determining hardship will be the amount, if any, by which the cost of

filing the registration statements or notifications on magnetic media in accordance with this section exceeds the cost of filing the registration statements or notifications on other media. A request for a waiver must be made in accordance with applicable published guidance, publications, forms, instructions, or other guidance on the IRS.gov Internet Web site. See § 601.601(d)(2)(ii)(*b*) of this chapter. The waiver will specify the type of filing (that is, a registration statement or notification under section 6057) and the period to which it applies. In addition, the waiver will be subject to such terms and conditions regarding the method of filing as may be prescribed by the Commissioner.

(c) *Failure to file*. If a filer required to file a registration statement or other notification under section 6057 fails to file the statement or other notification on magnetic media when required to do so by this section, the filer is deemed to have failed to file the statement or other notification. See section 6652(d) for the amount imposed for the failure to file a registration statement or other notification required under section 6057. In determining whether there is reasonable cause for the failure to file the registration statement or notification under section 6057, § 301.6652–3(b) and rules similar to the rules in § 301.6724–1(c)(3)(ii) (regarding undue economic hardship related to filing information returns on magnetic media) will apply.

(d) *Meaning of terms*. The following definitions apply for purposes of this section.

(1) *Magnetic media*. The term *magnetic media* means electronic filing, as well as other media specifically permitted under applicable regulations, revenue procedures, or publications, forms, instructions, or other guidance on the IRS.gov Internet Web site. See § 601.601(d)(2)(ii)(*b*) of this chapter.

(2) *Registration statement required under section 6057(a)*. The term *registration statement required under section 6057(a)* means a Form 8955–SSA (or its successor).

(3) *Notification required under section 6057(b)*. The term *notification required under section 6057(b)* means either a Form 8955–SSA (or its successor) or a return in the Form 5500 series (or its successor).

(4) *Determination of 250 returns*—(i) *In general*. For purposes of this section, a filer is required to file at least 250 returns if, during the calendar year that includes the first day of the plan year, the filer is required to file at least 250 returns of any type, including information returns (for example, Forms W–2 and Forms 1099), income tax returns, employment tax returns, and excise tax returns.

(ii) *Definition of filer*. For purposes of this section, the term *filer* means the plan administrator within the meaning of section 414(g). If the plan administrator within the meaning of section 414(g) is the employer, the special rules in § 1.6058–2(d)(3)(iii) will apply.

(e) *Example*. The following example illustrates the provisions of paragraph (d)(4) of this section:

Example. In 2015, P, the plan administrator of Plan B, is required to file 252 returns (including Forms 1099–R, ''Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.;'' Form 8955–SSA, ''Annual Registration Statement Identifying Separated Participants with Deferred Vested Benefits;'' Form 5500, ''Annual Return/Report of Employee Benefit Plan;'' and Form 945, ''Annual Return of Withheld Federal Income Tax''). Plan B's plan year is the calendar year. Because P is required to file at least 250 returns during the 2015 calendar year, P must file the 2015 Form 8955–SSA for Plan B electronically.

(f) *Effective/applicability date*. This section is applicable for registration statements and other notifications required to be filed under section 6057 for plan years that begin on or after January 1, 2014, but only for filings with a filing deadline (not taking into account extensions) on or after July 31, 2015.

[T.D. 9695, 79 FR 58258, Sept. 29, 2014]

§ 301.6058–1 Information required in connection with certain plans of deferred compensation.

(a) *Reporting of information*—(1) *Annual return*. For each funded plan of deferred compensation an annual return must be filed with the Internal Revenue Service. The annual return of the plan is the appropriate Annual Return/Report of Employee Benefit Plan (Form 5500 series) as determined under

these forms. The annual period for the annual return of the plan shall be either the plan year or the taxable year of the employer maintaining the plan as determined under these forms. These forms are hereinafter referred to as the ''forms prescribed by section 6058(a).''

(2) *Plans subject to requirements.* For purposes of this section, the term ''funded plan of deferred compensation'' means each pension, annuity, stock bonus, profit-sharing, or other funded plan of deferred compensation described in part 1 of subchapter D of chapter 1. Accordingly, the term includes qualified plans under sections 401(a), 403(a), and 405(a); individual retirement accounts and annuities described in sections 408(a) and 408(b); and custodial accounts under section 403(b)(7). The term also includes: funded plans of deferred compensation which are not qualified plans; funded governmental plans and church plans, whether or not qualified (See sections 414(d) and 414(e)); and plans maintained outside the United States primarily for nonresident aliens (as described in subsection (b)(4) of section 4 of subtitle A of title I of the Employee Retirement Income Security Act of 1974; (88 Stat. 840)). The term does not include annuity contracts described in section 403(b)(1) or individual retirement accounts (an individual participant or surviving beneficiary in such account must file under paragraph (d)(2) of this section) and bonds described in sections 408(c) and 409.

(3) *Required information.* The information required to be furnished on the forms prescribed by section 6058(a) shall include such information concerning the qualification of the plan, the financial condition of the trust, fund, or custodial or fiduciary account which is a part of the plan, and the operation of the plan as shall be required by the forms, applicable accompanying schedules and related instructions applicable to the annual period.

(4) *Time of filing.* The forms prescribed by section 6058(a) shall be filed in the manner and at the time as required by the forms and related instructions applicable to the annual period.

(b) *Who must file*—(1) *In general.* The annual return required to be filed under section 6058(a) and paragraph (a) of this section for the annual period shall be filed by either the employer maintaining the plan or the plan administrator (as defined in section 414(g)) of the plan for that annual period. Whether the employer or plan administrator files shall be determined under the forms prescribed by section 6058(a) and related instructions applicable to the annual period. Nothing in these forms shall preclude an employer from filing the return on behalf of the plan administrator, or the plan administrator from filing on behalf of the employer.

(2) *Definition of employer.* For purposes of subparagraph (1) of this paragraph, the term ''employer'' includes a sole proprietor and a partnership.

(c) *Other rules applicable to annual returns*—(1) *Extensions of time for filing.* For rules relating to the extension of time for filing, see section 6081 and the regulations thereunder and the instructions on the forms prescribed by section 6058(a).

(2) *Amended filing.* Any form prescribed by this section may be filed as an amendment to a form previously filed under this section with respect to the same annual period pursuant to the instructions for such forms.

(3) *Additional information.* In addition to the information otherwise required to be furnished by this section, the district director may require any further information that is considered necessary to determine allowable deductions under section 404, qualification under section 401, or the financial condition and operation of the plan.

(4) *Records.* Records substantiating all data and information required by this section to be filed must be kept at all times available for inspection by internal revenue officers at the principal office or place of business of the employer or plan administrator.

(5) *Relief from filing.* Notwithstanding paragraph (a) of this section, the Commissioner may, in his discretion, relieve an employer, or plan administrator, from reporting information on the forms prescribed by section 6058(a). This discretion includes the ability to relieve an employer, or plan administrator, from filing the applicable form.

(d) *Special rules for individual retirement arrangements*—(1) *Application*. This paragraph, in lieu of paragraph (a) of this section, applies to an individual retirement account described in section 408(a) and an individual retirement annuity described in section 408(b), including such accounts and annuities for which a deduction is allowable under section 220 (spousal individual retirement arrangements).

(2) *General rule*. For each taxable year beginning after December 31, 1974, every individual who during such taxable year—

(i) Establishes or maintains an individual retirement account described in section 408(a) (including an individual who is a participant in an individual retirement account described in section 408(c)).

(ii) Purchases or maintains an individual retirement annuity described in section 408(b), or

(iii) Is a surviving beneficiary with respect to an account or annuity referred to in this subparagraph which is in existence during such taxable year, shall file Form 5329 (or any other form designated by the Commissioner for this purpose), as an attachment to or part of the Form 1040 filed by such individual for such taxable year, setting forth in full the information required by that form and the accompanying instructions.

(3) *Special information returns*. If an individual described in subparagraph (2) of this paragraph is not required to file a Form 1040 for such taxable year, such individual shall file a Form 5329 (or any other designated form) with the Internal Revenue Service by the 15th day of the 4th month following the close of such individual's taxable year setting forth in full the information required by that form and the accompanying instructions.

(4) *Relief from filing*. The Commissioner may, in his discretion, relieve an individual from filing the form prescribed by this paragraph.

(5) *Retirement bonds*. An individual who purchases, holds, or maintains a retirement bond described in section 409 may be required to file a return under other provisions of the Code.

(e) *Actuarial statement in case of mergers, etc*. For requirements with respect to the filing of actuarial statements in the case of a merger, consolidation, or transfer of assets or liabilities, see section 6058(b) and section 414(l) and the regulations thereunder.

(f) *Effective dates*—(1) *Section 6058 (a) requirements*. The rules with respect to annual returns required under section 6058(a) (the rules in this section, other than paragraph (e) thereof) are effective for plan years beginning after September 2, 1974.

(2) *Section 6058(b) requirements*. The requirements of section 6058(b) relating to mergers, etc., and paragraph (e) of this section are effective on September 2, 1974, with respect to events described in section 6058(b) occurring on or after such date.

[T.D. 7551, 43 FR 29292, July 7, 1978]

§ 301.6058–2 Required use of magnetic media for filing requirements relating to information required in connection with certain plans of deferred compensation.

(a) *Magnetic media filing requirements under section 6058*. A return required under section 6058 with respect to an employee benefit plan must be filed on magnetic media if the filer is required by the Internal Revenue Code or regulations to file at least 250 returns during the calendar year that includes the first day of the plan year. Returns filed on magnetic media must be made in accordance with applicable revenue procedures, publications, forms, instructions, or other guidance on the IRS.gov Internet Web site. In prescribing revenue procedures, publications, forms, and instructions, or other guidance on the IRS.gov Internet site, the Commissioner may direct the type of magnetic media filing. See § 601.601(d)(2)(ii)(*b*) of this chapter.

(b) *Economic hardship waiver*. The Commissioner may waive the requirements of this section in cases of undue economic hardship. The principal factor in determining hardship will be the amount, if any, by which the cost of filing the return on magnetic media in accordance with this section exceeds the cost of filing the returns on other media. A request for a waiver must be made in accordance with applicable published guidance, publications, forms, instructions, or other guidance

on the IRS.gov Internet Web site. See § 601.601(d)(2)(ii)(*b*) of this chapter. The waiver will specify the type of filing (that is, a return required under section 6058) and the period to which it applies. In addition, the waiver will be subject to such terms and conditions regarding the method of filing as may be prescribed by the Commissioner.

(c) *Failure to file*. If a filer required to file a return under section 6058 fails to file the return on magnetic media when required to do so by this section, the filer is deemed to have failed to file the return. See section 6652(e) for the amount imposed for the failure to file a return required under section 6058. In determining whether there is reasonable cause for failure to file the return, § 301.6652–3(b) and rules similar to the rules in § 301.6724–1(c)(3)(ii) (regarding undue economic hardship related to filing information returns on magnetic media) will apply.

(d) *Meaning of terms*. The following definitions apply for purposes of this section.

(1) *Magnetic media*. The term *magnetic media* means electronic filing, as well as other media specifically permitted under applicable regulations, revenue procedures, or publications, forms, instructions, or other guidance on the IRS.gov Internet Web site. See § 601.601(d)(2)(ii)(*b*) of this chapter.

(2) *Return required under section 6058*. The term *return required under section 6058* means a return in the Form 5500 series (or its successor).

(3) *Determination of 250 returns*—(i) *In general*. For purposes of this section, a filer is required to file at least 250 returns if, during the calendar year that includes the first day of the plan year, the filer is required to file at least 250 returns of any type, including information returns (for example, Forms W–2 and Forms 1099), income tax returns, employment tax returns, and excise tax returns.

(ii) *Definition of filer*. For purposes of this section, the term *filer* means the employer or employers maintaining the plan and the plan administrator within the meaning of section 414(g).

(iii) *Special rules relating to determining 250 returns*. For purposes of applying paragraph (d)(3)(ii) of this section, the aggregation rules of section 414(b), (c), (m), and (o) will apply to a filer that is or includes an employer. Thus, for example, a filer that is a member of a controlled group of corporations within the meaning of section 414(b) must file the Form 5500 series on magnetic media if the aggregate number of returns required to be filed by all members of the controlled group of corporations is at least 250.

(e) *Example*. The following example illustrates the provisions of paragraph (d)(3) of this section:

Example. In 2016 Employer X (the plan sponsor of Plan A) and P (the plan administrator of Plan A) are required to file 267 returns. Employer X is required to file the following: one Form 1120, ''U.S. Corporation Income Tax Return;'' 195 Forms W–2, ''Wage and Tax Statement;'' 25 Forms 1099–DIV, ''Dividends and Distributions;'' one Form 940, ''Employer's Annual Federal Unemployment (FUTA) Tax Return;'' and four Forms 941, ''Employer's Quarterly Federal Tax Return.'' P is required to file 40 Forms 1099–R, ''Distributions From Pensions, Annuities, Retirement, Profit-Sharing Plans, IRAs, Insurance Contracts, etc.'' P and Employer X are jointly required to file one Form 5500 series return. Plan A's plan year is the calendar year. Because P and Employer X, in the aggregate, are required to file at least 250 returns during the calendar year, the 2016 Form 5500 for Plan A must be filed electronically.

(f) *Effective/applicability date*. This section is applicable for returns required to be filed under section 6058 for plan years that begin on or after January 1, 2015, but only for filings with a filing deadline (not taking into account extensions) after December 31, 2015.

[T.D. 9695, 79 FR 58259, Sept. 29, 2014]

§ 301.6059–1 Periodic report of actuary.

(a) *In general*. The actuarial report described in this section must be filed on behalf on a defined benefit plan to which the minimum funding standards of section 412 apply. The actuarial report must be filed by the plan administrator (within the meaning of section 414(g)) on Schedule B as an attachment to the annual Return/Report of Employee Benefit Plan (Form 5500 series). The instructions accompanying the Form 5500 series prescribe the place and date for filing Schedule B.

(b) *Plan years for which report required*. In the case of a plan in existence on January 1, 1974, Schedule B must be filed for the first plan year beginning after December 31, 1975, for which the minimum funding standards apply to the plan, and for each plan year thereafter for which the Schedule must be filed under the instructions accompanying the Schedule and the Form 5500 series. In the case of a plan not in existence on January 1, 1974, Schedule B must be filed for the first plan year beginning after September 2, 1974, for which the minimum funding standards apply to the plan, and for each plan year thereafter for which the Schedule must be filed under the instructions accompanying the Schedule and the Form 5500 series. For rules relating to when a plan is considered to be in existence, see §1.410(a)–2(c). For purposes of this section, ''plan year'' means the plan year as determined for purposes of the minimum funding standards.

(c) *Contents of report*. The actuarial report of a plan filed on Schedule B must contain—

(1) The date of the actuarial valuation applicable to the plan year for which the report is filed (see section 412(c)(9) for rules relating to the frequency with which an actuarial valuation of the plan is required to be made),

(2) A description of the funding method and actuarial assumptions used to determine costs under the plan,

(3) A certification of the contribution necessary to reduce the accumulated funding deficiency (as defined in section 412(a)) to zero,

(4) A statement by the enrolled actuary signing the report that to the best of the actuary's knowledge the report is complete and accurate,

(5) A statement by the enrolled actuary signing the report that in the actuary's opinion the actuarial assumptions used are in the aggregate (i) reasonably related to the experience of the plan and to reasonable expectations, and (ii) represent the actuary's best estimate of anticipated experience under the plan,

(6) Such other information as may be necessary to fully and fairly disclose the actuarial position of the plan, and

(7) Such other information as may be required by Schedule B or the instructions accompanying the Schedule and the Form 5500 series.

(d) *Certification by enrolled actuary*. The actuarial report filed on Schedule B must be signed by an enrolled actuary (within the meaning of section 7701(a)(35)) or there may be attached to the report a statement signed by the actuary that contains the statements described in paragraph (c) (4) and (5) of this section.

An actuarial report filed for a plan year ending after January 25, 1982, does not satisfy the requirements of this section if the actuary seeks to materially qualify such statements. For this purpose, the following are not considered to materially qualify a statement required by paragraph (c) (4) or (5) of this section:

(1) A statement that the report is based in part on information provided to the actuary by another person, that such information would customarily not be verified by the actuary, and that the actuary has no reason to doubt the substantial accuracy of the information (taking into account the facts and circumstances that are known or reasonably should be known to the actuary, including the contents of any other actuarial report prepared by the actuary for the plan),

(2) A statement that the report is based in part on information provided by another person, that the actuary believes such information is or may be inaccurate or incomplete, but that the inaccuracies or omissions are not material, the inaccuracies or omissions are not so numerous or flagrant as to suggest that there may be material inaccuracies, and that therefore the actuarial report is substantially accurate and complete and fairly discloses the actuarial position of the plan,

(3) A statement that the report reflects the requirement of a regulation or ruling, and that any statement regarding the actuarial position of the plan is made only in light of such requirement,

(4) A statement that the report reflects an interpretation of a statute, regulation or ruling, that the actuary has no reason to doubt the validity of that interpretation, and that any

statement regarding the actuarial position of the plan is made only in light of such interpretation,

(5) A statement that in the opinion of the actuary the report fully reflects the requirements of an applicable statute, but does not conform to the requirements of a regulation or ruling promulgated under the statute that the actuary believes is contrary to the statute, or

(6) A statement furnished to comply with the requirements of paragraph (c)(6) of this section.

A statement otherwise described in a subparagraph of this paragraph (d) shall not be considered to satisfy the requirements of such subparagraph unless the statement identifies, with particularity, that matter to which the statement relates and the facts and circumstances surrounding the statement. In addition, a statement otherwise described in subparagraph (5) of this paragraph (d) shall not be considered to satisfy the requirements of that subparagraph unless the statement indicates whether an accumulated funding deficiency or a contribution that is not wholly deductible may result if the actuary's belief is determined to be incorrect.

(e) *Relief from filing*. Notwithstanding paragraph (a) of this section, the Commissioner may, in the Commissioner's discretion, relieve a plan administrator from filing Schedule B or from reporting information required by Schedule B or paragraph (c) of this section.

(f) *Penalty*. For the penalty imposed in the case of a failure to file the actuarial report required by this section, see section 6692 and § 301.6692–1.

(Secs. 6059 and 7805 of the Internal Revenue Code of 1954 (88 Stat. 947, 68A Stat. 917; 26 U.S.C. 6059, 7805))

[T.D. 7798, 46 FR 57483, Nov. 24, 1981; 46 FR 60435, Dec. 10, 1981]

§ 301.6059–2 Required use of magnetic media for filing requirements relating to periodic report of actuary.

(a) *Magnetic media filing requirements under section 6059*. An actuarial report required under section 6059 with respect to an employee benefit plan must be filed on magnetic media if the filer is required by the Internal Revenue Code or regulations to file at least 250 returns during the calendar year that includes the first day of the plan year. Actuarial reports filed on magnetic media must be made in accordance with applicable revenue procedures, publications, forms, instructions, or other guidance on the IRS.gov Internet Web site. In prescribing revenue procedures, publications, forms, instructions, or other guidance on the IRS.gov Internet Web site, the Commissioner may direct the type of magnetic media filing. See § 601.601(d)(2)(ii)(*b*) of this chapter.

(b) *Economic hardship waiver*. The Commissioner may waive the requirements of this section in cases of undue economic hardship. The principal factor in determining hardship will be the amount, if any, by which the cost of filing the reports on magnetic media in accordance with this section exceeds the cost of filing the reports on other media. A request for a waiver must be made in accordance with applicable published guidance, publications, forms, instructions, or other guidance on the IRS.gov Internet Web site. See § 601.601(d)(2)(ii)(*b*) of this chapter. The waiver will specify the type of filing (that is, an actuarial report required under section 6059) and the period to which it applies. In addition, the waiver will be subject to such terms and conditions regarding the method of filing as may be prescribed by the Commissioner.

(c) *Failure to file*. If a filer required to file an actuarial report under section 6059 fails to file the report on magnetic media when required to do so by this section, the filer is deemed to have failed to file the report. See section 6692 for the penalty for the failure to file an actuarial report. In determining whether there is reasonable cause for failure to file the report, § 301.6692–1(c) and rules similar to the rules in § 301.6724–1(c)(3)(ii) (regarding undue economic hardship related to filing information returns on magnetic media) will apply.

(d) *Meaning of terms*. The following definitions apply for purposes of this section.

(1) *Magnetic media*. The term *magnetic media* means electronic filing, as well as other media specifically permitted under applicable regulations, revenue

procedures, or publications, forms, instructions, or other guidance on the IRS.gov Internet Web site. See § 601.601(d)(2)(ii)(*b*) of this chapter.

(2) *Actuarial report required under section 6059*—(i) *Single employer plans*. For a single employer plan, the term *actuarial report required under section 6059* means the Schedule SB, ''Single-Employer Defined Benefit Plan Actuarial Information,'' of the Form 5500 series (or its successor).

(ii) *Multiemployer and certain money purchase plans*. For multiemployer and certain money purchase plans, the term *actuarial report required under section 6059* means the Schedule MB, ''Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information,'' of the Form 5500 series (or its successor).

(3) *Determination of 250 returns*—(i) *In general*. For purposes of this section, a filer is required to file at least 250 returns if, during the calendar year that includes the first day of the plan year, the filer is required to file at least 250 returns of any type, including information returns (for example, Forms W–2 and Forms 1099), income tax returns, employment tax returns, and excise tax returns.

(ii) *Definition of filer*. For purposes of this section, the term *filer* means the plan administrator within the meaning of section 414(g). If the plan administrator within the meaning of section 414(g) is the employer, the special rules in § 1.6058–2(d)(3)(iii) will apply.

(e) *Example*. The following example illustrates the provisions of paragraph (d)(3) of this section:

Example. In 2016, P, the plan administrator of Plan B (a single employer defined benefit plan), is required to file 266 returns (including Forms 1099–R ''Distributions From Pensions, Annuities, Retirement, Profit-Sharing Plans, IRAs, Insurance Contracts, etc.'' and one Form 5500 series). Plan B's plan year is the calendar year. Because P is required to file at least 250 returns during the calendar year, P must file the 2016 Schedule SB of the Form 5500 series return for Plan B electronically.

(f) *Effective/applicability date*. This section is applicable for actuarial reports required to be filed under section 6059 for plan years that begin on or after January 1, 2015, but only for filings with a filing deadline (not taking into account extensions) after December 31, 2015.

[T.D. 9695, 79 FR 58260, Sept. 29, 2014]

SIGNING AND VERIFYING OF RETURNS AND OTHER DOCUMENTS

§ 301.6061–1 Signing of returns and other documents.

(a) *In general*. For provisions concerning the signing of returns and other documents, see the regulations relating to the particular tax.

(b) *Method of signing*. The Secretary may prescribe in forms, instructions, or other appropriate guidance the method of signing any return, statement, or other document required to be made under any provision of the internal revenue laws or regulations.

(c) *Effective dates*. The rule in paragraph (a) is effective December 12, 1996. The rule in paragraph (b) is effective on July 21, 1995.

[T.D. 8689, 61 FR 65320, Dec. 12, 1996]

§ 301.6062–1 Signing of corporation returns.

For provisions relating to the signing of corporation income tax returns, see § 1.6062–1 of this chapter (Income Tax Regulations).

§ 301.6063–1 Signing of partnership returns.

For provisions relating to the signing of returns of partnership income, see § 1.6063–1 of this chapter (Income Tax Regulations).

§ 301.6064–1 Signature presumed authentic.

An individual's name signed to a return, statement, or other document shall be prima facie evidence for all purposes that the return, statement, or other document was actually signed by him.

§ 301.6065–1 Verification of returns.

For provisions concerning the verification of returns and other documents, see the regulations relating to the particular tax.

TIME FOR FILING RETURNS AND OTHER DOCUMENTS

§ 301.6071–1 Time for filing returns and other documents.

For provisions concerning the time for filing returns and other documents, see the regulations relating to the particular tax.

§ 301.6072–1 Time for filing income tax returns.

For provisions relating to time for filing income tax returns, see §§ 1.6072–1 to 1.6072–4, inclusive, of this chapter (Income Tax Regulations).

§ 301.6073–1 Time for filing declarations of estimated income tax by individuals.

For provisions relating to time for filing declarations of estimated income tax by individuals, see §§ 1.6073–1 to 1.6073–4, inclusive, of this chapter (Income Tax Regulations).

§ 301.6074–1 Time for filing declarations of estimated income tax by corporations.

For provisions relating to time for filing declarations of estimated income tax by corporations, see §§ 1.6074–1 to 1.6074–3, inclusive, of this chapter (Income Tax Regulations).

§ 301.6075–1 Time for filing estate and gift tax returns.

For provisions relating to time for filing estate tax returns and gift tax returns, see § 20.6075–1 of this chapter (Estate Tax Regulations) and § 25.6075–1 of this chapter (Gift Tax Regulations), respectively.

EXTENSION OF TIME FOR FILING RETURNS

§ 301.6081–1 Extension of time for filing returns.

For provisions concerning extensions of time for filing returns or other documents, see the regulations relating to the particular tax.

§ 301.6081–2 Automatic extension of time for filing an information return with respect to certain foreign trusts.

(a) *In general.* A trust required to file a return on Form 3520-A, ''Annual Information Return of Foreign Trust with a U.S. Owner,'' will be allowed an automatic 6-month extension of time to file the return after the date prescribed for filing the return if the trust files an application under this section in accordance with paragraph (b) of this section.

(b) *Requirements.* To satisfy this paragraph (b), a trust must—

(1) Submit a complete application on Form 7004, ''Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns,'' or in any other manner prescribed by the Commissioner; and

(2) File the application on or before the date prescribed for filing the return with the Internal Revenue Service office designated in the application's instructions.

(c) *Termination of automatic extension.* The Commissioner may terminate an automatic extension at any time by mailing to the trust a notice of termination at least 10 days prior to the termination date designated in such notice. The Commissioner must mail the notice of termination to the address shown on the Form 7004 or to the trust's last known address. For further guidance regarding the definition of last known address, see § 301.6212–2 of this chapter.

(d) *Penalties.* See section 6677 for failure to file information returns with respect to certain foreign trusts.

(e) *Effective/applicability dates.* This section is applicable for applications for an automatic extension of time to file an information return with respect to certain foreign trusts listed in paragraph (a) of this section filed after July 1, 2008.

[T.D. 9407, 73 FR 37371, July 1, 2008]

PLACE FOR FILING RETURNS OR OTHER DOCUMENTS

§ 301.6091–1 Place for filing returns and other documents.

(a) *General rule.* For provisions concerning the place for filing returns, including hand-carried returns, see the regulations relating to the particular tax. Except as provided in paragraph (b) of this section, for provisions concerning the place for filing documents

other than returns, see the regulations relating to the particular tax.

(b) *Exception for hand-carried documents other than returns.* Notwithstanding any other provisions of this chapter—

(1) *Persons other than corporations.* If a document, other than a return, of a person (other than a corporation) is hand carried, and if the document is otherwise required to be filed with a service center, such document may be filed with any person assigned the responsibility to receive hand-carried returns in the local Internal Revenue Service office that serves the legal residence or principal place of business of such person, or, in the case of an estate, the local Internal Revenue Service office serving the domicile of the decedent at the time of his death. A document may also be filed by hand carrying such document to the appropriate service center, or, in the case of a document required to be filed with an office of the Alcohol and Tobacco Tax and Trade Bureau, by hand carrying as specified in regulations of the Alcohol and Tobacco Tax and Trade Bureau, see, 27 CFR chapter I, subchapter F.

(2) *Corporations.* If a document, other than a return, of a corporation is hand carried, and if the document is otherwise required to be filed with a service center, such document may be filed with any person assigned the responsibility to receive hand-carried returns in the local Internal Revenue Service office that serves the principal place of business or principal office or agency of the corporation. A document may also be filed by hand carrying such document to the appropriate service center, or, in the case of a document required to be filed with an office of the Alcohol and Tobacco Tax and Trade Bureau, by hand carrying as specified in regulations of the Alcohol and Tobacco Tax and Trade Bureau, see, 27 CFR chapter I, subchapter F.

(c) *Definition of hand carried.* For purposes of this section and section 6091(b)(4) and the regulations issued thereunder, a return or document will be considered to be hand carried if it is brought to the any person assigned the responsibility to receive hand-carried returns in the local Internal Revenue Service office by the person required to file the return or other document, or by his agent. Examples of persons who will be considered to be agents, for purposes of the preceding sentence, are: Members of the taxpayer's family, an employee of the taxpayer, the taxpayer's attorney, accountant, or tax advisor, and messengers employed by the taxpayer. A return or document will not be considered to be hand carried if it is sent to the Internal Revenue Service through the U.S. Mail.

[T.D. 6950, 33 FR 5359, Apr. 4, 1968, as amended by T.D. 7008, 34 FR 3673, Mar. 1, 1969; T.D. 7012, 34 FR 7697, May 15, 1969; T.D. 7188, 37 FR 12794, June 29, 1972; T.D. 7238, 37 FR 28739, Dec. 29, 1972; T.D. ATF–33, 41 FR 44038, Oct. 6, 1976; T.D. 7495, 42 FR 33727, July 1, 1977; T.D. 9156, 69 FR 55747, Sept. 16, 2004]

§ 301.6096–1 Designation by individuals for taxable years beginning after December 31, 1972.

(a) *In general.* Every individual (other than a nonresident alien) whose income tax liability, as defined in paragraph (b) of this section, is one dollar or more may, at his option, designate that one dollar shall be paid over to the Presidential Election Campaign Fund, in accordance with the provisions of section 9006. In the case of a joint return of a husband and wife, each spouse may designate that one dollar be paid to the fund as provided in this paragraph only if the joint income tax liability of the husband and wife is two dollars or more.

(b) *Income tax liability.* For purposes of paragraph (a) of this section, the income tax liability of an individual for any taxable year is the amount of the tax imposed by chapter 1 on such individual for the taxable year (as shown on his or her return) reduced by the sum of the credits (as shown on his or her return) allowable under sections 33, 37, 38, 40, 41, 42, 44, and 44A.

(c) *Manner and time of designation.* (1) A designation under paragraph (a) of this section may be made with respect to any taxable year at the time of the filing of the return of the tax imposed by chapter 1 for such taxable year, and shall be made either on the first page of the return or on the page bearing the taxpayer's signature, in accordance with the instructions applicable thereto.

(2) With respect to any taxable year beginning after December 31, 1972 for which no designation was made under paragraph (c)(1) of this section, a designation may be made on the form furnished by the Internal Revenue Service for such purpose, filed within 20 and one half months after the due date for the original return for such taxable year. In the case of a joint return where neither spouse made a designation or where only one spouse made a designation, a designation may be made, as provided in this subparagraph, by the spouse or spouses who had not previously made a designation.

(3) A designation once made, whether by an original return or otherwise, may not be revoked.

(d) *Effective date.* This section shall apply to taxable years beginning after December 31, 1972.

[T.D. 7304, 39 FR 4476, Feb. 4, 1974, as amended by T.D. 7643, 44 FR 50338, Aug. 28, 1979]

MISCELLANEOUS PROVISIONS

§ 301.6101–1 Period covered by returns or other documents.

For provisions concerning the period covered by returns or other documents, see the regulations relating to the particular tax.

§ 301.6102–1 Computations on returns or other documents.

(a) *Amounts shown on forms.* To the extent permitted by any internal revenue form or instructions prescribed for use with respect to any internal revenue return, declaration, statement, other document, or supporting schedules, any amount required to be reported on such form shall be entered at the nearest whole dollar amount. The extent to which, and the conditions under which, such whole dollar amounts shall be entered on any form will be set forth in the instructions issued with respect to such form. For the purpose of the computation to the nearest dollar, a fractional part of a dollar shall be disregarded unless it amounts to one-half dollar or more, in which case the amount (determined without regard to the fractional part of a dollar) shall be increased by $1. The following illustrates the application of this paragraph:

Exact amount	To be reported as—
$18.49	$18
$18.50	19
$18.51	19

(b) *Election not to use whole dollar amounts*—(1) *Method of election.* Where any internal revenue form, or the instructions issued with respect to such form, provide that whole dollar amounts shall be reported, any person making a return, declaration, statement, or other document on such form may elect not to use whole dollar amounts by reporting thereon all amounts in full, including cents.

(2) *Time of election.* The election not to use whole dollar amounts must be made at the time of filing the return, declaration, statement, or other document. Such election may not be revoked after the time prescribed for filing such return, declaration, statement, or other document, including extensions of time granted for such filing. Such election may be made on any return, declaration, statement, or other document which is filed after the time prescribed for filing (including extensions of time), and such an election is irrevocable.

(3) *Effect of election.* The taxpayer's election shall be binding only on the return, declaration, statement, or other document filed for a taxable year or period, and a new election may be made on the return, declaration, statement, or other document filed for a subsequent taxable year or period. An election by either a husband or a wife not to report whole dollar amounts on a separate income tax return shall be binding on any subsequent joint return filed under the provisions of section 6013(b).

(4) *Fractional part of a cent.* For treatment of the fractional part of a cent in the payment of taxes, see section 6313 and § 301.6313–1.

(c) *Inapplicability to computation of amount.* The provisions of paragraph (a) of this section apply only to amounts required to be reported on a return, declaration, statement, or other document. They do not apply to items which must be taken into account in making the computations necessary to determine such amounts. For example,

each item of receipt must be taken into account at its exact amount, including cents, in computing the amount of total receipts required to be reported on an income tax return or supporting schedule. It is the amount of total receipts, so computed, which is to be reported at the nearest whole dollar on the return or supporting schedule.

(d) *Effect on accounting method.* Section 6102 and this section have no effect on any authorized accounting method.

§ 301.6103(a)–1 Disclosures after December 31, 1976, by officers and employees of Federal agencies of returns and return information (including taxpayer return information) disclosed to such officers and employees by the Internal Revenue Service before January 1, 1977, for a purpose not involving tax administration.

(a) *General rule.* Except as provided by paragraph (b) of this section, a return or return information (including taxpayer return information), as defined in section 6103(b) (1), (2), and (3) of the Internal Revenue Code, disclosed by the Internal Revenue Service before January 1, 1977, to an officer or employee of a Federal agency (as defined in section 6103(b)(9)) for a purpose not involving tax administration (as defined in section 6103(b)(4)) pursuant to the authority of section 6103 (or any order of the President under section 6103 or rules and regulations thereunder prescribed by the Secretary or his delegate and approved by the President) before amendment of such section by section 1202 of the Tax Reform Act of 1976 (Pub. L. 94–455, 90 Stat. 1667) may be disclosed by, or on behalf of, such officer, employee, or agency after December 31, 1976, for any purpose authorized by such section (or such order or rules and regulations) before such amendment.

(b) *Exception.* Notwithstanding the provisions of paragraph (a) of this section, a return or return information (including taxpayer return information) disclosed before January 1, 1977, by the Service to an officer or employee of a Federal agency for a purpose unrelated to tax administration as described in paragraph (a) may, after December 31, 1976, be disclosed by, or on behalf of, such agency, officer, or employee in an administrative or judicial proceeding only if such proceeding is one described in section 6103(i)(4) of the Code and if the requirements of section 6103(i)(4) have first been met.

(Secs. 6103 and 7805 of the Internal Revenue Code of 1954 (90 Stat. 1667, 68A Stat. 917; 26 U.S.C. 6103 and 7805))

[T.D. 7723, 45 FR 65566, Oct. 3, 1980]

§ 301.6103(a)–2 Disclosures after December 31, 1976, by attorneys of the Department of Justice and officers and employees of the Office of the Chief Counsel for the Internal Revenue Service of returns and return information (including taxpayer return information) disclosed to such attorneys, officers, and employees by the Service before January 1, 1977, for a purpose involving tax administration.

(a) *General rule.* Except as provided by paragraph (b) of this section and subject to the requirements of this paragraph, a return or return information (including taxpayer return information), as defined in section 6103(b) (1), (2), and (3), of the Internal Revenue Code disclosed by the Internal Revenue Service before January 1, 1977, to an attorney of the Department of Justice (including a United States attorney) or to an officer or employee of the Office of the Chief Counsel for the Service for a purpose involving tax administration (as defined in section 6103(b)(4)) pursuant to the authority of section 6103 (or any order of the President under section 6103 or rules and regulations thereunder prescribed by the Secretary or his delegate and approved by the President) before amendment of such section by section 1202 of the Tax Reform Act of 1976 (Pub. L. 94–455, 90 Stat. 1667) may be disclosed by, or on behalf of, such attorney, officer, or employee after December 31, 1976, for any purpose authorized by such section (or such order or rules and regulations) before such amendment.

(b) *Exception.* Notwithstanding the provisions of paragraph (a) of this section, a return or return information (including taxpayer return information) disclosed before January 1, 1977, by the Service to an attorney of the Department of Justice or to an officer or employee of the Office of the Chief Counsel for the Service for a purpose

related to tax administration as described in paragraph (a) may, after December 31, 1976, be disclosed by, or on behalf of, such attorney, officer, or employee in an administrative or judicial proceeding only if such proceeding is one described in section 6103(h)(4) of the Code and if the requirements of section 6103 (h)(4) have first been met.

(Secs. 6103 and 7805 of the Internal Revenue Code of 1954 (90 Stat. 1667, 68A Stat. 917; 26 U.S.C. 6103 and 7805))

[T.D. 7723, 45 FR 65567, Oct. 3, 1980]

§ 301.6103(c)–1 Disclosure of returns and return information to designee of taxpayer.

(a) *Overview.* Subject to such requirements and conditions as the Secretary may prescribe by regulation, section 6103(c) of the Internal Revenue Code authorizes the Internal Revenue Service to disclose a taxpayer's return or return information to such person or persons as the taxpayer may designate in a request for or consent to such disclosure, or to any other person at the taxpayer's request to the extent necessary to comply with the taxpayer's request to such other person for information or assistance. This regulation contains the requirements that must be met before, and the conditions under which, the Internal Revenue Service may make such disclosures. Paragraph (b) of this section provides the requirements that are generally applicable to designate a third party to receive the taxpayer's returns and return information. Paragraph (c) of this section provides requirements under which the Internal Revenue Service may disclose information in connection with a taxpayer's written or nonwritten request for a third party to provide information or assistance with regard to a tax matter, for example, a Congressional inquiry. Paragraph (d) of this section provides the parameters for disclosure consents connected with electronic return filing programs and combined Federal-State filing. Finally, paragraph (e) of this section provides definitions and general rules related to requests for or consents to disclosure.

(b) *Disclosure of returns and return information to person or persons designated in a written request or consent*—(1) *General requirements.* Pursuant to section 6103(c) of the Internal Revenue Code, the Internal Revenue Service (or an agent or contractor of the Internal Revenue Service) may disclose a taxpayer's return or return information (in written or nonwritten form) to such person or persons as the taxpayer may designate in a request for or consent to such disclosure. A request for or consent to disclosure under this paragraph (b) must be in the form of a separate written document pertaining solely to the authorized disclosure. (For the meaning of separate written document, see paragraph (e)(1) of this section.) The separate written document must be signed (see paragraph (e)(2) of this section) and dated by the taxpayer who filed the return or to whom the return information relates. At the time it is signed and dated by the taxpayer, the written document must also indicate—

(i) The taxpayer's taxpayer identity information described in section 6103(b)(6);

(ii) The identity of the person or persons to whom the disclosure is to be made;

(iii) The type of return (or specified portion of the return) or return information (and the particular data) that is to be disclosed; and

(iv) The taxable year or years covered by the return or return information.

(2) *Requirement that request or consent be received within one hundred twenty days of when signed and dated.* The disclosure of a return or return information authorized by a written request for or written consent to the disclosure shall not be made unless the request or consent is received by the Internal Revenue Service (or an agent or contractor of the Internal Revenue Service) within 120 days following the date upon which the request or consent was signed and dated by the taxpayer.

(c) *Disclosure of returns and return information to designee of taxpayer to comply with a taxpayer's request for information or assistance.* If a taxpayer makes a written or nonwritten request, directly to another person or to the Internal Revenue Service, that such other person (for example, a member of Congress, friend, or relative of the taxpayer) provide information or assistance relating to the taxpayer's return

or to a transaction or other contact between the taxpayer and the Internal Revenue Service, the Internal Revenue Service (or an agent or contractor of the Internal Revenue Service or a Federal government agency performing a Federal tax administration function) may disclose returns or return information (in written or nonwritten form) to such other person under the circumstances set forth in paragraphs (c)(1) through (3) of this section.

(1) *Written request for information or assistance.* (i) The taxpayer's request for information or assistance may be in the form of a letter or other written document, which must be signed (*see* paragraph (e)(2) of this section) and dated by the taxpayer. The taxpayer must also indicate in the written request—

(A) The taxpayer's taxpayer identity information described in section 6103(b)(6);

(B) The identity of the person or persons to whom disclosure is to be made; and

(C) Sufficient facts underlying the request for information or assistance to enable the Internal Revenue Service to determine the nature and extent of the information or assistance requested and the returns or return information to be disclosed in order to comply with the taxpayer's request.

(ii) A person who receives a copy of a taxpayer's written request for information or assistance but who is not the addressee of the request, such as a member of Congress who is provided with a courtesy copy of a taxpayer's letter to another member of Congress or to the Internal Revenue Service, cannot receive returns or return information under paragraph (c)(1) of this section.

(2) *Nonwritten request or consent.* (i) A request for information or assistance may also be nonwritten. Disclosure of returns and return information to a designee pursuant to a taxpayer's nonwritten request will be made only after the Internal Revenue Service has—

(A) Obtained from the taxpayer sufficient facts underlying the request for information or assistance to enable the Internal Revenue Service to determine the nature and extent of the information or assistance requested and the return or return information to be disclosed in order to comply with the taxpayer's request;

(B) Confirmed the identity of the taxpayer and the designee; and

(C) Confirmed the date, the nature, and the extent of the information or assistance requested.

(ii) Examples of disclosures pursuant to nonwritten requests for information or assistance under this paragraph (c)(2) include, but are not limited to, disclosures to a friend, relative, or other person whom the taxpayer brings to an interview or meeting with Internal Revenue Service officials, and disclosures to a person whom the taxpayer wishes to involve in a telephone conversation with Internal Revenue Service officials.

(iii) As long as the requirements of this paragraph (c)(2) are met, the taxpayer does not need to be present, either in person or as part of a telephone conversation, for disclosures of returns and return information to be made to the other person.

(3) *Rules applicable to written and nonwritten requests for information or assistance.* A return or return information will be disclosed to the taxpayer's designee as provided by this paragraph only to the extent considered necessary by the Internal Revenue Service to comply with the taxpayer's request or consent. Such disclosures shall not be made unless the request or consent is received by the Internal Revenue Service, its agent or contractor, or a Federal government agency performing a Federal tax administration function in connection with a request for advice or assistance relating to such function. This paragraph (c) does not apply to disclosures to a taxpayer's representative in connection with practice before the Internal Revenue Service (as defined in Treasury Department Circular No. 230, 31 CFR part 10). For disclosures in these cases, see section 6103(e)(6) and §§ 601.501 through 601.508 of this chapter.

(d) *Acknowledgments of electronically filed returns and other documents; combined filing programs with State tax agencies.* The requirements of paragraphs (b) and (c) of this section do not apply to this paragraph (d).

(1) *Acknowledgment of, and notices regarding, electronically filed returns and other documents.* When a taxpayer files returns or other documents or information with the Internal Revenue Service electronically, the taxpayer may consent to the disclosure of return information to the transmitter or other third party, such as the taxpayer's financial institution, necessary to acknowledge that the electronic transmission was received and either accepted or rejected by the Internal Revenue Service, the reason for any rejection, and such other information as the Internal Revenue Service determines is necessary to the operation of the electronic filing program. The consent must inform the taxpayer of the return information that will be transmitted and to whom disclosure will be made.

(2) *Combined return filing programs with State tax agencies.* (i) A taxpayer's participation in a combined return filing program between the Internal Revenue Service and a State agency, body, or commission (State agency) described in section 6103(d)(1) constitutes a consent to the disclosure by the Internal Revenue Service, to the State agency, of taxpayer identity information, signature, and items of common data contained on the return. For purposes of this paragraph, common data means information reflected on the Federal return required by State law to be attached to or included on the State return. Instructions accompanying the forms or published procedures involved in such program must indicate that by participating in the program, the taxpayer is consenting to the Internal Revenue Service's disclosure to the State agency of the taxpayer identity information, signature, and items of common data, and that such information will be treated by the State agency as if it had been directly filed with the State agency. Such instructions or procedures must also describe any verification that takes place before the taxpayer identity information, signature and common data is transmitted by the Internal Revenue Service to the State agency.

(ii) No disclosures may be made under this paragraph (d)(2) unless there are provisions of State law protecting the confidentiality of such items of common data.

(e) *Definitions and rules applicable to this section*—(1) *Separate written document.* (i) For the purposes of paragraph (b) of this section, *separate written document* means—

(A) Text appearing on one or more sheets of 8½ -inch by 11-inch or larger paper, each of which pertains solely to the authorized disclosure, so long as such sheet or sheets, taken together, contain all the elements described in paragraph (b)(1) of this section;

(B) Text appearing on one or more computer screens, each of which pertains solely to the authorized disclosure, so long as such screen or, taken together, such screens—

(*1*) Contain all the elements described in paragraph (b)(1) of this section,

(*2*) Can be signed (see paragraph (e)(2) of this section) and dated by the taxpayer, and

(*3*) Can be reproduced, if necessary; or

(C) A consent on the record in an administrative or judicial proceeding, or a transcript of such proceeding recording such consent, containing the information required under paragraph (b)(1) of this section.

(ii) A provision included in a taxpayer's application for a loan or other benefit authorizing the grantor of the loan or other benefit to obtain any financial information, including returns or return information, from any source as the grantor may request for purposes of verifying information supplied on the application, does not meet the requirements of paragraph (b)(1) of this section because the provision is not a separate written document relating solely to the disclosure of returns and return information. In addition, the provision does not contain the other information specified in paragraph (b)(1) of this section.

(2) *Method of signing.* A request for or consent to disclosure may be signed by any method of signing the Secretary has prescribed pursuant to § 301.6061–1(b) in forms, instructions, or other appropriate guidance.

(3) *Permissible designees and public forums.* Permissible designees under this

section include individuals; trusts; estates; corporations; partnerships; Federal, State, local and foreign government agencies or subunits of such agencies; or the general public. When disclosures are to be made in a public forum, such as in a courtroom or congressional hearing, the request for or consent to disclosure must describe the circumstances surrounding the public disclosure, e.g., congressional hearing, judicial proceeding, media, and the date or dates of the disclosure. When a designee is an individual, this section does not authorize disclosures to other individuals associated with such individual, such as employees of such individual or members of such individual's staff.

(4) *Authority to execute a request for or consent to disclosure.* Any person who may obtain returns under section 6103(e)(1) through (5), except section 6103(e)(1)(D)(iii), may execute a request for or consent to disclose a return or return information to third parties. For taxpayers that are legal entities, such as corporations and municipal bond issuers, any officer of the entity with authority under applicable State law to legally bind the entity may execute a request for or consent to disclosure. A person described in section 6103(e)(6) (a taxpayer's representative or individual holding a power of attorney) may not execute a request for or consent to disclosure unless the designation of representation or power of attorney specifically delegates such authority. A designee pursuant to this section does not have authority to execute a request for or consent to disclosure permitting the Internal Revenue Service to disclose returns or return information to another person.

(5) *No disclosure of return information if impairment.* A disclosure of return information shall not be made under this section if the Internal Revenue Service determines that the disclosure would seriously impair Federal tax administration (as defined in section 6103(b)(4) of the Internal Revenue Code).

(f) *Applicability date.* This section is applicable on April 29, 2003, except that paragraph (b)(2) is applicable to section 6103(c) authorizations signed on or after October 19, 2009.

(g) *Effective date.* This section is effective on April 29, 2003, except that paragraphs (b)(2) and (f) are effective on May 7, 2013.

[T.D. 9054, 68 FR 22598, Apr. 29, 2003, as amended by T.D. 9618, 78 FR 26507, May 7, 2013]

§ 301.6103(h)(2)–1 Disclosure of returns and return information (including taxpayer return information) to and by officers and employees of the Department of Justice for use in Federal grand jury proceeding, or in preparation for proceeding or investigation, involving tax administration.

(a) *Disclosure of returns and return information (including taxpayer return information) to and by officers and employees of the Department of Justice.* (1) Returns and return information (including taxpayer return information), as defined in section 6103(b) (1), (2), and (3) of the Internal Revenue Code, shall, to the extent provided by section 6103(h)(2) (A), (B), and (C) and subject to the requirements of section 6103(h)(3), be open to inspection by or disclosure to officers and employees of the Department of Justice (including United States attorneys) personally and directly engaged in, and for their necessary use in, any Federal grand jury proceeding, or preparation for any proceeding (or for their necessary use in an investigation which may result in such a proceeding) before a Federal grand jury or any Federal or State court, in a matter involving tax administration (as defined in section 6103(b)(4)), including any such proceeding (or any such investigation) also involving the enforcement of a related Federal criminal statute which has been referred by the Secretary to the Department of Justice.

(2) Returns and return information (including taxpayer return information) inspected by or disclosed to officers and employees of the Department of Justice as provided in paragraph (a)(1) of this section may also be used by such officers and employees or disclosed by them to other officers and employees (including United States attorneys and supervisory personnel, such as Section Chiefs, Deputy Assistant Attorneys General, Assistant Attorneys General, the Deputy Attorney

General, and the Attorney General), of the Department of Justice where necessary—

(i) In connection with any Federal grand jury proceeding, or preparation for any proceeding (or with an investigation which may result in such a proceeding), described in paragraph (a)(1), or

(ii) In connection with any Federal grand jury proceeding, or preparation for any proceeding (or with an investigation which may result in such a proceeding), described in paragraph (a)(1) which also involves enforcement of a specific Federal criminal statute other than one described in paragraph (a)(1) to which the United States is or may be a party, provided such matter involves or arises out of the particular facts and circumstances giving rise to the proceeding (or investigation) described in paragraph (a)(1) and further provided the tax portion of such proceeding (or investigation) has been duly authorized by or on behalf of the Assistant Attorney General for the Tax Division of the Department of Justice, pursuant to the request of the Secretary, as a proceeding (or investigation) described in paragraph (a)(1). If, in the course of a Federal grand jury proceeding, or preparation for a proceeding (or the conduct of an investigation which may result in such a proceeding), described in subdivision (ii) of this subparagraph, the tax administration portion thereof is terminated for any reason, any further use or disclosure of such returns or taxpayer return information in such Federal grand jury proceeding, or preparation or investigation, with respect to the remaining portion may be made only pursuant to, and upon the grant of, a court order as provided by section 6103(i)(1)(A), provided, however, that the returns and taxpayer return information may in any event be used for purposes of obtaining the necessary court order.

(b) *Disclosure of returns and return information (including taxpayer return information) by officers and employees of the Department of Justice.* (1) Returns and return information (including taxpayer return information), as defined in section 6103(b) (1), (2), and (3) of the Code, inspected by or disclosed to officers and employees of the Department of Justice as provided by paragraph (a) of this section may be disclosed by such officers and employees to other persons, including, but not limited to, persons described in paragraph (b)(2), but only to the extent necessary in connection with a Federal grand jury proceeding, or the proper preparation for a proceeding (or in connection with an investigation which may result in such a proceeding), described in paragraph (a). Such disclosures may include, but are not limited to, disclosures—

(i) To properly accomplish any purpose or activity of the nature described in section 6103(k)(6) and the regulations thereunder which is essential to such Federal grand jury proceeding, or to such proper preparation (or to such investigation);

(ii) To properly interview, consult, depose, or interrogate or otherwise obtain relevant information from, the taxpayer to whom such return or return information relates (or such taxpayer's legal representative) or from any witness who may be called to give evidence in the proceeding; or

(iii) To properly conduct negotiations concerning, or obtain authorization for, settlement or disposition of the proceeding, in whole or in part, or stipulations of fact in connection with the proceeding.

Disclosure of a return or return information to a person other than the taxpayer to whom such return or return information relates or such taxpayer's legal representative to properly accomplish any purpose or activity described in this paragraph should be made, however, only if such purpose or activity cannot otherwise properly be accomplished without making such disclosure.

(2) Among those persons to whom returns and return information may be disclosed by officers and employees of the Department of Justice as provided by paragraph (a)(1) of this section are—

(i) Other officers and employees of the Department of Justice, such as personnel of an office, board, division, or bureau of such department (for example, the Federal Bureau of Investigation or the Drug Enforcement Administration), clerical personnel (for example, secretaries, stenographers, docket

and file room clerks, and mail room employees) and supervisory personnel (such as supervisory personnel of the Federal Bureau of Investigation or the Drug Enforcement Administration);

(ii) Officers and employees of another Federal agency (as defined in section 6103(b)(9)) working under the direction and control of any such officers and employees of the Department of Justice; and

(iii) Court reporters.

(Secs. 6103 and 7805 of the Internal Revenue Code of 1954 (90 Stat. 1667, 68A Stat. 917; 26 U.S.C. 6103 and 7805))

[T.D. 7723, 45 FR 65567, Oct. 3, 1980]

§ 301.6103(h)(4)–1 Disclosure of returns and return information in whistleblower administrative proceedings.

(a) *In general.* A whistleblower administrative proceeding (as described in § 301.7623–3) is an administrative proceeding pertaining to tax administration within the meaning of section 6103(h)(4).

(b) *Disclosures in whistleblower administrative proceedings.* Pursuant to section 6103(h)(4) and paragraph (a) of this section, the Director, officers, and employees of the Whistleblower Office may disclose returns and return information (as defined by section 6103(b)) to a whistleblower (or the whistleblower's legal representative, if any) to the extent necessary to conduct a whistleblower administrative proceeding (as described in § 301.7623–3), including but not limited to—

(1) By communicating a preliminary award recommendation or preliminary denial letter to the whistleblower;

(2) By providing the whistleblower with an award report package;

(3) By conducting a meeting with the whistleblower to review documents supporting the preliminary award recommendation; and

(4) By sending an award decision letter, award determination letter, or award denial letter to the whistleblower.

(c) *Effective/applicability date.* This rule is effective on August 12, 2014. This rule applies to information submitted on or after August 12, 2014, and to claims for award under sections 7623(a) and 7623(b) that are open as of August 12, 2014.

[T.D. 9687, 79 FR 47264, Aug. 12, 2014]

§ 301.6103(i)–1 Disclosure of returns and return information (including taxpayer return information) to and by officers and employees of the Department of Justice or another Federal agency for use in Federal grand jury proceeding, or preparation for proceeding or investigation, involving enforcement of Federal criminal statute not involving tax administration.

(a) *Disclosure of returns and return information (including taxpayer return information) to officers and employees of the Department of Justice or another Federal agency.* Returns and return information (including taxpayer return information), as defined in section 6103(b)(1), (2), and (3) of the Internal Revenue Code, shall, to the extent provided by section 6103(i) (1), (2), and (3) and subject to the requirements of section 6103(i) (1) and (2), be open to inspection by or disclosure to officers and employees of the Department of Justice (including United States attorneys) or of another Federal agency (as defined in section 6103(b)(9)) personally and directly engaged in, and for their necessary use in, any Federal grand jury proceeding, or preparation for any administration or judicial proceeding (or their necessary use in an investigation which may result in such a proceeding), pertaining to enforcement of a specifically designated Federal criminal statute not involving or related to tax administration to which the United States or such agency is or may be a party.

(b) *Disclosure of returns and return information (including taxpayer return information) by officers and employees of the Department of Justice or another Federal agency.* (1) Returns and return information (including taxpayer return information), as defined in section 6103(b) (1), (2), and (3) of the Code, disclosed to officers and employees of the Department of Justice or other Federal agency (as defined in section 6103(b)(9)) as provided by paragraph (a) of this section may be disclosed by such officers and employees to other persons, including, but not limited to, persons described in subparagraph (2) of this

paragraph, but only to the extent necessary in connection with a Federal grand jury proceeding, or the proper preparation for a proceeding (or in connection with an investigation which may result in such a proceeding), described in paragraph (a). Such disclosures may include, but are not limited to, disclosures where necessary—

(i) To properly obtain the services of persons having special knowledge or technical skills (such as, but not limited to, handwriting analysis, photographic development, sound recording enhancement, or voice identification);

(ii) To properly interview, consult, depose, or interrogate or otherwise obtain relevant information from, the taxpayer to whom such return or return information relates (or such taxpayer's legal representative) or any witness who may be called to give evidence in the proceeding; or

(iii) To properly conduct negotiations concerning, or obtain authorization for, disposition of the proceeding, in whole or in part, or stipulations of fact in connection with the proceeding.

Disclosure of a return or return information to a person other than the taxpayer to whom such return or return information relates or such taxpayer's legal representative to properly accomplish any purpose or activity described in this subparagraph should be made, however, only if such purpose or activity cannot otherwise properly be accomplished without making such disclosures.

(2) Among those persons to whom returns and return information may be disclosed by officers and employees of the Department of Justice or other Federal agency as provided by subparagraph (1) of this paragraph are—

(i) Other officers and employees of the Department of Justice (including an office, board, division, or bureau of such department, such as the Federal Bureau of Investigation or the Drug Enforcement Administration) or other Federal agency described in subparagraph (1), such as clerical personnel (for example, secretaries, stenographers, docket and file room clerks, and mail room employees) and supervisory personnel (for example, in the case of the Department of Justice, Section Chiefs, Deputy Assistant Attorneys General, Assistant Attorneys General, the Deputy Attorney General, the Attorney General, and supervisory personnel of the Federal Bureau of Investigation or the Drug Enforcement Administration);

(ii) Officers and employees of another Federal agency (as defined in section 6103(b)(9)) working under the direction and control of such officers and employees of the Department of Justice or other Federal agency described in subparagraph (1); and

(iii) Court reporters.

(Secs. 6103 and 7805 of the Internal Revenue Code of 1954 (90 Stat. 1667, 68A Stat. 917; 26 U.S.C. 6103 and 7805))

[T.D. 7723, 45 FR 65568, Oct. 3, 1980]

§ 301.6103(j)(1)–1 Disclosures of return information reflected on returns to officers and employees of the Department of Commerce for certain statistical purposes and related activities.

(a) *General rule.* Pursuant to the provisions of section 6103(j)(1) of the Internal Revenue Code and subject to the requirements of paragraph (d) of this section, officers or employees of the Internal Revenue Service will disclose return information (as defined by section 6103(b)(2) but not including return information described in section 6103(o)(2)) reflected on returns to officers and employees of the Department of Commerce to the extent, and for such purposes as may be, provided by paragraphs (b) and (c) of this section. Further, in the case of any disclosure of return information reflected on returns so provided by paragraphs (b) and (c) of this section, the tax period or accounting period to which such information relates will also be disclosed. ''Return information reflected on returns'' includes, but is not limited to, information on returns, information derived from processing such returns, and information derived from the Social Security Administration and other sources for the purposes of establishing and maintaining taxpayer information relating to returns.

(b) *Disclosure of return information reflected on returns to officers and employees of the Bureau of the Census.* (1) Officers or employees of the Internal Revenue Service will disclose the following

return information reflected on returns of individual taxpayers to officers and employees of the Bureau of the Census for purposes of, but only to the extent necessary in, conducting and preparing, as authorized by chapter 5 of title 13, United States Code, intercensal estimates of population and income for all geographic areas included in the population estimates program and demographic statistics programs, censuses, and related program evaluation:

(i) Taxpayer identity information (as defined in section 6103(b)(6) of the Internal Revenue Code), validity code with respect to the taxpayer identifying number (as described in section 6109), and taxpayer identity information of spouse and dependents, if reported.

(ii) Location codes (including area/district office and campus/service center codes).

(iii) Marital status.

(iv) Number and classification of reported exemptions.

(v) Wage and salary income.

(vi) Dividend income.

(vii) Interest income.

(viii) Gross rent and royalty income.

(ix) Total of—

(A) Wages, salaries, tips, etc.;

(B) Interest income;

(C) Dividend income;

(D) Alimony received;

(E) Business income;

(F) Pensions and annuities;

(G) Income from rents, royalties, partnerships, estates, trusts, etc.;

(H) Farm income;

(I) Unemployment compensation; and

(J) Total Social Security benefits.

(x) Adjusted gross income.

(xi) Type of tax return filed.

(xii) Entity code.

(xiii) Code indicators for Form 1040, Form 1040 (Schedules A, C, D, E, F, and SE), and Form 8814.

(xiv) Posting cycle date relative to filing.

(xv) Social Security benefits.

(xvi) Earned Income (as defined in section 32(c)(2)).

(xvii) Number of Earned Income Tax Credit-eligible qualifying children.

(xviii) Electronic Filing System Indicator.

(xix) Return Processing Indicator.

(xx) Paid Preparer Code.

(2) Officers or employees of the Internal Revenue Service will disclose to officers and employees of the Bureau of the Census for purposes of, but only to the extent necessary in, conducting, as authorized by chapter 5 of title 13, United States Code, demographic, economic, and agricultural statistics programs and censuses and related program evaluation—

(i) From the business master files of the Internal Revenue Service—the taxpayer name directory and entity records consisting of taxpayer identity information (as defined in section 6103(b)(6)) with respect to taxpayers engaged in a trade or business, the principal industrial activity code, the filing requirement code, the employment code, the physical location, the location codes (including area/district office and campus/service center codes), and monthly corrections of, and additions to, such entity records;

(ii) From Form SS–4—all information reflected on such form;

(iii) From an employment tax return—

(A) Taxpayer identifying number (as described in section 6109) of the employer;

(B) Total compensation reported;

(C) Master file tax account code (MFT);

(D) Taxable period covered by such return;

(E) Employer code;

(F) Document locator number;

(G) Record code;

(H) Total number of individuals employed in the taxable period covered by the return;

(I) Total taxable wages paid for purposes of chapter 21;

(J) Total taxable tip income reported for purposes of chapter 21;

(K) If a business has closed or stopped paying wages;

(L) Final date a business paid wages; and

(M) If a business is a seasonal employer and does not have to file a return for every quarter of the year;

(iv) From Form 1040 (Schedule SE)—

(A) Taxpayer identifying number of self-employed individual;

(B) Business activities subject to the tax imposed by chapter 21;

(C) Net earnings from farming;

(D) Net earnings from nonfarming activities;

(E) Total net earnings from self-employment; and

(F) Taxable self-employment income for purposes of chapter 2;

(v) Total Social Security taxable earnings; and

(vi) Quarters of Social Security coverage.

(3) Officers or employees of the Internal Revenue Service will disclose the following business-related return information reflected on returns of taxpayers to officers and employees of the Bureau of the Census for purposes of, but only to the extent necessary in, conducting and preparing, as authorized by chapter 5 of title 13, United States Code, demographic and economic statistics programs, censuses, and surveys. (The ''returns of taxpayers'' include, but are not limited to: Form 941; Form 990 series; Form 1040 series and Schedules C and SE; Form 1065 and all attending schedules and Form 8825; Form 1120 series and all attending schedules and Form 8825; Form 851; Form 1096; and other business returns, schedules and forms that the Internal Revenue Service may issue.):

(i) Taxpayer identity information (as defined in section 6103(b)(6)) including parent corporation, shareholder, partner, and employer identity information.

(ii) Gross income, profits, or receipts.

(iii) Returns and allowances.

(iv) Cost of labor, salaries, and wages.

(v) Total expenses or deductions, including totals of the following components thereof:

(A) Repairs (and maintenance) expense;

(B) Rents (or lease) expense;

(C) Taxes and licenses expense;

(D) Interest expense, including mortgage or other interest;

(E) Depreciation expense;

(F) Depletion expense;

(G) Advertising expense;

(H) Pension and profit-sharing plans (retirement plans) expense;

(I) Employee benefit programs expense;

(J) Utilities expense;

(K) Supplies expense;

(L) Contract labor expense; and

(M) Management (and investment advisory) fees.

(vi) Total assets.

(vii) Beginning- and end-of-year inventory.

(viii) Royalty income.

(ix) Interest income, including portfolio interest.

(x) Rental income, including gross rents.

(xi) Tax-exempt interest income.

(xii) Net gain from sales of business property.

(xiii) Other income.

(xiv) Total income.

(xv) Percentage of stock owned by each shareholder.

(xvi) Percentage of capital ownership of each partner.

(xvii) Principal industrial activity code, including the business description.

(xviii) Consolidated return indicator.

(xix) Wages, tips, and other compensation.

(xx) Social Security wages.

(xxi) Deferred wages.

(xxii) Social Security tip income.

(xxiii) Total Social Security taxable earnings.

(xxiv) Gross distributions from employer-sponsored and individual retirement plans from Form 1099–R.

(xxv) From Form 6765 (when filed with corporation income tax returns)—

(A) Indicator that total qualified research expenses is greater than zero, but less than $1 million; greater than or equal to $1 million, but less than $3 million; or, greater than or equal to $3 million;

(B) Cycle posted; and

(C) Research tax credit amount to be carried over to a business return, schedule, or form.

(xxvi) Total number of documents reported on Form 1096 transmitting Forms 1099–MISC.

(xxvii) Total amount reported on Form 1096 transmitting Forms 1099–MISC.

(xxviii) Type of REIT.

(xxix) From Form 1125–A— purchases.

(xxx) From Form 1040, Schedule C—

(A) Purchases less cost of items withdrawn for personal use; and

(B) Materials and supplies.

(xxxi) Electronic filing system indicator.

(xxxii) Posting cycle date relative to filing.

(xxxiii) Dividends, including ordinary or qualified.

(xxxiv) From Form 1120S, Schedule K–1—ordinary business income (loss).

(xxxv) From Form 1065, Schedule K–1—

(A) Publicly-traded partnership indicator;

(B) Partner's share of nonrecourse, qualified nonrecourse, and recourse liabilities; and

(C) Ordinary business income (loss).

(4) Officers or employees of the Internal Revenue Service will disclose return information reflected on returns of taxpayers contained in the exempt organization master files of the Internal Revenue Service to officers and employees of the Bureau of the Census for purposes of, but only to the extent necessary in, conducting and preparing, as authorized by chapter 5 of title 13, United States Code, economic censuses. This return information reflected on returns of taxpayers consists of taxpayer identity information (as defined in section 6103(b)(6)), activity codes, and filing requirement code, and monthly corrections of, and additions to, such information.

(5) Subject to the requirements of paragraph (d) of this section and § 301.6103(p)(2)(B)–1, officers or employees of the Social Security Administration to whom the following return information reflected on returns has been disclosed as provided by section 6103(l)(1)(A) or (l)(5) may disclose such information to officers and employees of the Bureau of the Census for necessary purposes described in paragraph (b)(2) or (3) of this section:

(i) From Form SS–4—all information reflected on such form.

(ii) From Form 1040 (Schedule SE)—

(A) Taxpayer identifying number of self-employed individual;

(B) Business activities subject to the tax imposed by chapter 21;

(C) Net earnings from farming;

(D) Net earnings from nonfarming activities;

(E) Total net earnings from self-employment; and

(F) Taxable self-employment income for purposes of chapter 2.

(iii) From Form W-2, and related forms and schedules—

(A) Social Security number;

(B) Employer identification number;

(C) Wages, tips, and other compensation;

(D) Social Security wages; and

(E) Deferred wages.

(iv) Total Social Security taxable earnings.

(v) Quarters of Social Security coverage.

(6)(i) Officers or employees of the Internal Revenue Service will disclose the following return information (but not including return information described in section 6103(o)(2)) reflected on returns of corporations with respect to the tax imposed by chapter 1 to officers and employees of the Bureau of the Census for purposes of, but only to the extent necessary in, developing and preparing, as authorized by law, the Quarterly Financial Report:

(A) From the business master files of the Internal Revenue Service—

(*1*) Taxpayer identity information (as defined in section 6103(b)(6)), including parent corporation identity information;

(*2*) Document code;

(*3*) Location codes (including area/district office and campus/service center codes);

(*4*) Consolidated return and final return indicators;

(*5*) Principal industrial activity code;

(*6*) Partial year indicator;

(*7*) Annual accounting period;

(*8*) Gross receipts less returns and allowances; and

(*9*) Total assets.

(B) From Form SS–4—

(*1*) Month and year in which such form was executed;

(*2*) Taxpayer identity information; and

(*3*) Principal industrial activity, geographic, firm size, and reason for application codes.

(C) From Form 1120–REIT—

(*1*) Type of REIT; and

(*2*) Gross rents from real property;

(D) From Form 1120F—corporation's method of accounting.

(E) From Form 1096—total amount reported.

(ii) Subject to the requirements of paragraph (d) of this section and

§ 301.6103(p)(2)(B)–1, officers or employees of the Social Security Administration to whom return information reflected on returns of corporations described in paragraph (b)(6)(i)(B) of this section has been disclosed as provided by section 6103(l)(1)(A) or (l)(5) may disclose such information to officers and employees of the Bureau of the Census for a purpose described in this paragraph (b)(6).

(iii) Return information reflected on employment tax returns disclosed pursuant to paragraphs (b)(2)(iii) (A), (B), (D), (I) and (J) of this section may be used by officers and employees of the Bureau of the Census for the purpose described in and subject to the limitations of this paragraph (b)(6).

(7) Officers or employees of the Internal Revenue Service will disclose the following return information reflected on Form 1098 ''Mortgage Interest Statement'' to officers and employees of the Bureau of the Census for purposes of, but only to the extent necessary in, conducting and preparing, as authorized by chapter 5 of title 13, United States Code, demographic statistics programs, censuses, and surveys—

(i) Payee/Payer/Employee Taxpayer Identification Number;

(ii) Payee/Payer/Employee Name (First, Middle, Last, Suffix);

(iii) Street Address;

(iv) City;

(v) State;

(vi) ZIP Code (9 digit);

(vii) Posting Cycle Week;

(viii) Posting Cycle Year; and

(ix) Document Code.

(c) Disclosure of return information reflected on returns of corporations to officers and employees of the Bureau of Economic Analysis.

(1) As authorized by law for purposes of, but only to the extent necessary in, conducting and preparing statistical analyses, the Internal Revenue Service will disclose to officers and employees of the Bureau of Economic Analysis all return information, regardless of format or medium and including edited information from the Statistics of Income sample, of designated classes or categories of corporations with respect to the tax imposed by chapter 1 of the Internal Revenue Code.

(2) [Reserved]

(3) The Internal Revenue Service will disclose the following return information reflected on returns filed by corporations to officers and employees of the Bureau of Economic Analysis:

(i) From the business master files of the Internal Revenue Service—

(A) Taxpayer identity information (as defined in section 6103(b)(6)) with respect to corporate taxpayers;

(B) Business or industry activity codes;

(C) Filing requirement code; and

(D) Physical location.

(ii) From Form SS–4, ''Application for Employer Identification Number,'' filed by an entity identifying itself on the form as a corporation or a private services corporation—

(A) Taxpayer identity information (as defined in section 6103(b)(6), including legal, trade, and business name);

(B) Physical location;

(C) State or country of incorporation;

(D) Entity type (corporate only);

(E) Estimated highest number of employees expected in the next 12 months;

(F) Principal activity of the business;

(G) Principal line of merchandise;

(H) Posting cycle date relative to filing; and

(I) Document code.

(iii) From an employment tax return filed by a corporation—

(A) Taxpayer identity information (as defined in section 6103(b)(6));

(B) Total compensation reported;

(C) Taxable wages paid for purposes of Chapter 21 to each employee;

(D) Master file tax account code (MFT);

(E) Total number of individuals employed in the taxable period covered by the return;

(F) Posting cycle date relative to filing;

(G) Accounting period covered; and

(H) Document code.

(iv) From returns of corporate taxpayers, including Form 1120, ''U.S. Corporation Income Tax Return,'' Form 851, ''Affiliations Schedule,'' and other business returns, schedules and forms that the Internal Revenue Service may issue—

(A) Taxpayer identity information (as defined in section 6103(b)(6)), including that of a parent corporation, affiliate, or subsidiary; a shareholder; a foreign corporation of which one or more U.S. shareholders (as defined in section 951(b)) own at least 10% of the voting stock; a foreign trust; and a U.S. agent of a foreign trust;

(B) Gross sales and receipts;

(C) Gross income, including life insurance company gross income;

(D) Gross income from sources outside the U.S.;

(E) Gross rents from real property;

(F) Other Gross Rents;

(G) Total Gross Rents;

(H) Returns and allowances;

(I) Percentage of foreign ownership of corporations and trusts;

(J) Fact of ownership of foreign partnerships;

(K) Fact of ownership of foreign entity disregarded as a foreign entity;

(L) Country of the foreign owner;

(M) Gross value of the portion of the foreign trust owned by filer;

(N) Country of incorporation;

(O) Cost of labor, salaries, and wages;

(P) Total assets;

(Q) The quantity of certain forms attached that are returns of U.S. persons with respect to foreign disregarded entities, partnerships, and corporations.

(R) Posting cycle date relative to filing;

(S) Accounting period covered;

(T) Master file tax account code (MFT);

(U) Document code; and

(V) Principal industrial activity code.

(d) *Procedures and restrictions.* Disclosure of return information reflected on returns by officers or employees of the Internal Revenue Service or the Social Security Administration as provided by paragraphs (b) and (c) of this section will be made only upon written request to the Commissioner of Internal Revenue by the Secretary of Commerce describing—

(1) The particular return information reflected on returns to be disclosed;

(2) The taxable period or date to which such return information reflected on returns relates; and

(3)(i) The particular purpose for which the return information reflected on returns is to be used, and designating by name and title the officers and employees of the Bureau of the Census or the Bureau of Economic Analysis to whom such disclosure is authorized.

(ii) No such officer or employee to whom return information reflected on returns is disclosed pursuant to the provisions of paragraph (b) or (c) of this section shall disclose such information to any person, other than the taxpayer to whom such return information reflected on returns relates or other officers or employees of such bureau whose duties or responsibilities require such disclosure for a purpose described in paragraph (b) or (c) of this section, except in a form which cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer. If the Internal Revenue Service determines that the Bureau of the Census or the Bureau of Economic Analysis, or any officer or employee thereof, has failed to, or does not, satisfy the requirements of section 6103(p)(4) of the Internal Revenue Code or regulations or published procedures thereunder (see § 601.601(d)(2) of this chapter), the Internal Revenue Service may take such actions as are deemed necessary to ensure that such requirements are or will be satisfied, including suspension of disclosures of return information reflected on returns otherwise authorized by section 6103 (j)(1) and paragraph (b) or (c) of this section, until the Internal Revenue Service determines that such requirements have been or will be satisfied.

(e) *Applicability date.* Paragraphs (b)(2)(iii)(I), (b)(2)(iii)(K) through (b)(2)(iii)(M), (b)(3)(v), (b)(3)(xxv) through (b)(3)(xxxv), and (b)(6)(i)(C) through (b)(6)(i)(E) of this section apply to disclosure to the Bureau of the Census made on or after December 9, 2016. For rules that apply to disclosure to the Bureau of the Census before December 9, 2016, see 26 CFR

301.6103(j)(1)–1 (revised as of April 1, 2016).

[T.D. 9037, 68 FR 2693, Jan. 21, 2003, as amended by T.D. 9188, 70 FR 12141, Mar. 11, 2005; T.D. 9267, 71 FR 38263, July 6, 2006; T.D. 9372, 72 FR 73262, Dec. 27, 2007; T.D. 9439, 73 FR 79361, Dec. 29, 2008; T.D. 9500, 75 FR 52459, Aug. 26, 2010; T.D. 9631, 78 FR 52857, Aug. 27, 2013 T.D. 9754, 81 FR 9767, Feb. 26, 2016; T.D. 9856, 84 FR 14011, Apr. 9, 2019]

§ 301.6103(j)(5)–1 Disclosures of return information reflected on returns to officers and employees of the Department of Agriculture for conducting the census of agriculture.

(a) *General rule*. Pursuant to the provisions of section 6103(j)(5) of the Internal Revenue Code and subject to the requirements of paragraph (c) of this section, officers or employees of the Internal Revenue Service will disclose return information reflected on returns to officers and employees of the Department of Agriculture to the extent, and for such purposes, as may be provided by paragraph (b) of this section. ''Return information reflected on returns'' includes, but is not limited to, information on returns, information derived from processing such returns, and information derived from other sources for the purposes of establishing and maintaining taxpayer information relating to returns.

(b) *Disclosure of return information reflected on returns to officers and employees of the Department of Agriculture*. (1) Officers or employees of the Internal Revenue Service will disclose the following return information reflected on returns described in this paragraph (b) for individuals, partnerships and corporations with agricultural activity, as determined generally by industry code classification or the filing of returns for such activity, to officers and employees of the Department of Agriculture for purposes of, but only to the extent necessary in, structuring, preparing, and conducting, as authorized by chapter 55 of title 7, United States Code, the census of agriculture.

(2) From Form 1040 ''U.S. Individual Income Tax Return'', Form 1041 ''U.S. Income Tax Return for Estates and Trusts'', Form 1065 ''U.S. Return of Partnership Income'' and Form 1065–B ''U.S. Return of Income for Electing Large Partnerships'' (Schedule F)—

(i) Taxpayer identity information (as defined in section 6103(b)(6) of the Internal Revenue Code);

(ii) Spouse's Social Security Number;

(iii) Annual accounting period;

(iv) Principal Business Activity (PBA) code;

(v) Taxable cooperative distributions;

(vi) Income from custom hire and machine work;

(vii) Gross income;

(viii) Master File Tax (MFT) code;

(ix) Document Locator Number (DLN);

(x) Cycle posted;

(xi) Final return indicator;

(xii) Part year return indicator; and

(xiii) Taxpayer telephone number.

(3) From Form 943, ''Employer's Annual Tax Return for Agricultural Employees''—

(i) Taxpayer identity information;

(ii) Annual accounting period;

(iii) Total wages subject to Medicare taxes;

(iv) MFT code;

(v) DLN;

(vi) Cycle posted;

(vii) Final return indicator; and

(viii) Part year return indicator.

(4) From Form 1120 series, ''U.S. Corporation Income Tax Return''—

(i) Taxpayer identity information;

(ii) Annual accounting period;

(iii) Gross receipts less returns and allowances;

(iv) PBA code;

(v) MFT Code;

(vi) DLN;

(vii) Cycle posted;

(viii) Final return indicator;

(ix) Part year return indicator; and

(x) Consolidated return indicator.

(5) From Form 1065 series, ''U.S. Return of Partnership Income''—

(i) Taxpayer identity information;

(ii) Annual accounting period;

(iii) PBA code;

(iv) Gross receipts less returns and allowances;

(v) Net farm profit (loss);

(vi) MFT code;

(vii) DLN;

(viii) Cycle posted;

(ix) Final return indicator; and

(x) Part year return indicator.

(c) *Procedures and Restrictions*. (1) Disclosure of return information reflected on returns by officers or employees of

the Internal Revenue Service as provided by paragraph (b) of this section will be made only upon written request designating, by name and title, the officers and employees of the Department of Agriculture to whom such disclosure is authorized, to the Commissioner of Internal Revenue by the Secretary of Agriculture and describing—

(i) The particular return information reflected on returns for disclosure;

(ii) The taxable period or date to which such return information reflected on returns relates; and

(iii) The particular purpose for the requested return information reflected on returns.

(2)(i) No such officer or employee to whom the Internal Revenue Service discloses return information reflected on returns pursuant to the provisions of paragraph (b) of this section shall disclose such information to any person, other than the taxpayer to whom such return information reflected on returns relates or other officers or employees of the Department of Agriculture whose duties or responsibilities require such disclosure for a purpose described in paragraph (b)(1) of this section, except in a form that cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

(ii) If the Internal Revenue Service determines that the Department of Agriculture, or any officer or employee thereof, has failed to, or does not, satisfy the requirements of section 6103(p)(4) of the Internal Revenue Code or regulations or published procedures, the Internal Revenue Service may take such actions as are deemed necessary to ensure that such requirements are or will be satisfied, including suspension of disclosures of return information reflected on returns otherwise authorized by section 6103(j)(5) and paragraph (b) of this section, until the Internal Revenue Service determines that such requirements have been or will be satisfied.

(d) *Effective date.* This section is applicable on February 22, 2006.

[T.D. 9245, 71 FR 8945, Feb. 22, 2006]

§ 301.6103(k)(6)–1 Disclosure of return information by certain officers and employees for investigative purposes.

(a) *General rule.* (1) Pursuant to the provisions of section 6103(k)(6) and subject to the conditions of this section, an internal revenue employee or an Office of Treasury Inspector General for Tax Administration (TIGTA) employee, in connection with official duties relating to any examination, administrative appeal, collection activity, administrative, civil or criminal investigation, enforcement activity, ruling, negotiated agreement, prefiling activity, or other proceeding or offense under the internal revenue laws or related statutes, or in preparation for any proceeding described in section 6103(h)(2) (or investigation which may result in such a proceeding), may disclose return information, of any taxpayer, to the extent necessary to obtain information relating to such official duties or to accomplish properly any activity connected with such official duties, including, but not limited to—

(i) Establishing or verifying the correctness or completeness of any return or return information;

(ii) Determining the responsibility for filing a return, for making a return if none has been made, or for performing such acts as may be required by law concerning such matters;

(iii) Establishing or verifying the liability (or possible liability) of any person, or the liability (or possible liability) at law or in equity of any transferee or fiduciary of any person, for any tax, penalty, interest, fine, forfeiture, or other imposition or offense under the internal revenue laws or related statutes or the amount thereof for collection;

(iv) Establishing or verifying misconduct (or possible misconduct) or other activity proscribed by the internal revenue laws or related statutes;

(v) Obtaining the services of persons having special knowledge or technical skills (such as, but not limited to, knowledge of particular facts and circumstances relevant to a correct determination of a liability described in paragraph (a)(1)(iii) of this section or skills relating to handwriting analysis,

photographic development, sound recording enhancement, or voice identification) or having recognized expertise in matters involving the valuation of property if relevant to proper performance of official duties described in this paragraph;

(vi) Establishing or verifying the financial status or condition and location of the taxpayer against whom collection activity is or may be directed, to locate assets in which the taxpayer has an interest, to ascertain the amount of any liability described in paragraph (a)(1)(iii) of this section for collection, or otherwise to apply the provisions of the Internal Revenue Code relating to establishment of liens against such assets, or levy, seizure, or sale on or of the assets to satisfy any such liability;

(vii) Preparing for any proceeding described in section 6103(h)(2) or conducting an investigation which may result in such a proceeding; or

(viii) Obtaining, verifying, or establishing information concerned with making determinations regarding a taxpayer's liability under the Internal Revenue Code, including, but not limited to, the administrative appeals process and any ruling, negotiated agreement, or prefiling process.

(2) Disclosure of return information for the purpose of obtaining information to carry out properly the official duties described by this paragraph, or any activity connected with the official duties, is authorized only if the internal revenue or TIGTA employee reasonably believes, under the facts and circumstances, at the time of a disclosure, the information is not otherwise reasonably available, or if the activity connected with the official duties cannot occur properly without the disclosure.

(3) Internal revenue and TIGTA employees may identify themselves, their organizational affiliation (e.g., Internal Revenue Service (IRS), Criminal Investigation (CI) or TIGTA, Office of Investigations (OI)), and the nature of their investigation, when making an oral, written, or electronic contact with a third party witness. Permitted disclosures include, but are not limited to, the use and presentation of any identification media (such as a Federal agency badge, credential, or business card) or the use of an information document request, summons, or correspondence on Federal agency letterhead or which bears a return address or signature block that reveals affiliation with the Federal agency.

(4) This section does not address or affect the requirements under section 7602(c) (relating to contact of third parties).

(b) *Disclosure of return information in connection with certain personnel or claimant representative matters.* In connection with official duties relating to any investigation concerned with enforcement of any provision of the Internal Revenue Code, including enforcement of any rule or directive prescribed by the Secretary or the Commissioner of Internal Revenue under any provision of the Internal Revenue Code, or the enforcement of any provision related to tax administration, that affects or may affect the personnel or employment rights or status, or civil or criminal liability, of any former, current, or prospective employee of the Treasury Department, Bureau of Alcohol, Tobacco, Firearms, and Explosives, United States Customs Service, United States Secret Service, or any successor agency, or the rights of any person who is, or may be, a party to an administrative action or proceeding pursuant to 31 U.S.C. 330 (relating to practice before the Treasury Department), an internal revenue, TIGTA, or other Federal officer or employee who is responsible for investigating such employees and persons and is properly in possession of relevant return information is authorized to disclose such return information to the extent necessary for the purpose of obtaining, verifying, or establishing other information which is or may be relevant and material to the investigation.

(c) *Definitions.* The following definitions apply to this section—

(1) *Disclosure of return information to the extent necessary* means a disclosure of return information which an internal revenue or TIGTA employee, based on the facts and circumstances, at the time of the disclosure, reasonably believes is necessary to obtain information to perform properly the official

duties described by this section, or to accomplish properly the activities connected with carrying out those official duties. The term *necessary* in this context does not mean essential or indispensable, but rather appropriate and helpful in obtaining the information sought. Nor does *necessary* in this context refer to the necessity of conducting an investigation or the appropriateness of the means or methods chosen to conduct the investigation. Section 6103(k)(6) does not limit or restrict internal revenue or TIGTA employees with respect to the decision to initiate or the conduct of an investigation. Disclosures under this paragraph (c)(1), however, may not be made indiscriminately or solely for the benefit of the recipient or as part of a negotiated quid pro quo arrangement. This paragraph (c)(1) is illustrated by the following examples:

Example 1. A revenue agent contacts a taxpayer's customer regarding the customer's purchases made from the taxpayer during the year under investigation. The revenue agent is able to obtain the purchase information only by disclosing the taxpayer's identity and the fact of the investigation. Depending on the facts and circumstances known to the revenue agent at the time of the disclosure, such as the way the customer maintains his records, it also may be necessary for the revenue agent to inform the customer of the date of the purchases and the types of merchandise involved for the customer to find the purchase information.

Example 2. A revenue agent contacts a third party witness to obtain copies of invoices of sales made to a taxpayer under examination. The third party witness provides copies of the sales invoices in question and then asks the revenue agent for the current address of the taxpayer because the taxpayer still owes money to the third party witness. The revenue agent may not disclose that current address because this disclosure would be only for the benefit of the third party witness and not necessary to obtain information for the examination.

Example 3. A revenue agent contacts a third party witness to obtain copies of invoices of sales made to a taxpayer under examination. The third party witness agrees to provide copies of the sales invoices in question only if the revenue agent provides him with the current address of the taxpayer because the taxpayer still owes money to the third party witness. The revenue agent may not disclose that current address because this disclosure would be a negotiated quid pro quo arrangement.

(2) *Disclosure of return information to accomplish properly an activity connected with official duties* means a disclosure of return information to carry out a function associated with official duties generally consistent with established practices and procedures. This paragraph (c)(2) is illustrated by the following example:

Example. A taxpayer failed to file an income tax return and pay the taxes owed. After the taxes were assessed and the taxpayer was notified of the balance due, a revenue officer filed a notice of federal tax lien and then served a notice of levy on the taxpayer's bank. The notices of lien and levy contained the taxpayer's name, social security number, amount of outstanding liability, and the tax period and type of tax involved. The taxpayer's assets were levied to satisfy the tax debt, but it was determined that, prior to the levy, the revenue officer failed to issue the taxpayer a notice of intent to levy, as required by section 6331, and a notice of right to hearing before the levy, as required by section 6330. The disclosure of the taxpayer's return information in the notice of levy is authorized by section 6103(k)(6) despite the revenue officer's failure to issue the notice of intent to levy or the notice of right to hearing. The ultimate validity of the underlying levy is irrelevant to the issue of whether the disclosure was authorized by section 6103(k)(6).

(3) *Information not otherwise reasonably available* means information that an internal revenue or TIGTA employee reasonably believes, under the facts and circumstances, at the time of a disclosure, cannot be obtained in a sufficiently accurate or probative form, or in a timely manner, and without impairing the proper performance of the official duties described by this section, without making the disclosure. This definition does not require or create the presumption or expectation that an internal revenue or TIGTA employee must seek information from a taxpayer or authorized representative prior to contacting a third party witness in an investigation. Neither the Internal Revenue Code, IRS procedures, nor these regulations require repeated contacting of an uncooperative taxpayer. Moreover, an internal revenue or TIGTA employee may make a disclosure to a third party witness to corroborate information provided by a taxpayer. This paragraph (c)(3) is illustrated by the following examples:

Example 1. A revenue agent is conducting an examination of a taxpayer. The taxpayer refuses to cooperate or provide any information to the revenue agent. Information relating to the taxpayer's examination would be information not otherwise reasonably available because of the taxpayer's refusal to cooperate and supply any information to the revenue agent. The revenue agent may seek information from a third party witness.

Example 2. A special agent is conducting a criminal investigation of a taxpayer. The special agent has acquired certain information from the taxpayer. Although the special agent has no specific reason to disbelieve the taxpayer's information, the special agent contacts several third party witnesses to confirm the information. The special agent may contact third party witnesses to verify the correctness of the information provided by the taxpayer because the IRS is not required to rely solely on information provided by a taxpayer, and a special agent may take appropriate steps, including disclosures to third party witnesses under section 6103(k)(6), to verify independently or corroborate information obtained from a taxpayer.

(4) *Internal revenue employee* means, for purposes of this section, an officer or employee of the IRS or Office of Chief Counsel for the IRS, or an officer or employee of a Federal agency responsible for administering and enforcing taxes under Chapters 32 (Part III of Subchapter D), 51, 52, or 53 of the Internal Revenue Code, or investigating tax refund check fraud under 18 U.S.C. 510.

(5) *TIGTA employee* means an officer or employee of the Office of Treasury Inspector General for Tax Administration.

(d) *Examples.* The following examples illustrate the application of this section:

Example 1. A revenue agent is conducting an examination of a taxpayer. The taxpayer has been very cooperative and has supplied copies of invoices as requested. Some of the taxpayer's invoices show purchases that seem excessive in comparison to the size of the taxpayer's business. The revenue agent contacts the taxpayer's suppliers for the purpose of corroborating the invoices the taxpayer provided. In contacting the suppliers, the revenue agent discloses the taxpayer's name, the dates of purchase, and the type of merchandise at issue. These disclosures are permissible under section 6103(k)(6) because, under the facts and circumstances known to the revenue agent at the time of the disclosures, the disclosures were necessary to obtain information (corroboration of invoices) not otherwise reasonably available because suppliers would be the only source available for corroboration of this information.

Example 2. A revenue agent is conducting an examination of a taxpayer. The revenue agent asks the taxpayer for business records to document the deduction of the cost of goods sold shown on Schedule C of the taxpayer's return. The taxpayer will not provide the business records to the revenue agent, who contacts a third party witness for verification of the amount on the Schedule C. In the course of the contact, the revenue agent shows the Schedule C to the third party witness. This disclosure is not authorized under section 6103(k)(6). Section 6103(k)(6) permits disclosure only of return information, not the return (including schedules and attachments) itself. If necessary, a revenue agent may disclose return information extracted from a return when questioning a third party witness. Thus, the revenue agent could have extracted the amount of cost of goods sold from the Schedule C and disclosed that amount to the third party witness.

Example 3. A special agent is conducting a criminal investigation of a taxpayer, a doctor, for tax evasion. Notwithstanding the records provided by the taxpayer and the taxpayer's bank, the special agent decided to obtain information from the taxpayer's patients to verify amounts paid to the taxpayer for his services. Accordingly, the special agent sent letters to the taxpayer's patients to verify these amounts. In the letters, the agent disclosed that he was a special agent with IRS–CI and that he was conducting a criminal investigation of the taxpayer. Section 6103(k)(6) permits these disclosures (including the special agent disclosing his affiliation with CI and the nature of the investigation) to confirm the taxpayer's income. The decision whether to verify information already obtained is a matter of investigative judgment and is not limited by section 6103(k)(6).

Example 4. Corporation A requests a private letter ruling (PLR) as to the tax consequences of a planned transaction. Corporation A has represented that it is in compliance with laws administered by Agency B that may relate to the tax consequences of the proposed transaction. Further information is needed from Agency B relating to possible tax consequences. Under section 6103(k)(6), the IRS may disclose Corporation A's return information to Agency B to the extent necessary to obtain information from Agency B for the purpose of properly considering the tax consequences of the proposed transaction that is the subject of the PLR.

(e) *Effective date.* This section is applicable on July 11, 2006.

[T.D. 9274, 71 FR 38986, July 11, 2006, as amended by 71 FR 60827, Oct. 17, 2006; 71 FR 61833, Oct. 19, 2006]

§ 301.6103(k)(9)–1 Disclosure of returns and return information relating to payment of tax by credit card and debit card.

Officers and employees of the Internal Revenue Service may disclose to card issuers, financial institutions, or other persons such return information as the Commissioner deems necessary in connection with processing credit card and debit card transactions to effectuate payment of tax as authorized by § 301.6311–2. Officers and employees of the Internal Revenue Service may disclose such return information to such persons as the Commissioner deems necessary in connection with billing or collection of the amounts charged or debited, including resolution of errors relating to the credit card or debit card account as described in § 301.6311–2(d).

[T.D. 8969, 66 FR 64742, Dec. 14, 2001]

§ 301.6103(l)–1 Disclosure of returns and return information for purposes other than tax administration.

(a) *Definition.* For purposes of applying the provisions of section 6103(l) of the Internal Revenue Code, the term *agent* includes a contractor.

(b) *Effective date.* This section is applicable January 6, 2004.

[T.D. 9111, 69 FR 507, Jan. 6, 2004]

§ 301.6103(l)(2)–1 Disclosure of returns and return information to Pension Benefit Guaranty Corporation for purposes of research and studies.

(a) *General rule.* Pursuant to the provisions of section 6103(l)(2) of the Internal Revenue Code and subject to the requirements of paragraph (b) of this section, officers and employees of the Internal Revenue Service may disclose returns and return information (as defined by section 6103(b)) to officers and employees of the Pension Benefit Guaranty Corporation for purposes of, but only to the extent necessary in, conducting research and studies authorized by title IV of the Employee Retirement Income Security Act of 1974.

(b) *Procedures and restrictions.* Disclosure of returns or return information by officers or employees of the Service as provided by paragraph (a) of this section will be made only upon written request to the Commissioner of Internal Revenue by the Executive Director of the Pension Benefit Guaranty Corporation describing the returns or return information to be disclosed, the taxable period or date to which such returns or return information relates, and the purpose for which the returns or return information is needed in the administration of title IV of the Employee Retirement Income Security Act of 1974, and designating by title the officers and employees of such corporation to whom such disclosure is authorized. No such officer or employee to whom returns or return information is disclosed pursuant to the provisions of paragraph (a) shall disclose such returns or return information to any person, other than the taxpayer by whom the return was made or to whom the return information relates or other officers or employees of such corporation whose duties or responsibilities require such disclosure for a purpose described in paragraph (a), except in a form which cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

(Secs. 6103 and 7805 of the Internal Revenue Code of 1954 (90 Stat. 1667, 68A Stat. 917; 26 U.S.C. 6103 and 7805))

[T.D. 7723, 45 FR 65570, Oct. 3, 1980]

§ 301.6103(l)(2)–2 Disclosure of returns and return information to Department of Labor for purposes of research and studies.

(a) *General rule.* Pursuant to the provisions of section 6103(l)(2) of the Internal Revenue Code and subject to the requirements of paragraph (b) of this section, officers or employees of the Internal Revenue Service may disclose returns and return information (as defined by section 6103(b)) to officers and employees of the Department of Labor for purposes of, but only to the extent necessary in, conducting research and studies authorized by section 513 of the Employee Retirement Income Security Act of 1974.

(b) *Procedures and restrictions.* Disclosure of returns or return information by officers or employees of the Service as provided by paragraph (a) of this section will be made only upon written request to the Commissioner of Internal Revenue by the Administrator of the Pension and Welfare Benefit Programs of the Department of Labor describing the returns or return information to be disclosed, the taxable period or date to which such returns or return information relates, and the purpose for which the returns or return information is needed in the administration of title I of the Employee Retirement Income Security Act of 1974, and designating by title the officers and employees of such department to whom such disclosure is authorized. No such officer or employee to whom returns or return information is disclosed pursuant to the provisions of paragraph (a) shall disclose such returns or return information to any person, other than the taxpayer by whom the return was made or to whom the return information relates or other officers or employees of such department whose duties or responsibilities require such disclosure for a purpose described in paragraph (a), except in a form which cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

(Secs. 6103 and 7805 of the Internal Revenue Code of 1954 (90 Stat. 1667, 68A Stat. 917; 26 U.S.C. 6103 and 7805))

[T.D. 7723, 45 FR 65571, Oct. 3, 1980]

§ 301.6103(l)(2)–3 Disclosure to Department of Labor and Pension Benefit Guaranty Corporation of certain returns and return information.

(a) *Disclosures following general requests.* Pursuant to the provisions of section 6103(l)(2) of the Internal Revenue Code and subject to the requirements of this paragraph, officers or employees of the Internal Revenue Service may disclose the following returns and return information (as defined by section 6103(b)) to officers and employees of the Department of Labor or the Pension Benefit Guaranty Corporation for purposes of, but only to the extent necessary in, the administration of title I or IV of the Employee Retirement Income Security Act of 1974 (hereinafter referred to in this section as the Act)—

(1) Notification of receipt by the Service of an application by a particular taxpayer for a determination of whether a pension, profit-sharing, or stock bonus plan, a trust which is a part of such a plan, or an annuity or bond purchase plan meets the applicable requirements of part I of subchapter D of chapter 1 of the Code;

(2) Notification that a particular application described in subparagraph (1) of this paragraph alleges that certain employees may be excluded from participation by reason of section 410(b)(2)(A) and (B) for the purpose of obtaining the finding necessary for the application of such section;

(3) An application by a particular taxpayer for a determination of whether a pension, profit-sharing, or stock bonus plan, or an annuity or bond purchase plan, meets the applicable requirements of part I of subchapter D of chapter 1 of the Code with respect to a termination or proposed termination of the plan or to a partial termination or proposed partial termination of the plan, and any statement filed as provided by section 6058(b);

(4) Notification that the Service has determined that a plan or trust described in subparagraph (1) or (3) of this paragraph meets or does not meet the applicable requirements of part I of subchapter D of chapter 1 of the Code and has issued a determination letter to such effect to a particular taxpayer or that an application for such a determination has been withdrawn by the taxpayer;

(5) If the Department of Labor or the Pension Benefit Guaranty Corporation has commented on an application upon which a determination letter described in subparagraph (4) of this paragraph has been issued, a copy of the letter or document issued to the applicant;

(6) Notification to a particular taxpayer that the Service intends to disqualify a pension, profit-sharing, or stock bonus plan, a trust which is a part of such plan, or an annuity or bond purchase plan because such plan or trust does not meet the requirements of section 410(a) or 411 as of the date that such notification is issued;

(7) Notification required by section 3002(a) of the Act of the commencement of any proceeding to determine whether a particular pension, profit-sharing, or stock bonus plan, a trust which is a part of such plan, or an annuity or bond purchase plan meets the requirements of section 410(a) or 411;

(8) Prior to issuance of a notice of deficiency to a particular taxpayer under section 6212, notification that the Service has determined that a deficiency exists under section 6211 with respect to the tax imposed by section 4971 (a) or (b) on such taxpayer, except that if the Service determines that the collection of such tax is in jeopardy within the meaning of section 6861(a), such notification may be disclosed after issuance of the notice of deficiency or jeopardy assessment;

(9) Notification of receipt by the Service of, and action taken with respect to, an application by or on behalf of a particular taxpayer for a waiver of the tax imposed by section 4971 (b);

(10) Prior to issuance of a notice of deficiency to a particular taxpayer under section 6212, notification that a deficiency exists under section 6211 with respect to the tax imposed by section 4975 (a) or (b) on such taxpayer, except that if the Service determines that the collection of such tax is in jeopardy within the meaning of section 6861(a), such notification may be disclosed after issuance of the notice of deficiency or jeopardy assessment;

(11) Notification that the Service has waived the tax imposed by section 4975(b) on a particular taxpayer;

(12) Notification of applicability of section 4975 to a particular pension, profit-sharing, or stock bonus plan, a trust which is a part of such plan, or an annuity or stock purchase plan engaged in prohibited transactions within the meaning of section 4975(c);

(13) Notification to a plan administrator that the Service has determined that a pension, profit-sharing, stock bonus, annuity, or stock purchase plan no longer meets the requirements of section 401(a) or 404(a)(2);

(14) Notification that the Service has determined that there has been a termination or partial termination of a particular pension, profit-sharing, stock bonus, annuity, or stock purchase plan within the meaning of section 411(d)(3);

(15) Notification of the occurrence of an event (other than an event described in subparagraph (13), (14), or (18) of this paragraph) which the Service has determined to indicate that a particular pension, profit-sharing, stock bonus, annuity, or stock purchase plan may not be sound under section 4043(c)(2) of the Act;

(16) Notification that the Service has received and responded to a request on behalf of a particular pension, profit-sharing, or stock bonus plan, a trust which is a part of such plan, or an annuity or stock purchase plan for an extension of time for filing an annual return by such plan or trust;

(17) Notification that the Service has received and responded to a request on behalf of a particular pension, profit-sharing, or stock bonus plan, a trust which is a part of such plan, or an annuity or stock purchase plan to change the annual accounting period of such plan or trust;

(18) Notification that the Service has determined that a particular plan does not meet the requirements of section 412 without regard to whether such plan is one described in section 4021(a)(2) of the Act;

(19) Notification of the results of an investigation by the Service requested by the Department of Labor or the Pension Benefit Guaranty Corporation, or both, with respect to whether the tax described in section 4971 should be imposed on any employer named in such request or whether the tax imposed by section 4975 should be paid by any person named in the request;

(20) Notification of receipt by the Service of an application by a particular taxpayer for exemption under section 4975(c)(2) or of initiation by the Service of an administrative proceeding for such exemption;

(21) Notification of receipt by the Service of, and action taken with respect to, an application by or on behalf of a particular taxpayer for a waiver or variance of the minimum funding standard under section 303 of the Act or section 412(d);

(22) Notification that the Service intends to undertake, is undertaking, or

has completed, an examination to determine whether—

(i) A particular pension, profit-sharing, or stock bonus plan, a trust which is a part of such plan, or an annuity or stock purchase plan meets the applicable requirements of part I of subchapter D of chapter 1 of the Code,

(ii) Any particular person is, or may be, liable for any tax imposed by section 4971 or 4975, or

(iii) A particular employee welfare benefit plan, as defined in section 3(1) of the Act, meets the applicable requirements of section 501(c) or 120, together with any completed Department of Labor or Pension Benefit Guaranty Corporation form (and supplemental schedules) relating to such examination;

(23) Copies of initial pleadings indicating that the Service intends to intervene in a civil action under section 502(h) of the Act;

(24) Notification of receipt by the Service of a request for technical advice as to whether a particular pension, profit-sharing, or stock bonus plan, a trust which is a part of such plan, or an annuity or bond purchase plan should be disqualified because of fiduciary actions subject to part 4 of subtitle B of title I of the Act which may violate the exclusive benefit rule of section 401(a);

(25) Notification of receipt by the National Office of the Service of a request by or on behalf of a particular taxpayer for a ruling, opinion, variance, or waiver under any provision of title I of the Act and a copy of any such ruling, opinion, variance or waiver;

(26) Notification that the Service proposes to take substantive action which would significantly impact on or substantially affect collectively bargained plans and a description of such proposed substantive action; and

(27) Notification of receipt by the Service of, and action taken with respect to, a request by a particular taxpayer for a ruling under section 412(c)(8), 412(e), or 412(f).

Return information disclosed under this paragraph includes the taxpayer identity information (as defined in section 6103(b)(6)) of the plan or trust, the name and address of the sponsor and administrator of the plan or trustee of the trust, and the name and address of the person authorized to represent the plan or trust before the Service. Disclosure of returns or return information as provided by this paragraph will be made only following receipt by the Commissioner of Internal Revenue or his delegate of an annual written request for such disclosure by the Secretary of Labor or his delegate or the Executive Director of the Pension Benefit Guaranty Corporation or his delegate describing the categories of returns or return information to be disclosed by the Service and the particular purpose for which the returns or return information is needed in the administration of title I or IV of the Act, and designating by title the officers and employees of the Department of Labor or such corporation to whom such disclosure is authorized.

(b) *Additional returns and return information subject to disclosure*—(1) *Returns and return information relating to automatic notification.* (i) Subject to the requirements of subparagraph (3)(i) of this paragraph, officers or employees of the Service may disclose to officers and employees of the Department of Labor or the Pension Benefit Guaranty Corporation for purposes of, but only to the extent necessary in, the administration of title I or IV of the Act additional return and return information relating to any item described in paragraph (a) of this section.

(ii) Subject to the requirements of subparagraph (3)(ii) of this paragraph, in connection with the disclosure of any item as provided by paragraph (a) of this section, officers and employees of the Service may disclose to officers and employees of the Department of Labor or the Pension Benefit Guaranty Corporation such additional returns and return information relating to such item as the Service determines are or may be necessary in the administration of title I or IV of the Act.

(2) *Other returns and return information.* Subject to the requirements of subparagraph (3)(i) of this paragraph, officers or employees of the Service may disclose to officers and employees of the Department of Labor or the Pension Benefit Guaranty Corporation returns and return information (other than returns and return information disclosed as provided by paragraph (a)

of this section or § 301.6103(l)(2)–1 or § 301.6103(l)(2)–2 for purposes of, but only to the extent necessary in, administration of title I or IV of the Act.

(3) *Procedures.* (i) Disclosure of returns or return information by officers or employees of the Service as provided by subparagraph (1)(i) or (2) of this paragraph will be made only following receipt by the Commissioner of Internal Revenue or his delegate of a written request for such disclosure by the Secretary of Labor or his delegate or the Executive Director of the Pension Benefit Guaranty Corporation or his delegate identifying the particular taxpayer by whom such return was made or to whom such return information relates, describing the particular returns or return information to be disclosed, stating the purpose for which the returns or return information is needed in the administration of title I or IV of the Act, and designating by title the officers and employees of such department or corporation to whom such disclosure is authorized.

(ii) Disclosure of returns or return information by officers or employees of the Service as provided by subparagraph (1)(ii) of this paragraph will be made only following receipt by the Commissioner of Internal Revenue or his delegate of an annual written request for such disclosure by the Secretary of Labor or his delegate or the Executive Director of the Pension Benefit Guaranty Corporation or his delegate stating the purpose for which the returns or return information is needed in the administration of title I or IV of the Act, and designating by title the officers and employees of such department or corporation to whom such disclosure is authorized.

(c) *Disclosure and use of returns and return information by officers and employees of Department of Labor, Pension Benefit Guaranty Corporation, and Department of Justice*—(1) *Use by officers and employees of Department of Labor and Pension Benefit Guaranty Corporation.* Returns and return information disclosed to officers and employees of the Department of Labor and the Pension Benefit Guaranty Corporation as provided by this section may be used by such officers and employees for purposes of, but only to the extent necessary in, administration of any provision of title I or IV of the Act, including any preparation for any administrative or judicial proceeding (or investigation which may result in such a proceeding) authorized by, or described in, title I or IV of the Act.

(2) *Disclosure by officers and employees of Department of Labor and Pension Benefit Guaranty Corporation to, and use by, other persons, including officers and employees of the Department of Justice.* (i) Returns and return information disclosed to officers and employees of the Department of Labor or the Pension Benefit Guaranty Corporation as provided by this section may be disclosed by such officers and employees to officers and employees of the Department of Justice (including United States attorneys) personally and directly engaged in, and for their necessary use in, any Federal grand jury proceeding, or preparation for any civil or criminal judicial proceeding (or for their necessary use in an investigation which may result in such a proceeding), authorized by, or described in, title I or IV of the Act.

(ii) Returns and return information disclosed to officers and employees of the Department of Labor, the Pension Benefit Guaranty Corporation, and the Department of Justice as provided by this section may be disclosed by such officers and employees to other persons, including, but not limited to, persons described in subparagraph (2)(iii) of this paragraph, but only to the extent necessary in connection with administration of the provisions of title I or IV of the Act, including a Federal grand jury proceeding, and proper preparation for a proceeding (or investigation), described in subparagraph (1) or (2)(i). Such disclosures may include, but are not limited to, disclosures where necessary—

(A) To properly obtain the services of persons having special knowledge or technical skills;

(B) To properly interview, consult, depose, or interrogate or otherwise obtain relevant information from the taxpayer to whom such return or return information relates (or the legal representative of such taxpayer) or any witness who may be called to give evidence in the proceeding; or

(C) To properly conduct negotiations concerning, or obtain authorization for, settlement or disposition of the proceeding, in whole or in part, or stipulations of fact in connection with the proceeding.

Disclosure of a return or return information to a person other than the taxpayer to whom such return or return information relates (or the legal representative of such taxpayer) to properly accomplish any purpose or activity described in this subparagraph should be made, however, only if such purpose or activity cannot otherwise properly be accomplished without making such disclosure.

(iii) Among those persons to whom returns and return information may be disclosed by officers and employees of the Department of Labor, the Pension Benefit Guaranty Corporation, and the Department of Justice as provided by subparagraph (2)(ii) of this paragraph are:

(A) Other officers and employees of the Department of Labor, the Pension Benefit Guaranty Corporation, and the Department of Justice;

(B) Officers and employees of another Federal agency (as defined in section 6103(b)(9)) working under the direction and control of such officers and employees of the Department of Labor, the Pension Benefit Guaranty Corporation, or the Department of Justice; and

(C) Court reporters.

Disclosure of returns or return information to other persons by officers and employees of the Department of Labor or the Pension Benefit Guaranty Corporation as provided by subparagraph (2)(ii) of this paragraph for purposes of conducting research, surveys, studies, and publications referred to in section 513(a), or authorized by title IV, of the Act shall be restricted, however, to disclosure to other officers and employees of such department or corporation to whom such disclosure is necessary in connection with such conduct or to the taxpayer by whom such return was made or to whom such return information relates if the return or return information can be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

(3) *Disclosure in judicial proceedings.* A return or return information disclosed to officers and employees of the Department of Labor, the Pension Benefit Guaranty Corporation, or the Department of Justice as provided by this section may be entered into evidence by such officers or employees in a civil or criminal judicial proceeding authorized by, or described in, title I or IV of the Act, provided that, in the case of a judicial proceeding described in section 6103(i)(4), the requirements of section 6103(i)(4) have first been met.

(d) *Disclosure of returns and return information in connection with certain consultations between Departments of the Treasury and Labor.* Upon general written request to the Commissioner of Internal Revenue by the Secretary of Labor, officers and employees of the Service may disclose to officers and employees of the Department of Labor such returns and return information as may be necessary to properly carry out any consultation required by section 3002, 3003, or 3004 of the Act.

(e) *Return information open to public inspection under section 6104.* Nothing in these regulations shall be construed to deny officers and employees of the Department of Labor and the Pension Benefit Guaranty Corporation the right to inspect return information available to the public under section 6104 of the Code.

(Secs. 6103 and 7805 of the Internal Revenue Code of 1954 (90 Stat. 1667, 1685, 68A Stat. 917; 26 U.S.C. 6103 and 7805))

[T.D. 7723, 45 FR 65571, Oct. 3, 1980, as amended by T.D. 7757, 46 FR 6930, Jan. 22, 1981; T.D. 7911, 48 FR 40377, Sept. 7, 1983]

§ 301.6103(l)(14)–1 Disclosure of return information to United States Customs Service.

(a) *General rule.* Pursuant to the provisions of section 6103(l)(14) of the Internal Revenue Code, officers and employees of the Internal Revenue Service may disclose to officers and employees of the United States Customs Service return information (as defined by section 6103(b)) with respect to taxes imposed by chapters 1 and 6 of the Internal Revenue Code solely for purposes of, and only to the extent necessary in—

(1) Ascertaining the correctness of any entry in audits as provided for in section 509 of the Tariff Act of 1930 or;

(2) Other actions to recover any loss of revenue, or to collect duties, taxes, and fees, determined to be due and owing pursuant to such audits.

(b) *Procedures.* Disclosure of return information by officers or employees of the Internal Revenue Service as provided by paragraph (a) of this section will be made only following receipt by the Internal Revenue Service of a written request for the disclosure by the Commissioner of the U.S. Customs Service identifying—

(1) The particular items of return information to be disclosed;

(2) The particular taxpayer to whom the return information relates;

(3) The taxable period or date to which the return information relates;

(4) The particular purpose for which each item of return information is needed, including an explanation as to how the requested information is necessary to accomplish that purpose. In addition, the request must designate by title the officers and employees of the Customs Service to whom the disclosure is authorized and certify that the Customs Service has initiated or intends to initiate, under section 509 of the Tariff Act of 1930, an audit of each taxpayer for whom return information is requested or that the taxpayer has a transactional or ownership relationship with the subject of such an audit.

(c) *Return information subject to disclosure.* Any return information requested must be necessary to a Customs determination of the correctness of any entry in audits conducted under section 509 of the Tariff Act of 1930. Taxpayers as to whom return information is requested must either be the subject of a Customs audit (or intended audit) or have a transactional or ownership relationship with the subject of a Customs audit. Requested information must relate to the declared value, classification or rate of duty applicable to entered merchandise. Requested information may also include any adjustment by the IRS to the items of return information described by this paragraph.

(d) *Return information not subject to disclosure.* The following return information may not be requested or disclosed pursuant to section 6103(l)(14) of the Internal Revenue Code: any Advance Pricing Agreement or information submitted to or generated by the IRS as part of the negotiation process for an Advance Pricing Agreement, or any information to the extent its disclosure would be inconsistent with a tax treaty or executive agreement with respect to which the United States is a party.

(e) *Impairment of tax administration.* Return information with respect to a taxpayer may not be disclosed pursuant to this section if the IRS determines that the disclosure would identify a confidential informant or seriously impair any civil or criminal tax investigation or proceeding.

(f) *Use by Customs Service.* Return information disclosed under this section may be used by the U.S. Customs Service to the extent necessary to ascertain or to document the correctness of any entry in audits as provided for in section 509 of the Tariff Act of 1930 and in any related administrative proceedings to recover any loss of revenue, or to collect duties, taxes or fees, determined to be due and owing pursuant to these audits. Uses may include, to the extent necessary, disclosure to the importer (or the legal representative of such importer) subject to the audit with respect to which the information was requested.

(g) *Disclosure to, and use by, the Department of Justice.* Return information disclosed to officers and employees of the U.S. Customs Service as provided by this section may be disclosed by these officers and employees to officers and employees of the Department of Justice (including United States attorneys) personally and directly engaged in, and solely for their necessary use in, advocating or defending the correctness of Customs determinations with respect to any entry, in any civil judicial proceeding, or any preparations therefor (or for their necessary use in an investigation which may result in such a proceeding), to recover any loss of revenue, or to collect duties, taxes or fees, determined to be due and owing as a consequence of an audit provided for in section 509 of the Tariff Act of 1930.

(h) *Disclosure by officers and employees of the Department of Justice.* Return information disclosed to officers and employees of the Department of Justice (including United States Attorneys) as provided by this section may be disclosed by these officers and employees to other persons as is necessary to properly accomplish the purposes or activities described in paragraph (g). Disclosure of return information to a person, other than the importer (or the legal representative of the importer) subject to the audit with respect to which the information was originally requested, to properly accomplish any purpose or activity described in paragraph (g) may be made, however, only if the purpose or activity cannot otherwise properly be accomplished without making the disclosure. Disclosures may include, but are not limited to, disclosures where necessary—

(1) To properly obtain the services of persons having special knowledge or technical skills;

(2) To properly interview, consult, depose, or interrogate or otherwise obtain relevant information from, the taxpayer (or the legal representative of the taxpayer) to whom the return information relates or any witness who may be called to give evidence in the proceeding; or

(3) To properly conduct negotiations concerning, or obtain authorization for, settlement or disposition of the proceeding, in whole or in part, or stipulations of fact in connection with the proceeding.

(i) *Use in criminal judicial proceedings.* Return information disclosed pursuant to this section may not be used in any criminal judicial proceeding, or any preparations therefor (or in a criminal investigation which may result in such a proceeding), involving the enforcement of a criminal statute, without compliance with the requirements of section 6103(i) (1) or (2) as appropriate. However, the return information may in any event be used for purposes of complying with the requirements of section 6103(i).

(j) *Restrictions.* Return information disclosed to officers and employees of the U.S. Customs Service or to the Department of Justice as provided by this section may not be used or disclosed for any purpose other than to ascertain, or advocate or defend the correctness of, Customs determinations with respect to, any entry in the audits for which the information was requested or in certain actions resulting from the audits as described above. Return information disclosed to officers and employees of the U.S. Customs Service or to the Department of Justice as provided by this section may not be disclosed to any person, including any contractor of the U.S. Customs Service, except as provided by this section, or as otherwise provided by section 6103 of the Internal Revenue Code.

[T.D. 8527, 59 FR 11548, Mar. 11, 1994. Redesignated by T.D. 8694, 61 FR 66220, Dec. 17, 1996]

§ 301.6103(l)(21)–1 Disclosure of return information to the Department of Health and Human Services to carry out eligibility requirements for health insurance affordability programs.

(a) *General rule.* Pursuant to the provisions of section 6103(l)(21)(A) of the Internal Revenue Code, officers and employees of the Internal Revenue Service will disclose, upon written request, for each relevant taxpayer on a single application those items of return information that are described under section 6103(l)(21)(A) and paragraphs (a)(1) through (7) of this section, for the reference tax year, as applicable, to officers, employees, and contractors of the Department of Health and Human Services. Such information shall be provided solely for purposes of, and to the extent necessary in, establishing an individual's eligibility for participation in an Exchange established under the Patient Protection and Affordable Care Act, verifying the appropriate amount of any premium tax credit under section 36B or cost-sharing reduction under section 1402 of the Patient Protection and Affordable Care Act, or determining eligibility for the State programs described in section 6103(l)(21)(A).

(1) With respect to each relevant taxpayer for the reference tax year where the amount of social security benefits not included in gross income under section 86 of the Internal Revenue Code of that relevant taxpayer is unavailable:

(i) The aggregate amount of the following items of return information—

(A) Adjusted gross income, as defined by section 62 of the Internal Revenue Code;

(B) Any amount excluded from gross income under section 911 of the Internal Revenue Code; and

(C) Any amount of interest received or accrued by the taxpayer during the taxable year that is exempt from tax.

(ii) Information indicating that the amount of social security benefits not included in gross income under section 86 of the Internal Revenue Code is unavailable.

(2) Adjusted gross income, as defined by section 62 of the Internal Revenue Code, of a relevant taxpayer for the reference tax year, in circumstances where the modified adjusted gross income (MAGI), as defined by section 36B(d)(2)(B) of the Internal Revenue Code, of that relevant taxpayer is unavailable, as well as information indicating that the components of MAGI other than adjusted gross income must be taken into account to determine MAGI;

(3) The amount of social security benefits of the relevant taxpayer that is included in gross income under section 86 of the Internal Revenue Code for the reference tax year;

(4) Information indicating that certain return information of a relevant taxpayer is unavailable for the reference tax year because the relevant taxpayer jointly filed a U.S. Individual Income Tax Return for that year with a spouse who is not a relevant taxpayer listed on the same application;

(5) Information indicating that, although a return for an individual identified on the application as a relevant taxpayer for the reference tax year is available, return information is not being provided because of possible authentication issues with respect to the identity of the relevant taxpayer;

(6) Information indicating that a relevant taxpayer who is identified as a dependent for the tax year in which the premium tax credit under section 36B of the Internal Revenue Code would be claimed, did not have a filing requirement for the reference tax year based upon the U.S. Individual Income Tax Return the relevant taxpayer filed for the reference tax year; and

(7) Information indicating that a relevant taxpayer who received advance payments of the premium tax credit in the reference tax year did not file a tax return for the reference tax year reconciling the advance payments of the premium tax credit with any premium tax credit under section 36B of the Internal Revenue Code available for that year.

(b) *Relevant taxpayer defined.* For purposes of paragraph (a) of this section, a relevant taxpayer is defined to be any individual listed, by name and social security number, on an application submitted pursuant to Title I, Subtitle E, of the Patient Protection and Affordable Care Act, whose income may bear upon a determination of any advance payment of any premium tax credit under section 36B of the Internal Revenue Code, cost-sharing reduction under section 1402 of the Patient Protection and Affordable Care Act, or eligibility for any program described in section 6103(l)(21)(A) of the Internal Revenue Code.

(c) *Reference tax year defined.* For purposes of section 6103(l)(21)(A) of the Internal Revenue Code and this section, the reference tax year is the first calendar year or, where no return information is available in that year, the second calendar year, prior to the submission of an application pursuant to Title I, Subtitle E, of the Patient Protection and Affordable Care Act.

(d) *Effective/applicability date.* This section applies to disclosures to the Department of Health and Human Services on or after August 14, 2013.

[T.D. 9628, 78 FR 49369, Aug. 14, 2013]

§ 301.6103(m)–1 Disclosure of taxpayer identity information.

(a) *Definition.* For purposes of applying the provisions of section 6103(m) of the Internal Revenue Code, the term *agent* includes a contractor.

(b) *Effective date.* This section is applicable January 6, 2004.

[T.D. 9111, 69 FR 507, Jan. 6, 2004]

§ 301.6103(n)–1 Disclosure of returns and return information in connection with written contracts or agreements for the acquisition of property or services for tax administration purposes.

(a) *General rule.* (1) Pursuant to the provisions of section 6103(n) of the Internal Revenue Code and subject to the conditions of this section, officers and employees of the Treasury Department, a State tax agency, the Social Security Administration, or the Department of Justice, are authorized to disclose returns and return information (as defined in section 6103(b)) to any person (including, in the case of the Treasury Department, any person described in section 7513(a)), or to an officer or employee of the person, for purposes of tax administration (as defined in section 6103(b)(4)), to the extent necessary in connection with a written contract or agreement for the acquisition of—

(i) Equipment or other property; or

(ii) Services relating to the processing, storage, transmission, or reproduction of returns or return information, the programming, maintenance, repair, or testing of equipment or other property, or the providing of other services.

(2) Any person, or officer or employee of the person, who receives returns or return information under paragraph (a)(1) of this section, may—

(i) Further disclose the returns or return information to another officer or employee of the person whose duties or responsibilities require the returns or return information for a purpose described in this paragraph (a); or

(ii) Further disclose the returns or return information, when authorized in writing by the Internal Revenue Service (IRS), to the extent necessary to carry out the purposes described in this paragraph (a). Disclosures may include disclosures to an agent or subcontractor of the person, or officer or employee of the agent or subcontractor.

(3) An agent or subcontractor, or officer or employee of the agent or subcontractor, who receives returns or return information under paragraph (a)(2)(ii) of this section, may further disclose the returns or return information to another officer or employee of the agent or subcontractor whose duties or responsibilities require the returns or return information for a purpose described in this paragraph (a).

(4) Any person, or officer, employee, agent or subcontractor of the person, or officer or employee of the agent or subcontractor, who receives returns or return information under this paragraph (a), may, subject to the provisions of § 301.6103(p)(2)(B)–1 (concerning disclosures by a Federal, State, or local agency, or its agents or contractors), further disclose the returns or return information for a purpose authorized, and subject to all applicable conditions imposed, by section 6103.

(b) *Limitations.* (1) Disclosure of returns or return information in connection with a written contract or agreement for the acquisition of property or services described in paragraph (a) of this section will be treated as necessary only if the performance of the contract or agreement cannot otherwise be reasonably, properly, or economically carried out without the disclosure.

(2) Disclosure of returns or return information in connection with a written contract or agreement for the acquisition of property or services described in paragraph (a) of this section shall be made only to the extent necessary to reasonably, properly, or economically perform the contract. For example, disclosure of returns or return information to employees of a contractor for purposes of programming, maintaining, repairing, or testing computer equipment used by the IRS or a State tax agency shall be made only if the services cannot be reasonably, properly, or economically performed without the disclosure. If it is determined that disclosure of returns or return information is necessary, and if the services can be reasonably, properly, or economically performed by disclosure of only parts or portions of a return or if deletion of taxpayer identity information (as defined in section 6103(b)(6)) reflected on a return would not seriously impair the ability of the employees to perform the services, then only the parts or portions of the return, or only the return with taxpayer identity information deleted, may be disclosed.

(c) *Penalties.* Any person, or officer, employee, agent or subcontractor of the person, or officer or employee of the agent or subcontractor, who receives returns or return information under paragraph (a) of this section, is subject to the civil and criminal penalty provisions of sections 7431, 7213, and 7213A for the unauthorized inspection or disclosure of the returns or return information.

(d) *Notification requirements.* Any person, or agent or subcontractor of the person, who receives returns or return information under paragraph (a) of this section shall provide written notice to his, her, or its officers and employees receiving the returns or return information that—

(1) Returns or return information disclosed to the officer or employee may be used only for a purpose and to the extent authorized by paragraph (a) of this section and that the officer or employee is subject to the civil and criminal penalty provisions of sections 7431, 7213, and 7213A for the unauthorized inspection or disclosure of the returns or return information;

(2) Further inspection of any returns or return information for a purpose or to an extent not authorized by paragraph (a) of this section constitutes a misdemeanor, punishable upon conviction by a fine of as much as $1,000, or imprisonment for as long as 1 year, or both, together with costs of prosecution;

(3) Further disclosure of any returns or return information for a purpose or to an extent not authorized by paragraph (a) of this section constitutes a felony, punishable upon conviction by a fine of as much as $5,000, or imprisonment for as long as 5 years, or both, together with the costs of prosecution;

(4) Further inspection or disclosure of returns or return information by any person who is not an officer or employee of the United States for a purpose or to an extent not authorized by paragraph (a) of this section may result also in an award of civil damages against that person in an amount not less than $1,000 for each act of unauthorized inspection or disclosure; or the sum of actual damages sustained by the plaintiff as a result of the unauthorized inspection or disclosure plus, in the case of a willful inspection or disclosure or an inspection or disclosure that is the result of gross negligence, punitive damages. In addition, costs and reasonable attorneys fees may be awarded; and

(5) A conviction for an offense referenced in paragraph (d)(2) or (3) of this section shall, in addition to any other punishment, result in dismissal from office or discharge from employment if the person convicted is an officer or employee of the United States.

(e) *Safeguards.* (1) Any person, or agent or subcontractor of the person, who may receive returns or return information under paragraph (a) of this section, shall agree, before disclosure of any returns or return information to the person, agent, or subcontractor, to permit an inspection by the IRS of his, her, or its site or facilities.

(2) Any person, or officer, employee, agent or subcontractor of the person, or officer or employee of the agent or subcontractor, who receives returns or return information under paragraph (a) of this section, shall comply with all applicable conditions and requirements as the IRS may prescribe from time to time (prescribed requirements) for the purposes of protecting the confidentiality of returns and return information and preventing any disclosure or inspection of returns or return information in a manner not authorized by this section.

(3) The terms of any written contract or agreement for the acquisition of property or services as described in paragraph (a) of this section shall provide, or shall be amended to provide, that any person, or officer, employee, agent or subcontractor of the person, or officer or employee of the agent or subcontractor, who receives returns or return information under paragraph (a) of this section, shall comply with the prescribed requirements. Any contract or agreement shall be made available to the IRS before execution of the contract or agreement. For purposes of this paragraph (e)(3), a written contract or agreement shall include any contract or agreement between a person and an agent or subcontractor of the person to provide the property or services described in paragraph (a) of this section.

(4) If the IRS determines that any person, or officer, employee, agent or subcontractor of the person, or officer or employee of the agent or subcontractor, who receives returns or return information under paragraph (a) of this section, has failed to, or does not, satisfy the prescribed requirements, the IRS, consistent with the regulations under section 6103(p)(7), may take any actions it deems necessary to ensure that the prescribed requirements are or will be satisfied, including—

(i) Suspension of further disclosures of returns or return information by the IRS to the State tax agency, the Social Security Administration, or the Department of Justice, until the IRS determines that the conditions and requirements have been or will be satisfied;

(ii) Suspension of further disclosures by the Treasury Department otherwise authorized by paragraph (a) of this section; and

(iii) Suspension or termination of any duty or obligation arising under a contract or agreement with the Treasury Department.

(f) *Definitions*. For purposes of this section—

(1) The term *Treasury Department* includes the IRS, the Office of the Chief Counsel for the IRS, and the Office of the Treasury Inspector General for Tax Administration;

(2) The term *State tax agency* means an agency, body, or commission described in section 6103(d); and

(3) The term *Department of Justice* includes offices of the United States Attorneys.

(g) *Effective date*. This section is applicable on June 5, 2007.

[T.D. 9327, 72 FR 30976, June 5, 2007]

§ 301.6103(n)–2 Disclosure of return information in connection with written contracts among the IRS, whistleblowers, and legal representatives of whistleblowers.

(a) *General rule*. (1) Pursuant to the provisions of sections 6103(n) and 7623 of the Internal Revenue Code and subject to the conditions of this section, an officer or employee of the Treasury Department is authorized to disclose return information (as defined in section 6103(b)(2)) to a whistleblower and, if applicable, the legal representative of the whistleblower, to the extent necessary in connection with a written contract among the Internal Revenue Service (IRS), the whistleblower and, if applicable, the legal representative of the whistleblower, for services relating to the detection of violations of the internal revenue laws or related statutes.

(2) The IRS shall have the discretion to determine whether to enter into a written contract pursuant to section 7623 with the whistleblower and, if applicable, the legal representative of the whistleblower, for services described in paragraph (a)(1) of this section.

(b) *Limitations*. (1) Disclosure of return information in connection with a written contract for services described in paragraph (a)(1) of this section shall be made only to the extent the IRS deems it necessary in connection with the reasonable or proper performance of the contract. Disclosures may include, but are not limited to, disclosures to accomplish properly any purpose or activity of the nature described in section 6103(k)(6) and the regulations thereunder.

(2) If the IRS determines that the services of a whistleblower and, if applicable, the legal representative of the whistleblower, as described in paragraph (a)(1) of this section, can be performed reasonably or properly by disclosure of only parts or portions of return information, then only the parts or portions of the return information shall be disclosed.

(3) Upon written request by a whistleblower, or a legal representative of a whistleblower, with whom the IRS has entered into a written contract for services as described in paragraph (a)(1) of this section, the Director of the Whistleblower Office, or designee of the Director, may inform the whistleblower and, if applicable, the legal representative of the whistleblower, of the status of the whistleblower's claim for award under section 7623, including whether the claim is being evaluated for potential investigative action, or is pending due to an ongoing examination, appeal, collection action, or litigation. The information may be disclosed only if the IRS determines that the disclosure would not seriously impair Federal tax administration.

(4) Return information disclosed to a whistleblower and, if applicable, a legal representative of a whistleblower, under this section, shall not be further disclosed or otherwise used by the whistleblower or a legal representative of a whistleblower, except as expressly authorized in writing by the IRS.

(c) *Penalties.* Any whistleblower, or legal representative of a whistleblower, who receives return information under this section, is subject to the civil and criminal penalty provisions of sections 7431, 7213, and 7213A for the unauthorized inspection or disclosure of the return information.

(d) *Safeguards.* (1) Any whistleblower, or the legal representative of a whistleblower, who receives return information under this section, shall comply with all applicable conditions and requirements as the IRS may prescribe from time to time for the purposes of protecting the confidentiality of the return information and preventing any disclosure or inspection of the return information in a manner not authorized by this section (prescribed requirements).

(2) Any written contract for services as described in paragraph (a)(1) of this section shall provide that any whistleblower and, if applicable, the legal representative of a whistleblower, who has access to return information under this section, shall comply with the prescribed requirements.

(3) Any whistleblower, or the legal representative of a whistleblower, who may receive return information under this section, shall agree in writing, before any disclosure of return information is made, to permit an inspection of the whistleblower's or the legal representative's premises by the IRS relative to the maintenance of the return information disclosed under these regulations and, upon completion of services as described in the written contract with the IRS, to dispose of all return information by returning the return information, including any and all copies or notes made, to the IRS, or to the extent that it cannot be returned, by destroying the information in a manner consistent with prescribed requirements.

(4) If the IRS determines that any whistleblower, or the legal representative of a whistleblower, who has access to return information under this section, has failed to, or does not, satisfy the prescribed requirements, the IRS, using the procedures described in the regulations under section 6103(p)(7), may take any action it deems necessary to ensure that the prescribed requirements are or will be satisfied, including—

(i) Suspension of further disclosures of return information by the IRS to the whistleblower and, if applicable, the legal representative of the whistleblower, until the IRS determines that the conditions and requirements have been or will be satisfied; and

(ii) Suspension or termination of any duty or obligation arising under the contract with the IRS.

(e) *Definitions.* For purposes of this section—

(1) The term *Treasury Department* includes the IRS and the Office of the Chief Counsel for the IRS.

(2) The term *whistleblower* means an individual who provides information to the IRS regarding violations of the tax laws or related statutes and submits a claim for an award under section 7623 with respect to the information.

(3) The term *legal representative* means any individual who is a member in good standing in the bar of the highest court of any state, possession, territory, commonwealth, or the District of Columbia, and who has a written power of attorney executed by the whistleblower.

(f) *Effective/applicability date.* This section is applicable on March 15, 2011.

[T.D. 9516, 76 FR 13882, Mar. 15, 2011]

§ 301.6103(p)(2)(B)–1 Disclosure of returns and return information by other agencies.

(a) *General rule.* Subject to the requirements of paragraphs (b), (c), and (d) of this section, returns or return information that have been obtained by a Federal, state or local agency, or its agents or contractors, in accordance with section 6103 (the first recipient) may be disclosed by the first recipient to another recipient authorized to receive such returns or return information under section 6103 (the second recipient).

(b) *Approval by Commissioner*. A disclosure described in paragraph (a) of this section may be made if the Commissioner of Internal Revenue (the Commissioner) determines, after receiving a written request under this section, that such returns or return information are more readily available from the first recipient than from the Internal Revenue Service (IRS). The disclosure authorization by the Commissioner shall be directed to the head of the first recipient and may contain such conditions or restrictions as the Commissioner may prescribe. The disclosure authorization may be revoked by the Commissioner at any time.

(c) *Requirements and restrictions*. The second recipient may receive only returns or return information as authorized by the provision of section 6103 applicable to such second recipient. Any returns or return information disclosed may be used by the second recipient only for a purpose authorized by and subject to any conditions imposed by section 6103 and the regulations thereunder, including, if applicable, safeguards imposed by section 6103(p)(4).

(d) *Records and reports of disclosure*. The first recipient shall maintain to the satisfaction of the IRS a permanent system of standardized records regarding such disclosure authorization described in paragraph (a) of this section and any disclosure of returns and return information made pursuant to such authorization, and shall provide such information as prescribed by the Commissioner in order to enable the IRS to comply with its obligations under section 6103(p)(3) to keep accountings for disclosures and to make annual reports of disclosures to the Joint Committee on Taxation. The information required for reports to the Joint Committee on Taxation must be provided within 30 days after the close of each calendar year. The requirements of this paragraph do not apply to the disclosure of returns and return information as provided by paragraph (a) of this section which, had such disclosures been made directly by the IRS, would not have been subject to the recordkeeping requirements imposed by section 6103(p)(3)(A).

(e) *Effective date*. This section is applicable on January 21, 2003.

[T.D. 9036, 68 FR 2696, Jan. 21, 2003]

§ 301.6103(p)(4)–1 Procedures relating to safeguards for returns or return information.

For security guidelines and other safeguards for protecting returns and return information, see guidance published by the Internal Revenue Service. For procedures for administrative review of a determination that an authorized recipient has failed to safeguard returns or return information, see § 301.6103(p)(7)–1.

[T.D. 9445, 74 FR 6830, Feb. 11, 2009]

§ 301.6103(p)(7)–1 Procedures for administrative review of a determination that an authorized recipient has failed to safeguard returns or return information.

(a) *In general*. Notwithstanding any section of the Internal Revenue Code (Code), the Internal Revenue Service (IRS) may terminate or suspend disclosure of returns and return information to any authorized recipient specified in section (p)(4) of section 6103, if the IRS determines that:

(1) The authorized recipient has allowed an unauthorized inspection or disclosure of returns or return information and that the authorized recipient has not taken adequate corrective action to prevent the recurrence of an unauthorized inspection or disclosure; or

(2) The authorized recipient does not satisfactorily maintain the safeguards prescribed by section 6103(p)(4), and has made no adequate plan to improve its system to maintain the safeguards satisfactorily.

(b) *Notice of IRS's intention to terminate or suspend disclosure*. Prior to terminating or suspending authorized disclosures, the IRS will notify the authorized recipient in writing of the IRS's preliminary determination and of the IRS's intention to discontinue disclosure of returns and return information to the authorized recipient. Upon so notifying the authorized recipient, the IRS, if it determines that tax administration otherwise would be seriously impaired, may suspend further

disclosures of returns and return information to the authorized recipient pending a final determination by the Commissioner or a Deputy Commissioner described in paragraph (d)(2) of this section.

(c) *Authorized recipient's right to appeal.* An authorized recipient shall have 30 days from the date of receipt of a notice described in paragraph (b) of this section to appeal the preliminary determination described in paragraph (b) of this section. The appeal shall be made directly to the Commissioner.

(d) *Procedures for administrative review.* (1) To appeal a preliminary determination described in paragraph (b) of this section, the authorized recipient shall send a written request for a conference to: Commissioner of Internal Revenue (Attention: SE:S:CLD:GLD), 1111 Constitution Avenue, NW., Washington, DC 20224. The request must include a complete description of the authorized recipient's present system of safeguarding returns or return information received by the authorized recipient (and its authorized contractors or agents, if any). The request must state the reason or reasons the authorized recipient believes that such system or practice (including improvements, if any, to such system or practice expected to be made in the near future) is or will be adequate to safeguard returns or return information.

(2) Within 45 days of the receipt of the request made in accordance with the provisions of paragraph (d)(1) of this section, the Commissioner or Deputy Commissioner personally shall hold a conference with representatives of the authorized recipient, after which the Commissioner or Deputy Commissioner shall make a final determination with respect to the appeal.

(e) *Effective/applicability date.* This section applies to all authorized recipients of returns and return information that are subject to the safeguard requirements set forth in section 6103(p)(4) on or after February 11, 2009.

[T.D. 9445, 74 FR 6830, Feb. 11, 2009]

§ 301.6104(a)–1 Public inspection of material relating to tax-exempt organizations.

(a) *Applications for exemption from Federal income tax, applications for a group exemption letter, and supporting documents.* If the Internal Revenue Service determines that an organization described in section 501(c) or section 501(d) is exempt from Federal income tax for any taxable year, the application upon which the determination is based, together with any supporting documents, shall be open to public inspection. Such applications and supporting documents shall be open for public inspection even after any revocation of the Internal Revenue Service's determination that the organization is exempt from Federal income tax. In the past, some applications were destroyed and therefore are not available for inspection. For purposes of determining the availability for public inspection, a claim for exemption from Federal income tax filed to re-establish exempt status after denial thereof under the provisions of section 503 or 504 (as in effect on December 31, 1969), or under the corresponding provisions of any prior revenue law, is considered an application for exemption from Federal income tax.

(b) *Notices of status filed by political organizations.* If, in accordance with section 527(i), an organization notifies the Internal Revenue Service that it is a political organization as described in section 527, exempt from Federal income tax for any taxable year, the notice of status filed by the political organization shall be open to public inspection.

(c) *Letters or documents issued by the Internal Revenue Service with respect to an application for exemption from Federal income tax.* If an application for exemption from Federal income tax is filed with the Internal Revenue Service after October 31, 1976, and is open to public inspection under paragraph (a) of this section, then any letter or document issued to the applicant by the Internal Revenue Service that relates to the application is also open to public inspection. For rules relating to when a letter or document is issued, see § 301.6110–2(h). Letters or documents to which this paragraph (c) applies include, but are not limited to—

(1) Favorable rulings and determination letters, including group exemption

letters, issued in response to applications for exemption from Federal income tax;

(2) Technical advice memoranda issued with respect to the approval, or subsequent approval, of an application for exemption from Federal income tax;

(3) Letters issued in response to an application for exemption from Federal income tax (including applications for a group exemption letter) that propose a finding that the applicant is not entitled to be exempt from Federal income tax, if the applicant is subsequently determined, on the basis of that application, to be exempt from Federal income tax; and

(4) Any letter or document issued by the Internal Revenue Service relating to an organization's status as an organization described in section 509(a), 4940(d)(2), 4942(j)(3), or 4943(f), including a determination letter that the organization is or is not a private foundation.

(d) *Requirement of exempt status.* An application for exemption from Federal income tax (including applications for a group exemption letter), supporting documents, and letters or documents issued by the Internal Revenue Service that relate to the application shall not be open to public inspection before the organization is determined, on the basis of that application, to be exempt from Federal income tax for any taxable year. If an organization is determined to be exempt from Federal income tax for any taxable year, these materials shall not be withheld from public inspection on the basis that the organization is subsequently determined not to be exempt for any other taxable year.

(e) *Documents included in the term ''application for exemption from Federal income tax.''* For purposes of this section—

(1) *Prescribed application form.* If a form is prescribed for an organization's application for exemption from Federal income tax, the application includes the form and all documents and statements that the Internal Revenue Service requires to be filed with the form, any amendments or revisions to the original application, or any resubmitted applications where the original application was submitted in draft form or was withdrawn. An application includes an application for reinstatement of tax-exempt status after an organization's tax-exempt status has been revoked pursuant to section 6033(j). An application submitted in draft form or an application submitted and later withdrawn is not considered an application.

(2) *No prescribed application form.* If no form is prescribed for an organization's application for exemption from Federal income tax, the application includes the submission by letter requesting recognition of tax exemption and any statements or documents as prescribed by Revenue Procedure 2011–9, IRB 2011–2 (January 10, 2011), or any successor guidance describing procedures for application for exempt status pursuant to section 501 and section 521 of the Internal Revenue Code. See § 601.601(d)(2)(ii)(*b*).

(3) *Application for a Group Exemption Letter.* The application for a group exemption letter includes the letter submitted by or on behalf of subordinate organizations that seek exempt status pursuant to a group exemption letter and any statements or documents as prescribed by Revenue Procedure 80–27, 1980–1 CB 677 (June 20, 1980), and any successor guidance. See § 601.601(d)(2)(ii)(*b*).

(4) *Notice of status filed under section 527(i).* For purposes of this section, documents included in the term ''notice of status filed under section 527(i)'' include—

(i) Form 8871, ''Political Organization Notice of Section 527 Status;''

(ii) Form 8453–X, ''Declaration of Electronic Filing of Notice of Section 527 Status;'' and

(iii) Any other additional forms or documents that the Internal Revenue Service may prescribe.

(f) *Material open to public inspection under section 6110.* Under section 6110, certain written determinations, including negative determinations issued to organizations that applied for an exemption from Federal income tax, issued by the Internal Revenue Service are made available for public inspection. Section 6110 does not apply, however, to material that is open to public inspection under section 6104. See sections 6104(a)(1) and 6110(l)(1).

(g) *Supporting documents defined.* For purposes of this section, ''supporting documents,'' with respect to an application for exemption from Federal income tax, means any statement or document not described in paragraph (e) of this section that is submitted by the organization or group in support of its application prior to a determination described in paragraph (a) of this section. Items submitted in connection with an application in draft form, or with an application submitted and later withdrawn, are not supporting documents. There are no supporting documents with respect to Notices of Status filed by political organizations.

(h) *Statement of exempt status.* For efficient tax administration, the Internal Revenue Service may publish, in paper or electronic format, the names of organizations currently recognized as exempt from Federal income tax, including organizations recognized as exempt from Federal income tax under particular paragraphs of section 501(c) or section 501(d). In addition to having the opportunity to inspect material relating to an organization exempt from Federal income tax, a person may request a statement, or the Internal Revenue Service may disclose, in response to or in anticipation of a request, the following information—

(1) The subsection and paragraph of section 501 (or the corresponding provision of any prior revenue law) under which the organization or group has been determined, on the basis of an application open to public inspection, to qualify for exemption from Federal income tax; and

(2) Whether an organization or group is currently recognized as exempt from Federal income tax.

(i) *Publication of non-exempt status.* (1) For publication of the notice of the revocation of a determination that an organization is described in section 501(c)(3), see section 7428(c).

(2) For publication of a list including any organization the tax exemption of which is revoked for failure to file required returns or notices for three consecutive years, see section 6033(j).

(3) For publication of notice of suspension of tax exemption of terrorist organizations, see section 501(p).

(j) *Withholding of certain information from public inspection.* For rules relating to certain information contained in an application for exemption from Federal income tax and supporting documents that will be withheld from public inspection, see § 301.6104(a)–5(a).

(k) *Procedures for inspection.* For rules relating to procedures for public inspection of applications for exemption from Federal income tax and supporting documents, see § 301.6104(a)–6.

(l) *Effective/applicability date.* The rules of this section apply February 29, 2012.

[T.D. 9581, 77 FR 12203, Feb. 29, 2012]

§ 301.6104(a)–2 Public inspection of material relating to pension and other plans.

(a) *Material open to inspection.* Except as provided in § 301.6104(a)–4 with respect to plans having fewer than 26 participants, an application for a determination letter which is filed with the Internal Revenue Service after September 2, 1974, together with supporting documents filed by the applicant in support of the application, will be open to public inspection under section 6104(a)(1)(B) (i) and (ii). An application for a determination letter and supporting documents will be open to public inspection whether or not the application is withdrawn by the applicant, and whether or not the Internal Revenue Service determines that the plan, account, or annuity to which the application relates is qualified or that any related trust or custodial account is exempt from tax.

(b) *Documents included in the term ''application for a determination letter''*—(1) *Employees' plans and individual retirement plans.* For purposes of this section, the term ''application for a determination letter'' includes the documents that an applicant files with respect to a request that the Internal Revenue Service determine the qualification of—

(i) A pension, profit-sharing, or stock bonus plan under section 401(a),

(ii) An annuity plan under section 403(a),

(iii) A bond purchase plan under section 405(a), or

(iv) An individual retirement account or annuity described in section 408 (a), (b) or (c).

(2) *Tax exempt trusts or custodial accounts.* The term ''application for a determination letter'' also includes the documents an applicant files with respect to a request that the Internal Revenue Service determine the exemption from tax under section 501(a) of an organization forming part of a plan or account described in subparagraph (1) of this paragraph, or a custodial account described in section 401(f).

(3) *Master, prototype and pattern plans.* The term ''application for a determination letter'' also includes documents which an applicant files with respect to a request for approval of a master, prototype, pattern or other such plan or account.

(4) *Prescribed forms and application letters.* With respect to an application for a determination letter described in this paragraph (b) for which an application form is prescribed, the application for a determination letter includes the form and all documents and statements required to be filed in connection with the form. With respect to an application for a determination letter for which no application form is prescribed, the application for a determination letter includes the application letter and all documents and statements the Internal Revenue Service requires to be submitted with the application letter.

(c) *Documents not constituting an ''application for a determination letter''.* The following are not applications for a determination letter for purposes of this section:

(1) An incomplete application that is returned without action for proper completion,

(2) An application that is returned without action to the applicant for failure to notify all interested parties in accordance with the regulations under section 7476 (relating to declaratory judgments), and

(3) A request for a ruling as to whether a proposed transaction is a prohibited transaction under section 4975.

(d) *Supporting documents.* ''Supporting documents'', as used with respect to an application for a determination letter which is open to public inspection under this section, means any statement or document submitted in support of the application which is not specifically required by the application form or the Internal Revenue Service. For example, a legal brief submitted in support of an application for a determination letter is a supporting document.

(e) *Applicant.* For purposes of this section, § 301.6104(a)–3 (relating to Internal Revenue Service letters and documents open to public inspection) and § 301.6104(a)–5 (relating to the withholding of certain information from public inspection), an ''applicant'' includes, but is not limited to, an employer, plan administrator (as defined in section 414(g)), labor union, bank, or insurance company that files an application for a determination letter.

(Secs. 6104(a)(1)(A), 6104(a)(1)(B), and 7805 of the Internal Revenue Code of 1954 (72 Stat. 1660, 88 Stat. 940, 68A Stat. 917; 26 U.S.C. 6104(a)(1)(A), 6104(a)(1)(B), 7805))

[T.D. 7845, 47 FR 50487, Nov. 8, 1982]

§ 301.6104(a)–3 Public inspection of Internal Revenue Service letters and documents relating to pension and other plans.

(a) *In general.* Except as provided in § 301.6104(a)–4 with respect to plans having fewer than 26 participants, a letter or other document issued by the Internal Revenue Service after September 2, 1974, is open to public inspection under section 6104(a)(1)(B)(iv) and this section, if it is issued with respect to—

(1) The qualification of a pension, profit-sharing or stock bonus plan under section 401(a), an annuity plan under section 403(a), a bond purchase plan under section 405(a), or an individual retirement account or annuity described in section 408 (a), (b) or (c),

(2) The exemption from tax under section 501(a) of an organization forming part of such a plan or account, or a custodial account described in section 401(f), or

(3) The approval of a master, prototype, pattern or other such plan or account.

(b) *Scope.* Internal Revenue Service letters and documents open to public inspection under section 6104(a)(1)(B)(iv) and this section are not limited to those issued in response to

an application for a determination letter described in § 301.6104(a)–2. They are, however, limited to those issued by the Internal Revenue Service to the person or organization which either did or could file an application for a determination letter for the plan, account or annuity to which the letter or document relates. If such a person or organization designates a representative having a power of attorney, however, then the letter or document will be open to inspection if issued to the representative. For rules relating to when a letter or document is issued, see § 301.6110–2(h). Internal Revenue Service letters and documents are open to public inspection under section 6104(a)(1)(B)(iv) and this section whether or not the Internal Revenue Service determines that the plan, account or annuity to which the letter or document relates is qualified or that any related trust or custodial account is exempt from tax.

(c) *Letters and documents open to public inspection.* Internal Revenue Service letters and documents open to public inspection under section 6104(a)(1)(B)(iv) and this section include, but are not limited to:

(1) Determination letters relating to the qualification of a plan, account or annuity described in paragraph (a)(1) of this section (see § 601.201 (o)),

(2) Technical advice memoranda (see § 601.201(n)(9)) relating to the issuance of such determination letters,

(3) Technical advice memoranda relating to the continuing qualification of a plan, account or annuity previously determined to be qualified, or to the qualification of a plan, account or annuity for which no determination letter has been issued,

(4) Letters or documents revoking or modifying any prior favorable determination letter or denying the qualification of a plan, account or annuity for which no determination letter has been issued,

(5) Determination letters relating to the exemption from tax of a trust or custodial account described in paragraph (a)(2) of this section (see § 601.201 (o)(2)(i)(*b*)), or

(6) Opinion letters relating to the acceptability of the form of any master, prototype or other such plan or account (see § 601.201 (p) and (q)) or notification letters issued with respect to pattern plans.

(d) *Extent letter or document open to public inspection.* A letter or document issued by the Internal Revenue Service is open to public inspection under section 6104(a)(1)(B)(iv) and this section only to the extent it relates directly to the qualification of a plan, account or annuity, the exemption from tax of a related organization or custodial account, or the approval of a master, prototype, pattern or other such plan. Any part of the letter or document which does not directly relate to such a qualification, exemption or approval is not open to public inspection. For example, a letter to an employer which concludes that an employee's plan is not qualified and the related trust is not tax exempt will be open to public inspection. However, that same letter may also assert an income tax deficiency because employer contributions to the trust are, therefore, not deductible. In such a case, that part of the letter relating to the tax deficiency will be deleted before the letter is opened to public inspection.

(e) *Letters or documents issued with respect to tax return examination.* In the case of an examination of a taxpayer's return or consideration of a taxpayer's claim for credit or refund, no letter or document issued to the taxpayer before the preliminary or ''30-day'' letter described in § 601.105(d)(1) is issued to the taxpayer will be open to public inspection under section 6104(a)(1)(B)(iv) and this section. The ''30-day'' letter and any statutory notice of deficiency subsequently issued to the taxpayer under section 6212 will be open to public inspection to the extent provided in paragraph (d) of this section. If any letter or document other than a statutory notice of deficiency is issued to the taxpayer after the ''30-day'' letter is issued, such letter or document will be open to inspection to the extent provided in paragraph (d) of this section only if it finally resolves or otherwise disposes of a plan qualification or tax exemption issue raised in the ''30-day'' letter.

(f) *Letters or documents issued after September 2, 1974.* Section 6104(a)(1)(B)(iv) and this section apply

to letters or documents issued by the Internal Revenue Service after September 2, 1974, even though the relevant application for a determination letter or other initiating correspondence from the applicant was filed with the Internal Revenue Service before September 2, 1974.

(Secs. 6104(a)(1)(A), 6104(a)(1)(B), and 7805 of the Internal Revenue Code of 1954 (72 Stat. 1660, 88 Stat. 940, 68A Stat. 917; 26 U.S.C. 6104(a)(1)(A), 6104(a)(1)(B), 7805))

[47 FR 7845, 47 FR 50487, Nov. 8, 1982]

§ 301.6104(a)–4 Requirement for 26 or more plan participants.

(a) *Inspection by plan participants.* In the case of a plan, annuity or account described in § 301.6104(a)–2(b) and § 301.6104(a)–3(a) that has fewer than 26 participants, material described in §§ 301.6104(a)–2 and 301.6104(a)–3 as open to public inspection is only open to inspection by a plan participant or the participant's authorized representative. This limitation does not apply, however, with respect to documents which an applicant files with respect to a request for approval of a master, prototype, pattern or other such plan (see § 301.6104 (a)–2 (b)(3)) or to opinion, notification or other such letters issued by the Internal Revenue Service with respect to such plans (see § 301.6104 (a)–3 (a)(3)).

(b) *Determining number of plan participants*—(1) *In general.* For purposes of determining whether a plan has fewer than 26 participants, the number of plan participants will be the number indicated on the most recent annual return filed for the plan under section 6058. Where an annual return indicates the number of participants both at the beginning and end of the plan year, the number indicated on the return means the number at the end of the plan year. If no annual return has been filed for the plan, then the number of plan participants will be the number indicated on the most recent application for a determination letter filed for the plan. If, however, the number of plan participants is increased prior to final Internal Revenue Service action on the application, the number of plan participants will be that increased number.

(2) *Decreasing number of plan participants.* If a plan having 26 or more participants, as indicated on an annual return or application for a determination letter, subsequently files an annual return indicating fewer than 26 plan participants, then material relating to the plan which is issued or received by the Internal Revenue Service after the date the annual return is filed will be open to inspection only by plan participants or their authorized representatives. Similarly, if a plan having 26 or more participants as indicated on an annual return or an application for a determination letter, subsequently files an application for a determination letter which indicates fewer than 26 plan participants, then that application and related material, as well as any other material relating to the plan which is received or issued by the Internal Revenue Service after the date of receipt of that application, will be open to inspection only by plan participants or their authorized representatives. In either case, material open to public inspection pursuant to the number of plan participants indicated on previous annual returns or applications for a determination letter will remain open to public inspection.

(3) *Increasing number of plan participants.* If a plan having fewer than 26 plan participants, as indicated on an annual return or application for a determination letter, files a subsequent return or application indicating 26 or more plan participants, all the plan's prior applications and other material received or issued by the Internal Revenue Service after September 2, 1974, will be open to public inspection regardless of the number of plan participants indicated on any prior return or application.

(c) *Plan participant.* Solely for purposes of determining who is a plan participant permitted to inspect material relating to a plan having fewer than 26 participants, the term ''plan participant'' includes, but is not limited to, former employees (such as certain retired and terminated employees) who have a nonforfeitable right to benefits under the plan. An individual who is merely a beneficiary of an employee or former employee is not a plan participant, unless the individual is a beneficiary of a deceased former employee and is receiving benefits or entitled to

receive future benefits under the plan. The term ''plan participant'' also includes the administrator, executor, or trustee of the estate of a deceased plan participant if such administrator, executor, or trustee is receiving benefits or entitled to receive future benefits under the plan in his or her official capacity. That material may be available for inspection to an individual under this paragraph does not constitute a determination by the Internal Revenue Service that the individual is a plan participant for any purpose other than inspection under section 6104(a)(1)(B).

(d) *Authorized representative.* ''Authorized representative'' means the representative of a plan participant designated by the participant in writing to inspect material described in §§ 301.6104(a)–2 and 301.6104(a)–3. The document designating the authorized representative must be signed by the plan participant and must specify that the representative is authorized to inspect the material. The document, or a copy, must be filed with the office of the Internal Revenue Service in which the authorized representative is to inspect the material. A copy which is reproduced by a photographic process need not be certified as a true and correct copy of the original.

(Secs. 6104(a)(1)(A), 6104(a)(1)(B), and 7805 of the Internal Revenue Code of 1954 (72 Stat. 1660, 88 Stat. 940, 68A Stat. 917; 26 U.S.C. 6104(a)(1)(A), 6104(a)(1)(B), 7805))

[T.D. 7845, 47 FR 50488, Nov. 8, 1982]

§ 301.6104(a)–5 Withholding of certain information from public inspection.

(a) *Tax exempt organizations*—(1) *Trade secrets, patents, processes, styles of work, or apparatus.* An organization whose application for tax exemption is open to public inspection under section 6104(a)(1)(A) and § 301.6104(a)–1 may in writing request the withholding of information contained in the application or supporting documents which relates to any trade secret, patent, process, style of work, or apparatus of the organization. The information will be withheld from public inspection if the Commissioner determines that the disclosure of such information would adversely affect the organization. Requests for withholding information from public inspection should be filed with the office with which the organization files the documents containing the information. The request must clearly identify the material desired to be withheld (the document, page, paragraph, and line) and must state why the information should not be open to public inspection. The organization will be notified of the Commissioner's determination as to whether the information will be withheld from public inspection. If the Commissioner determines that the information will be disclosed, the organization will be given 15 days after notification of the Commissioner's decision to contest that decision before the document is disclosed.

(2) *National defense material.* The Internal Revenue Service will withhold from public inspection any information which is submitted by an organization whose application for tax exemption is open to inspection under section 6104(a)(1)(A) and § 301.6104(a)–1, if the Commissioner determines that public disclosure would adversely affect the national defense.

(b) *Pension and other plans*—(1) *Applicant's exclusion of certain information.* Except as provided in subparagraph (2) of this paragraph, information that, in the opinion of the applicant, is of the type described in section 6104(a)(1) (C) or (D) should not be included in an application for a determination letter, supporting documents, or any other document open to inspection under section 6104(a)(1)(B). Accordingly, an applicant should not include in an application for a determination letter or supporting documents confidential compensation information as described in subparagraph (4) of this paragraph. Neither should an applicant include information relating to any trade secret, patent, process, style of work or apparatus, the disclosure of which would be adverse to the applicant.

(2) *Exception for separate document.* The rule that an applicant should exclude from an application for a determination letter or other documents information of the type in section 6104(a)(1) (C) or (D) does not apply—

(i) In the case of the separate schedule to certain applications for a determination letter which is provided for

the purpose of setting forth confidential compensation information (as described in subparagraph (4) of this paragraph) which must be submitted by the applicant.

(ii) If the applicant determines that it is impossible to provide the Internal Revenue Service with sufficient information to support an application for a determination letter without submitting what is believed to be information of the type described in section 6104(a)(1) (C) or (D), or

(iii) If the Internal Revenue Service requests that the applicant submit information of the type described in section 6104(a)(1) (C) and (D).

In a case described in subdivision (ii) or (iii) of this subparagraph, the applicant is to set forth the information in a document separate from the remainder of the application for a determination letter or other documents. The separate document is to state why the information is to be witheld from public inspection under section 6104(a)(1) (C) or (D). If the Internal Revenue Service has not requested the information, the separate document is to also state why it is impossible to provide the Internal Revenue Service sufficient information to support the application for a determination letter without including information which is to be withheld. The separate document should clearly identify the relevant portion of the application for a determination letter or other document (the document, page, paragraph, and line) to which the information set forth in the separate document relates. The Internal Revenue Service will withhold from public inspection (including inspection by a plan participant or authorized representative) information contained in the separate document if the Commissioner determines that the information is in fact information of the type described in section 6104(a)(1) (C) or (D), and, in the case of information relating to any trade secret, patent, process, style of work or apparatus, the Commissioner further determines that disclosure would be adverse to the applicant. If the Commissioner determines that the information will be disclosed, the organization will be given 15 days after notification of the Commissioner's decision to contest the decision before the document is disclosed.

(3) *National defense material.* The Internal Revenue Service will withhold from public inspection (including inspection by a plan participant or authorized representative) any information which is included in an application for a determination letter or supporting documents if the Commissioner determines that public disclosure would adversely affect the national defense. The information will be withheld whether or not submitted on a separate document pursuant to subparagraph (2) of this paragraph.

(4) *Confidential compensation information.* If an application for a determination letter, supporting document, or related letter or document referred to in section 6104(a)(1)(B) and §§ 301.6104(a)–2 and 301.6104(a)–3 contains information (including aggregate figures) from which an individual's compensation (including deferred compensation) may be ascertained, that information is not open to public inspection (including inspection by a plan participant or authorized representative). Confidential compensation information includes the amount of benefit a specific plan participant may expect to receive at normal or early retirement age and the amount of the employer's contributions under the plan that may be allocated to a specific plan participant. However, so long as a plan has more than one participant, the amount of benefit provided under the plan to plan participants, in general, at normal or early retirement age, or the amount of the employer's contributions under the plan that are allocable to plan participants, in general, does not constitute confidential compensation information. Further, a description of the numbers of individuals covered and not covered by a plan, listed by compensation range, does not constitute confidential compensation information.

(Secs. 6104(a)(1)(A), 6104(a)(1)(B), and 7805 of the Internal Revenue Code of 1954 (72 Stat. 1660, 88 Stat. 940, 68A Stat. 917; 26 U.S.C. 6104(a)(1)(A), 6104(a)(1)(B), 7805))

[T.D. 7845, 47 FR 50489, Nov. 8, 1982]

§ 301.6104(a)–6 Procedural rules for inspection.

(a) *Place of inspection; tax exempt organizations and pension and other plans.* Material relating either to tax exempt organizations or to pension and other plans that is open to public inspection under section 6104(a)(1) and § 301.6104(a)–1 through § 301.6104(a)–3 will be made available for inspection at the Freedom of Information Reading Room, National Office, Internal Revenue Service, 1111 Constitution Avenue NW., Washington, D.C. 20224, and in the office of any district director of internal revenue.

(b) *Request for inspection*—(1) *Tax exempt organizations and pension and other plans; public inspection.* Material relating to either tax exempt organizations or pension and other plans that is open to public inspection under section 6104(a)(1) and §§ 301.6104(a)–1 through § 301.6104(a)–3 will be available for inspection only upon request. If inspection at the National Office is desired, a request should be made in writing to the Commissioner of Internal Revenue, Attention: Freedom of Information Reading Room, 1111 Constitution Avenue, NW., Washington, D.C. 20224. Requests for inspection in the office of a district director should be made in writing to the district director's office. The request must describe the material to be inspected in reasonably sufficient detail so that Internal Revenue Service personnel can locate the material. If a tax-exempt organization has more than one application for tax exemption open to public inspection, or if a pension or other plan has more than one application for a determination letter open to public inspection, only the most recent application and related material will be made available for inspection unless the request states otherwise. Further, in the case of a pension or other plan, only Internal Revenue Service documents issued or delivered after the date of the filing of the most recent application for a determination letter will be made available for inspection, unless the request states otherwise.

(2) *Pension and other plans; inspection by plan participant or authorized representative.* As described in § 301.6104(a)–4, material relating to plans having fewer than 26 participants is only open to inspection by a plan participant or authorized representative. In the case of such a plan, the rules described in subparagraph (1) of this paragraph apply. The request for inspection must include satisfactory evidence that the person requesting inspection is a plan participant (see § 301.6104(a)–4(c)) or an authorized representative of such a plan participant within the meaning of § 301.6104(a)–4(d).

(c) *Time and extent of inspection.* A person requesting inspection will be notified when the material will be made available for inspection. The material will be made available for inspection at times that will not interfere with its use by the Internal Revenue Service or exclude other persons from inspecting it. In addition, the Commissioner or district director may limit the number of applications for tax exemption, applications for a determination letter, supporting documents, or letters and documents issued by the Internal Revenue Service that will be made available to any person for inspection on a given date. Inspection will be allowed only in the presence of an Internal Revenue Service employee and only during regular business hours.

(d) *Copies.* Notes may be taken of the material open for inspection. Copies may be made manually or, if a person provides the equipment, photographically at the place of inspection. Photographic copying is subject to reasonable supervision with regard to the facilities and equipment used. Any fees the Internal Revenue Service may charge for furnishing copies under this section shall be no more than under the fee schedule promulgated pursuant to section (a)(4)(A)(i) of the Freedom of Information Act, 5 U.S.C. 552, by the Commissioner from time to time. Copies will be certified upon request.

(Secs. 6104(a)(1)(A), 6104(a)(1)(B), and 7805 of the Internal Revenue Code of 1954 (72 Stat. 1660, 88 Stat. 940, 68A Stat. 917; 26 U.S.C. 6104(a)(1)(A), 6104(a)(1)(B), 7805))

[T.D. 7845, 47 FR 50490, Nov. 8, 1982, as amended by T.D. 9070, 68 FR 40769, July 9, 2003]

§ 301.6104(b)–1 Publicity of information on certain information returns.

(a) *In general.* The following information, together with the name and address of the organization or trust furnishing such information, shall be a matter of public record:

(1) Except as otherwise provided in section 6104 and the regulations thereunder, the information required by section 6033.

(2) The information furnished pursuant to section 6034 (relating to returns by certain trusts) on Form 1041–A.

(3) The information required to be furnished by section 6058.

(b) *Nondisclosure of certain information*—(1) *Names and addresses of contributors.* The names and addresses of contributors to an organization other than a private foundation shall not be made available for public inspection under section 6104(b).

(2) *Amounts of contributions.* The amounts of contributions and bequests to an organization shall be available for public inspection unless the disclosure of such information can reasonably be expected to identify any contributor. Notwithstanding the preceding sentence, the amounts of contributions and bequests to a private foundation shall be available for public inspection.

(3) *Foreign organizations.* The names, addresses, and amounts of contributions or bequests of persons who are not citizens of the United States to a foreign organization described in section 4948(b) shall not be made available for public inspection under section 6104(b).

(4) *Confidential business information.* Confidential business information of contributors to any trust described in section 501(c)(21) (black lung trusts) shall not be available for public inspection under section 6104(b) provided:

(i) A request if filed with the office with which the trustee filed the documents in which the information to be withheld is contained.

(ii) Such request clearly specifies the information to be withheld and the reasons supporting the request for withholding, and

(iii) The Commissioner determines that such information is confidential business information.

Information such as the contributor's estimated total liability for black lung benefits, the contributor's coal pricing policies, or any background information necessary to establish estimated total liability or coal pricing policies are examples of confidential business information that shall not be disclosed to the public under this subparagraph.

(c) *Place of inspection.* Information furnished on the public portion of returns (as described in paragraph (a) of this section) shall be made available for public inspection at the Freedom of Information Reading Room. Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, D.C. 20224, and at the office of any district director.

(d) *Procedure for public inspection*—(1) *Requests for inspection.* Information furnished on the public portion of returns (as described in paragraph (a) of this section) shall be available for public inspection only upon request. Requests for public inspection must be in writing to or at any of the offices mentioned in paragraph (c) of this section. Persons submitting requests for inspection must provide the name and address of the organization that filed the return, the type of return, and the year for which the organization filed.

(2) *Time and extent of inspection.* A person requesting public inspection in the manner specified in subparagraph (1) of this paragraph shall be notified by the Internal Revenue Service when the material he desires to inspect will be made available for his inspection. Information on returns required by sections 6033, 6034, and 6058 will be made available for public inspection at such reasonable and proper times, and under such conditions, that will not interfere with their use by the Internal Revenue Service and will not exclude other persons from inspecting them. In addition the Commissioner, Director of the Service Center, or district director may limit the number of returns to be made available to any person for inspection on a given date. Inspection will be allowed only in the presence of an internal revenue officer or employee and only during the regular hours of business of the Internal Revenue Service office.

(3) *Returns available.* Returns filed before January 1, 1970, shall be available

for public inspection only pursuant to the provisions of section 6104 in effect for such years. The information furnished on all returns filed after December 31, 1969, purusant to the requirements of section 6033, 6034, or 6058, shall be available for public inspection in accordance with the provisions of section 6104.

(4) *Copies*. Notes may be taken of the material opened for inspection under this section. Copies may be made manually or, if a person provides the equipment, photographically at the place of inspection, subject to reasonable supervision with regard to the facilities and equipment to be employed. Copies of the material opened for inspection will be furnished by the Internal Revenue Service to any person making request therefor. Requests for such copies shall be made in the same manner as requests for inspection (see subparagraph (1) of this paragraph) to the office of the Internal Revenue Service in which such material is available for inspection as provided in paragraph (c) of this section. Copies may also be obtained by written request to the director of any service center. If made at the time of inspection, the request for copies need not be in writing. Any copies furnished will be certified upon request. Any fees the Internal Revenue Service may charge for furnishing copies under this section shall be no more than under the fee schedule promulgated pursuant to section (a)(4)(A)(i) of the Freedom of Information Act, 5 U.S.C. 552, by the Commissioner from time to time.

[T.D. 8026, 50 FR 20757, May 20, 1985, as amended by T.D. 9070, 68 FR 40769, July 9, 2003]

§ 301.6104(c)–1 Disclosure of certain information to State officers.

(a) *Notification of determinations*—(1) *Automatic notification*. Upon making a determination described in paragraph (c) of this section, the Internal Revenue Service will notify the Attorney General and the principal tax officer of each of the following States of such determination without application or request by such State officer—

(i) In the case of any organization described in section 501(c)(3), the State in which the principal office of the organization is located (as shown on the last-filed return required by section 6033, or on the application for exemption if no return has been filed), and the State in which the organization was incorporated, or if a trust, in which it was created, and

(ii) In the case of a private foundation, each State which the organization was required to list as an attachment to its last-filed return pursuant to § 1.6033–2(a)(2)(iv).

(2) *Applications for notification by other State officers*. Other officers of States described in subparagraph (1) of this paragraph, and officers of States not described in such subparagraph, may request that they be notified (either generally or with respect to a particular organization or type of organization) of determinations described in paragraph (c) of this section. In such cases, these State officers must show that they are appropriate State officers within the meaning of section 6104(c)(2). The required showing may be made by presenting a letter from the Attorney General of the State setting forth (i) the functions and authority of the State officer under State law, and (ii) sufficient facts for the Internal Revenue Service to determine that such officer is an appropriate State officer within the meaning of section 6104(c)(2).

(3) *Manner of notification*. A State officer who is entitled to be notified of a determination under this paragraph will be notified by sending him a copy of the communication from the Internal Revenue Service to the organization which informs such organization of the determination.

(b) *Inspection by State officers*—(1) *In general*. After a determination described in paragraph (c) of this section has been made, appropriate State officers within the meaning of section 6104(c)(2) may inspect the material described in subparagraph (3) of this paragraph. Such material may be inspected at an office of the Internal Revenue Service which will be designated upon receipt of a request for inspection; the location of such office will be determined with due consideration of the needs of the Internal Revenue Service and the needs of the State officer entitled to inspect.

(2) *State officers who may inspect material.* Any State officer entitled to be notified of a determination without application (under paragraph (a)(1) of this section) may inspect the material described in subparagraph (3) of this paragraph upon demonstrating that he is so entitled. Any State officer who has in fact been notified by the Internal Revenue Service of a determination may inspect such material without further demonstration, unless it shall be determined by the Internal Revenue Service that such officer was not entitled to be so notified. Other State officers must demonstrate to the satisfaction of the Internal Revenue Service that they are entitled to be notified under paragraph (a)(2) of this section before they may inspect such material.

(3) *Material which may be inspected.* (i) Except as provided in subdivision (ii) of this subparagraph, a State officer who is so entitled under subparagraphs (1) and (2) of this paragraph will be permitted to inspect and copy all returns, filed statements, records, reports, and other information relating to a determination described in paragraph (c) of this section which is relevant to a determination under State law, and which is in the hands of the Internal Revenue Service.

(ii) The following material will not be made available for inspection by State officers under section 6104(c) and this section—

(*a*) Interpretations by the Internal Revenue Service or other federal agency of federal laws (including the Internal Revenue Code of 1954 and its predecessors) which would not otherwise be made available to State officers under section 6103(d),

(*b*) Reports of informers, or any other material which would disclose the identity, or threaten the safety or anonymity, of an informer,

(*c*) Returns of persons (other than those exempt from taxation) which would not be available under section 6103(d) to the State officer requesting inspection, or

(*d*) Other material the disclosure of which the Commissioner has determined would prejudice the proper administration of the internal revenue laws.

(4) *Statement by State officer.* Before any State officer will be permitted to inspect material described in this paragraph, he must submit a statement to the Internal Revenue Service that he intends to use such material solely in fulfilling his functions under State law relating to organizations of the type described in section 501(c)(3); material is made available to State officers under this section in reliance on such statements. For provisions relating to penalties for misuse of information which is made available under section 6104(c) and this section, see 18 U.S.C. 1001.

(c) *Determinations defined.* For purposes of this section, a determination means a final determination by the Internal Revenue Service that—

(1) An organization is refused recognition as an organization described in section 501(c)(3), or has been operated in such a manner that it will not, or will no longer, be recognized as meeting the requirements for exemption under that section, or

(2) A deficiency of tax exists under section 507 or chapter 41 or 42.

For purposes of this paragraph, a determination by the Internal Revenue Service is not final until all administrative review with respect to such determination has been completed. For purposes of this section, a waiver of restrictions on assessment and collection of deficiency in tax is treated as a final determination that a deficiency of tax exists when such waiver has been finally accepted by the Internal Revenue Service. For example, a final determination that a deficiency of tax exists under section 507 or chapter 41 or 42 is made when the organization is sent a notice of deficiency with respect to such tax.

(d) *Effective date.* The provisions of this section apply with respect to all

determinations made after December 31, 1969.

(Secs. 6033(a)(1), 6104(b), and 7805 of the Internal Revenue Code of 1954 (83 Stat. 519, 68A Stat. 755 as amended by 83 Stat. 530, and 68A Stat. 917; 26 U.S.C. 6033(a)(1), 6104(b), and 7805); secs. 6104(a)(1)(A), 6104(a)(1)(B), and 7805 of the Internal Revenue Code of 1954 (72 Stat. 1660, 88 Stat. 940, 68A Stat. 917; 26 U.S.C. 6104(a)(1)(A), 6104(a)(1)(B), 7805))

[T.D. 7122, 36 FR 11031, June 8, 1971, as amended by T.D. 7290, 38 FR 31835, Nov. 19, 1973; T.D. 7785, 46 FR 38508, July 28, 1981. Redesignated by T.D. 7845, 47 FR 50490, Nov. 8, 1982]

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This section lists the major captions contained in §§ 301.6104(d)–1 through 301.6104(d)–3 as follows:

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(a) In general.
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(1) In general.
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§ 301.6104(d)–3 Tax-exempt organization subject to harassment campaign.

(a) In general.
(b) Harassment.
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(g) Effective date.

[T.D. 8861, 65 FR 2033, Jan. 13, 2000]

§ 301.6104(d)–1 Public inspection and distribution of applications for tax exemption and annual information returns of tax-exempt organizations.

(a) *In general.* Except as otherwise provided in this section, if a tax-exempt organization (as defined in paragraph (b)(1) of this section) filed an application for recognition of exemption under section 501, it shall make its application for tax exemption (as defined in paragraph (b)(3) of this section) available for public inspection without charge at its principal, regional and district offices during regular business hours. Except as otherwise provided in

this section, a tax-exempt organization shall make its annual information returns (as defined in paragraph (b)(4) of this section) available for public inspection without charge in the same offices during regular business hours. Each annual information return shall be made available for a period of three years beginning on the date the return is required to be filed (determined with regard to any extension of time for filing) or is actually filed, whichever is later. In addition, except as provided in §§ 301.6104(d)–2 and 301.6104(d)–3, an organization shall provide a copy without charge, other than a reasonable fee for reproduction and actual postage costs, of all or any part of any application or return required to be made available for public inspection under this paragraph to any individual who makes a request for such copy in person or in writing. See paragraph (d)(3) of this section for rules relating to fees for copies.

(b) *Definitions*. For purposes of applying the provisions of section 6104(d), this section and §§ 301.6104(d)–2 and 301.6104(d)–3, the following definitions apply:

(1) *Tax-exempt organization*. The term *tax-exempt organization* means any organization that is described in section 501(c) or section 501(d) and is exempt from taxation under section 501(a). The term *tax-exempt organization* also includes any nonexempt charitable trust described in section 4947(a)(1) or nonexempt private foundation that is subject to the reporting requirements of section 6033 pursuant to section 6033(d).

(2) *Private foundation*. The term *private foundation* means a private foundation as defined in section 509(a) or a nonexempt charitable trust described in section 4947(a)(1) or a nonexempt private foundation subject to the information reporting requirements of section 6033 pursuant to section 6033(d).

(3) *Application for tax exemption*—(i) *In general*. Except as described in paragraph (b)(3)(iii) of this section, the term *application for tax exemption* includes any prescribed application form (such as Form 1023 or Form 1024), all documents and statements the Internal Revenue Service requires an applicant to file with the form, any statement or other supporting document submitted by an organization in support of its application, and any letter or other document issued by the Internal Revenue Service concerning the application (such as a favorable determination letter or a list of questions from the Internal Revenue Service about the application). For example, a legal brief submitted in support of an application, or a response to questions from the Internal Revenue Service during the application process, is part of an application for tax exemption.

(ii) *No prescribed application form*. If no form is prescribed for an organization's application for tax exemption, the application for tax exemption includes—

(A) The application letter and copy of the articles of incorporation, declaration of trust, or other similar instrument that sets forth the permitted powers or activities of the organization;

(B) The organization's bylaws or other code of regulations;

(C) The organization's latest financial statements showing assets, liabilities, receipts and disbursements;

(D) Statements describing the character of the organization, the purpose for which it was organized, and its actual activities;

(E) Statements showing the sources of the organization's income and receipts and their disposition; and

(F) Any other statements or documents the Internal Revenue Service required the organization to file with, or that the organization submitted in support of, the application letter.

(iii) *Exceptions*. The term *application for tax exemption* does not include—

(A) Any application for tax exemption filed by an organization that the Internal Revenue Service has not yet recognized, on the basis of the application, as exempt from taxation under section 501 for any taxable year;

(B) Any application for tax exemption filed before July 15, 1987, unless the organization filing the application had a copy of the application on July 15, 1987;

(C) In the case of a tax-exempt organization other than a private foundation, the name and address of any contributor to the organization; or

(D) Any material, including the material listed in § 301.6104(a)–1(i) and information that the Secretary would be required to withhold from public inspection, that is not available for public inspection under section 6104.

(iv) *Local or subordinate organizations.* For rules relating to applications for tax exemption of local or subordinate organizations, see paragraph (f)(1) of this section.

(4) *Annual information return*—(i) *In general.* Except as described in paragraph (b)(4)(ii) of this section, the term *annual information return* includes an exact copy of any return filed by a tax-exempt organization pursuant to section 6033. It also includes any amended return the organization files with the Internal Revenue Service after the date the original return is filed. Returns filed pursuant to section 6033 include Form 990, Return of Organization Exempt From Income Tax, Form 990–PF, Return of Private Foundation, or any other version of Form 990 (such as Forms 990–EZ or 990–BL, except Form 990–T) and Form 1065. Each copy of a return must include all information furnished to the Internal Revenue Service on the return, as well as all schedules, attachments and supporting documents. For example, in the case of a Form 990, the copy must include Schedule A of Form 990 (containing supplementary information on section 501(c)(3) organizations), and those parts of the return that show compensation paid to specific persons (currently, Part V of Form 990 and Parts I and II of Schedule A of Form 990).

(ii) *Exceptions.* The term *annual information return* does not include Schedule A of Form 990–BL, Form 990–T, Exempt Organization Business Income Tax Return, Schedule K–1 of Form 1065 or Form 1120–POL, U.S. Income Tax Return For Certain Political Organizations. In the case of a tax-exempt organization other than a private foundation, the term *annual information return* does not include the name and address of any contributor to the organization.

(iii) *Returns more than 3 years old.* The term *annual information return* does not include any return after the expiration of 3 years from the date the return is required to be filed (including any extension of time that has been granted for filing such return) or is actually filed, whichever is later. If an organization files an amended return, however, the amended return must be made available for a period of 3 years beginning on the date it is filed with the Internal Revenue Service.

(iv) *Local or subordinate organizations.* For rules relating to annual information returns of local or subordinate organizations, see paragraph (f)(2) of this section.

(5) *Regional or district offices*—(i) *In general.* A regional or district office is any office of a tax-exempt organization, other than its principal office, that has paid employees, whether part-time or full-time, whose aggregate number of paid hours a week are normally at least 120.

(ii) *Site not considered a regional or district office.* A site is not considered a regional or district office, however, if—

(A) The only services provided at the site further exempt purposes (such as day care, health care or scientific or medical research); and

(B) The site does not serve as an office for management staff, other than managers who are involved solely in managing the exempt function activities at the site.

(c) *Special rules relating to public inspection*—(1) *Permissible conditions on public inspection.* A tax-exempt organization may have an employee present in the room during an inspection. The organization, however, must allow the individual conducting the inspection to take notes freely during the inspection. If the individual provides photocopying equipment at the place of inspection, the organization must allow the individual to photocopy the document at no charge.

(2) *Organizations that do not maintain permanent offices.* If a tax-exempt organization does not maintain a permanent office, the organization shall comply with the public inspection requirements of paragraph (a) of this section by making its application for tax exemption and its annual information returns, as applicable, available for inspection at a reasonable location of its choice. Such an organization shall permit public inspection within a reasonable amount of time after receiving a request for inspection (normally not

more than 2 weeks) and at a reasonable time of day. At the organization's option, it may mail, within 2 weeks of receiving the request, a copy of its application for tax exemption and annual information returns to the requester in lieu of allowing an inspection. The organization may charge the requester for copying and actual postage costs only if the requester consents to the charge. An organization that has a permanent office, but has no office hours or very limited hours during certain times of the year, shall make its documents available during those periods when office hours are limited or not available as though it were an organization without a permanent office.

(d) *Special rules relating to copies*—(1) *Time and place for providing copies in response to requests made in-person*—(i) *In general.* Except as provided in paragraph (d)(1)(iii) of this section, a tax-exempt organization shall provide copies of the documents it is required to provide under section 6104(d) in response to a request made in person at its principal, regional and district offices during regular business hours. Except as provided in paragraph (d)(1)(ii) of this section, an organization shall provide such copies to a requester on the day the request is made.

(ii) *Unusual circumstances.* In the case of an in-person request, where unusual circumstances exist such that fulfilling the request on the same business day places an unreasonable burden on the tax-exempt organization, the organization must provide the copies no later than the next business day following the day that the unusual circumstances cease to exist or the fifth business day after the date of the request, whichever occurs first. Unusual circumstances include, but are not limited to, receipt of a volume of requests that exceeds the organization's daily capacity to make copies; requests received shortly before the end of regular business hours that require an extensive amount of copying; or requests received on a day when the organization's managerial staff capable of fulfilling the request is conducting special duties, such as student registration or attending an off-site meeting or convention, rather than its regular administrative duties.

(iii) *Agents for providing copies.* A principal, regional or district office of a tax-exempt organization subject to the requirements of this section may retain a local agent to process requests made in person for copies of its documents. A local agent must be located within reasonable proximity of the applicable office. A local agent that receives a request made in person for copies must provide the copies within the time limits and under the conditions that apply to the organization itself. For example, a local agent generally must provide a copy to a requester on the day the agent receives the request. When a principal, regional or district office of a tax-exempt organization using a local agent receives a request made in person for a copy, it must immediately provide the name, address and telephone number of the local agent to the requester. An organization that provides this information is not required to respond further to the requester. However, the penalty provisions of sections 6652(c)(1)(C), 6652(c)(1)(D), and 6685 continue to apply to the tax-exempt organization if the organization's local agent fails to provide the documents as required under section 6104(d).

(2) *Request for copies in writing*—(i) *In general.* A tax-exempt organization must honor a written request for a copy of documents (or the requested part) that the organization is required to provide under section 6104(d) if the request—

(A) Is addressed to, and delivered by mail, electronic mail, facsimile, or a private delivery service as defined in section 7502(f) to a principal, regional or district office of the organization; and

(B) Sets forth the address to which the copy of the documents should be sent.

(ii) *Time and manner of fulfilling written requests*—(A) *In general.* A tax-exempt organization receiving a written request for a copy shall mail the copy of the requested documents (or the requested parts of documents) within 30 days from the date it receives the request. However, if a tax-exempt organization requires payment in advance, it is only required to provide the copies within 30 days from the date it receives

payment. For rules relating to payment, see paragraph (d)(3) of this section. In the absence of evidence to the contrary, a request or payment that is mailed shall be deemed to be received by an organization 7 days after the date of the postmark. A request that is transmitted to the organization by electronic mail or facsimile shall be deemed received the day the request is transmitted successfully. If an organization requiring payment in advance receives a written request without payment or with an insufficient payment, the organization must, within 7 days from the date it receives the request, notify the requester of its prepayment policy and the amount due. A copy is deemed provided on the date of the postmark or private delivery mark (or if sent by certified or registered mail, the date of registration or the date of the postmark on the sender's receipt). If an individual making a request consents, a tax-exempt organization may provide a copy of the requested document exclusively by electronic mail. In such case, the material is provided on the date the organization successfully transmits the electronic mail.

(B) *Request for a copy of parts of document.* A tax-exempt organization must fulfill a request for a copy of the organization's entire application for tax exemption or annual information return or any specific part or schedule of its application or return. A request for a copy of less than the entire application or less than the entire return must specifically identify the requested part or schedule.

(C) *Agents for providing copies.* A tax-exempt organization subject to the requirements of this section may retain an agent to process written requests for copies of its documents. The agent shall provide the copies within the time limits and under the conditions that apply to the organization itself. For example, if the organization received the request first (e.g., before the agent), the deadline for providing a copy in response to a request shall be determined by reference to when the organization received the request, not when the agent received the request. An organization that transfers a request for a copy to such an agent is not required to respond further to the request. If the organization's agent fails to provide the documents as required under section 6104(d), however, the penalty provisions of sections 6652(c)(1)(C), 6652(c)(1)(D), and 6685 continue to apply to the tax-exempt organization.

(3) *Fees for copies*—(i) *In general.* A tax-exempt organization may charge a reasonable fee for providing copies. A fee is reasonable only if it is no more than the total of the applicable per-page copying charge prescribed by the fee schedule promulgated pursuant to section (a)(4)(A)(i) of the Freedom of Information Act, 5 U.S.C. 552, by the Commissioner from time to time, and the actual postage costs incurred by the organization to send the copies. The applicable per-page copying charge shall be determined without regard to any applicable fee exclusion provided in the fee schedule for an initial or *de minimis* number of pages (e.g., the first 100 pages). Before the organization provides the documents, it may require that the individual requesting copies of the documents pay the fee. If the organization has provided an individual making a request with notice of the fee, and the individual does not pay the fee within 30 days, or if the individual pays the fee by check and the check does not clear upon deposit, the organization may disregard the request.

(ii) *Form of payment*—(A) *Request made in person.* If a tax-exempt organization charges a fee for copying (as permitted under paragraph (d)(3)(i) of this section), it shall accept payment by cash and money order for requests made in person. The organization may accept other forms of payment, such as credit cards and personal checks.

(B) *Request made in writing.* If a tax-exempt organization charges a fee for copying and postage (as permitted under paragraph (d)(3)(i) of this section), it shall accept payment by certified check, money order, and either personal check or credit card for requests made in writing. The organization may accept other forms of payment.

(iii) *Avoidance of unexpected fees.* Where a tax-exempt organization does not require prepayment and a requester does not enclose payment with a request, an organization must receive

consent from a requester before providing copies for which the fee charged for copying and postage exceeds $20.

(iv) *Responding to inquiries of fees charged.* In order to facilitate a requester's ability to receive copies promptly, a tax-exempt organization shall respond to any questions from potential requesters concerning its fees for copying and postage. For example, the organization shall inform the requester of its charge for copying and mailing its application for exemption and each annual information return, with and without attachments, so that a requester may include payment with the request for copies.

(e) *Documents to be provided by regional and district offices.* Except as otherwise provided, a regional or district office of a tax-exempt organization must satisfy the same rules as the principal office with respect to allowing public inspection and providing copies of its application for tax exemption and annual information returns. A regional or district office is not required, however, to make its annual information return available for inspection or to provide copies until 30 days after the date the return is required to be filed (including any extension of time that is granted for filing such return) or is actually filed, whichever is later.

(f) *Documents to be provided by local and subordinate organizations*—(1) *Applications for tax exemption.* Except as otherwise provided, a tax-exempt organization that did not file its own application for tax exemption (because it is a local or subordinate organization covered by a group exemption letter referred to in §1.508–1 of this chapter) must, upon request, make available for public inspection, or provide copies of, the application submitted to the Internal Revenue Service by the central or parent organization to obtain the group exemption letter and those documents which were submitted by the central or parent organization to include the local or subordinate organization in the group exemption letter. However, if the central or parent organization submits to the Internal Revenue Service a list or directory of local or subordinate organizations covered by the group exemption letter, the local or subordinate organization is required to provide only the application for the group exemption ruling and the pages of the list or directory that specifically refer to it. The local or subordinate organization shall permit public inspection, or comply with a request for copies made in person, within a reasonable amount of time (normally not more than 2 weeks) after receiving a request made in person for public inspection or copies and at a reasonable time of day. In a case where the requester seeks inspection, the local or subordinate organization may mail a copy of the applicable documents to the requester within the same time period in lieu of allowing an inspection. In such a case, the organization may charge the requester for copying and actual postage costs only if the requester consents to the charge. If the local or subordinate organization receives a written request for a copy of its application for tax exemption, it must fulfill the request in the time and manner specified in paragraph (d)(2) of this section. The requester has the option of requesting from the central or parent organization, at its principal office, inspection or copies of the application for group exemption and the material submitted by the central or parent organization to include a local or subordinate organization in the group ruling. If the central or parent organization submits to the Internal Revenue Service a list or directory of local or subordinate organizations covered by the group exemption letter, it must make such list or directory available for public inspection, but it is required to provide copies only of those pages of the list or directory that refer to particular local or subordinate organizations specified by the requester. The central or parent organization must fulfill such requests in the time and manner specified in paragraphs (c) and (d) of this section.

(2) *Annual information returns.* A local or subordinate organization that does not file its own annual information return (because it is affiliated with a central or parent organization that files a group return pursuant to §1.6033–2(d) of this chapter) must, upon request, make available for public inspection, or provide copies of, the group returns filed

by the central or parent organization. However, if the group return includes separate schedules with respect to each local or subordinate organization included in the group return, the local or subordinate organization receiving the request may omit any schedules relating only to other organizations included in the group return. The local or subordinate organization shall permit public inspection, or comply with a request for copies made in person, within a reasonable amount of time (normally not more than 2 weeks) after receiving a request made in person for public inspection or copies and at a reasonable time of day. In a case where the requester seeks inspection, the local or subordinate organization may mail a copy of the applicable documents to the requester within the same time period in lieu of allowing an inspection. In such a case, the organization may charge the requester for copying and actual postage costs only if the requester consents to the charge. If the local or subordinate organization receives a written request for a copy of its annual information return, it must fulfill the request by providing a copy of the group return in the time and manner specified in paragraph (d)(2) of this section. The requester has the option of requesting from the central or parent organization, at its principal office, inspection or copies of group returns filed by the central or parent organization. The central or parent organization must fulfill such requests in the time and manner specified in paragraphs (c) and (d) of this section.

(3) *Failure to comply*. If an organization fails to comply with the requirements specified in this paragraph, the penalty provisions of sections 6652(c)(1)(C), 6652(c)(1)(D), and 6685 apply.

(g) *Failure to comply with public inspection or copying requirements*. If a tax-exempt organization denies an individual's request for inspection or a copy of an application for tax exemption or an annual information return as required under this section, and the individual wants to alert the Internal Revenue Service to the possible need for enforcement action, the individual may provide a statement to the district director for the key district in which the applicable tax-exempt organization's principal office is located (or such other person as the Commissioner may designate) that describes the reason why the individual believes the denial was in violation of the requirements of section 6104(d).

(h) *Effective date*—(1) *In general*. For a tax-exempt organization, other than a private foundation, this section is applicable June 8, 1999. For a private foundation, this section is applicable (except as provided in paragraph (h)(2) of this section) beginning March 13, 2000.

(2) *Private foundation annual information returns*. This section does not apply to any private foundation return the due date for which (determined with regard to any extension of time for filing) is before the applicable date for private foundations specified in paragraph (h)(1) of this section.

[T.D. 8818, 64 FR 17285, Apr. 9, 1999. Redesignated and amended by T.D. 8861, 65 FR 2033, 2034, Jan. 13, 2000, as amended by T.D. 9070, 68 FR 40769, July 9, 2003]

§ 301.6104(d)–2 Making applications and returns widely available.

(a) *In general*. A tax-exempt organization is not required to comply with a request for a copy of its application for tax exemption or an annual information return pursuant to § 301.6104(d)–1(a) if the organization has made the requested document widely available in accordance with paragraph (b) of this section. An organization that makes its application for tax exemption and/or annual information return widely available must nevertheless make the document available for public inspection as required under § 301.6104(d)–1(a), as applicable.

(b) *Widely available*—(1) *In general*. A tax-exempt organization makes its application for tax exemption and/or an annual information return widely available if the organization complies with the requirements specified in paragraph (b)(2) of this section, and if the organization satisfies the requirements of paragraph (d) of this section.

(2) *Internet posting*—(i) *In general*. A tax-exempt organization can make its application for tax exemption and/or an annual information return widely available by posting the document on a

World Wide Web page that the tax-exempt organization establishes and maintains or by having the document posted, as part of a database of similar documents of other tax-exempt organizations, on a World Wide Web page established and maintained by another entity. The document will be considered widely available only if—

(A) the World Wide Web page through which it is available clearly informs readers that the document is available and provides instructions for downloading it;

(B) the document is posted in a format that, when accessed, downloaded, viewed and printed in hard copy, exactly reproduces the image of the application for tax exemption or annual information return as it was originally filed with the Internal Revenue Service, except for any information permitted by statute to be withheld from public disclosure. (See section 6104(d)(3) and § 301.6104(d)–3(b)(3) and (4)); and

(C) any individual with access to the Internet can access, download, view and print the document without special computer hardware or software required for that format (other than software that is readily available to members of the public without payment of any fee) and without payment of a fee to the tax-exempt organization or to another entity maintaining the World Wide Web page.

(ii) *Transition rule.* A tax-exempt organization that posted its application for tax exemption or its annual information returns on a World Wide Web page on or before April 9, 1999 in a manner consistent with regulation project REG–246250–96 (1997 C.B. 627) (See § 601.601(d)(2) of this chapter.) will be treated as satisfying the requirements of paragraphs (b)(2)(i)(B) & (C) of this section until June 8, 2000 provided that an individual can access, download, view and print the document without payment of a fee to the tax-exempt organization or to another entity maintaining the World Wide Web page.

(iii) *Reliability and accuracy.* In order for the document to be widely available through an Internet posting, the entity maintaining the World Wide Web page must have procedures for ensuring the reliability and accuracy of the document that it posts on the page and must take reasonable precautions to prevent alteration, destruction or accidental loss of the document when posted on its page. In the event that a posted document is altered, destroyed or lost, the entity must correct or replace the document.

(c) *Discretion to prescribe other methods for making documents widely available.* The Commissioner, from time to time, may prescribe additional methods, other than an Internet posting meeting the requirements of paragraph (b)(2) of this section, that a tax-exempt organization may use to make its documents widely available.

(d) *Notice requirement.* If a tax-exempt organization has made its application for tax exemption and/or an annual information return widely available it must notify any individual requesting a copy where the documents are available (including the address on the World Wide Web, if applicable). If the request is made in person, the organization shall provide such notice to the individual immediately. If the request is made in writing, the notice shall be provided within 7 days of receiving the request.

(e) *Effective date.* For a tax-exempt organization, other than a private foundation, this section is applicable June 8, 1999. For a private foundation, this section is applicable beginning March 13, 2000.

[T.D. 8818, 64 FR 17285, Apr. 9, 1999. Redesignated and amended by T.D. 8861, 65 FR 2034, Jan. 13, 2000]

§ 301.6104(d)–3 Tax-exempt organization subject to harassment campaign.

(a) *In general.* If the district director for the key district in which the organization's principal office is located (or such other person as the Commissioner may designate) determines that the organization is the subject of a harassment campaign and compliance with the requests that are part of the harassment campaign would not be in the public interest, a tax-exempt organization is not required to fulfill a request for a copy (as otherwise required by § 301.6104(d)–1(a)) that it reasonably believes is part of the campaign.

(b) *Harassment.* A group of requests for an organization's application for

tax exemption or annual information returns is indicative of a harassment campaign if the requests are part of a single coordinated effort to disrupt the operations of a tax-exempt organization, rather than to collect information about the organization. Whether a group of requests constitutes such a harassment campaign depends on the relevant facts and circumstances. Facts and circumstances that indicate the organization is the subject of a harassment campaign include: a sudden increase in the number of requests; an extraordinary number of requests made through form letters or similarly worded correspondence; evidence of a purpose to deter significantly the organization's employees or volunteers from pursuing the organization's exempt purpose; requests that contain language hostile to the organization; direct evidence of bad faith by organizers of the purported harassment campaign; evidence that the organization has already provided the requested documents to a member of the purported harassing group; and a demonstration by the tax-exempt organization that it routinely provides copies of its documents upon request.

(c) *Special rule for multiple requests from a single individual or address.* A tax-exempt organization may disregard any request for copies of all or part of any document beyond the first two received within any 30-day period or the first four received within any one-year period from the same individual or the same address, regardless of whether the district director for the applicable key district (or such other person as the Commissioner may designate) has determined that the organization is subject to a harassment campaign.

(d) *Harassment determination procedure.* A tax-exempt organization may apply for a determination that it is the subject of a harassment campaign and that compliance with requests that are part of the campaign would not be in the public interest by submitting a signed application to the district director for the key district where the organization's principal office is located (or such other person as the Commissioner may designate). The application shall consist of a written statement giving the organization's name, address, employer identification number, and the name, address and telephone number of the person to contact regarding the application. The application must describe in detail the facts and circumstances that the organization believes support a determination that the organization is subject to a harassment campaign. The organization may suspend compliance with respect to any request for a copy of its documents based on its reasonable belief that such request is part of a harassment campaign, provided that the organization files an application for a determination within 10 business days from the day the organization first suspends compliance with respect to a request that is part of the alleged campaign. In addition, the organization may suspend compliance with any request it reasonably believes to be part of the harassment campaign until it receives a response to its application for a harassment campaign determination.

(e) *Effect of a harassment determination.* If the appropriate district director (or such other person as the Commissioner may designate) determines that a tax-exempt organization is the subject of a harassment campaign and it is not in the public interest to comply with requests that are part of the campaign, such organization is not required to comply with any request for copies that it reasonably believes is part of the campaign. This determination may be subject to other terms and conditions set forth by the district director (or such other person as the Commissioner may designate). A person (as defined in section 6652(c)(4)(C)) shall not be liable for any penalty under sections 6652(c)(1)(C), 6652(c)(1)(D) or 6685 for failing to timely provide a copy of documents in response to a request covered in a request for a harassment determination if the organization fulfills the request within 30 days of receiving a determination from the district director (or such other person as the Commissioner may designate) that the organization is not subject to a harassment campaign. Notwithstanding the preceding sentence, if the district director (or such other person as the Commissioner may designate) further determines that the organization did not have a reasonable

basis for requesting a determination that it was subject to a harassment campaign or reasonable belief that a request was part of the campaign, the person (as defined in section 6652(c)(4)(C)) remains liable for any penalties that result from not providing the copies in a timely fashion.

(f) *Examples*. The provisions of this section are illustrated by the following examples:

Example 1. V, a tax-exempt organization, receives an average of 25 requests per month for copies of its three most recent information returns. In the last week of May, V is mentioned in a national news magazine story that discusses information contained in V's 1996 information return. From June 1 through June 30, 1997 V receives 200 requests for a copy of its documents. Other than the sudden increase in the number of requests for copies, there is no other evidence to suggest that the requests are part of an organized campaign to disrupt V's operations. Although fulfilling the requests will place a burden on V, the facts and circumstances do not show that V is subject to a harassment campaign. Therefore, V must respond timely to each of the 200 requests it receives in June.

Example 2. Y is a tax-exempt organization that receives an average of 10 requests a month for copies of its annual information returns. From March 1, 1997 to March 31, 1997, Y receives 25 requests for copies of its documents. Fifteen of the requests come from individuals Y knows to be active members of the board of organization X. In the past X has opposed most of the positions and policies that Y advocates. None of the requesters have asked for copies of documents from Y during the past year. Y has no other information about the requesters. Although the facts and circumstances show that some of the individuals making requests are hostile to Y, they do not show that the individuals have organized a campaign that will place enough of a burden on Y to disrupt its activities. Therefore, Y must respond to each of the 25 requests it receives in March.

Example 3. The facts are the same as in *Example 2*, except that during March 1997, Y receives 100 requests. In addition to the fifteen requests from members of organization X's board, 75 of the requests are similarly worded form letters. Y discovers that several individuals associated with X have urged the X's members and supporters, via the Internet, to submit as many requests for a copy of Y's annual information returns as they can. The message circulated on the Internet provides a form letter that can be used to make the request. Both the appeal via the Internet and the requests for copies received by Y contain hostile language. During the same year but before the 100 requests were received, Y provided copies of its annual information returns to the headquarters of X. The facts and circumstances show that the 75 form letter requests are coordinated for the purpose of disrupting Y's operations, and not to collect information that has already been provided to an association representing the requesters' interests. Thus, the fact and circumstances show that Y is the subject of an organized harassment campaign. To confirm that it may disregard the 90 requests that constitute the harassment campaign, Y must apply to the applicable district director (or such other person as the Commissioner may designate) for a determination. Y may disregard the 90 requests while the application is pending and after the determination is received. However, it must respond within the applicable time limits to the 10 requests it received in March that were not part of the harassment campaign.

Example 4. The facts are the same as in *Example 3*, except that Y receives 5 additional requests from 5 different representatives of the news media who in the past have published articles about Y. Some of these articles were hostile to Y. Normally, the Internal Revenue Service will not consider a tax-exempt organization to have a reasonable belief that a request from a member of the news media is part of a harassment campaign absent additional facts that demonstrate that the organization could reasonably believe the particular requests from the news media to be part of a harassment campaign. Thus, absent such additional facts, Y must respond within the applicable time limits to the 5 requests that it received from representatives of the news media.

(g) *Effective date*. For a tax-exempt organization, other than a private foundation, this section is applicable June 8, 1999. For a private foundation, this section is applicable beginning March 13, 2000.

[T.D. 8818, 64 FR 17289, Apr. 9, 1999. Redesignated and amended by T.D. 8861, 65 FR 2034, Jan. 13, 2000]

§ 301.6105–1 Compilation of relief from excess profits tax cases.

Pursuant to and in accordance with the provisions of section 6105, the Commissioner shall make and publish in the FEDERAL REGISTER a compilation, for each fiscal year beginning after June 30, 1941, of all cases in which relief under the provisions of section 722 of the Internal Revenue Code of 1939, as amended, has been allowed during such fiscal year by the Commissioner and by the Tax Court of the United States.

§ 301.6106–1 Publicity of unemployment tax returns.

For provisions relating to publicity of returns made in respect of unemployment tax imposed by chapter 23 of the Code, see §§ 301.6103(a)–1, 301.6103 (b)–1, 301.6103(c)–1, 301.6103 (d)–1, and 301.6103(f)–1.

§ 301.6108–1 Publication of statistics of income.

Pursuant to and in accordance with the provisions of section 6108, statistics reasonably available with respect to the operation of the income tax laws shall be prepared and published annually by the Commissioner.

§ 301.6109–1 Identifying numbers.

(a) *In general*—(1) *Taxpayer identifying numbers*—(i) *Principal types*. There are several types of taxpayer identifying numbers that include the following: social security numbers, Internal Revenue Service (IRS) individual taxpayer identification numbers, IRS adoption taxpayer identification numbers, and employer identification numbers. Social security numbers take the form 000–00–0000. IRS individual taxpayer identification numbers and IRS adoption taxpayer identification numbers also take the form 000–00–0000 but include a specific number or numbers designated by the IRS. Employer identification numbers take the form 00–0000000.

(ii) *Uses*. Social security numbers, IRS individual taxpayer identification numbers, and IRS adoption taxpayer identification numbers are used to identify individual persons. Employer identification numbers are used to identify employers. For the definition of social security number and employer identification number, see §§ 301.7701–11 and 301.7701–12, respectively. For the definition of IRS individual taxpayer identification number, see paragraph (d)(3) of this section. For the definition of IRS adoption taxpayer identification number, see § 301.6109–3(a). Except as otherwise provided in applicable regulations under this chapter or on a return, statement, or other document, and related instructions, taxpayer identifying numbers must be used as follows:

(A) Except as otherwise provided in paragraph (a)(1)(ii)(B) and (D) of this section, and § 301.6109–3, an individual required to furnish a taxpayer identifying number must use a social security number.

(B) Except as otherwise provided in paragraph (a)(1)(ii)(D) of this section and § 301.6109–3, an individual required to furnish a taxpayer identifying number but who is not eligible to obtain a social security number must use an IRS individual taxpayer identification number.

(C) Any person other than an individual (such as corporations, partnerships, nonprofit associations, trusts, estates, and similar nonindividual persons) that is required to furnish a taxpayer identifying number must use an employer identification number.

(D) An individual, whether U.S. or foreign, who is an employer or who is engaged in a trade or business as a sole proprietor should use an employer identification number as required by returns, statements, or other documents and their related instructions.

(2) *A trust that is treated as owned by one or more persons pursuant to sections 671 through 678*—(i) *Obtaining a taxpayer identification number*—(A) *General rule*. Unless the exception in paragraph (a)(2)(i)(B) of this section applies, a trust that is treated as owned by one or more persons under sections 671 through 678 must obtain a taxpayer identification number as provided in paragraph (d)(2) of this section.

(B) *Exception for a trust all of which is treated as owned by one grantor or one other person and that reports under § 1.671–4(b)(2)(i)(A) of this chapter*. A trust that is treated as owned by one grantor or one other person under sections 671 through 678 need not obtain a taxpayer identification number, provided the trust reports pursuant to § 1.671–4(b)(2)(i)(A) of this chapter. The trustee must obtain a taxpayer identification number as provided in paragraph (d)(2) of this section for the first taxable year that the trust is no longer owned by one grantor or one other person or for the first taxable year that the trust does not report pursuant to § 1.671–4(b)(2)(i)(A) of this chapter.

(ii) *Obligations of persons who make payments to certain trusts*. Any payor

that is required to file an information return with respect to payments of income or proceeds to a trust must show the name and taxpayer identification number that the trustee has furnished to the payor on the return. Regardless of whether the trustee furnishes to the payor the name and taxpayer identification number of the grantor or other person treated as an owner of the trust, or the name and taxpayer identification number of the trust, the payor must furnish a statement to recipients to the trustee of the trust, rather than to the grantor or other person treated as the owner of the trust. Under these circumstances, the payor satisfies the obligation to show the name and taxpayer identification number of the payee on the information return and to furnish a statement to recipients to the person whose taxpayer identification number is required to be shown on the form.

(3) *Obtaining a taxpayer identification number for a trust, or portion of a trust, following the death of the individual treated as the owner*—(i) *In general*—(A) *A trust all of which was treated as owned by a decedent*. In general, a trust all of which is treated as owned by a decedent under subpart E (section 671 and following), part I, subchapter J, chapter 1 of the Internal Revenue Code as of the date of the decedent's death must obtain a new taxpayer identification number following the death of the decedent if the trust will continue after the death of the decedent.

(B) *Taxpayer identification number of trust with multiple owners*. With respect to a portion of a trust treated as owned under subpart E (section 671 and following), part I, subchapter J, chapter 1 (subpart E) of the Internal Revenue Code by a decedent as of the date of the decedent's death, if, following the death of the decedent, the portion treated as owned by the decedent remains part of the original trust and the other portion (or portions) of the trust continues to be treated as owned under subpart E by a grantor(s) or other person(s), the trust reports under the taxpayer identification number assigned to the trust prior to the decedent's death and the portion of the trust treated as owned by the decedent prior to the decedent's death (assuming the decedent's portion of the trust is not treated as terminating upon the decedent's death) continues to report under the taxpayer identification number used for reporting by the other portion (or portions) of the trust. For example, if a trust, reporting under § 1.671–4(a) of this chapter, is treated as owned by three persons and one of them dies, the trust, including the portion of the trust no longer treated as owned by a grantor or other person, continues to report under the tax identification number assigned to the trust prior to the death of that person. See § 1.671–4(a) of this chapter regarding rules for filing the Form 1041, ''U.S. Income Tax Return for Estates and Trusts,'' where only a portion of the trust is treated as owned by one or more persons under subpart E.

(ii) *Furnishing correct taxpayer identification number to payors following the death of the decedent*. If the trust continues after the death of the decedent and is required to obtain a new taxpayer identification number under paragraph (a)(3)(i)(A) of this section, the trustee must furnish payors with a new Form W–9, ''Request for Taxpayer Identification Number and Certification,'' or an acceptable substitute Form W–9, containing the new taxpayer identification number required under paragraph (a)(3)(i)(A) of this section, the name of the trust, and the address of the trustee.

(4) *Taxpayer identification number to be used by a trust upon termination of a section 645 election*—(i) *If there is an executor*. Upon the termination of the section 645 election period, if there is an executor, the trustee of the former electing trust may need to obtain a taxpayer identification number. If § 1.645–1(g) of this chapter regarding the appointment of an executor after a section 645 election is made applies to the electing trust, the electing trust must obtain a new TIN upon termination of the election period. See the instructions to the Form 1041 for whether a new taxpayer identification number is required for other former electing trusts.

(ii) *If there is no executor*. Upon termination of the section 645 election period, if there is no executor, the trustee

of the former electing trust must obtain a new taxpayer identification number.

(iii) *Requirement to provide taxpayer identification number to payors.* If the trustee is required to obtain a new taxpayer identification number for a former electing trust pursuant to this paragraph (a)(4), or pursuant to the instructions to the Form 1041, the trustee must furnish all payors of the trust with a completed Form W–9 or acceptable substitute Form W–9 signed under penalties of perjury by the trustee providing each payor with the name of the trust, the new taxpayer identification number, and the address of the trustee.

(5) *Persons treated as payors.* For purposes of paragraphs (a)(2), (3), and (4) of this section, a *payor* is a person described in §§ 1.671–4(b)(4) of this chapter.

(6) *Effective date.* Paragraphs (a)(3), (4), and (5) of this section apply to trusts of decedents dying on or after December 24, 2002.

(b) *Requirement to furnish one's own number*—(1) *U.S. persons.* Every U.S. person who makes under this title a return, statement, or other document must furnish its own taxpayer identifying number as required by the forms and the accompanying instructions. A U.S. person whose number must be included on a document filed by another person must give the taxpayer identifying number so required to the other person on request. For penalties for failure to supply taxpayer identifying numbers, see sections 6721 through 6724. For provisions dealing specifically with the duty of employees with respect to their social security numbers, see § 31.6011(b)-2 (a) and (b) of this chapter (Employment Tax Regulations). For provisions dealing specifically with the duty of employers with respect to employer identification numbers, see § 31.6011(b)-1 of this chapter (Employment Tax Regulations).

(2) *Foreign persons.* The provisions of paragraph (b)(1) of this section regarding the furnishing of one's own number shall apply to the following foreign persons—

(i) A foreign person that has income effectively connected with the conduct of a U.S. trade or business at any time during the taxable year;

(ii) A foreign person that has a U.S. office or place of business or a U.S. fiscal or paying agent at any time during the taxable year;

(iii) A nonresident alien treated as a resident under section 6013(g) or (h);

(iv) A foreign person that makes a return of tax (including income, estate, and gift tax returns), an amended return, or a refund claim under this title but excluding information returns, statements, or documents;

(v) A foreign person that makes an election under § 301.7701–3(c);

(vi) A foreign person that furnishes a withholding certificate described in § 1.1441–1(e)(2) or (3) of this chapter or § 1.1441–5(c)(2)(iv) or (3)(iii) of this chapter to the extent required under § 1.1441–1(e)(4)(vii) of this chapter;

(vii) A foreign person whose taxpayer identifying number is required to be furnished on any return, statement, or other document as required by the income tax regulations under section 897 or 1445. This paragraph (b)(2)(vii) applies as of November 3, 2003; and

(viii) A foreign person that furnishes a withholding certificate described in § 1.1446–1(c)(2) or (3) of this chapter or whose taxpayer identification number is required to be furnished on any return, statement, or other document as required by the income tax regulations under section 1446. This paragraph (b)(2)(viii) shall apply to partnership taxable years beginning after May 18, 2005, or such earlier time as the regulations under §§ 1.1446–1 through 1.1446–5 of this chapter apply by reason of an election under § 1.1446–7 of this chapter.

(c) *Requirement to furnish another's number.* Every person required under this title to make a return, statement, or other document must furnish such taxpayer identifying numbers of other U.S. persons and foreign persons that are described in paragraph (b)(2)(i), (ii), (iii), (vi), (vii), or (viii) of this section as required by the forms and the accompanying instructions. The taxpayer identifying number of any person furnishing a withholding certificate referred to in paragraph (b)(2)(vi) or (viii) of this section shall also be furnished if it is actually known to the person making a return, statement, or other document described in this paragraph (c). If the person making the return,

statement, or other document does not know the taxpayer identifying number of the other person, and such other person is one that is described in paragraph (b)(2)(i), (ii), (iii), (vi), (vii), or (viii) of this section, such person must request the other person's number. The request should state that the identifying number is required to be furnished under authority of law. When the person making the return, statement, or other document does not know the number of the other person, and has complied with the request provision of this paragraph (c), such person must sign an affidavit on the transmittal document forwarding such returns, statements, or other documents to the Internal Revenue Service, so stating. A person required to file a taxpayer identifying number shall correct any errors in such filing when such person's attention has been drawn to them. References in this paragraph (c) to paragraph (b)(2)(viii) of this section shall apply to partnership taxable years beginning after May 18, 2005, or such earlier time as the regulations under §§ 1.1446–1 through 1.1446–5 of this chapter apply by reason of an election under § 1.1446–7 of this chapter.

(d) *Obtaining a taxpayer identifying number*—(1) *Social security number*. Any individual required to furnish a social security number pursuant to paragraph (b) of this section shall apply for one, if he has not done so previously, on Form SS–5, which may be obtained from any Social Security Administration or Internal Revenue Service office. He shall make such application far enough in advance of the first required use of such number to permit issuance of the number in time for compliance with such requirement. The form, together with any supplementary statement, shall be prepared and filed in accordance with the form, instructions, and regulations applicable thereto, and shall set forth fully and clearly the data therein called for. Individuals who are ineligible for or do not wish to participate in the benefits of the social security program shall nevertheless obtain a social security number if they are required to furnish such a number pursuant to paragraph (b) of this section.

(2) *Employer identification number*—(i) *In general*. Any person required to furnish an employer identification number must apply for one, if not done so previously, on Form SS–4. A Form SS–4 may be obtained from any office of the Internal Revenue Service, U.S. consular office abroad, or from an acceptance agent described in paragraph (d)(3)(iv) of this section. The person must make such application far enough in advance of the first required use of the employer identification number to permit issuance of the number in time for compliance with such requirement. The form, together with any supplementary statement, must be prepared and filed in accordance with the form, accompanying instructions, and relevant regulations, and must set forth fully and clearly the requested data.

(ii) *Updating of application information*—(A) *Requirements*. Persons issued employer identification numbers in accordance with the application process set forth in paragraph (d)(2)(i) of this section must provide to the Internal Revenue Service any updated application information in the manner and frequency required by forms, instructions, or other appropriate guidance.

(B) *Effective/applicability date*. Paragraph (d)(2)(ii)(A) of this section applies to all persons possessing an employer identification number on or after January 1, 2014.

(iii) *Special rule for Section 708(b)(1)(B) terminations*. A new partnership that is formed as a result of the termination of a partnership under section 708(b)(1)(B) will retain the employer identification number of the terminated partnership. This paragraph (d)(2)(iii) applies to terminations of partnerships under section 708(b)(1)(B) occurring on or after May 9, 1997; however, this paragraph (d)(2)(iii) may be applied to terminations occurring on or after May 9, 1996, provided that the partnership and its partners apply this paragraph (d)(2)(iii) to the termination in a consistent manner.

(3) *IRS individual taxpayer identification number*—(i) *Definition*. The term *IRS individual taxpayer identification number* means a taxpayer identifying number issued to an alien individual by the Internal Revenue Service, upon application, for use in connection with

filing requirements under this title. The term *IRS individual taxpayer identification number* does not refer to a social security number or an account number for use in employment for wages. For purposes of this section, the term *alien individual* means an individual who is not a citizen or national of the United States.

(ii) *General rule for obtaining number.* Any individual who is not eligible to obtain a social security number and is required to furnish a taxpayer identifying number must apply for an IRS individual taxpayer identification number on Form W–7, Application for IRS Individual Taxpayer Identification Number, or such other form as may be prescribed by the Internal Revenue Service. Form W–7 may be obtained from any office of the Internal Revenue Service, U.S. consular office abroad, or any acceptance agent described in paragraph (d)(3)(iv) of this section. The individual shall furnish the information required by the form and accompanying instructions, including the individual's name, address, foreign tax identification number (if any), and specific reason for obtaining an IRS individual taxpayer identification number. The individual must make such application far enough in advance of the first required use of the IRS individual taxpayer identification number to permit issuance of the number in time for compliance with such requirement. The application form, together with any supplementary statement and documentation, must be prepared and filed in accordance with the form, accompanying instructions, and relevant regulations, and must set forth fully and clearly the requested data.

(iii) *General rule for assigning number.* Under procedures issued by the Internal Revenue Service, an IRS individual taxpayer identification number will be assigned to an individual upon the basis of information reported on Form W–7 (or such other form as may be prescribed by the Internal Revenue Service) and any such accompanying documentation that may be required by the Internal Revenue Service. An applicant for an IRS individual taxpayer identification number must submit such documentary evidence as the Internal Revenue Service may prescribe in order to establish alien status and identity. Examples of acceptable documentary evidence for this purpose may include items such as an original (or a certified copy of the original) passport, driver's license, birth certificate, identity card, or immigration documentation.

(iv) *Acceptance agents*—(A) *Agreements with acceptance agents.* A person described in paragraph (d)(3)(iv)(B) of this section will be accepted by the Internal Revenue Service to act as an acceptance agent for purposes of the regulations under this section upon entering into an agreement with the Internal Revenue Service, under which the acceptance agent will be authorized to act on behalf of taxpayers seeking to obtain a taxpayer identifying number from the Internal Revenue Service. The agreement must contain such terms and conditions as are necessary to insure proper administration of the process by which the Internal Revenue Service issues taxpayer identifying numbers to foreign persons, including proof of their identity and foreign status. In particular, the agreement may contain—

(*1*) Procedures for providing Form SS–4 and Form W–7, or such other necessary form to applicants for obtaining a taxpayer identifying number;

(*2*) Procedures for providing assistance to applicants in completing the application form or completing it for them;

(*3*) Procedures for collecting, reviewing, and maintaining, in the normal course of business, a record of the required documentation for assignment of a taxpayer identifying number;

(*4*) Procedures for submitting the application form and required documentation to the Internal Revenue Service, or if permitted under the agreement, submitting the application form together with a certification that the acceptance agent has reviewed the required documentation and that it has no actual knowledge or reason to know that the documentation is not complete or accurate;

(*5*) Procedures for assisting taxpayers with notification procedures described in paragraph (g)(2) of this section in the event of change of foreign status;

(*6*) Procedures for making all documentation or other records furnished

by persons applying for a taxpayer identifying number promptly available for review by the Internal Revenue Service, upon request; and

(7) Provisions that the agreement may be terminated in the event of a material failure to comply with the agreement, including failure to exercise due diligence under the agreement.

(B) *Persons who may be acceptance agents.* An acceptance agent may include any financial institution as defined in section 265(b)(5) or § 1.165–12(c)(1)(v) of this chapter, any college or university that is an educational organization as defined in § 1.501(c)(3)–1(d)(3)(i) of this chapter, any federal agency as defined in section 6402(f) or any other person or categories of persons that may be authorized by regulations or Internal Revenue Service procedures. A person described in this paragraph (d)(3)(iv)(B) that seeks to qualify as an acceptance agent must have an employer identification number for use in any communication with the Internal Revenue Service. In addition, it must establish to the satisfaction of the Internal Revenue Service that it has adequate resources and procedures in place to comply with the terms of the agreement described in paragraph (d)(3)(iv)(A) of this section.

(4) *Coordination of taxpayer identifying numbers*—(i) *Social security number.* Any individual who is duly assigned a social security number or who is entitled to a social security number will not be issued an IRS individual taxpayer identification number. The individual can use the social security number for all tax purposes under this title, even though the individual is, or later becomes, a nonresident alien individual. Further, any individual who has an application pending with the Social Security Administration will be issued an IRS individual taxpayer identification number only after the Social Security Administration has notified the individual that a social security number cannot be issued. Any alien individual duly issued an IRS individual taxpayer identification number who later becomes a U.S. citizen, or an alien lawfully permitted to enter the United States either for permanent residence or under authority of law permitting U.S. employment, will be required to obtain a social security number. Any individual who has an IRS individual taxpayer identification number and a social security number, due to the circumstances described in the preceding sentence, must notify the Internal Revenue Service of the acquisition of the social security number and must use the newly-issued social security number as the taxpayer identifying number on all future returns, statements, or other documents filed under this title.

(ii) *Employer identification number.* Any individual with both a social security number (or an IRS individual taxpayer identification number) and an employer identification number may use the social security number (or the IRS individual taxpayer identification number) for individual taxes, and the employer identification number for business taxes as required by returns, statements, and other documents and their related instructions. Any alien individual duly assigned an IRS individual taxpayer identification number who also is required to obtain an employer identification number must furnish the previously-assigned IRS individual taxpayer identification number to the Internal Revenue Service on Form SS–4 at the time of application for the employer identification number. Similarly, where an alien individual has an employer identification number and is required to obtain an IRS individual taxpayer identification number, the individual must furnish the previously-assigned employer identification number to the Internal Revenue Service on Form W–7, or such other form as may be prescribed by the Internal Revenue Service, at the time of application for the IRS individual taxpayer identification number.

(e) *Banks, and brokers and dealers in securities.* For additional requirements relating to deposits, share accounts, and brokerage accounts, see 31 CFR 103.34 and 103.35.

(f) *Penalty.* For penalties for failure to supply taxpayer identifying numbers, see sections 6721 through 6724.

(g) *Special rules for taxpayer identifying numbers issued to foreign persons*—(1) *General rule*—(i) *Social security number.* A social security number is generally identified in the records and

database of the Internal Revenue Service as a number belonging to a U.S. citizen or resident alien individual. A person may establish a different status for the number by providing proof of foreign status with the Internal Revenue Service under such procedures as the Internal Revenue Service shall prescribe, including the use of a form as the Internal Revenue Service may specify. Upon accepting an individual as a nonresident alien individual, the Internal Revenue Service will assign this status to the individual's social security number.

(ii) *Employer identification number*. An employer identification number is generally identified in the records and database of the Internal Revenue Service as a number belonging to a U.S. person. However, the Internal Revenue Service may establish a separate class of employer identification numbers solely dedicated to foreign persons which will be identified as such in the records and database of the Internal Revenue Service. A person may establish a different status for the number either at the time of application or subsequently by providing proof of U.S. or foreign status with the Internal Revenue Service under such procedures as the Internal Revenue Service shall prescribe, including the use of a form as the Internal Revenue Service may specify. The Internal Revenue Service may require a person to apply for the type of employer identification number that reflects the status of that person as a U.S. or foreign person.

(iii) *IRS individual taxpayer identification number*. An IRS individual taxpayer identification number is generally identified in the records and database of the Internal Revenue Service as a number belonging to a nonresident alien individual. If the Internal Revenue Service determines at the time of application or subsequently, that an individual is not a nonresident alien individual, the Internal Revenue Service may require that the individual apply for a social security number. If a social security number is not available, the Internal Revenue Service may accept that the individual use an IRS individual taxpayer identification number, which the Internal Revenue Service will identify as a number belonging to a U.S. resident alien.

(2) *Change of foreign status*. Once a taxpayer identifying number is identified in the records and database of the Internal Revenue Service as a number belonging to a U.S. or foreign person, the status of the number is permanent until the circumstances of the taxpayer change. A taxpayer whose status changes (for example, a nonresident alien individual with a social security number becomes a U.S. resident alien) must notify the Internal Revenue Service of the change of status under such procedures as the Internal Revenue Service shall prescribe, including the use of a form as the Internal Revenue Service may specify.

(3) *Waiver of prohibition to disclose taxpayer information when acceptance agent acts*. As part of its request for an IRS individual taxpayer identification number or submission of proof of foreign status with respect to any taxpayer identifying number, where the foreign person acts through an acceptance agent, the foreign person will agree to waive the limitations in section 6103 regarding the disclosure of certain taxpayer information. However, the waiver will apply only for purposes of permitting the Internal Revenue Service and the acceptance agent to communicate with each other regarding matters related to the assignment of a taxpayer identifying number, including disclosure of any taxpayer identifying number previously issued to the foreign person, and change of foreign status. This paragraph (g)(3) applies to payments made after December 31, 2001.

(h) *Special rules for certain entities under § 301.7701–3*—(1) *General rule*. Any entity that has an employer identification number (EIN) will retain that EIN if its federal tax classification changes under § 301.7701–3.

(2) *Special rules for entities that are disregarded as entities separate from their owners*—(i) *When an entity becomes disregarded as an entity separate from its owner*. Except as otherwise provided in regulations or other guidance, a single owner entity that is disregarded as an entity separate from its owner under

§ 301.7701–3, must use its owner's taxpayer identifying number (TIN) for federal tax purposes.

(ii) *When an entity that was disregarded as an entity separate from its owner becomes recognized as a separate entity*. If a single owner entity's classification changes so that it is recognized as a separate entity for federal tax purposes, and that entity had an EIN, then the entity must use that EIN and not the TIN of the single owner. If the entity did not already have its own EIN, then the entity must acquire an EIN and not use the TIN of the single owner.

(3) *Effective date*. The rules of this paragraph (h) are applicable as of January 1, 1997.

(i) *Special rule for qualified subchapter S subsidiaries (QSubs)*—(1) *General rule*. Any entity that has an employer identification number (EIN) will retain that EIN if a QSub election is made for the entity under § 1.1361–3 or if a QSub election that was in effect for the entity terminates under § 1.1361–5.

(2) *EIN while QSub election in effect*. Except as otherwise provided in regulations or other published guidance, a QSub must use the parent S corporation's EIN for Federal tax purposes.

(3) *EIN when QSub election terminates*. If an entity's QSub election terminates, it may not use the EIN of the parent S corporation after the termination. If the entity had an EIN prior to becoming a QSub or obtained an EIN while it was a QSub in accordance with regulations or other published guidance, the entity must use that EIN. If the entity had no EIN, it must obtain an EIN upon termination of the QSub election.

(4) *Effective date*. The rules of this paragraph (i) apply on January 20, 2000.

(j) *Effective date*—(1) *General rule*. Except as otherwise provided in this paragraph (j), the provisions of this section are generally effective for information that must be furnished after April 15, 1974. However, the provisions relating to IRS individual taxpayer identification numbers apply on and after May 29, 1996. An application for an IRS individual taxpayer identification number (Form W–7) may be filed at any time on or after July 1, 1996.

(2) *Special rules*—(i) *Employer identification number of an estate*. The requirement under paragraph (a)(1)(ii)(C) of this section that an estate obtain an employer identification number applies on and after January 1, 1984.

(ii) *Taxpayer identifying numbers of certain foreign persons*. The requirement under paragraph (b)(2)(iv) of this section that certain foreign persons furnish a TIN on a return of tax is effective for tax returns filed after December 31, 1996.

(iii) Paragraphs (a)(1)(i), (a)(1)(ii) introductory text, (a)(1)(ii)(A), and (a)(1)(ii)(B) of this section apply to income tax returns due (without regard to extensions) on or after April 15, 1998.

[T.D. 7306, 39 FR 9946, Mar. 15, 1974]

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting § 301.6109–1, see the List of CFR Sections Affected, which appears in the Finding Aids section of the printed volume and at *www.govinfo.gov*.

§ 301.6109–2 Authority of the Secretary of Agriculture to collect employer identification numbers for purposes of the Food Stamp Act of 1977.

(a) *In general*. The Secretary of Agriculture may require each applicant retail food store or wholesale food concern to furnish its employer identification number in connection with the administration of section 9 of the Food Stamp Act of 1977 (7 U.S.C. 2018) (relating to the determination of the qualifications of applicants under the Food Stamp Act).

(b) *Limited purpose*. The Secretary of Agriculture may have access to the employer identification numbers obtained pursuant to paragraph (a) of this section, but only for the purpose of establishing and maintaining a list of the names and employer identification numbers of the stores and concerns for use in determining those applicants who have been previously sanctioned or convicted under section 12 or 15 of the Food Stamp Act of 1977 (7 U.S.C. 2021 or 2024). The Secretary of Agriculture may use this determination of sanctions and convictions in administering section 9 of the Food Stamp Act of 1977.

(c) *Sharing of information*—(1) *Sharing permitted with certain United States*

agencies and instrumentalities. The Secretary of Agriculture may share the information contained in the list described in paragraph (b) of this section with any other agency or instrumentality of the United States that otherwise has access to employer identification numbers, but only to the extent the Secretary of Agriculture determines sharing such information will assist in verifying and matching that information against information maintained by the other agency or instrumentality.

(2) *Restrictions on the use of shared information.* The information shared by the Secretary of Agriculture pursuant to this section may be used by any other agency or instrumentality of the United States only for the purpose of effective administration and enforcement of the Food Stamp Act of 1977 or for the purpose of investigation of violations of other Federal laws or enforcement of those laws.

(d) *Safeguards*—(1) *Restrictions on access to employer identification numbers by individuals*—(i) *Numbers maintained by the Secretary of Agriculture.* The individuals who are permitted access to employer identification numbers obtained pursuant to paragraph (a) of this section and maintained by the Secretary of Agriculture are officers and employees of the United States whose duties or responsibilities require access to such employer identification numbers for the purpose of effective administration or enforcement of the Food Stamp Act of 1977 or for the purpose of sharing the information in accordance with paragraph (c) of this section.

(ii) *Numbers maintained by any other agency or instrumentality.* The individuals who are permitted access to employer identification numbers obtained pursuant to paragraph (c) of this section and maintained by any agency or instrumentality of the United States other than the Department of Agriculture are officers and employees of the United States whose duties or responsibilities require access to such employer identification numbers for the purpose of effective administration and enforcement of the Food Stamp Act of 1977 or for the purpose of investigation of violations of other Federal laws or enforcement of those laws.

(2) *Other safeguards.* The Secretary of Agriculture, and the head of any other agency or instrumentality referred to in paragraph (c) of this section, must provide for any additional safeguards that the Secretary of the Treasury determines to be necessary or appropriate to protect the confidentiality of the employer identification numbers. The Secretary of Agriculture, and the head of any other agency or instrumentality referred to in paragraph (c) of this section, may also provide for any additional safeguards to protect the confidentiality of employer identification numbers, provided these safeguards are consistent with safeguards determined by the Secretary of the Treasury to be necessary or appropriate.

(e) *Confidentiality and disclosure of employer identification numbers.* Employer identification numbers obtained pursuant to paragraph (a) or (c) of this section are confidential. No officer or employee of the United States who has or had access to any such employer identification number may disclose that number in any manner to an individual not described in paragraph (d) of this section. For purposes of this paragraph (e), *officer or employee* includes a former officer or employee.

(f) *Sanctions*—(1) *Unauthorized, willful disclosure of employer identification numbers.* Sections 7213(a) (1), (2), and (3) apply with respect to the unauthorized, willful disclosure to any person of employer identification numbers that are maintained pursuant to this section by the Secretary of Agriculture, or any other agency or instrumentality with which information is shared pursuant to paragraph (c) of this section, in the same manner and to the same extent as sections 7213(a) (1), (2), and (3) apply with respect to unauthorized disclosures of returns and return information described in those sections.

(2) *Willful solicitation of employer identification numbers.* Section 7213(a)(4) applies with respect to the willful offer of any item of material value in exchange for any employer identification number maintained pursuant to this section by the Secretary of Agriculture, or any other agency or instrumentality with which information is shared pursuant to paragraph (c) of this section,

in the same manner and to the same extent as section 7213(a)(4) applies with respect to offers (in exchange for any return or return information) described in that section.

(g) *Delegation*. All references in this section to the Secretary of Agriculture are references to the Secretary of Agriculture or his or her delegate.

(h) *Effective date*. Except as provided in the following sentence, this section is effective on February 1, 1992. Any provisions relating to the sharing of information by the Secretary of Agriculture with any other agency or instrumentality of the United States are effective on August 15, 1994.

[T.D. 8369, 56 FR 49685, Oct. 1, 1991, as amended by T.D. 8621, 60 FR 51725, Oct. 3, 1995; 61 FR 1035, Jan. 11, 1996]

§ 301.6109–3 IRS adoption taxpayer identification numbers.

(a) *In general*—(1) *Definition*. An *IRS adoption taxpayer identification number* (ATIN) is a temporary taxpayer identifying number assigned by the Internal Revenue Service (IRS) to a child (other than an alien individual as defined in § 301.6109–1(d)(3)(i)) who has been placed, by an authorized placement agency, in the household of a prospective adoptive parent for legal adoption. An ATIN is assigned to the child upon application for use in connection with filing requirements under the Internal Revenue Code and the regulations thereunder. When an adoption becomes final, the adoptive parent must apply for a social security number for the child. After the social security number is assigned, that number, rather than the ATIN, must be used as the child's taxpayer identification number on all returns, statements, or other documents required under the Internal Revenue Code and the regulations thereunder.

(2) *Expiration and extension*. An ATIN automatically expires two years after the number is assigned. However, upon request, the IRS may grant an extension if the IRS determines the extension is warranted.

(b) *Definitions*. For purposes of this section—

(1) *Authorized placement agency* has the same meaning as in § 1.152–2(c) of this chapter;

(2) *Prospective adoptive child* or *child* means a child who has not been adopted, but who has been placed in the household of a prospective adoptive parent for legal adoption by an authorized placement agency; and

(3) *Prospective adoptive parent* or *parent* means an individual in whose household a prospective adoptive child is placed by an authorized placement agency for legal adoption.

(c) *General rule for obtaining a number*—(1) *Who may apply*. A prospective adoptive parent may apply for an ATIN for a child if—

(i) The prospective adoptive parent is eligible to claim a personal exemption under section 151 with respect to the child;

(ii) An authorized placement agency places the child with the prospective adoptive parent for legal adoption;

(iii) The Social Security Administration will not process an application for an SSN by the prospective adoptive parent on behalf of the child (for example, because the adoption is not final); and

(iv) The prospective adoptive parent has used all reasonable means to obtain the child's assigned social security number, if any, but has been unsuccessful in obtaining this number (for example, because the biological parent who obtained the number is not legally required to disclose the number to the prospective adoptive parent).

(2) *Procedure for obtaining an ATIN*. If the requirements of paragraph (c)(1) of this section are satisfied, the prospective adoptive parent may apply for an ATIN for a child on Form W–7A, *Application for Taxpayer Identification Number for Pending Adoptions* (or such other form as may be prescribed by the IRS). An application for an ATIN should be made far enough in advance of the first intended use of the ATIN to permit issuance of the ATIN in time for such use. An application for an ATIN must include the information required by the form and accompanying instructions, including the name and address of each prospective adoptive parent and the child's name and date of birth. In addition, the application must include such documentary evidence as the IRS may prescribe to establish that a child was placed in the prospective adoptive

parent's household by an authorized placement agency for legal adoption. Examples of acceptable documentary evidence establishing placement for legal adoption by an authorized placement agency may include—

(i) A copy of a placement agreement entered into between the prospective adoptive parent and an authorized placement agency;

(ii) An affidavit or letter signed by the adoption attorney or government official who placed the child for legal adoption pursuant to state law;

(iii) A document authorizing the release of a newborn child from a hospital to a prospective adoptive parent for adoption; and

(iv) A court document ordering or approving the placement of a child for adoption.

(d) *Effective date.* The provisions of this section apply to income tax returns due (without regard to extension) on or after April 15, 1998.

[T.D. 8839, 64 FR 51242, Sept. 22, 1999]

§ 301.6109–4 IRS truncated taxpayer identification numbers.

(a) *In general— Definition.* An IRS truncated taxpayer identification number (TTIN) is an individual's social security number (SSN), IRS individual taxpayer identification number (ITIN), IRS adoption taxpayer identification number (ATIN), or IRS employer identification number (EIN) in which the first five digits of the nine-digit number are replaced with Xs or asterisks. The TTIN takes the same format of the identifying number it replaces, for example XXX–XX–1234 when replacing an SSN, or XX–XXX1234 when replacing an EIN.

(b) *Use of a TTIN.* (1) *In general.* Except as provided in paragraph (b)(2) of this section, a TTIN may be used to identify any person on any statement or other document that the internal revenue laws require to be furnished to another person. Use of a TTIN is permissive and not mandatory. Use of a TTIN as permitted by this section will not result in application of any penalty for failure to include a correct taxpayer identifying number on any payee statement or other document. For example, the section 6722 penalty for failure to timely furnish a correct statement would not apply solely because the payor used a TTIN as permitted by this section.

(2) *TTIN not permitted.* Use of a TTIN is not permitted in the following circumstances:

(i) A TTIN may not be used on a statement or other document if such use is prohibited by statute, regulation, other guidance published in the Internal Revenue Bulletin, form, or instructions.

(ii) A TTIN may not be used on a statement or document if a statute, regulation, other guidance published in the Internal Revenue Bulletin, form, or instructions, specifically requires use of an SSN, ITIN, ATIN, or EIN and does not specifically state that the taxpayer identifying number may be truncated. For example, a TTIN may not be used on a Form W–8ECI or Form W–8IMY because the forms and/or form instructions specifically prescribe use of an SSN, EIN, or ITIN for the U.S. taxpayer identification number.

(iii) A TTIN may not be used on any return, statement, or other document that is required to be filed with or furnished to the Internal Revenue Service or the Social Security Administration in the case of forms required to be filed with the Social Security Administration under the internal revenue laws.

(iv) A person may not truncate its own taxpayer identifying number on any statement or other document that it furnishes to another person. For example, an employer may not truncate its EIN on a Form W–2, Wage and Tax Statement, that the employer furnishes to an employee; and a person may not truncate its TIN on a Form W–9, Request for Taxpayer Identification Number and Certification.

(3) *Examples.* The provisions of this paragraph (b) are illustrated by the following examples:

(i) *Example 1.* Pursuant to section 6051(d) and § 31.6051–2(a) of this chapter, Employer files the Social Security Administration copy of Employee's Form W–2, Wage and Tax Statement, with the Social Security Administration. Employer may not truncate any identifying number on the Social Security Administration copy. Pursuant to section 6051(a) and § 31.6051–1(a)(1)(i) of this chapter, Employer furnishes copies

of Forms W–2 to Employee. There are no applicable statutes, regulations, other published guidance, forms, or instructions that prohibit use of a TTIN on Form W–2, and § 31.6051–1(a)(1)(i) specifically permits truncating employees' SSNs. Accordingly, Employer may truncate Employee's SSN to appear in the form of a TTIN on copies of Forms W–2 furnished to Employee. Employer may not truncate its own EIN on copies of Forms W–2 furnished to Employee.

(ii) *Example 2*. On April 5, year 1, Donor contributes a used car with a blue book value of $1,100 to Charitable Organization. On April 20, year 1, Charitable Organization sends Donor copies B and C of the Form 1098–C as a contemporaneous written acknowledgement of the $1,100 contribution as required by section 170(f)(12). In late-February, year 2, Charitable Organization prepares and files copy A of Form 1098–C with the IRS, reporting Donor's donation of a qualified vehicle in year 1. Charitable Organization may truncate Donor's SSN to appear in the form of a TTIN in the Donor's Identification Number box on copies B and C of the Form 1098–C because copies B and C of the Form 1098–C are documents required by the Internal Revenue Code and regulations to be furnished to another person; there are no applicable statutes, regulations, other published guidance, forms or instructions that prohibit the use of a TTIN on those copies; and there are no applicable statutes, regulations, other published guidance, forms, or instructions that specifically require use of an SSN or other identifying number on those copies. Charitable Organization may not truncate its own EIN on copies B and C of the Form 1098–C because a person cannot truncate its own taxpayer identifying number on any statement or other document the person furnishes to another person. Charitable Organization may not truncate any identifying number on copy A of the Form 1098–C because copy A is required to be filed with the IRS.

(c) *Applicability date*. This section is applicable to returns, statements, and other documents required to be filed or furnished after December 31, 2020.

[T.D. 9675, 79 FR 41131, July 15, 2014, as amended by T.D. 9861, 84 FR 31720, July 3, 2019]

§ 301.6110–1 Public inspection of written determinations and background file documents.

(a) *General rule*. Except as provided in § 301.6110–3, relating to deletion of certain information, § 301.6110–5(b), relating to actions to restrain disclosure, paragraph (b)(2) of this section, relating to technical advice memoranda involving civil fraud and criminal investigations, and jeopardy and termination assessments, and paragraph (b)(3) of this section, relating to general written determinations relating to accounting or funding periods and methods, the text of any written determination (as defined in § 301.6110–2(a)) issued pursuant to a request postmarked or hand delivered after October 31, 1976, shall be open to public inspection in the places provided in paragraph (c)(1) of this section. The text of any written determination issued pursuant to a request postmarked or hand delivered before November 1, 1976, shall be open to public inspection pursuant to section 6110(h) and § 301.6110–6, when funds are appropriated by Congress for such purpose. The procedures and rules set forth in §§ 301.6110–1 through 301.6110–5 and § 301.6110–7 do not apply to written determinations issued pursuant to requests postmarked or hand delivered before November 1, 1976, unless § 301.6110–6 states otherwise. There shall also be open to public inspection in each place of public inspection an index to the written determinations subject to inspection at such place. Each such index shall be arranged by section of the Internal Revenue Code, related statute or tax treaty and by subject matter description within such section in such manner as the Commissioner may from time to time provide. The Commissioner shall not be required to make any written determination or background file document open to public inspection pursuant to section 6110 or refrain from disclosure of any such documents or any information therein, except as provided by section 6110 or with respect to a discovery

order made in connection with a judicial proceeding. The provisions of section 6110 shall not apply to material that is open to public inspection under section 6104. See section 6110(l)(1).

(b) *Items that may be inspected only under certain circumstances*—(1) *Background file documents.* A background file document (as such term is defined in § 301.6110–2(g)) relating to a particular written determination issued pursuant to a request postmarked or hand delivered after October 31, 1976, shall not be subject to inspection until such written determination is open to public inspection or available for inspection pursuant to paragraph (b) (2) or (3) of this section, and then only if a written request pursuant to paragraph (c)(4) of this section is made for inspection of such background file document. Background file documents relating to written determinations issued pursuant to requests postmarked or hand delivered before November 1, 1976, shall be subject to inspection pursuant to section 6110 (h) and § 301.6110–6, when funds are appropriated by Congress for such purpose. The version of the background file document which is available for inspection shall be the version originally made available for inspection, as modified by any additional disclosure pursuant to section 6110(d)(3) and (f)(4).

(2) *Technical advice memoranda involving civil fraud and criminal investigations, jeopardy and termination assessments.* Any technical advice memorandum (as such term is defined in § 301.6110–2(f) involving any matter that is the subject of a civil fraud or criminal investigation, a jeopardy assessment (as such term is defined in section 6861), or a termination assessment (as such term is defined in section 6851) shall not be subject to inspection until all actions relating to such investigation or assessment are completed and then only if a written request pursuant to paragraph (c)(4) of this section is made for inspection of such technical advice memorandum. A ''civil fraud investigation'' is any administrative step or judicial proceeding in which an issue for determination is whether the Commissioner should impose additional tax pursuant to section 6653(b). A ''criminal investigation'' is any administrative step or judicial proceeding in which an issue for determination is whether a taxpayer should be charged with or is guility of criminal conduct. An action relating to a civil fraud or criminal investigation includes any such administrative step or judicial proceeding, the review of subsequent related activities and related returns of the taxpayer or related taxpayers, and any other administrative step or judicial procedure or proceeding or appellate process that is initiated as a consequence of the facts and circumstances disclosed by such investigation. An action relating to a jeopardy or termination assessment includes any administrative step or judicial proceeding that is initiated to determine whether to make such assessment, that is brought pursuant to section 7429 to determine the appropriateness or reasonableness of such assessment, or that is brought to resolve the legal consequences of the tax status or liability issue underlying the making of such assessment. Any action relating to a civil fraud or criminal investigation, a jeopardy assessment, or a termination assessment is not completed until all available administrative steps and judicial proceedings and remedies, including appeals, have been completed.

(3) *Written determinations with respect to adoption of or change in certain accounting or funding periods and methods.* Any general written determination (as defined in § 301.6110–2(c) that relates solely to approval of any adoption of or change in—

(i) The funding method or plan year of a plan under section 412.

(ii) A taxpayer's annual accounting period under section 442.

(iii) A taxpayer's method of accounting under section 446(e), or

(iv) A partnership's or partner's taxable year under section 706

shall not be subject to inspection until such written determination would, but for this paragraph (b)(3), be open to public inspection pursuant to § 301.6110–5(c) and then only if a written request pursuant to paragraph (c)(4) of this section is made for inspection of such written determination.

(c) *Procecure for public inspection*—(1) *Place of public inspection.* The text of

any ruling (as such term is defined in § 301.6110–2(d) or technical advice memorandum that is open to public inspection pursuant to section 6110 shall be located in the National Office Reading Room. The text of any determination letter (as such term is defined in § 301.6110–2(e)) that is open to public inspection pursuant to section 6110 shall be located in the Reading Room of the Regional Office in which is located the district office that issued such determination letter. Inspection of any written determination subject to inspection only upon written request shall be requested from the National Office Reading Room. Inspection of any background file document shall be requested only from the reading room in which the related written determination is either open to public inspection or subject to inspection upon written request. The locations and mailing addresses of the reading rooms are set forth in § 601.702(b)(3)(ii) of this chapter.

(2) *Time and manner of public inspection*. The inspection authorized by section 6110 will be allowed only in the place provided for such inspection in the presence of an Internal Revenue officer or employee and only during the regular hours of business of the Internal Revenue Service office in which the reading room is located. The public will not be allowed to remove any record from a reading room. A person who wishes to inspect reading room material without visiting a reading room may submit a written request pursuant to paragraph (c)(4) of this section for copies of any such material to the Internal Revenue Service reading room in which is located such material.

(3) *Copies*. Notes may be taken of any material open to public inspection under section 6110, and copies may be made manually. Copies of any material open to public inspection or subject to inspection upon written request will be furnished by the Internal Revenue Service to any person making requests therefor pursuant to paragraph (c)(4) of this section. If made at the time of inspection the request for copies need not be in writing, unless the material is not immediately available for copying. The Commissioner may prescribe fees pursuant to section 6110(j) for furnishing copies of material open or subject to inspection.

(4) *Requests*. Any request for copies of written determinations, for inspection of general written determinations relating to accounting or funding periods and methods or technical advice memoranda involving civil fraud and criminal investigations, and jeopardy and termination assessments, for inspection or copies of background file documents, and for copies of the index shall be submitted to the reading room in which is located the requested material. If made in person, the request may be submitted to the internal revenue employee supervising the reading room. The request shall contain:

(i) Authorization for the Internal Revenue Service to charge the person making such request for making copies, searching for material, and making deletions therefrom;

(ii) The maximum amount of charges which the Internal Revenue Service may incur without further authorization from the person making such request;

(iii) With respect to requests for inspection and copies of background file documents, the file number of the written determination to which such background file document relates and a specific identification of the nature or type of the background file document requested;

(iv) With respect to requests for inspections of general written determinations relating to accounting or funding periods and methods, the day, week, or month of issuance of such written determination, and the applicable category as selected from a special summary listing of categories prepared by the Internal Revenue Service;

(v) With respect to requests for copies of written determinations, the file number of the written determination to be copied, which can be ascertained in the reading room or from the index;

(vi) With respect to requests for copies of portions of the index, the section of the Internal Revenue Code, related statute or tax treaty in which the person making such request is interested;

(vii) With respect to material which is to be mailed, the name, address, and telephone number of the person making such request and the address to

which copies of the requested material should be sent; and

(viii) Such other information as the Internal Revenue Service may from time to time require in its operation of reading rooms.

(d) *Effective/applicability date.* The rules of paragraph (a) apply February 29, 2012.

[T.D. 7524, 42 FR 63412, Dec. 16, 1977, as amended by T.D. 9581, 77 FR 12205, Feb. 29, 2012]

§ 301.6110–2 Meaning of terms.

(a) *Written determination.* A ''written determination'' is a ruling, a determination letter, or a technical advice memorandum, as such terms are defined in paragraphs (d), (e), and (f) of this section, respectively. Notwithstanding paragraphs (d) through (f) of this section, a written determination does not include for example, opinion letters (as defined in § 601.201(a)(4) of this chapter), information letters (as defined in § 601.201(a)(5) of this chapter), technical information responses, technical assistance memoranda, notices of deficiency, reports on claims for refund, Internal Revenue Service decisions to accept taxpayers' offers in compromise, earnings and profits determinations, or documents issued by the Internal Revenue Service in the course of tax administration that are not disclosed to the persons to whose tax returns or tax liability the documents relate.

(b) *Reference written determination.* A ''reference written determination'' is any written determination that the Commissioner determines to have significant reference value. Any written determination that the Commissioner determines to be the basis for a published revenue ruling is a reference written determination until such revenue ruling is obsoleted, revoked, superseded or otherwise held to have no effect.

(c) *General written determination.* A ''general written determination'' is any written determination that is not a reference written determination.

(d) *Ruling.* A ''ruling'' is a written statement issued by the National Office to a taxpayer or to the taxpayer's authorized representative (as such term is defined in § 601.201(e)(7) of this chapter) on behalf of the taxpayer, that interprets and applies tax laws to a specific set of facts. A ruling generally recites the relevant facts, sets forth the applicable provisions of law, and shows the application of the law to the facts.

(e) *Determination letter.* A ''determination letter'' is a written statement issued by a district director in response to a written inquiry by an individual or an organization that applies principles and precedents previously announced by the National Office to the particular facts involved.

(f) *Technical advice memorandum.* A ''technical advice memorandum'' is a written statement issued by the National Office to, and adopted by, a district director in connection with the examination of a taxpayer's return or consideration of a taxpayer's claim for refund or credit. A technical advice memorandum generally recites the relevant facts, sets forth the applicable law, and states a legal conclusion.

(g) *Background file document*—(1) *General rule.* A ''background file document'' is—(i) The request for a written determination.

(ii) Any written material submitted in support of such request by the person by whom or on whose behalf the request for a written determination is made,

(iii) Any written communication, or memorandum of a meeting, telephone communication, or other contact, between employees of the Internal Revenue Service or Office of its Chief Counsel and persons outside the Internal Revenue Service in connection with such request or written determination which is received prior to the issuance (as such term is defined in paragraph (h) of this section) of the written determination, but not including communications described in paragraph (g)(2) of this section, and

(iv) Any subsequent communication between the National Office and a district director concerning the factual circumstances underlying the request for a technical advice memorandum, or concerning a request by the district director for reconsideration by the National Office of a proposed technical advice memorandum.

(2) *Limitations*. Notwithstanding paragraph (g)(1) of this section, a ''background file document'' shall not include any—

(i) Communication between the Department of Justice and the Internal Revenue Service or the Office of its Chief Counsel relating to any pending civil or criminal case or investigation,

(ii) Communication between Internal Revenue Service employees and employees of the Office of its Chief Counsel,

(iii) Internal memorandum or attorney work product prepared by the Internal Revenue Service or Office of its Chief Counsel which relates to the development of the conclusion of the Internal Revenue Service in a written determination, including, with respect to a technical advice memorandum, the Transmittal Memorandum, as defined in § 601.105(b)(5)(vi)(c) of this chapter,

(iv) Correspondence or any portion of correspondence between the Internal Revenue Service and any person relating solely to the making of or extent of deletions pursuant to section 6110(c), or a request pursuant to section 6110(g) (3) and (4) for postponement of the time at which a written determination is made open or subject to inspection,

(v) Material relating to (A) a request for a ruling or determination letter that is withdrawn prior to issuance thereof or that the Internal Revenue Service declines to answer, (B) a request for technical advice that the National Office declines to answer, or (C) the appeal of a taxpayer from the decision of a district director not to seek technical advice, or

(vi) Response to a request for technical advice which the district director declines to adopt, and the district director's request for reconsideration thereof.

(h) *Issuance*. ''Issuance'' of a written determination occurs, with respect to rulings and determination letters, upon the mailing of the ruling or determination letter to the person to whom it pertains. Issuance of a technical advice memorandum occurs upon the adoption of the technical advice memorandum by the district director.

(i) *Person to whom written determination pertains*. A ''person to whom a written determination pertains'' is the person by whom a ruling or determination letter is requested, but if requested by an authorized representative, the person on whose behalf the request is made. With respect to a technical advice memorandum, a ''person to whom a written determination pertains'' is the taxpayer whose return is being examined or whose claim for refund or credit is being considered.

(j) *Person to whom a background file document relates*. A ''person to whom a background file document relates'' is the person to whom the related written determination pertains, as such term is defined in paragraph (i) of this section.

(k) *Person who has a direct interest in maintaining confidentiality*. A ''person who has a direct interest in maintaining the confidentiality of a written determination'' is any person whose name and address is listed in the request for such written determination, as required by § 601.201(e)(2) of this chapter. A ''person who has a direct interest in maintaining the confidentiality of a background file document'' is any person whose name and address is in such background file document, or who has a direct interest in maintaining the confidentiality of the written determination to which such background file document relates.

(l) *Successor in interest*. A ''successor in interest'' to any person to whom a written determination pertains or background file document relates is any person who acquires the rights and assumes the liabilities of such person with respect to the transaction which was the subject matter of the written determination, provided that the successor in interest notifies the Commissioner with respect to the succession in interest.

(d) *Effective/applicability date*. The rules of paragraph (a) apply February 29, 2012.

[T.D. 7524, 42 FR 63413, Dec. 16, 1977, as amended by T.D. 9581, 77 FR 12205, Feb. 29, 2012]

§ 301.6110–3 Deletion of certain information in written determinations open to public inspection.

(a) *Information subject to deletion*. There shall be deleted from the text of any written determination open to

public inspection or subject to inspection upon written request and background file document subject to inspection upon written request pursuant to section 6110 the following types of information:

(1) *Identifying details.* (i) The names, addresses, and identifying numbers (including telephone, license, social security, employer identification, credit card, and selective service numbers) of any person, other than the identifying details of a person who makes a third-party communication described in § 301.6110–4(a), and

(ii) Any other information that would permit a person generally knowledgeable with respect to the appropriate community to identify any person. The determination of whether information would permit identification of a particular person will be made in view of information available to the public at the time the written determination or background file document is made open or subject to inspection and in view of information that will subsequently become available, provided the Internal Revenue Service is made aware of such information and the potential that such information may identify any person. The ''appropriate community'' is that group of persons who would be able to associate a particular person with a category of transactions one of which is described in the written determination or background file document. The appropriate community may vary according to the nature of the transaction which is the subject of the written determination. For example, if a steel company proposes to enter a transaction involving the purchase and installation of blast furnaces, the ''appropriate community'' may include all steel producers and blast furnace manufacturers, but if the installation process is a unique process of which everyone in national industry is aware, the ''appropriate community'' might also include the national industrial community. On the other hand, if the steel company proposes to enter a transaction involving the purchase of land on which to construct a building to house the blast furnaces, the ''appropriate community'' may also include those residing or doing business within the geographical locale of the land to be purchased.

(2) *Information concerning national defense and foreign policy.* Information specifically authorized under criteria established by an Executive order to be kept secret in the interest of national defense or foreign policy and which is in fact properly classified pursuant to such order.

(3) *Information exempted by other statutes and agency rules.* Information specifically exempted from disclosure by any statute other than the Internal Revenue Code of 1954 and 5 U.S.C. 552 which is applicable to the Internal Revenue Service, and any information obtained by the Internal Revenue Service solely and directly from another Federal agency subject to a nondisclosure rule of such agency. Deletion of information shall not be made solely because the same information was submitted to another Federal agency subject to a nondisclosure rule applicable only to such agency.

(4) *Trade secrets and privileged or confidential commercial or financial information*—(i) *Deletions to be made.* Any—

(A) Trade secrets, and

(B) Commercial or financial information obtained from any person which, despite the fact that identifying details are deleted pursuant to paragraph (a)(1) of this section, nonetheless remains privileged or confidential.

(ii) *Trade secret.* For purposes of paragraph (a)(4)(i)(A) of this section, a trade secret may consist of any formula, pattern, device or compilation of information that is used in one's business, and that gives one an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. The subject of a trade secret must be secret, that is, it must not be of public knowledge or of a general knowledge in the trade or business. Novelty, in the patent law sense, is not required for a trade secret.

(iii) *Privileged or confidential.* For purposes of paragraph (a)(4)(i)(B) of this section, information is privileged or confidential if from examination of the

request and supporting documents relating to a written determination, and in consideration of the fact that identifying details are deleted pursuant to paragraph (a)(1) of this section, it is determined that disclosure of such information would cause substantial harm to the competitive position of any person. For example, while determining whether disclosure of certain information would cause substantial harm to X's competitive position, the Internal Revenue Service becomes aware that his information has previously been disclosed to the public. In this situation, the Internal Revenue Service will not agree with X's argument that disclosure of the information would cause substantial harm to X's competitive position. An example of information previously disclosed to the public is financial information contained in the published annual reports of widely held public corporations.

(5) *Information within the ambit of personal privacy.* Information the disclosure of which would constitute a clearly unwarranted invasion of personal privacy, despite the fact that identifying details are deleted pursuant to paragraph (a)(1) of this section. Personal privacy information encompasses embarrassing or sensitive information that a reasonable person would not reveal to the public under ordinary circumstances. Matters of personal privacy include, but are not limited to, details not yet public of a pending divorce, medical treatment for physical or mental disease or injury, adoption of a child, the amount of a gift, and political preferences. A clearly unwarranted invasion of personal privacy exists if from analysis of information submitted in support of the request for a written determination it is determined that the public interest purpose for requiring disclosure is outweighed by the potential harm attributable to such invasion of personal privacy.

(6) *Information concerning agency regulation of financial institutions.* Information contained in or related to reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions concerning examination, operation or condition of a financial institution, disclosure of which would damage the standing of such financial institution.

(7) *Information concerning wells.* Geological or geophysical information and data, including maps, concerning wells.

(b) *Manner of deletions.* Whenever information, which is not to be disclosed pursuant to section 6110(c), is deleted from the text of a written determination or background file document, substitutions therefore shall be made to the extent feasible if necessary for an understanding of the legal analysis developed in such written determination or to make the disclosed text of a background file document comprehensible. Wherever any material is deleted, an indication of such deletion, and of any substitution therefor, shall be made in such manner as the Commissioner deems appropriate.

(c) *Limitations on the making of deletions.* Any portion of a written determination or background file document that has been deleted will be restored to the text thereof—

(1) If pursuant to section 6110(d)(3) or (f)(4)(A) a court orders disclosure of such portion, or

(2) If pursuant, to § 301.6110–5(d)(1) an agreement is reached to disclose information.

[T.D. 7524, 42 FR 63414, Dec. 16, 1977]

§ 301.6110–4 Communications from third parties.

(a) *General rule.* Except as provided in paragraph (b) of this section a record will be made of any communication, whether written, by telephone, at a meeting, or otherwise, received by the Internal Revenue Service or Office of its Chief Counsel prior to the issuance of written determination from any person other than a person to whom the written determination pertains or the authorized representative of such person. This rule applies to any communication concerning such written determination, any communication concerning the request for such written determination, or any communication concerning other matters involving such written determination. A notation that such communication has been made shall be placed on such written determination when it is made open to public inspection or available for inspection upon written request pursuant

to § 301.6110–5. The notation to be placed on a written determination shall consist of the date on which the communication was received and the category of the person making such communication, for example, Congressional, Department of Commerce, Treasury, trade association, White House, educational institution. Any person may request the Internal Revenue Service to disclose the name of any person about whom a notation has been made pursuant to this paragraph.

(b) *Limitations*. The provisions of paragraph (a) of this section shall not apply to communications received by the Internal Revenue Service from employee of the Internal Revenue Service or Office of its Chief Counsel, from the Chief of Staff of the Joint Committee on Internal Revenue Taxation, from the Department of Justice with respect to any pending civil or criminal case or investigation, or from another government agency in response to a request made by the Internal Revenue Service to such agency for assistance involving the expertise of such agency.

(c) *Action to obtain disclosure of identity of person to whom written determination pertains*—(1) *Creation of remedy*. With respect to any written determination on which a notation has been placed pursuant to paragraph (a) of this section, any person may file a petition in the United States Tax Court or file a complaint in the United States District Court for the District of Columbia for an order requiring that the identity of any person to whom such written determination pertains be disclosed, but such petition or complaint must be filed within 36 months of the date such written determination is made open or subject to inspection.

(2) *Necessary disclosure*. Whenever an action is brought pursuant to section 6110(d)(3), the court may order that the identity of any person to whom the written determination pertains be disclosed. Such disclosure may be ordered if the court determines that there is evidence in the record from which it could reasonably be concluded that an impropriety occurred or undue influence was exercised with respect to such written determination by or on behalf of the person to whom the written determination pertains. The court may, pursuant to section 6110(d)(3), also order the disclosure of any material deleted pursuant to section 6110(c) if such disclosure is in the public interest. The written determination or background file document with respect to which the disclosure was sought shall be revised to disclose the information which the court orders to be disclosed.

(3) *Required notice*. If a proceeding is commenced pursuant to section 6110(d)(3) and paragraph (c)(1) of this section with respect to any written determination, the Secretary shall send notice of the commencement of such proceeding to any person whose identity is subject to being disclosed and to the person about whom a third-party communication notation has been made pursuant to section 6110(d)(1). Such notice shall be sent, by registered or certified mail, to the last known address of the persons described in this paragraph (c)(3) within 15 days after notice of the petition or complaint filed pursuant to section 6110(d)(3) is served on the Secretary. For further guidance regarding the definition of last known address, see § 301.6212–2.

(4) *Intervention*. Any person who is entitled to receive notice pursuant to paragraph (c)(3) of this section shall have the right to intervene in any action brought pursuant to section 6110(d)(3). If appropriate such person shall be permitted to intervene anonymously.

[T.D. 7524, 42 FR 63415, Dec. 16, 1977, as amended by T.D. 8939, 66 FR 2819, Jan. 12, 2001]

§ 301.6110–5 Notice and time requirements; actions to restrain disclosure; actions to obtain additional disclosure.

(a) *Notice*—(1) *General rule*. Before a written determination is made open to public inspection or subject to inspection upon written request, or before a background file document is subject to inspection upon written request, the person to whom the written determination pertains or background file document relates shall be notified by the Commissioner of intention to disclose such written determination or background file document. The notice with respect to a written determination,

other than a written determination described in § 301.6110–1(b) (2) or (3) shall be mailed when such written determination is issued. The notice with respect to any written determination relating to accounting or funding periods and methods, any technical advice memoranda involving civil fraud and criminal investigations, and jeopardy and termination assessments, and any background file document shall be mailed within a reasonable time after the receipt of the first written request for inspection thereof.

(2) *Contents of notice.* The notice required by paragraph (a)(1) of this section shall—

(i) Include a copy of the text of the written determination or background file document, which the Commissioner proposes to make open to public inspection or subject to inspection pursuant to a written request, on which is indicated (A) the material that the Commissioner proposes to delete pursuant to section 6110(c), (B) any substitutions proposed to be made therefor, and (C) any third-party communication notations required to be placed pursuant to § 301.6110–4(a) on the face of the written determination.

(ii) State that the written determination or background file document is to be open to public inspection or subject to inspection pursuant to a written request pursuant to section 6110.

(iii) State that the recipient of the notice has the right to seek administrative remedies pursuant to paragraph (b)(1) of this section and to commence judicial proceedings pursuant to section 6110(f)(3) within indicated time periods, and

(iv) Prominently indicate the date on which the notice is mailed.

(b) *Actions to restrain disclosure*—(1) *Administrative remedies.* Any person to whom a written determination pertains or background file document relates, and any successor in interest, executor or authorized representative of such person may pursue the administrative remedies described in § 601.105(b)(5)(iii)(*i*) and (vi)(*f*) and § 601.201(e) (11) and (16) of this chapter. Any person who has a direct interest in maintaining the confidentiality of any written determination or background file document or portion thereof may pursue the administrative remedies described in § 601.105(b)(5)(vi)(*f*) and § 601.201(e)(16) of this chapter. No person about whom a third-party communication notation has been made pursuant to § 301.6110–4(a) may pursue any administrative remedy for the purpose of restraining disclosure of the identity of such person where such identity appears with respect to the making of such third-party communication.

(2) *Judicial remedy.* Except as provided in paragraph (b)(3) of this section, any person permitted to resort to administrative remedies pursuant to paragraph (b)(1) of this section may, if such person proposes any deletion not made pursuant to § 301.6110–3 by the Commissioner, file a petition in the United States Tax Court pursuant to section 6110(f)(3) for a determination with respect to such proposed deletion. If appropriate, such petition may be filed anonymously. Any petition filed pursuant to section 6110(f)(3) must be filed within 60 days after the date on which the Commissioner mails the notice of intention to disclose required by section 6110(f)(1).

(3) *Limitations on right to bring judicial actions.* No petition shall be filed pursuant to section 6110(f)(3) unless the administrative remedies provided by paragraph (b)(1) of this section have been exhausted. However, if the petitioner has responded within the prescribed time period to the notice pursuant to section 6110(f)(1) of intention to disclose, but has not received the final administrative conclusion of the Internal Revenue Service within 50 days after the date on which the Commissioner mails the notice of intention to disclose required by section 6110(f)(1), the petitioner may file a petition pursuant to section 6110(f)(3). No judicial action with respect to any written determination or background file document shall be commenced pursuant to section 6110(f)(3) by any person who has received a notice with respect to such written determination or background file document pursuant to paragraph (b)(4) of this section.

(4) *Required notice.* If a proceeding is commenced pursuant to section 6110(f)(3) with respect to any written determination or background file document, the Secretary shall send notice

of the commencement of such proceeding to any person to whom such written determination pertains or to whom such background file document relates. No notice is required to be sent to persons who have filed the petition that commenced the proceeding pursuant to section 6110(f)(3) with respect to such written determination or background file document. The notice shall be sent, by registered or certified mail, to the last known address of the persons described in this paragraph (b)(4) within 15 days after notice of the petition filed pursuant to section 6110(f)(3) is served on the Secretary. For further guidance regarding the definition of last known address, see § 301.6212–2.

(5) *Intervention*. Any person who is entitled to receive notice pursuant to paragraph (b)(4) of this section shall have the right to intervene in any action brought pursuant to this section. If appropriate, such person shall be permitted to intervene anonymously.

(c) *Time at which open to public inspection*—(1) *General rule*. Except as otherwise provided in paragraph (c)(2) of this section, the text of any written determination or background file document open to public inspection or available for inspection upon written request pursuant to section 6110 shall be made open to or available for inspection no earlier than 75 days and no later than 90 days after the date on which the Commissioner mails the notice required by paragraph (a)(1) of this section. However, if an action is brought pursuant to section 6110(f)(3) to restrain disclosure of any portion of such written determination or background file document the disputed portion of such written determination or background file document shall be made open to or available for inspection pursuant to paragraph (c)(2)(i) of this section.

(2) *Limitations*—(i) *Court order*. The portion of the text of any written determination or background file document that was subject to an action pursuant to section 6110(f)(3) to restrain disclosure in which the court determined that such disclosure should not be restrained shall be made open to or available for inspection within 30 days of the date that the court order becomes final. However, in no event shall such portion of the text of such written determination or background file document be made open to or available for inspection earlier than 75 days after the date on which the Commissioner mails the notice of intention to disclose required by section 6110(f)(1) and paragraph (a)(1) of this section. Such 30–day period may be extended for such time as the court finds necessary to allow the Commissioner to comply with its decision. Any portion of a written determination or background file document which a court orders open to public inspection or subject to inspection upon written request pursuant to section 6110(f)(4) or disclosed pursuant to section 6110(d)(3) shall be made open or subject to inspection or disclosed within such time as the court provides.

(ii) *Postponement based on incomplete status of underlying transaction*—(A) *Initial period not to exceed 90 days*. The time period set forth in paragraph (c)(1) of this section within which a written determination shall be made open to public inspection or available for inspection upon written request shall be extended, upon the written request of the person to whom such written determination pertains or the authorized representative of such person, until 15 days after the date on which the transaction set forth in the written determination is scheduled to be completed, but such day shall be no later than 180 days after the date on which the Commissioner mails the notice of intention to disclose.

(B) *Additional period*. The time period determined pursuant to paragraph (c)(2)(ii)(A) of this section shall be further extended upon an additional written request, if the Commissioner determines from the information contained in such request that good cause exists to warrant such extension. This further extension shall be until 15 days after the date on which the transaction set forth in the written determination is expected to be completed, but such day shall be no later than 360 days after the date on which the Commissioner mails the notice of intention to disclose. The good cause required by this paragraph (B) exists if the person requesting the delay in inspection demonstrates to the satisfaction of the Commissioner

that it is likely that the lack of such extension will cause interference with consummation of the pending transaction.

(C) *Written request for extension*. The written request for extension of the time when a written determination is to be made open to public inspection or available for inspection upon written request shall set forth the date on which it is expected that the underlying transaction will be completed, and, with respect to the additional extension described in paragraph (c)(2)(ii)(B) of this section, set forth the reason for requesting such extension. A request for extension of time may not be submitted until the notice of intention to disclose is mailed and must be received by the Internal Revenue Service office which issued such written determination no later than—

(*1*) In the case of the initial extension, 60 days after the date on which the Commissioner mails the notice of intention to disclose, or

(*2*) In the case of the additional extension, 15 days before the day on which, for purposes of paragraph (c)(2)(ii)(A) of this section, the transaction set forth in the written determination was expected to have been completed.

(D) *Notice and determination of actual completion*. If an extension of time for inspection has been granted, and the transaction is completed prior to the day on which it was expected to have been completed, the Internal Revenue Service office which issued such written determination shall be so notified by the person who requested such extension. In such event, the written determination shall be made open to public inspection or available for inspection upon written request on the earlier of (*1*) 30 days after the day on which the Commissioner is notified that the transaction is completed, or (*2*) the day on which the written determination was scheduled to be made open to public inspection or available for inspection upon written request pursuant to paragraph (c)(2)(ii) of this section. Similarly, if the Commissioner determines that the transaction was completed prior to the day on which it was expected to have been completed, even if the person requesting such extension has not so notified the Internal Revenue Service, the written determination shall be made open to public inspection or available for inspection upon written request on the earlier of (*1*) the day which is 30 days after the Commissioner ascertains that the transaction is completed sooner than has been expected, or (*2*) the day on which the written determination was scheduled to be made open to public inspection or available for inspection upon written request pursuant to paragraph (c)(2)(ii) of this section.

(d) *Actions to obtain additional disclosure*—(1) *Administrative remedies*. Under section 6110(f)(4) any person may seek to obtain additional disclosure of information contained in any written determination or background file document that has been made open or subject to inspection. A request for such additional disclosure shall be submitted to the Internal Revenue Service office which issued such written determination, or to which the request for inspection of such background file document has been submitted pursuant to § 301.6110–1(c)(4), and must contain the file number of the written determination or a description of the background file document (including the file number of the related written determination), the deleted information which in the opinion of such person should be open or subject to inspection, and the basis for such opinion. If the Internal Revenue Service determines that the request constitutes a request for disclosure of the name, address, or the identifying numbers described in § 301.6110–3(a)(1)(i) of any person, it shall within a reasonable time notify the person requesting such disclosure that disclosure will not be made. If the Internal Revenue Service determines that the request or any portion thereof constitutes a request for disclosure of information other than the name, address, or the identifying numbers described in § 301.6110–3(a)(1)(i) of any person, it shall send a notice that such additional disclosure has been requested to any person to whom the written determination pertains or background file document relates, and to all persons who are identified by name and address in the written determination or background file document. Notice

that such persons have been contacted shall be sent to the person requesting the additional disclosure. The notice that additional disclosure has been requested shall state that the Internal Revenue Service has determined that additional disclosure of information other than the name, address, or the identifying numbers described in § 301.6110–3(a)(1)(i) of any person has been requested, inform the recipient of the notice that the person seeking the additional disclosure has the right under section 6110(f)(4) to bring a judicial action to attempt to compel such disclosure, and request the recipient of the notice to reply within 20 days by submitting a statement of whether or not the recipient of the notice agrees to the requested disclosure or portion thereof. If all persons to whom a notice is sent pursuant to this paragraph (d)(1) of this section agree to disclose the requested information or any portion thereof, the person seeking such disclosure will be so informed; the written determination or background file document shall be accordingly revised to disclose the information with respect to which an agreement to disclose has been reached. If any of the persons to whom a notice is sent pursuant to this paragraph (d)(1) of this section do not agree to the additional disclosure or do not respond to such notice, the Internal Revenue Service shall within a reasonable time so notify the person requesting such disclosure, and deny the request for additional disclosure.

(2) *Judicial remedy*. Except as provided in paragraph (d)(3) of this section, any person who seeks to obtain additional disclosure of information contained in any written determination or background file document may file a petition pursuant to section 6110(f)(4) in the United States Tax Court or a complaint in the United States District Court for the District of Columbia for an order requiring that such information be made open or subject to inspection. Nothing in this paragraph shall prevent the Commissioner from disposing of written determinations and related background file documents pursuant to § 301.6110–7(a).

(3) *Limitations on right to bring judicial action*—(i) *Exhaustion of administrative remedies*. No petition or complaint shall be filed pursuant to section 6110(f)(4) unless the administrative remedies provided by paragraph (d)(1) of this section have been exhausted. However, if the Internal Revenue Service does not approve or deny the request for additional disclosure within 180 days after the request is submitted, the person making the request may file a petition pursuant to section 6110(f)(4).

(ii) *Actions to obtain identity*. No petition or complaint shall be filed pursuant to section 6110(f)(4) to obtain disclosure of the identity of any person to whom a written determination on which a third-party communication notation has been placed pursuant to § 301.6110–4(a) pertains. Such actions shall be brought pursuant to section 6110(d)(3).

(4) *Required notice*. If a proceeding is commenced pursuant to section 6110(f)(4) with respect to any written determination or background file document, the Secretary shall send notice of the commencement of such proceeding to any person to whom the written determination pertains or background file document relates, and to all persons who are identified by name and address in the written determination or background file document. The notice shall be sent, by registered or certified mail, to the last known address of the persons described in this paragraph (d)(4) within 15 days after notice of the petition or complaint filed pursuant to section 6110(f)(4) is served on the Secretary.

(5) *Intervention*. Any person who is entitled to receive notice pursuant to paragraph (d)(4) of this section shall have the right to intervene in any action brought pursuant to this section. If appropriate, such person shall be permitted to intervene anonymously.

[T.D. 7524, 42 FR 63415, Dec. 16, 1977, as amended by T.D. 8939, 66 FR 2819, Jan. 12, 2001]

§ 301.6110–6 Written determinations issued in response to requests submitted before November 1, 1976.

(a) *Inspection of written determinations and background file documents*—(1) *General rule.* Except as provided in this section, the text of any written determination issued in response to a request postmarked or hand delivered before November 1, 1976 and any related background file document shall be open or subject to inspection in accordance with the rules in §§ 301.6110–1 through 301.6110–5 and 301.6110–7. However, the rules in § 301.6110–4 do not apply to inspection under this section. The rules in § 301.6110–5 (a), (b) and (c) also do not apply, except with respect to background file documents.

(2) *Exclusions.* The following written determinations are not open or subject to inspection under this section.

(i) Written determinations with respect to matters for which the determination of whether public inspection should occur is made under section 6104. Some of these matters are listed in § 301.6110–1(a).

(ii) Written determinations issued before September 2, 1974, dealing with the qualification of a plan described in section 6104(a)(1)(B)(i) or the exemption from tax under section 501(a) of an organization forming part of such a plan.

(iii) Written determination issued pursuant to requests submitted before November 1, 1976 with respect to the exempt staus under section 501(a) of organizations described in section 501 (c) or (d), the status of organizations as private foundations under section 509(a), or the status of organizations as operating foundations under section 4942(j)(3).

(iv) General written determinations that relate solely to accounting or funding periods and methods, as defined in § 301.6110–1(b)(3).

(v) Determination letters.

(3) *Items that may be inspected only under certain circumstances*—(i) *Background file documents.* A background file document relating to a particular written determination issued in response to a request submitted before November 1, 1976 shall not be subject to inspection until the related written determination is open to public inspection or available for inspection, and then only if a written request pursuant to § 301.6110–1(c)(4) is made for inspection of the background file document. However, the following background file documents are not open or subject to inspection:

(A) Background file documents relating to general written determinations issued before July 5, 1967.

(B) Background file documents relating to written determinations described in paragraph (a)(2) of this section.

(ii) *General written determinations issued before July 5, 1967.* General written determinations issued before July 5, 1967 shall not be subject to inspection until all other written determinations issued in response to requests postmarked or hand delivered before November 1, 1976 that are open to inspection under this section have been made open to public inspection, and then only if a written request pursuant to § 301.6110–1(c)(4) is made for inspection of the written determination. In this regard, the request for inspection must also contain the section of the Internal Revenue Code in which the requester is interested and the dates of issuance of the written determinations.

(b) *Notice and time requirements, and actions to restrain disclosure*—(1) *Notice*—(i) *General rule.* Before a written determination is made open to public inspection and before a particular written determination is subject to inspection in response to the first written request therefor, the Commissioner shall publish in the FEDERAL REGISTER a notice that the written determination is to be made open or subject to inspection. Notices with respect to written determinations, other than those described in paragraph (a)(3)(ii) of this section, shall be published at the earliest practicable time after this regulation is adopted as a Treasury decision. Notices with respect to written determinations subject to inspection upon written request shall be published within a reasonable time after the receipt of the first written request for inspection thereof, but no sooner than the day as of which all other written determinations open to public inspection under this section have been made open to public inspection. Notices with respect to background file documents

shall be sent in accordance with the rules in § 301.6110–5(a) and will be mailed by the Internal Revenue Service to the most recent addresses of the persons to whom the background file document relates that are in the written determination file.

(ii) *Sequence of notices.* Notices with respect to written determinations, other than general written determinations issued before July 5, 1967, shall be published in the following order. The first category is notices with respect to reference written determinations issued under the Internal Revenue Code of 1954. The second category is notices with respect to general written determinations issued after July 4, 1967. The third category is notices with respect to reference written determinations issued under the Internal Revenue Code of 1939 or corresponding provisions of prior law. Within a category, the Commissioner may publish notices individually or for groups of written determinations arranged according to the jurisdictions of the ruling branches in the Office of the Assistant Commissioner (Technical) and the Assistant Commissioner (Employee Plans and Exempt Organizations), as the Commissioner may find reasonable. To the extent practicable, notices published individually shall be published in the reverse order of the issuance of the written determinations for which they are published, starting with the most recent written determination issued. To the extent practicable, each group shall consist of consecutively issued written determinations. Notices for groups shall be published, to the extent practicable, in the reverse order of the time period of issuance of the written determinations in each group, starting with the most recent time period.

(iii) *Contents of notice.* The notice required by paragraph (b)(1)(i) of this section shall:

(A) Identify by subject matter description and dates of issuance the written determinations that the Commissioner proposes to make open or subject to inspection.

(B) State that the written determinations will be made open or subject to inspection pursuant to section 6110(h),

(C) State that the persons to whom the written determinations pertain have the right to seek administrative remedies under paragraph (b)(2)(ii) of this section and to commence judicial proceedings under section 6110(h)(4) within indicated time periods,

(D) State that there exist the possibilities that someone might request additional disclosure under section 6110(f)(4) and that someone might request inspection of a related background file document, and

(E) State that any notice that must be mailed by the Internal Revenue Service will be sent to the most recent address of the person to whom the notice must be sent that is in the relevent written determination file.

(2) *Actions to restrain disclosure*—(i) *Information on written determinations described by notice.* Any person may, within 15 days after the Commissioner publishes in the FEDERAL REGISTER a notice of intention to disclose a written determination under section 6110(h), request the Internal Revenue Service to provide certain information. This information includes whether any of the written determinations described by the notice is one that was issued to the person requesting this information. The Internal Revenue Service will also inform the person whether any of the written determinations described by the notice is one that was issued to a person with respect to whom the person requesting this information is a successor in interest executor or authorized representative. However, in order to do so, the Internal Revenue Service must be given the name and taxpayer identifying number of this other person and documentation of the relationship between that person and the person requesting the information. If the person requesting this information is a person to whom a written determination described by the notice pertains, or a successor in interest, executor, or authorized representative of that person, the Internal Revenue Service will also provide the person with a copy of the written determination on which is indicated the material that the Commissioner proposes to delete under section 6110(c) and any substitution proposed to be made therefor.

(ii) *Administrative remedies.* Any person to whom a written determination described by the notice in the FEDERAL

REGISTER pertains, and any successor in interest, executor or authorized representative of that person may pursue the administrative remedies described in this paragraph (b)(2)(ii). If after receiving the information described in paragraph (b)(2)(i) of this section, the person pursuing these administrative remedies desires to protest the disclosure of certain information in the written determination, that person must within 35 days after the notice is published submit a written statement identifying those deletions not made by the Internal Revenue Service which the person believes should have been made. The person pursuing these administrative remedies must also submit a copy of the version of the written determination proposed to be open or subject to inspection on which that person indicates, by the use of brackets, the deletions which the person believes should have been made. The Internal Revenue Service shall, within 20 days after receipt of the response by the person pursuing these administrative remedies, mail to that person its final administrative conclusion with respect to the deletions to be made.

(iii) *Judicial remedy*. Except as provided in paragraph (b)(2)(iv) of this section, any person permitted to resort to administrative remedies under paragraph (b)(2)(ii) of this section may, if that person proposed any deletion not made under section 6110(c) by the Commissioner, file a petition in the United States Tax Court under section 6110(h)(4) for a determination with respect to the proposed deletion. If appropriate, the petition may be filed anonymously. Any petition filed under section 6110(h)(4) must be filed within 75 days after the date on which the Commissioner publishes in the FEDERAL REGISTER the notice of intention to disclose required under section 6110(h)(4).

(iv) *Limitations on right to bring judicial actions*. No petition shall be filed under section 6110(h)(4) unless the administrative remedies provided by paragraph (b)(2)(ii) of this section have been exhausted. However, under two circumstances the petition may be filed even though the administrative remedies have not been exhausted. The first circumstance is if the petitioner requests the information described in paragraph (b)(2)(i) of this section within 15 days after the notice of intention to disclose is published in the FEDERAL REGISTER, but does not receive it within 30 days after the notice is published. The other circumstance is if the petitioner submits the statement of deletions within 35 days after the notice is published, but does not receive the final administrative conclusion of the Internal Revenue Service within 65 days after the notice is published. No judicial action with respect to any written determination shall be commenced under section 6110(h)(4) by any person who has received a notice with respect to the written determination under paragraph (b)(2)(v) of this section.

(v) *Required notice*. If a proceeding is commenced under section 6110(h)(4) with respect to any written determination, the Secretary shall send notice of the commencement of the proceeding to any person to whom the written determination pertains. No notice is required to be sent to persons who have filed the petition that commenced the proceeding under section 6110(h)(4) with respect to the written determination. The notice shall be sent, by registered or certified mail, to the last known address of the persons described in this paragraph (b)(2)(v) within 15 days after notice of the petition filed under section 6110(h)(4) is served on the Secretary. For further guidance regarding the definition of last known address, see § 301.6212–2.

(vi) *Intervention*. Any person who is entitled to receive notice under paragraph (b)(2)(v) of this section has the right to intervene in any action brought under this paragraph (b)(2). If appropriate, this person shall be permitted to intervene anonymously.

(vii) *Background file documents*. The following qualifications of the rules in § 301.6110–5(b) apply with respect to the restraint of disclosure of background file documents related to written determinations to which this section applies. First, the administrative remedies described in §§ 601.105 (b)(5)(iii)(*i*) and 601.201(e)(11) of this chapter do not apply. Second, the rule in §§ 601.105(b)(5)(vi)(*f*) and 601.201(e)(16) that the Internal Revenue Service will

not consider the deletion of material not proposed for deletion prior to the issuance of the written determination does not apply.

(3) *Time at which open to public inspection*—(i) *General rule*. Except as otherwise provided in paragraph (b)(3)(ii) of this section, the text of any written determination open to public inspection or available for inspection upon written request under section 6110(h) shall be made open to or available for inspection no earlier than 90 days and no later than 120 days after the date on which the Commissioner publishes in the FEDERAL REGISTER the notice of intention to disclose required under section 6110(h)(4). However, if an action is brought under section 6110(h)(4) to restrain disclosure of any portion of a written determination, the disputed portion of that written determination shall be made open to or available for inspection under paragraph (b)(3)(ii) of this section.

(ii) *Limitation on account of court order*. The portion of the text of any written determination that was subject to an action under section 6110(h)(4) to restrain disclosure in which the court determined that the disclosure should not be restrained shall be made open to or available for inspection within 30 days of the date that the court order becomes final. However, in no event shall that portion of the text of that written determination be made open to or available for inspection earlier than 90 days after the date on which the Commissioner publishes in the FEDERAL REGISTER the notice of intention to disclose required by section 6110(h)(4) and paragraph (b)(1) of this section. This 30-day period may be extended for such time as the court finds necessary to allow the Commissioner to comply with its decision. Any portion of a written determination which a court orders open to public inspection or subject to inspection upon written request under section 6110(f)(4) shall be open or subject to inspection within such time as the court provides.

(iii) *Background file documents*. The rules in § 301.6110–5(c)(2)(ii) do not apply with respect to the time at which background file documents related to written determinations to which this section applies are subject to inspection.

[T.D. 7548, 43 FR 20791, May 15, 1978, as amended by T.D. 8939, 66 FR 2819, Jan. 12, 2001]

§ 301.6110–7 Miscellaneous provisions.

(a) *Disposition of written determinations and background file documents*—(1) *Reference written determinations*. The Internal Revenue Service shall not dispose of any reference written determinations or related background file documents. The Commissioner may reclassify reference written determinations as general written determinations if the classification as reference was erroneous or if the Commissioner determines that such written determination no longer has any significant reference value. Notwithstanding the preceding sentence, the Commissioner shall not classify as a general written determination any written determination which is determined to be the basis for a published revenue ruling unless such revenue ruling is obsoleted, revoked, superseded or otherwise held to have no effect.

(2) *General written determinations*. The Internal Revenue Service may dispose of general written determinations and any background file document relating to such written determination pursuant to its established records disposition procedures. Disposition of a written determination shall not occur earlier than 3 years after the date on which such written determination is made open to public inspection or available for inspection upon written request. Disposition of a background file document shall not occur earlier than 3 years after the date on which the related written determination is made open to public inspection or available for inspection upon written request.

(b) *Precedential status of written determinations open to public inspection*. A written determination may not be used or cited as precedent, but the rule set forth in this paragraph shall not apply to change the precedential status, if any, of written determinations issued with respect to taxes imposed by subtitle D of the Internal Revenue Code of 1954.

(c) *Civil remedies*—(1) *Liability for failure to make deletions or to conform to time limitations*—(i) *Creation of remedy*. An exclusive remedy against the Commissioner shall exist in the Court of Claims for—

(A) The person to whom the written determination pertains whenever the Commissioner fails to act in accordance with the time requirements of section 6110(g), and

(B) The person to whom the written determination pertains and any person identified in such written determination whenever the Commissioner fails to make deletions required by section 6110(c) if as a consequence of such failure there is disclosed the identity of such person or other information with respect to such person that is required to be deleted pursuant to section 6110(c).

(ii) *Limitations*. The remedy provided in paragraph (c)(1)(i) of this section for failure to make deletions shall be available only if—

(A) The failure of the Commissioner to make the deletions required by section 6110(c) is intentional or willful,

(B) The Commissioner fails to make any deletion required by section 6110(c) which the Commissioner has agreed to make, or

(C) The Commissioner fails to make any deletion which a court has ordered to be made pursuant to section 6110(f)(3).

(iii) *Damages*. In any suit brought pursuant to paragraph (c)(1)(i) of this section in which the court determines that an employee of the Internal Revenue Service intentionally or willfully failed to make a deletion required by section 6110(c), or intentionally or willfully failed to act in accordance with the time requirements of section 6110(g), the United States shall be liable, to the person described in paragraph (c)(1)(i) of this section who brought the action, in an amount equal to the sum of—

(A) Actual damages sustained by such person but in no case shall such person be entitled to receive less than the sum of $1,000.

(B) The costs of the action, and

(C) Reasonable attorney's fees as determined by the court.

(2) *Liability for making additional disclosure of information*. The Commissioner shall not be liable for making any additional disclosure ordered pursuant to an action described in § 301.6110–5(d)(2) if the notice required by § 301.6110–5(d)(4) is sent.

(3) *Obligation to defend action for additional disclosure*. The Commissioner shall not be required to defend any action brought to obtain additional disclosure pursuant to section 6110(f)(4) if the notice required by § 301.6110–5(d)(4) is sent.

(4) *Obligation to make deletions*. The Commissioner shall be obligated to make only those deletions required by section 6110(c) which he has agreed to make, those which a court has ordered to be made pursuant to § 301.6110–5(b)(2) and those the omission of which would be intentional or willful.

(d) *Fees*—(1) *General rule*—(i) *Copies*. The Commissioner may prescribe fees pursuant to § 607.702(f)(4) of this chapter for the costs of furnishing copies of material open to public inspection or subject to inspection upon written request pursuant to section 6110.

(ii) *Preparation of information available upon request*. The Commissioner may prescribe fees pursuant to § 601.702(f) of this chapter for the costs of searching for and making deletions from any written determinations and background if documents that are subject to inspection only upon written request pursuant to § 301.6110–1(b).

(2) *Reduction or waiver of fees*—(i) *Public interest*. The Commissioner shall reduce or waive the fees described in paragraph (d)(1) of this section if the Commissioner determines that furnishing copies of, searching for, or making deletions from any written determination or background file document primarily benefits the general public, as described in § 601.702(f)(2)(ii)(B) of this chapter.

(ii) *Previous requests*. The Commissioner may waive the fees described in paragraph (d)(1) of this section for searching for any written determination or background file document if the search for such written determination or background file document was made pursuant to a previous request for inspection thereof. The Commissioner

shall waive the fees described in paragraph (d)(1) of this section for making deletions from any written determination or background file document if the making of such deletions from such written determination or background file document was made pursuant to a previous request for inspection thereof. Nothing in this (d)(2)(ii) shall prevent the Commissioner from prescribing fees for making additional deletions from such written determination or background file document pursuant to § 301.6110–5(b).

[T.D. 7524, 42 FR 63417, Dec. 16, 1977]

§ 301.6111–1T Questions and answers relating to tax shelter registration.

The following questions and answers relate to the tax shelter registration requirements of section 6111 of the Internal Revenue Code of 1954, as added by section 141(a) of the Tax Reform Act of 1984 (Pub. L. 98–369, 98 Stat. 678).

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IN GENERAL

Q-1. What is tax shelter registration?

A-1. Tax shelter registration is a new provision of the Internal Revenue Code that affects organizers, sellers, investors, and certain other persons associated with investments that are considered tax shelters. The new provision imposes the following three requirements. First, a tax shelter must be registered by the tax shelter organizer. (See A-4 of this section for the definition of a tax shelter. See A-25 through A-39 of this section for rules relating to tax shelter organizers. See A-26 of this section for rules regarding when the seller of an interest in a tax shelter is treated as the tax shelter organizer.) Registration is accomplished by filing a properly completed Form 8264 with the Internal Revenue Service. The Internal Revenue Service will assign a registration number to each tax shelter that is registered. Second, any person who sells or otherwise transfers an interest in a tax shelter must furnish the registration number of the tax shelter to the purchaser or transferee of the interest. (See A-51 through A-54 of this section for the time and manner in which the number must be furnished.) Third, any person who claims a deduction, loss, credit, or other tax benefit or reports any income from the tax shelter must report the registration number of the tax shelter on any return on which the deduction, loss, credit, benefit, or income in included. (See A-55 through A-57 of this section for rules relating to the reporting of tax shelter registration numbers.)

Q-2. Are penalties provided for failure to comply with the requirements of tax shelter registration?

A-2. Yes. Separate penalties are provided for failure to satisfy any of the requirements set forth in A-1 of this section. See A-1 of § 301.6707–1T for the penalty for failure to register a tax shelter and A-8 of § 301.6707–1T for the penalty for filing false or incomplete information will respect to the registration of a tax shelter. See A-12 of § 301.6707–1T for the penalty for failure to furnish the tax shelter registration number to purchasers or transferees. See A-13 of 301.6707–1T for the penalty for failure to report the tax shelter registration number on a tax return on which a deduction, loss, credit, income, or other tax benefit is included. In addition, criminal penalties may be imposed for willful noncompliance with the requirements of tax shelter registration. See, for example, section 7203, relating to willful failure to supply information, and section 7206, relating to fraudulent and false statements.

Q-3. Does registration of a tax shelter with the Internal Revenue Service indicate that the Internal Revenue Service has reviewed, examined, or approved the tax shelter or the claimed tax benefits?

A-3. No. Moreover, any representation to prospective investors that states that a tax shelter is registered with the Internal Revenue Service (or that registration is being sought) must include a legend stating that registration does not indicate that the Internal Revenue Service has reviewed, examined or approved the tax shelter or any

of the claimed tax benefits. (See A-50 of this section for the form and content of the legend.)

TAX SHELTER DEFINED

Q-4. What investments are tax shelters that are required to be registered with the Internal Revenue Service?

A-4. A tax shelter is any investment that meets the following two requirements:

(I) The investment must be one with respect to which a person could reasonably infer, from the representations made or to be made in connection with any offer for sale of any interest in the investment, that the tax shelter ratio for any investor may be greater than 2 to 1 as of the close of any of the first 5 years ending after the date on which the investment is offered for sale.

(II) The investment must be (i) required to be registered under a federal or state law regulating securities, (ii) sold pursuant to an exemption from registration requiring the filing of a notice with a federal or state agency regulating the offering or sale of securities, or (iii) a substantial investment.

An investment that satisfies these two requirements is considered a tax shelter for registration purposes regardless of whether it is marketed or customarily designated as a tax shelter. See A-5 of this section for the definition of tax shelter ratio. See A-17 and A-18 of this section for the definition of an investment required to be registered under a federal or state law regulating securities. See A-19 and A-20 of this section for the definition of an investment sold pursuant to an exemption from registration requiring the filing of a notice. See A-21 of this section for the definition of a substantial investment.

TAX SHELTER RATIO

Q-5. What does the term ''tax shelter ratio'' mean?

A-5. The term ''tax shelter ratio'' means, with respect to any year, the ratio that the aggregate amount of deductions and 200 percent of the credits that are or will be represented as potentially allowable to an investor under subtitle A of the Internal Revenue Code for all periods up to (and including) the close of such year, bears to the investment base for such investor as of the close of such year.

DEDUCTIONS AND CREDITS REPRESENTED AS POTENTIALLY ALLOWABLE

Q-6. What do the terms ''amount of deductions'' and ''credits'' mean?

A-6. The term ''amount of deductions'' means the amount of gross deductions and other similar tax benefits potentially allowable with respect to the investment. The gross deductions are not to be offset by any gross income to be derived or potentially derived from the investment. Thus, the term ''amount of deductions'' is not equivalent to the net loss, if any, attributable to the investment. The term ''credits'' means the gross amount of credits potentially allowable with respect to the investment without regard to any possible tax liability resulting from the investment or any potential recapture of the credits.

Q-7. What does the term ''year'' mean for purposes of determining the tax shelter ratio?

A-7. The term ''year'' means the taxable year of a tax shelter, or if the tax shelter has no taxable year, the calendar year.

Q-8. Under what circumstances is a deduction or credit considered to be represented as being potentially allowable to an investor?

A-8. A deduction or credit is considered to be represented as being potentially allowable to an investor if any statement is made (or will be made) in connection with the offering for sale of an interest in an investment indicating that a tax deduction or credit is available or may be used to reduce federal income tax or federal taxable income. Representations of tax benefits may be oral or written and include those made at the time of the initial offering for sale of interests in the investment, such as advertisements, written offering materials, prospectuses, or tax opinions, and those that are expected to be made subsequent to the initial offering. Representations are not confined solely to statements regarding actual dollar amounts of tax benefits, but also include general representations that tax benefits are available with respect to an investment. Thus, for example, an advertisement stating

that ''purchase of restaurant includes trade fixtures (5-year write-off and investment tax credit)'' constitutes an explicit representation of tax benefits.

Q-9. If a deduction or credit is not explicitly represented as being potentially allowable to an investor may it be inferred as a represented tax benefit that is includible in the tax shelter ratio?

A-9. Yes. Although some explicit representation concerning tax benefits is necessary before an investment may be considered a tax shelter, once an explicit representation is made (or will be made) regarding any tax benefit, all deductions or credits typically associated with the investment will be inferred to have been represented as potentially allowable. Thus, the tax shelter ratio will be determined with reference to those tax benefits that are explicitly represented as being potentially allowable as well as all other tax benefits that are typically associated with the investment. The amount of each deduction or credit that is includible in the tax shelter ratio, if not specifically represented as to amount, should be reasonably estimated based on representations of economic value or economic projections, if any, or on any other information available to the tax shelter organizer. Reasonable estimates of deductions or credits may take into account past experience with similar investments. Reasonable estimates must assume use of the most accelerated allowable basis for cost recovery deductions.

As an example of the application of this A-9, assume that an advertisement explicitly states that a building is eligible for the investment tax credit for rehabilitation of a certified historic structure, but makes no mention of cost recovery deductions, amortization deductions for construction period interest and taxes, real estate taxes after construction, ongoing maintenance expenses, or other deductions or credits typically associated with a building. Reasonable estimates of all such deductions and credits must be included with the investment tax credit explicitly represented in determining the tax shelter ratio associated with any investor's acquisition of an interest in the building.

Q-10. Does the fact that representations are made (or to be made) indicating that a deduction may be offset by income from the investment or that a deduction or credit may be subject to recapture or may be disallowed on audit affect the computation of the tax shelter ratio?

A-10. No. Deductions and credits represented as being potentially allowable are taken into account in computing the tax shelter ratio regardless of whether any qualifying statements are made.

Q-11. Is interest to be paid by an investor with respect to a debt obligation incurred in connection with the acquisition of an interest in the tax shelter included in the aggregate amount of deductions?

A-11. If a deduction for such interest is explicitly represented (or will be represented) as being potentially allowable, the interest is includible in the aggregate amount of the deductions. In addition, any interest to be paid with respect to a debt obligation the proceeds of which reduce the investment base (see A-14 of this section), regardless of whether a deduction for such interest is explicitly represented as being allowable, will be considered a deduction typically associated with the investment (see A-9 of this section). Accordingly, such interest will be considered to be represented as being potentially allowable and must be taken into account in computing the tax shelter ratio. If interest to be paid with respect to a debt obligation the proceeds of which do not reduce the investment base (see A-14 of this section) is not explicitly represented as being potentially allowable, however, such interest will not be considered typically associated with the investment and will not be taken into account in computing the tax shelter ratio.

Q-12. If representations are made that part or all of an amount invested in a tax shelter will be deductible upon the occurrence of an unintended event, will the deduction be included in the aggregate amount of deductions?

A-12. No. Thus, for example, if representations are made that a person's investment in a tax shelter may give rise to a loss deduction if the investment becomes worthless, the amount

of the loss deduction will not be included in the aggregate amount of deductions and will not be taken into account in computing the tax shelter ratio. Similarly, if representations are made that the costs of acquiring oil and gas lease interests may be deductible if the lease is proved worthless by abandonment, the amount of any loss deduction will not be included in the aggregate amount of deductions.

INVESTMENT BASE

Q-13. What does the term ''investment base'' mean?

A-13. The term ''investment base'' means, with respect to any year (as defined in A-7 of this section), means the cumulative amount of money and the adjusted basis of other property (reduced by any liability to which such other property is subject) that is unconditionally required to be contributed or paid directly to the tax shelter on or before the close of such year by an investor.

Q-14. What amounts must be eliminated from the investment base?

A-14. The investment base must be reduced by the following amounts:

(1) Any amount borrowed by the investor, even if borrowed on a recourse basis, from any person who participated in the organization, sale, or management of the investment or who has an interest (other than an interest as a creditor) in the investment (''a participating person'') or from any person who is related (as defined in section 168 (e)(4)) to a participating person, unless the amount is unconditionally required to be repaid by the investor before the close of the year for which the determination is being made. An amount will be considered unconditionally required to be repaid by the investor only if any offering material in which the borrowed amount is described and any agreement to be entered into between a participating (or related) person and the investor provide that the amount must be repaid (without exception) by the end of the year for which the determination is being made. An amount that is to be repaid only from earnings of the investment is not an amount that is unconditionally required to be repaid and is thus excluded from the investment base. In addition, an amount is not unconditionally required to be repaid if the amount will be (or is expected to be) reloaned to the investor during the 5–year period ending after the date the investment is offered for sale.

(2) Any amount borrowed by the investor, even if borrowed on a recourse basis, from a person, if the loan is arranged by a participating (or related) person, unless the amount is unconditionally required to be repaid by the investor before the close of the year for which the determination is being made. Any borrowing that is represented (orally or in writing) as being available from a specific source will be treated as arranged by a participating (or related) person, if the participating (or related) person provides a list of investors, or information relating to the investment, to the lender or otherwise informs the lender about the investment. However, in the case of an amount borrowed on a recourse basis, the mere fact that a lender who is actively and regularly engaged in the business of lending money obtained information relating to the investment, from a participating (or related) person, solely in response to a lender's request made in connection with such borrowing or a prior loan to the investment, a participating (or related) person, or an investor, will not, by itself, result in a determination that the loans are arranged by a participating (or related) person. Financing may be treated as arranged by a participating (or related) person regardless of whether a commitment to provide the financing is made by the lender to the participating or related person.

For example, assume that a tax shelter organizer represents that the purchase of an interest in a tax shelter may be financed with the proceeds of a revolving loan, and the tax shelter organizer provides investors with the names of several banks or other lending institutions to which the tax shelter organizer has provided information about the investment. Assume further that the information was not provided in response to requests from such lending institutions made in connection with prior loans. The proceeds of the revolving loan will be excluded from the investment base because the loan is

not unconditionally required to be repaid and it is treated as having been arranged by the tax shelter organizer.

(3) Any amount borrowed, directly or indirectly, from a lender located outside the United States (''foreign-connected financing''), of which a participating (or related) person knows or has reason to know.

(4) Any amounts to be held for the benefit of investors in cash, cash equivalents, or marketable securities. An amount is to be held in cash equivalents if the amount is to be held in a checking account, savings account, mutual fund, certificate of deposit, book entry government obligation, or any other similar account or arrangement. Marketable securities are any securities that are part of an issue any portion of which is traded on an established securities market and any securities that are regularly quoted by brokers or dealers making a market.

(5) Any distributions (whether of cash or property) that will be made without regard to the income of the tax shelter, but only to the extent such distributions exceed the amount to be held as of the close of the year in cash, cash equivalents, or marketable securities.

TAX SHELTER RATIO—MISCELLANEOUS

Q-15. Does an investment satisfy the requirement in A-4 (I) of this section (''the tax shelter ratio requirement'') if it may be inferred from the representations made or to be made to investors that the tax shelter ratio for some, but not all, of the investors may be greater than 2 to 1 as of the close of any one of the first five years?

A-15. Yes. If the tax shelter ratio for any one investor may be greater that 2 to 1, the investment satisfies the tax shelter ratio requirement and is a tax shelter if it also meets the requirement in A-4(II) of this section. Moreover, an investment will satisfy the tax shelter ratio requirement even if the tax shelter ratio for a single investor exceeds 2 to 1 as of the close of only one of the first five years.

For purposes of computing the tax shelter ratio for a year, all persons with interests in the investment are considered investors, except that general partners in a limited partnership will not be treated as investors in the partnership if the general partners' aggregate interest in each item of partnership income, gain, loss, deduction, and credit for such year is not expected to exceed 2 percent. In determining the general partners' interest in such items, limited partnership interests owned by general partners shall not be taken into account. For purposes other than the computation of the tax shelter ratio, however, all general partners will be treated as investors. Thus, for example, a general partner with a 1 percent interest in a limited partnership will be treated as an investor for the purpose of determining whether the partnership is a substantial investment.

Q-16. If a person could reasonably infer from the representations made or to be made about an investment that the tax shelter ratio for the investment may be greater than 2 to 1 under one arrangement for financing the purchase of an interest by an investor, but would be 2 to 1 or less under an alternative financing arrangement, does the investment satisfy the tax shelter ratio requirement of A-4 (I) of this section.

A-16. Yes. An investment satisfies the tax shelter ratio requirement of A-4 (I) of this section if a person could reasonably infer from the representations made or to be made that the tax shelter ratio for any person may be greater than 2 to 1 as of the close of any one of the first five years. The tax shelter ratio requirement is met if the tax shelter ratio may exceed 2 to 1 under any type of financing arrangement that is or will be represented as being available to investors.

INVESTMENTS SUBJECT TO SECURITIES REGULATION

Q-17. What is an investment that is required to be registered under a federal law regulating securities?

A-17. An investment required to be registered under a federal law regulating securities is any public offering of an investment that is required to be registered under the Securities Act of 1933 (1933 Act), the Investment Company Act of 1940, or any other federal law regulating securities. An investment is required to be registered under the 1933 Act, the Investment Company

Act, or any other federal law regulating securities, if failure to register the investment would result in a violations of the applicable federal law, whether or not the investment has in fact been registered and, if proper notice has not been filed, whether or not the investment could have been sold pursuant to an exemption listed in A-19 of this section if such notice had been filed.

Q-18. What is an investment required to be registered under a state law regulating securities?

A-18. An investment required to be registered under a state law regulating securities is any investment required to be registered under a blue sky law or other similar state statute regulating securities. The term ''state'' includes the 50 states, the District of Columbia, and possessions of the United States.

Q-19. What is an investment sold pursuant to an exemption from registration requiring the filing of a notice with a federal agency regulating the offering or sale of securities?

A-19. An investment sold pursuant to an exemption from registration requiring the filing of a notice with such a federal agency is any investment that is sold pursuant to an exemption from registration requiring the filing or submission of a notice or other document with the Securities and Exchange Commission or any other federal agency regulating the offering or sale of securities, including the following exemptions (and applicable filing):

(1) Regulation A, as promulgated under section (3)(b) of the 1933 Act (Form 1(A)),

(2) Regulation B, as promulgated under section 3(b) of the 1933 Act (Schedules A through F),

(3) Regulation D, as promulgated under sections (3)(b) and 4(2) of the 1933 Act (Form D), and

(4) Any other statutory or regulatory exemption from registration requiring the filing or submission of a notice or other document.

Q-20. What is an investment sold pursuant to an exemption from registration requiring the filing of a notice with a state agency regulating the offering or sale of securities?

A-20. An investment sold pursuant to an exemption from registration requiring the filing of a notice with such a state agency is any investment sold pursuant to an exemption under a blue sky law or other similar state statutory or regulatory scheme that requires the filing or submission of a notice or other document with such a state agency. See A-18 of this section for the definition of state.

SUBSTANTIAL INVESTMENT

Q-21. What is a substantial investment?

A-21. An investment is a substantial investment if the aggregate amount that may be offered for sale to all investors exceeds $250,000 and 5 or more investors are expected. The aggregate amount offered for sale is the aggregate amount to be received from the sale of interests in the investment and includes all cash, the fair market value of all property contributed, and the principal amount of all indebtedness received in exchange for interests in the investment, regardless of whether the proceeds of the indebtedness are included in the investment base under A-14 of this section. For purposes of determining whether 5 or more investors are expected in an investment involving real property (and related personal property) that is used as a farm (as defined in section 2032A(e)(4)) for farming purposes (as defined in section 2032A(e)(5)), interests in the investment expected to be held by a husband and wife, their children and parents, and the spouses of their children (or any of them) will be treated as if the interests were to be held by one investor. Thus, for example, interests in a farm that are offered to two brothers and their wives would be treated as interests offered to one investor. Such an investment could be a substantial investment only if four or more persons who were not members of the family were expected to be investors in the farm.

Q-22. Will an investment be considered a substantial investment if the investment involves a number of parts each including fewer than 5 investors or an aggregate amount of $250,000 or less?

A-22. Yes, under the circumstances described in this A-22. For purposes of determining whether investments are

parts of a substantial investment, similar investments offered by the same person or related persons (as defined in section 168(e)(4)) are aggregated together. Investments are considered similar if they involve similar principal business assets and similar plans or arrangements. Investments that include no business assets will be considered similar if they involve similar plans or arrangements.

Similar investments are aggregated solely for the purpose of determining whether investments involving fewer than 5 investors or an aggregate amount of $250,000 or less are substantial investments. For this purpose, similar investments are aggregated even though some, but not all, of the investments are (i) required to be registered under a Federal or State law regulating securities or are sold pursuant to an exemption from securities registration requiring the filing of a notice with a Federal or State agency regulating the offering or sale of securities (*i.e.*, required to be registered as tax shelters whether or not a substantial investment) or (ii) substantial investments without regard to aggregation.

Assume, for example, that a person develops similar arrangements involving 8 different partnerships, each investing in a separate but similar asset (such as a separate master recording or separate piece of similar real estate), each with a different general partner and each with 3 different limited partners. Assume further that the arrangements of all the partnerships are similar. These partnerships involving similar arrangements and similar assets would be aggregated together. Thus, if each partner is expected to invest $11,000, there will be 32 investors (1 general partner plus 3 limited partners times 8 partnerships) and an aggregate investment of $352,000 (32 partners times $11,000). Accordingly, each partnership will constitute part of a substantial investment. If representations are made that $1,000 in tax credits and $3,000 in deductions are available to each limited partner in the first year and $10,000 of the cash invested was expected to be the proceeds of a loan arranged by the organizer, the tax shelter ratio as of the close of the first year (assuming there are no deductions or credits typically associated with such investment, as described in A-9 of this section) would be 5 to 1 ($5,000 in total tax benefits and $1,000 investment base). Accordingly, the organizer would be required to register the partnerships with the Internal Revenue Service.

Q-23. If an investment involving fewer than 5 investors or an aggregate amount of $250,000 or less is offered for sale and, at the time of the offering, it is not known (and there is no reason to know) that subsequent similar investments will be offered by the person who made the first offering (or a related person), will subsequent similar investments offered by that person (or a related person) be aggregated with the first investment for purposes of determining whether the investments constitute a substantial investment?

A-23. No. However, a tax shelter organizer will be presumed to have known of any similar investments (as defined in A-22 of this section) offered during the 12 months following the first offering of an investment.

EXCEPTIONS FROM TAX SHELTER REGISTRATION

Q-24. Are there any investments that will not be subject to tax shelter registration even if they satisfy the requirements of a tax shelter (as defined in A-4 of this section)?

A-24. Yes. The following investments are not subject to tax shelter registration:

(1) Sales of residences primarily to persons who are expected to use the residences as their principal place of residence,

(2) Sales or leases or tangible personal property (other than master sound recordings, motion picture or television films, videotapes, lithograph plates, or other property relating to a literary, musical, or artistic composition) by the manufacturer (or a member of an affiliated group, within the meaning of section 1502, including the manufacturer) of the property primarily to persons who are expected to use the property in their principal active trade or business (see, however, A-32 and A-46 of this section for the additional rules applicable to a purchaser of property described in this A-24 who

organizes an investment involving the property),

(3) Any other investment as specified by the Secretary in a rule-related notice published in the FEDERAL REGISTER.

Q-24A. Under what other circumstances are particular sales or leases of tangible personal property to certain persons or the performance of particular services for certain persons exempt from tax shelter registration?

A-24A. A person who, in the ordinary course of a trade or business, sells or leases tangible personal property (other than collectibles (as defined in section 408(m)(2)), master sound recordings, motion picture or television films, videotapes, lithograph plates, or other property that includes or relates to a literary, musical or artistic composition) to a purchaser or lessee who is reasonably expected to use the property either for a personal use or in the purchaser's or lessee's principal active trade or business is not required for any purpose to treat such a purchaser or lessee as an investor in a tax shelter. Property may be reasonably expected to be used by a purchaser or lessee for personal use only if sold or leased to the purchaser or lessee in a quantity that is customary for such use. Similarly, a person who performs services for another person in connection with the principal active trade or business of the recipient of the services or for the recipient's personal use is not required to treat the recipient as an investor in a tax shelter. Persons who are not reasonably expected to use property or services either in their principal active trade or business or for personal use must be treated as tax shelter investors in the event the sales, leases, or performance of services otherwise constitute a tax shelter.

Assume, for example, that an organizer forms Z corporation to feed cattle and to provide services in connection with the cattle feeding operations. Z will agree to serve customers with a minimum of 200 head of cattle. The fee for the services is $20 per head. Feed for cattle will cost $280 per head. Z represents that the service fee and the cost of the feed may be financed by $5,000 of cash and $55,000 of proceeds of a revolving recourse note that Z has arranged be available. Z provides its services to 100 customers. Ninety-five of the customers are persons whose principal active trade or business is reasonably expected to be farming (as defined in section 464(e)(1)). Five of the customers are not reasonably expected to engage in farming as their principal active trade or business. Although all the individual investments involve similar principal business assets and similar plans or arrangements, only the 5 customers who are not reasonably expected to be in the principal active trade or business of farming will be treated as investors in a tax shelter and aggregated to determine whether a substantial investment exists. Thus, there will be 5 investors and an aggregate investment of $300,000. If representations are made that the service fee and the cost of the feed are tax deductible, the tax shelter ratio (assuming there are no deductions or credits typically associated with such an investment, as described in A-9 of this section) would be 12 to 1 ($60,000 in total tax benefits and $5,000 investment base) and the organizer would be required to register the five aggregated feeding arrangements as a tax shelter. The registration number of the tax shelter must be provided to the five customers treated as investors in the tax shelter, but would not be required to be furnished to the customers whose principal active trade or business is reasonably expected to be farming.

PERSONS REQUIRED TO REGISTER A TAX SHELTER

Q-25. Who has the legal obligation to register a tax shelter?

A-25. A tax shelter organizer is obligated to register the tax shelter.

Q-26. What is the definition of tax shelter organizer?

A-26. Several categories of persons may be tax shelter organizers. In general, the term tax shelter organizer means a person principally responsible for organizing a tax shelter. If a person principally responsible for organizing a tax shelter has not registered the tax shelter by the day on which interests in the shelter are first offered for sale, any other person who participated in the organization of the tax shelter will be treated as a tax shelter organizer. If

neither a person principally responsible for organizing the tax shelter nor any other person who participated in the organization of a tax shelter has registered the tax shelter by the day on which interests in the tax shelter are first offered for sale, then any person who participates in the management of the tax shelter at a time when the tax shelter is not registered will be treated as a tax shelter organizer. Finally, if a person participates in the sale of a tax shelter at a time when the person knows or has reason to know that a tax shelter has not been registered, that person will be treated as a tax shelter organizer. See A-38 of this section for rules relating to the execution of an agreement among persons who may be treated as tax shelter organizers to designate one person to register a tax shelter.

Q-27. Who is a person principally responsible for organizing a tax shelter?

A-27. A person principally responsible for organizing a tax shelter (''principal organizer'') is any person who discovers, creates, investigates, or initiates the investment, devises the business or financial plans for the investment, or carries out those plans through negotiations or transactions with others.

Q-28. What constitutes participation in the organization of a tax shelter?

A-28. Participation in the organization of a tax shelter includes the performance of any act (directly or through an agent) related to the establishment of the tax shelter, including the following:

(1) Preparation of any document establishing the tax shelter (for example, articles of incorporation, a trust instrument, or a partnership agreement);

(2) Preparation of any document in connection with the registration (or exemption from registration) of the tax shelter with any federal, state, or local government body;

(3) Preparation of a prospectus, offering memorandum, financial statement, or other statement describing the tax shelter;

(4) Preparation of a tax or other legal opinion relating to the tax shelter;

(5) Preparation of an appraisal relating to the tax shelter;

(6) Negotiation or other participation on behalf of the tax shelter in the purchase of any property relating to the tax shelter.

Q-29. What constitutes participation in the management of a tax shelter?

A-29. Participation in the management of a tax shelter includes managing the assets of the tax shelter, directing the business activity of the tax shelter, or, depending on the form of the tax shelter, acting as a general partner who actively participates in the management of a partnership, a trustee of a trust, a director or an officer of a corporation (including a corporate general partner of a partnership), or performing activities similar to those performed by such a general partner, a trustee, a director, or an officer.

Q-30. Will the performance of any act described in A-27 through A-29 of this section constitute participation in the organization or management of a tax shelter if the person performing the act is unrelated to the tax shelter (or any principal organizer of the tax shelter) and does not participate in the entrepreneurial risks or benefits of the tax shelter?

A–30. No. The performance of an act described in A–27 through A–29 of this section will not constitute participation in the organization or management of a tax shelter unless the person performing the act is related to the tax shelter (or any principal organizer of the tax shelter) or the person participates in the entrepreneurial risks or benefits of the tax shelter. A person will be considered related to a tax shelter if the person is related to the tax shelter or a principal organizer of the tax shelter within the meaning of section 168(e)(4) or is employed by the tax shelter or a principal organizer of the tax shelter or has an interest (other than an interest as a creditor) in the tax shelter. A person will be considered a participant in the entrepreneurial risks or benefits of a tax shelter if the person's compensation for performing an act described in A-27 through A-29 of this section is contingent on any matter relating to the tax shelter (e.g., the compensation is based in whole or in part upon (i) whether interests in the tax shelter are actually sold or (ii) the

number or value of the units in the tax shelter that are sold), or if the person will receive an interest in the tax shelter as part or all of the person's compensation.

For example, assume that A forms Z partnership, a tax shelter for which registration is required. Z hires the X law firm, none of the partners of which is related to the tax shelter, to prepare the documents necessary to register the offering of Z securities with the Securities and Exchange Commission. X charges $100 an hour for its services in connection with the preparation of the necessary documents, and payment of the fee is not contingent. X will not be treated as a participant in the organization of the tax shelter. If, however, X were to charge a fee equal to 1 percent of the value of the units in the tax shelter that are sold, X would be considered a participant in the organization of the shelter.

As another example, assume that individual C is an attorney employed by W corporation, the corporate general partner and principal organizer of Z, and that C prepares the documents necessary to register the tax shelter with the Securities and Exchange Commission. C will be treated as having participated in the organization of the tax shelter regardless of the way in which C's compensation is structured, because C, as an employee, is related to the principal organizer of the tax shelter.

Q-31. What constitutes participation in the sale of a tax shelter?

A-31. Participation in the sale of a tax shelter includes any marketing activities (directly or through an agent) with respect to an investment, including the following:

(1) Direct contact with a prospective purchaser of an interest, or with a representative or agent of a prospective purchaser, but only if the contract relates to the possible purchase of an interest in the tax shelter;

(2) Solicitation of investors using the mail, telephone, or other means, or by placing an advertisement for the tax shelter in a newspaper, magazine, or other publication or medium;

(3) Instructing or advising salespersons regarding the tax shelter or sales presentations.

Q-32. May persons be treated as tax shelter organizers if such persons do not make any representations of tax benefits to investors?

A-32. Yes. If a person described in A-26 of this section knows or has reason to know that representations of tax benefits have been made, that person may be treated as a tax shelter organizer. For example, a participant in the sale of a tax shelter may know or have reason to know that representations of tax benefits have been made by the principal organizer or others who participate in the organization of the tax shelter. In addition, a person who acquires property from a manufacturer in a transaction exempt from tax shelter registration under A-24 of this section and who organizes an investment involving the property may know or have reason to know of any representation of tax benefits made by the manufacturer.

Q-33. If a person performs support services such as typing, photocopying, or printing for a tax shelter (or a tax shelter organizer) or performs other ministerial functions for the tax shelter (or a tax shelter organizer), may the person be considered to have participated in the organization, management, or sale of the tax shelter?

A-33. No. Merely performing support services or ministerial functions will not be considered participation in the organization, management, or sale of a tax shelter.

CIRCUMSTANCES UNDER WHICH TAX SHELTER ORGANIZERS ARE REQUIRED TO REGISTER A TAX SHELTER

Q-34. When is a principal organizer or a person who participates in the organization of a tax shelter required to register a tax shelter?

A-34. A principal organizer or a person who participates in the organization of a tax shelter (*i.e.*, a person who could be treated as a tax shelter organizer within the meaning of A-26 of this section) is required to register the tax shelter by the day on which the first offering for sale of interests in the tax shelter occurs, unless the person has signed a designation agreement pursuant to A-38 of this section. If a group of persons who could be treated as tax

shelter organizers has signed a designation agreement pursuant to A-38 of this section, the designated organizer is required to register the tax shelter by the day on which the first offering for sale of interests in the tax shelter occurs. See A-39 of this section for additional rules applicable to tax shelter organizers (other than a designated organizer) who have signed a designation agreement.

Q-35. When is a person who participates in the management of a tax shelter (''manager'') required to register a tax shelter?

A-35. A manager who has not signed a designation agreement pursuant to A-38 of this section must register the tax shelter if the manager participates in the management of the tax shelter on or after the first offering for sale of interests in the tax shelter at a time when the tax shelter has not been properly registered (*i.e.*, the manager is treated as a tax shelter organizer within the meaning of A-26 of this section). Such a manager must register the tax shelter by the day on which the first offering for sale of interests in the tax shelter occurs, or by the day on which the manager's participation in the management of the tax shelter commences, whichever is later. See A-39 of this section for rules applicable to a manager who has signed a designation agreement.

Q-36. When is a person who participates in the sale of a tax shelter (''seller'') required to register the tax shelter?

A-36. A seller who has not signed a designation agreement pursuant to A-38 of this section must register the tax shelter if the seller participates in the sale of the tax shelter at a time when the seller knows or has reason to know that the tax shelter has not been properly registered (*i.e.*, the seller is treated as a tax shelter organizer within the meaning of A-26 of this section). A seller who has not signed a designation agreement will be deemed to have reason to know that the tax shelter has not been properly registered if the seller does not receive a copy of the Internal Revenue Service tax shelter registration notice containing the registration number within the 30-day period after the seller first offers interests in the tax shelter for sale. A seller must register the tax shelter as soon as practicable after the seller first knows or has reason to know that the tax shelter has not been properly registered. See A-39 of this section for rules applicable to a seller who has signed a designation agreement.

Q-37. When is a person who acts in more than one capacity with respect to a tax shelter required to register the shelter?

A-37. A person who acts in more than one capacity with respect to a tax shelter (*i.e.*, as two or more of the following: principal organizer, participant in the organization, manager, or seller) must register the tax shelter by the earliest day on which a tax shelter organizer acting in any of the person's several capacities would be required to register the tax shelter.

Q-38. May a group of persons who could be treated as tax shelter organizers under A-26 of this section designate one person to register the tax shelter?

A-38. Yes. A group of persons who could be treated as tax shelter organizers under A-26 of this section may enter into a written agreement designating one person as the tax shelter organizer responsible for registering the tax shelter (''designated organizer''). The designated organizer should ordinarily be a person principally responsible for organizing the tax shelter, but may be any person who participates in the organization of the tax shelter. Although persons who participate only in the sale or management of a tax shelter may sign a designation agreement, they may not be the designated organizer. In addition, the designated organizer may not be a person who is a resident in a country other than the United States. Any person who signs a designation agreement, other than the designated organizer, will not be liable for failing to register the tax shelter and will not be subject to a penalty, even if the designated organizer fails to register the tax shelter, unless the person fails to register the tax shelter when such registration is required under A-39 of this section. See A-7 of § 301.6707–1T for additional rules relating to the reasonable cause exception

applicable to persons who sign a designation agreement.

Q-39. Is a tax shelter organizer who has signed a designation agreement and who is not the designated organizer required to register the tax shelter under any circumstances?

A-39. Yes. If a tax shelter organizer who has signed a designation agreement pursuant to A-38 of this section knows or has reason to know on or after the day on which the first offering for sale of interests in a tax shelter occurs that the designated organizer failed to register the tax shelter, such tax shelter organizer must register the tax shelter as soon as practicable after he first knows or has reason to know of the failure. A tax shelter organizer who has signed a designation agreement is deemed to have reason to know that the designated organizer has failed to register the tax shelter if the tax shelter organizer does not receive a copy of the Internal Revenue Service registration notice containing the registration number from the designated organizer within the 60-day period after the day on which the first offering for sale of interests in the tax shelter occurs (or the person signs the designation agreement, if later). See A-41 of this section for the requirement that the designated organizer provide a copy of the registration notice and number to persons who have signed the designation agreement.

REGISTRATION—GENERAL RULES

Q-40. By what date must a tax shelter be registered?

A-40. A tax shelter must be registered not later than the day on which the first offering for sale of an interest in the tax shelter occurs.

Q-41. Is a tax shelter organizer (including a designated organizer) who registers a tax shelter responsible for performing any act with respect to tax shelter registration other than registering the tax shelter?

A-41. Yes. A tax shelter organizer (including a designated organizer) who registers a tax shelter must provide a copy of the Internal Revenue Service registration notice containing the registration number within 7 days after the notice is received from the Internal Revenue Service to the principal organizer (if a different person) and to any persons who the tax shelter organizer knows or has reason to know are participating in the sale of interests in the tax shelter (if such persons begin to participate after the registration number is received, they must be provided the notice within 7 days after they commence their participation). In addition, a designated organizer must provide a copy of the notice within 7 days after it is received to all persons who have signed the designation agreement.

Q-42. What is the sale of an interest in a tax shelter?

A-42. The sale of an interest in a tax shelter includes the sale of property, or any interest in property, the entry into a leasing arrangement, a consulting, management or other agreement for the performance of services, or the sale or entry into any other plan, investment, or arrangement.

Q-43. What does the term ''offering for sale'' mean?

A-43. The term ''offering for sale'' means making any representation, whether oral or written, relating to participation in a tax shelter as an investor. The term includes any advertisement relating to the tax shelter and any mail, telephonic, or other contact with prospective investors. A representation relating to participation in a tax shelter will be considered an offering for sale of an interest in the tax shelter even though there is included in the representation an explicit statement that the representation does not constitute an offer to sell or a solicitation of an offer to buy an interest in the tax shelter. In determining whether an offering for sale of an interest has occurred, federal and state laws regulating securities are not controlling.

Q-44. After a tax shelter has been registered, must it be registered again each year that it continues to be offered for sale?

A-44. No. Registration is effective for the year in which first accomplished and all subsequent years.

Q-45. If the facts relating to a tax shelter change after the tax shelter has been registered, must the tax shelter be registered again or must an amended application for registration be filed by the tax shelter organizer?

A-45. No. The tax shelter organizer, however, is permitted to file an amended application if a material change in facts occurs after the initial registration. A material change in facts is—

(1) A change in the identifying information relating to the tax shelter or tax shelter organizer,

(2) The acquisition or construction of a principal asset not reported on the initial application for registration,

(3) A change in the method of financing a minimum investment unit, or

(4) A change in the principal business activity.

In addition, a change in any tax shelter ratio reported on the initial application for registration that increases or decreases the reciprocal of the tax shelter ratio (*i.e.*, the fraction in which the amount of the applicable investment base is the numerator and the amount of the applicable deductions and credits is the denominator) by 50 percent or more is a material change in facts. For example, if the tax shelter ratio increases from 2 to 1 to 4 to 1, the reciprocal of the tax shelter ratio decreases from ½ to ¼, a 50-percent decrease. Similarly, if the tax shelter ratio decreases from 6 to 1 to 4 to 1, the reciprocal of the tax shelter ratio increases from ⅙ to ¼, a 50-percent increase. In either case, there is a material change in facts and an amended application could be filed.

Q-45A. What information should be included on an amended application for registration?

A-45A. The tax shelter organizer must include the identifying information requested on Form 8264, Application for Registration of a Tax Shelter, and the tax shelter registration number that has been assigned to the tax shelter. In addition, the tax shelter organizer should include any other information requested on Form 8364(1) that has changed since the tax shelter was registered, or (2) that the tax shelter organizer did not know at the time the tax shelter was registered but has learned of since the registration.

For example, assume that A organizes partnership L, a blind pool that will invest in real estate. Before the real estate is identified or acquired, interests in L will be offered to the public in an offering that must be registered with the Securities and Exchange Commission. Although A does not know what real estate L will acquire and therefore is unable to calculate the tax shelter ratio with certainty, A concludes (based on representations made or to be made) that the tax shelter ratio will exceed 2 to 1 as to some of the investors. Accordingly, A registers L as a tax shelter. A attaches a statement to the application for registration, explaining that L is a blind pool organized to invest in real estate, but that L has not yet acquired any real estate. In addition, A attaches a statement explaining that although the tax shelter ratio is expected to exceed 2 to 1, A cannot compute the tax shelter ratio with certainty because L has not yet acquired any real estate. Several months after L is registered, L acquires a shopping center. A may file an amended application for registration. In addition to reporting the identifying information and the tax shelter registration number on the amended application, A should report the shopping center as the principal asset and the recomputed tax shelter ratio.

As another example, assume that C organizes a limited partnership that is a tax shelter. On the application for registration, C reports that the tax shelter ratio is 2.2 to 1. After the partnership has been registered, C finds that the partnership is unable to attract sufficient investors. To make investing in the partnership more attractive, C decides to offer financing for the purchase or interests in the partnership. As a result of the change in financing, the tax shelter ratio will be 5 to 1. Because there is a change in financing and a change in the tax shelter ratio that decreases the reciprocal of the tax shelter ratio by 50 percent or more, C may file an amended application for registration. In addition to reporting the identifying information and the tax shelter registration number on the amended application, C should report the recomputed tax shelter ratio and information relating to the change in financing.

Q-46. If assets constituting a tax shelter are sold (''original sale'') and, subsequently, either the assets or interests in the assets are offered for sale by

the purchaser (''resale''), must the purchaser file a new application for registration if the resale is an offering or sale of interests in a tax shelter?

A-46. If the resale constitutes a tax shelter, the purchaser must file a new application for registration, unless the tax shelter organizer with respect to the original sale is also the tax shelter organizer with respect to the resale and the facts pertaining to the resale were reflected in the application for registration filed with respect to the original sale. For example, assume that A intends to sell a building with an estimated fair market value of $2.5 million to a group of 5 investors (*i.e.*, a substantial investment, as defined in A-21 of this section). A also intends to make representations of tax benefits attributable to an investment in the building. Based on these representations and the investment base, the tax shelter ratio attributable to an investment in the building may be greater than 2 to 1. A therefore files an application for registration relating to the building with the Internal Revenue Service. The Internal Revenue Service issues a registration number for the investment, and A furnishes the registration number to each of the 5 investors in accordance with A-53 of this section. In an unrelated transaction, the 5 investors decide to syndicate the building and to offer interests in the syndicate to approximately 500 investors. In connection with this offer, the investors expect to make representations concerning tax benefits with respect to the syndication. If based on these representations and the investment base, the tax shelter ratio may be greater than 2 to 1 for an investor in the syndicate, the 5 investors must file an application for registration for the syndicate before interests in the syndicate may be offered for sale. The investors in the syndicate must be furnished with the new registration number and not the registration number issued with respect to A. On the other hand, if the original sale and the syndication were part of A's plan to sell interests in the building, A is a tax shelter organizer with respect to the syndication. If the facts pertaining to the syndication were reflected on A's application for registration with respect to the original sale, a second application for registration would not be required with respect to the syndication. However, the investors in the syndicate would have to be furnished with the tax shelter registration number issued to A.

Q-47. When is a tax shelter considered registered?

A-47. A tax shelter is considered registered when a properly completed Form 8264, Application for Registration of a Tax Shelter, is filed with the appropriate Internal Revenue Service Center. See A-7 of § 301.6111–2T for rules relating to the information required to be included on the form, and A-8 of § 301.6707–1T for rules relating to the penalty for filing incomplete information.

Q-48. Must a person registering a tax shelter that is a substantial investment only by reason of an aggregation of multiple investments under A-22 of this section complete a separate Form 8264 for each investment constituting part of the substantial investment?

A-48. A separate Form 8264 must be completed for each investment that differs from the other investments in a substantial investment with respect to any of the following:

(1) Principal asset,

(2) Accounting methods,

(3) Federal or state agencies with which the investment is registered or with which an exemption notice is filed,

(4) Methods of financing the purchase of an interest in the investment,

(5) Tax shelter ratio.

Such aggregated investments, however, are part of a single tax shelter.

Q-49. Do the rules of section 7502 of the Internal Revenue Code, regarding timely mailing, apply to the filing of registration forms?

A-49. Yes.

Q-50. After a tax shelter has been registered, may representations that the investment has been registered with the Internal Revenue Service be made to potential investors?

A-50. Investors may be informed that the investment has been registered with the Internal Revenue Service. Investors also must be informed, however, that registration does not imply that the Internal Revenue Service has reviewed, examined, or approved the

investment or the claimed tax benefits. The disclaimer must be substantially in the form provided below:

ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED, OR APPROVED BY THE INTERNAL REVENUE SERVICE.

See A-53 of this section for rules relating to the legend that must be included on any statement on which the tax shelter registration number is furnished to investors.

FURNISHING TAX SHELTER REGISTRATION NUMBERS TO INVESTORS

Q-51. Who must furnish investors in a tax shelter with the registration number of the tax shelter?

A-51. Any person who sells (or otherwise transfers) an interest in a tax shelter is required to furnish the registration number assigned to that tax shelter to each person who purchases (or otherwise acquires) an interest in that tax shelter from the seller or transferor. For example, X, a tax shelter organizer, sells an interest in a tax shelter to A. One year later A sells A's interest in the shelter to B. X must furnish the tax shelter registration number to A, and A must furnish the number to B. If B sells or otherwise transfers the interest (by gift, for example), B must furnish the number to the purchaser or transferee of B's interest in the tax shelter.

Q-52. When must the registration number be furnished to purchasers of interests in the tax shelter?

A-52. The person who sells (or otherwise transfers) an interest in a tax shelter must furnish the registration number to the purchaser (or transferee) at the time of sale (or transfer) of the interest (or, if later, within 20 days after the seller or transferor receives the registration number). If the registration number is not furnished at the time of the sale (or other transfer), the seller (or transferor) must furnish the statement described in A-54 to the purchaser (or transferee) at the time of the sale (or other transfer). If interests in a tax shelter were sold before September 1, 1984, all investors who acquired their interests in the tax shelter before September 1, 1984, must be furnished with the registration number of the tax shelter by December 31, 1984. The registration number will be considered furnished to the investor if it is mailed to the investor at the last address of the investor known to the person required to furnish the number.

Q-53. How is a seller or transferor of an interest in a tax shelter required to furnish the registration number to investors?

A-53. The person who sells (or otherwise transfers) an interest in a tax shelter must furnish the registration number of the tax shelter to the tax shelter to the purchaser (or transferee) on a written statement. The written statement shall show the name, registration number, and taxpayer identification number of the tax shelter, and include a prominent legend in bold and conspicuous type stating that the registration number must be included on any return on which the investor claims any deduction, loss, credit, or other tax benefit, or reports any income, by reason of the tax shelter. The statment must also include a prominent legend in bold and conspicuous type stating that the issuance of the registration number does not indicate that the Internal Revenue Service has reviewed, examined, or approved the investment or the claimed tax benefits. The statement shall be substantially in the form provided below:

You have acquired an interest in [name and address of tax shelter] whose taxpayer identification number is [if any]. The Internal Revenue Service has issued [name of tax shelter] the following tax shelter registration number: [Number]

YOU MUST REPORT THIS REGISTRATION NUMBER TO THE INTERNAL REVENUE SERVICE, IF YOU CLAIM ANY DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OR YOUR INVESTMENT IN [NAME OF TAX SHELTER].

You must report the registration number (as well as the name, and taxpayer identification number of [name of tax shelter]) on Form 8271.

FORM 8271 MUST BE ATTACHED TO THE RETURN ON WHICH YOU CLAIM THE DEDUCTION, LOSS, CREDIT, OR

OTHER TAX BENEFIT OR REPORT ANY INCOME.

ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED, OR APPROVED BY THE INTERNAL REVENUE SERVICE.

This statement may be modified as necessary if the tax shelter is not a separate entity (e.g., certain Schedule F or Schedule C activities) or has no name or taxpayer identification number.

Q-54. If a registration number has not been received by a seller (or transferor) from the person who registered the tax shelter by the time interests in the tax shelter are sold (or otherwise transferred), must the seller (or transferor) of the interests furnish the purchaser (or transferee) with any information regarding the registration?

A-54. Yes. At the time of the sale (or other transfer) the seller (or other transferor) must furnish the purchaser (or transferee) with a written statement in substantially the form prescribed in A-53 of this section, except that the second sentence of the form prescribed in A-53 shall be replaced by a statement in the form provided below:

On behalf of [name of tax shelter], [name of tax shelter organizer who has applied for registration] has applied to the Internal Revenue Service for a tax shelter registration number. The number will be furnished to you when it is received.

INCLUDING THE REGISTRATION NUMBER ON TAX RETURNS

Q-55. Is an investor required to report the registration number of a tax shelter in which the investor has acquired an interest to the Internal Revenue Service?

A-55. Yes. Any person claiming any deduction, loss, credit, or other tax benefit by reason of a tax shelter must report the registration number of the tax shelter on Form 8271, Investor Reporting of Tax Shelter Registration Number, which must be attached to the return on which any deduction, loss credit, or other tax benefit attributable to the tax shelter is claimed. For purposes of determining whether the tax shelter registration number must be reported by an investor, income attributable to an investment, such as a partner's distributive share of income, constitutes a deduction or tax benefit that is claimed, because gross deductions and other tax benefits are included in the net income reported by the investor. Thus, the registration number also must be reported on any return on which an investor reports any income attributable to a tax shelter.

Q-56. What should the investor do if the investor has received a notice that a registration number for the tax shelter has been applied for, but the investor has not received the registration number by the time the investor files a return on which a deduction, loss credit, other tax benefit, or income attributable to the tax shelter is included?

A-56. The investor must attach to the return a Form 8271 with the words ''Applied For'' written in the space for the registration number and must include on the Form 8271 the name and taxpayer identification number (if any) of the tax shelter and the name of the person who has applied for registration of the tax shelter.

Q-57. Does the requirement to include the tax shelter registration number on a return apply to applications for tentative refund (Form 1045 and Form 1139) and amended returns (Form 1040X, Form 1120X)?

A-57. Yes. A completed Form 8271 must be attached to any such return on which any deduction, loss, credit, other tax benefit, or income relating to a tax shelter is included.

PROJECTED INCOME INVESTMENTS

Q-57A. Are the registration requirements suspended with respect to any tax shelters?

A-57A. Yes. If a tax shelter is a projected income investment, it is not required to be registered before the first offering for sale of an interest in the tax shelters occurs, but is subject only to the registration requirements set forth in A-57H through A-57J of this section. A tax shelter is a projected income investment if—

(a) The tax shelter is not expected to reduce the cumulative tax liability of

any investor for any year during the 5-year period described in A-4 (I) of this section; and

(b) The assets of the tax shelter do not include or relate to any property described in A-57E of this section.

Q-57B. Under what circumstances does a tax shelter satisfy the requirement of paragraph (a) of A-57A of this section?

A-57B. A tax shelter is not expected to reduce the cumulative tax liability of any investor for any year during the 5-year period described in A-4 (I) of this section only if—

(a) A written financial projection or other written representation that is provided to investors before the sale of interests in the investment states (or leads a reasonable investor to believe) that the investment will not reduce the cumulative tax liability of any investor with respect to any year (within the meaning of A-7 of this section) in such 5-year period; and

(b) No written or oral projections or representations, other than those related to circumstances that are highly unlikely to occur, state (or lead a reasonable investor to believe) that the investment may reduce the cumulative tax liability of any investor with respect to any such year.

Thus, a tax shelter for which there are multiple written or oral financial projections or other representations is not a projected income investment if any such projection or representation that relates to circumstances that are not highly unlikely to occur states (or leads a reasonable investor to believe) that the investment may reduce the cumulative tax liability of any investor. See A-57D and A-57F of this section for rules relating to financial projections or other representations that are not made in good faith, that are not based on reasonable economic and business assumptions, or that relate to circumstances that are highly unlikely.

Q-57C. When does an investment reduce the cumulative tax liability of an investor?

A-57C. (a) An investment reduces the cumulative tax liability of an investor with respect to a year during the 5-year period described in A-4 (I) of this section if, as of the close of such year, (i) cumulative projected deductions for the investor exceed cumulative projected income for the investor, or (ii) cumulative projected credits for the investor exceed cumulative projected tax liability (without regard to credits) for the investor.

(b) The cumulative projected deductions for an investor as of the close of a year are the gross deductions of the investor with respect to the investment, for all periods up to (and including) the end of such year, that are included in the financial projection or upon which the representation is based. The deductions with respect to an investment include all deductions explicitly represented as being allowable and all deductions typically associated (within the meaning of A-9 of this section) with the investment. Therefore, interest to be paid by the investor that is taken into account in determining the tax shelter ratio of the investment (see A-11 of this section) is treated as a deduction with respect to the investment.

(c) The cumulative projected income for an investor as of the close of a year is the gross income of the investor with respect to the investment, for all periods up to (and including) the end of such year, that is included in the financial projection or upon which the representation is based. For this purpose, income attributable to cash, cash equivalents, or marketable securities (within the meaning of A-14 (4) of this section) may not be treated as income from the investment.

(d) The cumulative projected credits for an investor as of the close of a year are the gross credits of the investor with respect to the investment, for all periods up to (and including) the close of such year, that are included in the financial projection or upon which the representation is based. The credits with respect to an investment include all credits explicitly represented as being allowable and all credits typically associated (within the meaning of A-9 of this section) with the investment.

(e) The cumulative projected tax liability (without regard to credits) for an investor as of the close of a year is 50 percent of the excess of cumulative projected income for the investor over cumulative projected deductions for

the investor with respect to the investment as of the close of such year.

(f) The following examples illustrate the application of the principles of this A-57C:

Example 1. The promotional material with respect to a tax shelter includes a written financial projection indicating that the expected income of the investment in each of its first 5 years is $800,000. In subsequent oral discussions, investors are advised that, in certain circumstances that are not highly unlikely, the income expected from the investment may be as little as $500,000 per year. The subsequent oral discussions are taken into account in determining whether any projections or representations state or lead a reasonable investor to believe that the investment may reduce the cumulative tax liability of any investor. Thus, if the written financial projections indicate that the gross deductions attributable to the investment in each of its first 5 years are expected to be $600,000 and the subsequent oral discussions do not indicate that the amount of those deductions will change under the circumstances in which the income expected may be as little as $500,000, the subsequent oral discussions taken together with the written financial projections state (or lead a reasonable investor to believe) that the cumulative tax liability of an investor may be reduced (*i.e.,* the subsequent oral discussions (taken together with the projections) state or lead a reasonable investor to believe that cumulative projected deductions may exceed cumulative projected income under circumstances that are not highly unlikely). Accordingly, under paragraph (b) of A-57B of this section, the tax shelter would not qualify as a projected income investment.

Example 2. The written promotional material with respect to a tax shelter states that certain deductions are allowable to an investor (without specifying their amount), but there is no written statement relating to the amount of income expected from the investment. Because there is no written financial projection or other written representation that states or leads a reasonable investor to believe that the investment will not reduce the investor's cumulative tax liability (*i.e.,* the cumulative projected deductions, although not specified in the projections, may exceed the cumulative projected income (0)), the requirement of paragraph (a) of A-57B of this section would not be satisifed. The result in this example would be the same if there were only oral representations that the income to be derived from the investment would exceed the deductions with respect to the investment, because there would be no written statement as required by paragraph (a) of A-57B of this section. The tax shelter in this case would qualify as a projected income investment, however, if the written promotional material contains good-faith representations based on reasonable economic and business assumptions that state or lead reasonable investors to believe that the cumulative projected income from the investment will exceed the cumulative projected deductions allowable with respect to the investment for each year in the 5-year period, even though the amounts of income and deductions are not specified.

Example 3. The written promotional material with respect to a tax shelter includes a good-faith financial projection for the first 5 years of the investment. Based on reasonable economic and business assumptions, the projection indicates that the expected net income of the investment in each of its first 4 years is $100,000 ($500,000 of gross income and $400,000 of gross deductions), but as a result of the anticipated acquisition of new business assets a loss of $20,000 is expected in the fifth year of the investment ($500,000 of gross income and $520,000 of gross deductions). The projection also indicates that a credit of $50,000 is expected in the fifth year of the investment. Such a written financial projection would be considered to state that the investment will not reduce the cumulative tax liability of any investor with respect to any year in the 5-year period described in A-4 (I) of this section. Although a loss and a credit are projected in the fifth year of the investment, as of the close of such year, cumulative projected income ($2,500,000) exceeds cumulative projected deductions ($2,120,000), and cumulative projected tax liability (without regard to credits) ($380,000 × 50 percent = $190,000) exceeds cumulative projected credits ($50,000). Assuming no contrary oral or written projections or representations are made, the tax shelter would thus be a projected income investment.

Example 4. The written promotional material with respect to a tax shelter states that an investor will be entitled to a ''1.5 to 1 write-off'' in the year of investment. This statement is a representation that the investment will reduce the cumulative tax liability of an investor with respect to the first year of the investment and, accordingly, the investment is not a projected income investment. The result in this example would be the same if any ''write-off'' were represented, even if the write-off were less than 1.5 to 1.

Q-57D. Are all financial projections and representations relating to the cumulative tax liability of an investor taken into account for purposes of A-57B of this section?

A-57D. (a) No. A financial projection or other representation relating to the cumulative tax liability of an investor is not taken into account for purposes

of A-57B of this section unless it is made in good faith and is based on reasonable economic and business assumptions. In addition, a financial projection or other representation is not taken into account if it relates to circumstances that are highly unlikely. Moreover, a general statement or disclaimer indicating that projected income is not guaranteed or otherwise assured, standing alone, is not a projection or representation for purposes of paragraph (b) of A-57B of this section.

(b) The following example illustrates the application of the principles of this A-57D:

Example. The written promotional material with respect to a tax shelter contains a representation stating that the investment is projected to produce net income for all investors in each of its first five years and there are no credits potentially allowable with respect to the investment. This statement is based on reasonable economic and business assumptions. Such a written representation, if made in good faith, would be considered under paragraph (a) of A-57B of this section to state that the investment will not reduce the cumulative tax liability of any investor with respect to any year in the 5-year period described in A-4(I) of this section. In addition, no oral or written statements or representations are communicated to investors that would indicate under paragraph (b) of A-57B of this section that the investment might reduce the cumulative tax liability of any investor with respect to any year in the 5-year period.

Assume the tax shelter organizer has knowledge of certain other facts that lead the tax shelter organizer to believe that it is more likely than not that the investment will produce a net loss in the first year. The representation projecting net income is thus contrary to the tax shelter organizer's belief that it is more likely than not that the investment will produce a net loss in the first year. Therefore, the representation is not made in good faith. Since representations not made in good faith are ignored under A-57D, the tax shelter would not be a projected income investment. If, on the other hand, the tax shelter organizer did not know of the other facts so that the tax shelter organizer did not believe that the investment would produce a net loss in the first year, the representation projecting income is made in good faith. In that case, the tax shelter would be a projected income investment.

Q-57E. What assets may not be held by a projected income investment?

A-57E. A tax shelter is not a projected income investment if more than an incidental amount of its assets include or relate to any interest in a collectible (as defined in section 408(m)(2)), a master sound recording, motion picture or television film, videotape, lithograph plate, copyright, or a literary, musical, or artistic composition.

Q-57F. What are the consequences if financial projections or other representations are not made in good faith or are not based on reasonable economic and business assumptions?

A-57F. If a tax shelter is not a projected income investment because the financial projections or other representations are not made in good faith or are not based on reasonable economic and business assumptions, it must be registered not later than the day on which the first offering for sale of an interest in the tax shelter occurs. If the tax shelter is not registered timely, the tax shelter organizer may be subject to a penalty. (See A-1 of § 301.6707–1T.)

Q-57G. When does a tax shelter cease to be a projected income investment?

A-57G. A tax shelter ceases to be a projected income investment on the last day of the first year (as defined in A-7 of this section) in the 5-year period described in A-4 (I) of this section for which, for any investor, (i) the gross deductions allocable to the investor for that year and prior years exceed the gross income allocable to the investor for such years, or (ii) the credit allocable to the investor for that year and prior years exceed 50 percent of the amount by which gross income allocable to the investor exceeds gross deductions allocable to the investor for such years. For purposes of determining when a tax shelter ceases to be a projected income investment, the tax shelter organizer is not required to take into account interest that may be incurred by an investor with respect to debt described in A-14 (2) or (3) of this section, but is required to take into account interest incurred by an investor with respect to debt described in A-14 (1) of this section. In addition, the tax shelter organizer may not take into account income attributable to cash, cash equivalents, or marketable securities (within the meaning of A-14 (4) of this section).

Q-57H. How does the requirement to register apply with respect to a tax shelter that is a projected income investment?

A-57H. In the case of a tax shelter that is a projected income investment, registration is not required unless the tax shelter ceases to be a projected income investment under A-57G of this section. If the tax shelter ceases to be a projected income investment, the tax shelter organizer must register the tax shelter in accordance with the rules set forth in A-1 through A-39 and A-41 through A-50 of this section. The tax shelter must be registered—

(a) Within 30 days after the date on which the tax shelter ceases to be a projected income investment, and

(b) Before the date on which the tax shelter or a tax shelter organizer sends the investor any schedule of profit or loss, or income, deduction, or credit that may be used in preparing the investor's income tax return for the taxable year that includes the date on which the tax shelter ceases to be a projected income investment. If a tax shelter organizer fails to register timely as required by this A-57H, the tax shelter organizer may be subject to a penalty. (See A-1 of § 301.6707–1T.) For example, assume that C is the principal organizer and general partner of a limited partnership. Interests in the partnership will be offered for sale in a public offering required to be registered with the Securities and Exchange Commission. C knows that the tax shelter ratio (as defined in A-5 of this section) for the limited partners will be 5 to 1. Although C knows the partnership is a tax shelter, C does not register the partnership by the day on which the first offering for sale of an interest occurs because C believes the partnership is a projected income investment. In the second year of the partnership, the gross deductions allocable to each of the limited partners for the first two years of the partnership exceed the gross income allocable to the limited partners in such years. Thus, the partnership ceases to be a projected income investment under A-57G of this section. Assuming further that C continues as the general partner and knowingly fails to register the partnership as a tax shelter within the time prescribed in this A-57H, C will be subject to a penalty of 1 percent of the aggregate amount invested in the partnership. Because there is an intentional disregard of the registration requirements, the $10,000 limitation will not apply.

Q-57I. How does the requirement to furnish registration numbers (A-51 through A-54 of this section) apply in the case of a tax shelter that is a projected income investment?

A-57I. In the case of a tax shelter that is a projected income investment, a person who sells or transfers an interest in the tax shelter is not required to furnish a registration number under A-51 of this section or a notice under A-54 of this section unless the tax shelter ceases to be a projected income investment. If the tax shelter ceases to be a projected income investment, the tax shelter organizer who registers the tax shelter is required to furnish the registration number to all persons who the tax shelter organizer knows or has reason to know are participating in the sale of interests in the tax shelter and to all persons who the tax shelter organizer knows or has reason to know have acquired interests in the tax shelter. A person who sold (or otherwise transferred) an interest in the tax shelter before the date on which the tax shelter ceased to be a projected income investment is required to furnish the registration number to the purchaser or transferee as provided in A-51 of this section only if the seller or transferor knows or has reason to know that the tax shelter has ceased to be a projected income investment and that the tax shelter organizer who registered the tax shelter has not provided a registration number to such purchaser or transferee. In the case of persons who acquired interests in the tax shelter before the date on which the tax shelter ceased to be a projected income investment, the registration number must be provided not later than the date described in paragraph (b) of A-57H of this section or, if the tax shelter does not provide any schedule described in paragraph (b) of A-57H of this section, within 60 days after the date on which the tax shelter ceases to be a projected income investment. Thus, for example,

if a tax shelter that ceases to be a projected income investment is a partnership, the tax shelter organizer would be required to provide the registration number to each partner not later than the date the Schedule K–1 for the year in which the tax shelter ceases to be a projected income investment is provided to each partner.

The registration number must be provided in accordance with A-51 and A-52 of this section and must be accompanied by a statement explaining that the tax shelter has ceases to be a projected income investment and instructing the recipient to furnish the registration number to any persons to whom the recipient has sold or otherwise transferred interests in the tax shelter. A tax shelter organizer who fails to provide the registration number as provided in this A-57I may be subject to penalties. (See A-12 of § 301.6707–1T.)

Q-57J. How does the requirement to include the registration number on tax returns (A-55 through A-57 of this section) apply in the case of a tax shelter that is a projected income investment?

A-57J. In the case of a tax shelter that is a projected income investment, an investor is not required to report a registration number on the investor's tax return unless the tax shelter ceases to be a projected income investment. If the tax shelter ceases to be a projected income investment, the requirements of A-55 through A-57 apply with respect to returns for taxable years ending on or after the date on which the tax shelter ceases to be a projected income investment.

EFFECTIVE DATES

Q-58. On what date does the requirement to register a tax shelter become effective?

A-58. In general, a tax shelter must be registered if any interest in the tax shelter (other than an interest previously sold to an investor) is sold on or after September 1, 1984 (whether or not interests in the tax shelter were sold or offered for sale before September 1, 1984). The tax shelter must be registered with the Internal Revenue Service not later than the first day after August 31, 1984 on which an interest in the tax shelter is offered for sale.

Q-59. By what date must the tax shelter registration number be furnished to investors who acquired interests before September 1, 1984 in a tax shelter that is required to be registered.

A-59. All investors who acquired their interests in a tax shelter before September 1, 1984 must be supplied with the tax shelter registration number by December 31, 1984. See A-52 of this section for the date by which registration numbers must be furnished to investors who acquire their interests on or after September 1, 1984.

Q-60. What interests will be taken into account in determining whether an investment in which interests were sold before September 1, 1984, is a substantial investment?

A-60. The determination of whether an investment is a substantial investment will be made by taking into account only the interests that are offered for sale on or after September 1, 1984. An investment will be considered a substantial investment if there are expected to be 5 or more investors on or after September 1, 1984, and the aggregate amount offered for sale on or after September 1, 1984 is expected to exceed $250,000. Amounts received from the sale of interests before September 1, 1984, however, are taken into account in computing the amount of the penalty for failure to register.

(Secs. 6111 and 7805, Internal Revenue Code of 1954 (98 Stat. 678, 26 U.S.C. 6111; 68A Stat. 917, 26 U.S.C. 7805); secs. 6111, 6112 and 7805, Internal Revenue Code of 1954 (98 Stat. 678, 98 Stat. 681, 68A Stat. 917; 26 U.S.C. 6111, 6112 and 7805))

[T.D. 7964, 49 FR 32713, Aug. 15, 1984, as amended by T.D. 7990, 49 FR 43641, Oct. 31, 1984; T.D. 7964, 49 FR 44461, Nov. 7, 1984; T.D. 8078, 51 FR 7440, Mar. 25, 1986; T.D. 7964, 73 FR 73180, Dec. 2, 2008]

§ 301.6111–2 Confidential corporate tax shelters.

(a) *In general.* (1) Under section 6111(d) and this section, a confidential corporate tax shelter is treated as a tax shelter subject to the requirements of sections 6111 (a) and (b).

(2) A confidential corporate tax shelter is any transaction—

(i) A significant purpose of the structure of which is the avoidance or evasion of Federal income tax, as described in paragraph (b) of this section, for a direct or indirect corporate participant;

(ii) That is offered to any potential participant under conditions of confidentiality, as described in paragraph (c) of this section; and

(iii) For which the tax shelter promoters may receive fees in excess of $100,000 in the aggregate, as described in paragraph (d) of this section.

(3) For purposes of this section, references to the term *transaction* include all of the factual elements relevant to the expected tax treatment of any investment, entity, plan, or arrangement, and include any series of steps carried out as part of a plan. For purposes of this section, the term substantially similar includes any transaction that is expected to obtain the same or similar types of tax consequences and that is either factually similar or based on the same or similar tax strategy. Receipt of an opinion regarding the tax consequences of the transaction is not relevant to the determination of whether the transaction is the same as or substantially similar to another transaction. Further, the term *substantially similar* must be broadly construed in favor of registration. For examples, see § 1.6011–4(c)(4) of this chapter.

(4) A transaction described in paragraph (b) of this section is for a direct or an indirect corporate participant if it is expected to provide Federal income tax benefits to any corporation (U.S. or foreign) whether or not that corporation participates directly in the transaction.

(b) *Transactions structured for avoidance or evasion of Federal income tax*—(1) *In general.* The avoidance or evasion of Federal income tax will be considered a significant purpose of the structure of a transaction if the transaction is described in paragraph (b)(2) or (3) of this section. However, a transaction described in paragraph (b)(3) of this section need not be registered if the transaction is described in paragraph (b)(4) of this section. For purposes of this section, Federal income tax benefits include deductions, exclusions from gross income, nonrecognition of gain, tax credits, adjustments (or the absence of adjustments) to the basis of property, status as an entity exempt from Federal income taxation, and any other tax consequences that may reduce a taxpayer's Federal income tax liability by affecting the amount, timing, character, or source of any item of income, gain, expense, loss, or credit.

(2) *Listed transactions.* A transaction is described in this paragraph (b)(2) if the transaction is the same as or substantially similar to one of the types of transactions that the Internal Revenue Service (IRS) has determined to be a tax avoidance transaction and identified by notice, regulation, or other form of published guidance as a listed transaction. If a transaction becomes a listed transaction after the date on which registration would otherwise be required under this section, and if the transaction otherwise satisfies the confidentiality and fee requirements of paragraphs (a)(2)(ii) and (iii) of this section, registration shall in all events be required with respect to any interests in the transaction that are offered for sale after the transaction becomes a listed transaction. However, because a transaction identified as a listed transaction is generally considered to have been structured for a significant tax avoidance purpose, such a transaction ordinarily will have been subject to registration under this section before becoming a listed transaction if the transaction previously satisfied the confidentiality and fee requirements of paragraphs (a)(2)(ii) and (iii) of this section.

(3) *Other tax-structured transactions.* A transaction is described in this paragraph (b)(3) if it has been structured to produce Federal income tax benefits that constitute an important part of the intended results of the transaction and the tax shelter promoter (or other person who would be responsible for registration under this section) reasonably expects the transaction to be presented in the same or substantially similar form to more than one potential participant, unless the promoter reasonably determines that—

(i) The potential participant is expected to participate in the transaction in the ordinary course of its business in

a form consistent with customary commercial practice (a transaction involving the acquisition, disposition, or restructuring of a business, including the acquisition, disposition, or other change in the ownership or control of an entity that is engaged in a business, or a transaction involving a recapitalization or an acquisition of capital for use in the taxpayer's business, shall be considered a transaction carried out in the ordinary course of a taxpayer's business); and

(ii) There is a generally accepted understanding that the expected Federal income tax benefits from the transaction (taking into account any combination of intended tax consequences) are properly allowable under the Internal Revenue Code for substantially similar transactions. There is no minimum period of time for which such a generally accepted understanding must exist. In general, however, a tax shelter promoter (or other person who would be responsible for registration under this section) cannot reasonably determine whether the intended tax treatment of a transaction has become generally accepted unless information relating to the tax treatment and tax structure of such transactions has been in the public domain (e.g., rulings, published articles, etc.) and widely known for a sufficient period of time (ordinarily a period of years) to provide knowledgeable tax practitioners and the IRS reasonable opportunity to evaluate the intended tax treatment. The mere fact that one or more knowledgeable tax practitioners have provided an opinion or advice to the effect that the intended tax treatment of the transaction should or will be sustained, if challenged by the IRS, is not sufficient to satisfy the requirements of this paragraph (b)(3)(ii).

(4) *Excepted transactions.* The avoidance or evasion of Federal income tax will not be considered a significant purpose of the structure of a transaction if the transaction is described in either paragraph (b)(4)(i), (ii), or (iii) of this section.

(i) In the case of a transaction other than a transaction described in paragraph (b)(2) of this section, the tax shelter promoter (or other person who would be responsible for registration under this section) reasonably determines that there is no reasonable basis under Federal tax law for denial of any significant portion of the expected Federal income tax benefits from the transaction. This paragraph (b)(4)(i) applies only if the tax shelter promoter (or other person who would be responsible for registration under this section) reasonably determines that there is no basis that would meet the standard applicable to taxpayers under § 1.6662–3(b)(3) of this chapter under which the IRS could disallow any significant portion of the expected Federal income tax benefits of the transaction. Thus, the reasonable basis standard is not satisfied by an IRS position that would be merely arguable or that would constitute merely a colorable claim. However, the determination of whether the IRS would or would not have a reasonable basis for such a position must take into account the entirety of the transaction and any combination of tax consequences that are expected to result from any component steps of the transaction, must not be based on any unreasonable or unrealistic factual assumptions, and must take into account all relevant aspects of Federal tax law, including the statute and legislative history, treaties, administrative guidance, and judicial decisions that establish principles of general application in the tax law (e.g., *Gregory* v. *Helvering*, 293 U.S. 465 (1935)). The determination of whether the IRS would or would not have such a reasonable basis is qualitative in nature and does not depend on any percentage or other quantitative assessment of the likelihood that the taxpayer would ultimately prevail if a significant portion of the expected tax benefits were disallowed by the IRS.

(ii) The IRS makes a determination by published guidance that the transaction is not subject to the registration requirements of this section.

(iii) The IRS makes a determination by individual ruling under paragraph (b)(5) of this section that a specific transaction is not subject to the registration requirements of this section for the taxpayer requesting the ruling.

(5) *Requests for ruling.* If a tax shelter promoter (or other person who would be responsible for registration under

this section) is uncertain whether a transaction is properly classified as a confidential corporate tax shelter or is otherwise uncertain whether registration is required under this section, that person may, on or before the date that registration would otherwise be required under this section, submit a request to the IRS for a ruling as to whether the transaction is subject to the registration requirements of this section. If the request fully discloses all relevant facts relating to the transaction, that person's potential obligation to register the transaction will be suspended during the period that the ruling request is pending and, if the IRS subsequently concludes that the transaction is a confidential corporate tax shelter subject to registration under this section, until the sixtieth day after the issuance of the ruling (or, if the request is withdrawn, sixty days from the date that the request is withdrawn). In the alternative, that person may register the transaction in accordance with the requirements of this section and append a statement to the Form 8264, ''Application for Registration of a Tax Shelter'', which states that the person is uncertain whether the transaction is required to be registered as a confidential corporate tax shelter, and that the Form 8264 is being filed on a protective basis.

(6) *Example*. The following example illustrates the application of paragraphs (b)(1) through (4) of this section. Assume, for purposes of the example, that the transaction is not the same as or substantially similar to any of the types of transactions that the IRS has identified as listed transactions under section 6111 and, thus, is not described in paragraph (b)(2) of this section. The example is as follows:

Example. (i) *Facts*. Y has designed a combination of financial instruments to be issued as a package by corporations. The financial instruments are expected to be treated as equity for financial accounting purposes and as debt giving rise to allowable interest deductions for Federal income tax purposes. Y reasonably expects to present this method of raising capital to more than one potential corporate participant. Assume that, because of the unusual nature of the combination of financial instruments, Y cannot conclude either that the transaction represented by the financial instruments is in customary commercial form or that there is a generally accepted understanding that interest deductions are available to issuers of substantially similar combinations of financial instruments. Further, assume that Y cannot reasonably determine that the IRS would have no reasonable basis to deny the deductions.

(ii) *Analysis*. The transaction represented by this combination of financial instruments is a transaction described in paragraph (b)(3) of this section. However, if Y is uncertain whether this transaction is described in paragraph (b)(3) of this section, or is otherwise uncertain whether registration is required, Y may apply for a ruling under paragraph (b)(5) of this section, and Y will not be required to register the transaction while the ruling is pending or for sixty days thereafter.

(c) *Conditions of confidentiality*—(1) *In general*. All the facts and circumstances relating to the transaction will be considered when determining whether an offer is made under conditions of confidentiality as described in section 6111(d)(2), including prior conduct of the parties. Pursuant to section 6111(d)(2)(A), if an offeree's disclosure of the tax treatment or tax structure of the transaction is limited in any manner by an express or implied understanding or agreement with or for the benefit of any tax shelter promoter, an offer is considered made under conditions of confidentiality, whether or not such understanding or agreement is legally binding. The tax treatment of a transaction is the purported or claimed Federal income tax treatment of the transaction. The tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed Federal income tax treatment of the transaction. Pursuant to section 6111(d)(2)(B), an offer will also be considered made under conditions of confidentiality in the absence of any such understanding or agreement if any tax shelter promoter knows or has reason to know that the offeree's use or disclosure of information relating to the tax treatment or tax structure of the transaction is limited for the benefit of any person other than the offeree in any other manner, such as where the transaction is claimed to be proprietary or exclusive to the tax shelter promoter or any party other than the offeree.

(2) *Exceptions*—(i) *Securities law*. An offer is not considered made under conditions of confidentiality if disclosure of the tax treatment or tax structure of the transaction is subject to restrictions reasonably necessary to comply with securities laws and such disclosure is not otherwise limited.

(ii) *Mergers and acquisitions*. In the case of a proposed taxable or tax-free acquisition of historic assets of a corporation (other than an investment company, as defined in section 351(e), that is not publicly traded) that constitute an active trade or business the acquirer intends to continue, or a proposed taxable or tax-free acquisition of more than 50 percent of the stock of a corporation (other than an investment company, as defined in section 351(e), that is not publicly traded) that owns historic assets used in an active trade or business the acquirer intends to continue, the transaction is not considered offered under conditions of confidentiality under paragraph (c)(1) of this section if the offeree is permitted to disclose the tax treatment and tax structure of the transaction no later than the earlier of the date of the public announcement of discussions relating to the transaction, the date of the public announcement of the transaction, or the date of the execution of an agreement (with or without conditions) to enter into the transaction. However, this exception is not available where the offeree's ability to consult any tax advisor (including a tax advisor independent from all other entities involved in the transaction) regarding the tax treatment or tax structure of the transaction is limited in any way.

(3) *Presumption*. Unless facts and circumstances indicate otherwise, an offer is not considered made under conditions of confidentiality if the tax shelter promoter provides express written authorization to each offeree permitting the offeree (and each employee, representative, or other agent of such offeree) to disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction, and all materials of any kind (including opinions or other tax analyses) that are provided to the offeree related to such tax treatment and tax structure. Except as provided in paragraph (c)(2) of this section, this presumption is available only in cases in which each written authorization permits the offeree to disclose the tax treatment and tax structure of the transaction immediately upon commencement of discussions with the tax shelter promoter providing the authorization and each written authorization is given no later than 30 days from the day the tax shelter promoter commenced discussions with the offeree. A transaction that is exclusive or proprietary to any party other than the offeree will not be considered offered under conditions of confidentiality if written authorization to disclose is provided to the offeree in accordance with this paragraph (c)(3) and the transaction is not otherwise confidential.

(d) *Determination of fees*. All the facts and circumstances relating to the transaction will be considered when determining the amount of fees, in the aggregate, that the tax shelter promoters may receive. For purposes of this paragraph (d), all consideration that tax shelter promoters may receive is taken into account, including contingent fees, fees in the form of equity interests, and fees the promoters may receive for other transactions as consideration for promoting the tax shelter. For example, if a tax shelter promoter may receive a fee for arranging a transaction that is a confidential corporate tax shelter and a separate fee for another transaction that is not a confidential corporate tax shelter, part or all of the fee paid with respect to the other transaction may be treated as a fee paid with respect to the confidential corporate tax shelter if the facts and circumstances indicate that the fee paid for the other transaction is in consideration for the confidential corporate tax shelter. For purposes of determining whether the tax shelter promoters may receive fees in excess of $100,000, the fees from all substantially similar transactions are considered part of the same tax shelter and must be aggregated.

(e) *Registration*—(1) *Time for registering*—(i) *In general*. A tax shelter must be registered not later than the day on which the first offering for sale

of interests in the shelter occurs. An offer to participate in a confidential corporate tax shelter shall be treated as an offer for sale. If interests in a confidential corporate tax shelter were first offered for sale on or before February 28, 2000, the first offer for sale of interests in the shelter that occurs after February 28, 2000 shall be considered the first offer for sale under this section.

(ii) *Special rule*. If a transaction becomes a confidential corporate tax shelter (e.g., because of a change in the law or factual circumstances, or because the transaction becomes a listed transaction) subsequent to the first offering for sale after February 28, 2000, and the transaction was not previously required to be registered as a confidential corporate tax shelter under this section, the transaction must be registered under this section if interests are offered for sale after the transaction becomes a confidential corporate tax shelter. The transaction must be registered by the next offering for sale of interests in the shelter. If, subsequent to the first offering for sale, a transaction becomes a confidential corporate tax shelter because the transaction becomes a listed transaction on or after February 28, 2003, and the transaction was not previously required to be registered as a confidential corporate tax shelter under this section, the transaction must be registered under this section within 60 days after the transaction becomes a listed transaction/confidential corporate tax shelter if any interests were offered for sale within the previous six years.

(2) *Procedures for registering*. To register a confidential corporate tax shelter, the person responsible for registering the tax shelter must file Form 8264, ''Application for Registration of a Tax Shelter''. (Form 8264 is also used to register tax shelters defined in section 6111(c).) Similar to the treatment provided under Q&A-22 and Q&A-48 of § 301.6111–1T, transactions involving similar business assets and similar plans or arrangements that are offered to corporate taxpayers by the same person or related persons are aggregated and considered part of a single tax shelter. However, in contrast with the requirement of Q&A-48 of § 301.6111–1T, the tax shelter promoter may file a single Form 8264 with respect to any such aggregated tax shelter, provided an amended Form 8264 is filed to reflect any material changes and to include any additional or revised written materials presented in connection with an offer to participate in the shelter. Furthermore, all transactions that are part of the same tax shelter and that are to be carried out by the same corporate participant (or one or more other members of the same affiliated group within the meaning of section 1504) must be registered on the same Form 8264.

(f) *Definition of tax shelter promoter*. For purposes of section 6111(d)(2) and this section, the term *tax shelter promoter* includes a tax shelter organizer and any other person who participates in the organization, management or sale of a tax shelter (as those persons are described in section 6111(e)(1) and § 301.6111–1T (Q&A-26 through Q&A-33) or any person related (within the meaning of section 267 or 707) to such tax shelter organizer or such other person.

(g) *Person required to register*—(1) *Tax shelter promoters*. The rules in section 6111 (a) and (e) and § 301.6111–1T (Q&A-34 through Q&A-39) determine who is required to register a confidential corporate tax shelter. A promoter of a confidential corporate tax shelter must register the tax shelter only if it is a person required to register under the rules in section 6111(a) and (e) and § 301.6111–1T (Q&A-34 through Q&A-39).

(2) *Persons who discuss the transaction; all promoters are foreign persons*—(i) *In general*. If all of the tax shelter promoters of a confidential corporate tax shelter are foreign persons, any person who discusses participation in the transaction must register the shelter under this section within 90 days after beginning such discussions.

(ii) *Exceptions*. Registration by a person discussing participation in a transaction is not required if either—

(A) The person does not participate, directly or indirectly, in the shelter and notifies the tax shelter promoter in writing, within 90 days of beginning such discussions, that the person will not participate; or

(B) Within 90 days after beginning such discussions, the person obtains and reasonably relies on both—

(*1*) A written statement from one of the tax shelter promoters that such promoter has registered the tax shelter under this section; and

(*2*) A copy of the registration.

(iii) *Determination of foreign status.* For purposes of this paragraph (g)(2), a person must presume that all tax shelter promoters are foreign persons unless the person either—

(A) Discusses participation in the tax shelter with a promoter that is a United States person; or

(B) Obtains and reasonably relies on a written statement from one of the promoters that at least one of the promoters is a United States person.

(iv) *Discussion.* Discussing participation in a transaction includes discussing such participation with any person that conveys the tax shelter promoter's proposal. For purposes of this paragraph (g)(2), any person that participates directly or indirectly in a transaction will be treated as having discussed participation in the transaction not later than the date of the agreement to participate. Thus, a tax shelter participant will be treated as having discussed participation in the transaction even if all discussions were conducted by an intermediary and the agreement to participate was made indirectly through another person acting on the participant's behalf (for example, through an intermediary empowered to commit the participant to participate in the shelter).

(v) *Special rule for controlled entities.* A person (first person) will be treated as participating indirectly in a confidential corporate tax shelter if a foreign person controlled by the first person participates in the shelter, and a significant purpose of the shelter is the avoidance or evasion of the first person's Federal income tax. For purposes of this paragraph (g)(2)(v), control of a foreign corporation or partnership will be determined under the rules of section 6038(e)(2) and (3), except that such section shall be applied by substituting ''10'' for ''50'' each place it appears and ''at least'' for ''more than'' each place it appears. In addition, section 6038(e)(2) shall be applied for these purposes without regard to the constructive ownership rules of section 318 and by treating stock as owned if it is owned directly or indirectly. Section 6038(e)(3) shall be applied for these purposes without regard to the last sentence of section 6038(e)(3)(B). Any beneficiary with a 10 percent or more interest in a foreign trust or estate shall be treated as controlling that trust or estate for purposes of this paragraph (g)(2)(v).

(vi) *Other rules.* (A) For purposes of the registration requirements under section 6111(d)(3), it is presumed that the tax shelter promoters will receive fees in excess of $100,000 in the aggregate unless the person responsible for registering the tax shelter can show otherwise.

(B) Any person treated as a tax shelter promoter under section 6111(d) solely by reason of being related (within the meaning of section 267 or 707) to a foreign promoter will be treated as a foreign promoter for purposes of this paragraph (g)(2).

(h) *Effective dates.* This section applies to confidential corporate tax shelters in which any interests are offered for sale after February 28, 2000. If an interest is sold after February 28, 2000, it is treated as offered for sale after February 28, 2000, unless the sale was pursuant to a written binding contract entered into on or before February 28, 2000. However, paragraphs (a) through (g) of this section apply to confidential corporate tax shelters in which any interests are offered for sale on or after February 28, 2003, and to transactions described in paragraph (e)(1)(ii) of this section. The rules that apply to confidential corporate tax shelters in which any interests are offered for sale after February 28, 2000, and before February 28, 2003, are contained in § 301.6111–2T in effect prior to February 28, 2003 (*see* 26 CFR part 301 revised as of April 1, 2002, 2002–28 I.R.B 91, and 2002–45 I.R.B. 823 (*see* § 601.601(d)(2) of this chapter)).

[T.D. 9046, 68 FR 10170, Mar. 4, 2003]

§ 301.6111–3 Disclosure of reportable transactions.

(a) *In general.* Each material advisor, as defined in paragraph (b) of this section, with respect to any reportable

transaction, as defined in § 1.6011–4(b) of this chapter, must file a return as described in paragraph (d) of this section by the date described in paragraph (e) of this section.

(b) *Material advisor*—(1) *In general.* A person is a material advisor with respect to a transaction if the person provides any material aid, assistance, or advice with respect to organizing, managing, promoting, selling, implementing, insuring, or carrying out any reportable transaction, and directly or indirectly derives gross income in excess of the threshold amount as defined in paragraph (b)(3) of this section for the material aid, assistance, or advice. The term transaction includes all of the factual elements relevant to the expected tax treatment of any investment, entity, plan or arrangement, and includes any series of steps carried out as part of a plan.

(2) *Material aid, assistance, or advice*—(i) *In general.* Except as provided in paragraph (b)(5) of this section, a person provides material aid, assistance, or advice with respect to organizing, managing, promoting, selling, implementing, insuring, or carrying out any transaction if the person makes or provides a tax statement to or for the benefit of—

(A) A taxpayer who either is required to disclose the transaction under §§ 1.6011–4, 20.6011–4, 25.6011–4, 26.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter because the transaction is a listed transaction or a transaction of interest, or would have been required to disclose the transaction under §§ 1.6011–4, 20.6011–4, 25.6011–4, 26.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter if the transaction had become a listed transaction or a transaction of interest within the period of limitations in § 1.6011–4(e) of this chapter;

(B) A taxpayer who the potential material advisor knows is or reasonably expects to be required to disclose the transaction under § 1.6011–4 of this chapter because the transaction is or is reasonably expected to become a transaction described in § 1.6011–4(b)(3) through (5) or (7) of this chapter;

(C) A material advisor who is required to disclose the transaction under this section because it is a listed transaction or a transaction of interest; or

(D) A material advisor who the potential material advisor knows is or reasonably expects to be required to disclose the transaction under this section because the transaction is or is reasonably expected to become a transaction described in § 1.6011–4(b)(3) through (5) or (7) of this chapter.

(ii) *Tax statement*—(A) *In general.* A tax statement is any statement (including another person's statement), oral or written, that relates to a tax aspect of a transaction that causes the transaction to be a reportable transaction as defined in § 1.6011–4(b)(2) through (7) of this chapter. A tax statement under this section includes tax result protection that insures some or all of the tax benefits of a reportable transaction.

(B) *Confidential transactions.* A statement relates to a tax aspect of a transaction that causes it to be a confidential transaction if the statement concerns a tax benefit related to the transaction and either the taxpayer's disclosure of the tax treatment or tax structure of the transaction is limited in the manner described in § 1.6011–4(b)(3) of this chapter by or for the benefit of the person making the statement, or the person making the statement knows the taxpayer's disclosure of the tax structure or tax aspects of the transaction is limited in the manner described in § 1.6011–4(b)(3) of this chapter.

(C) *Transactions with contractual protection.* A statement relates to a tax aspect of a transaction that causes it to be a transaction with contractual protection if the statement concerns a tax benefit related to the transaction and either—

(*1*) The taxpayer has the right to a full or partial refund of fees paid to the person making the statement or the fees are contingent in the manner described in § 1.6011–4(b)(4) of this chapter; or

(*2*) The person making the statement knows or has reason to know that the taxpayer has the right to a full or partial refund of fees (described in § 1.6011–4(b)(4)(ii) of this chapter) paid to another if all or part of the intended tax consequences from the transaction are

not sustained or that fees (as described in §1.6011–4(b)(4)(ii) of this chapter) paid by the taxpayer to another are contingent on the taxpayer's realization of tax benefits from the transaction in the manner described in §1.6011–4(b)(4) of this chapter.

(D) *Loss transactions.* A statement relates to a tax aspect of a transaction that causes it to be a loss transaction if the statement concerns an item that gives rise to a loss described in §1.6011–4(b)(5) of this chapter.

(E) [Reserved]

(iii) *Special rules*—(A) *Capacity as an employee.* A material advisor generally does not include a person who makes a tax statement solely in the person's capacity as an employee, shareholder, partner or agent of another person. Any tax statement made by that person will be attributed to that person's employer, corporation, partnership or principal. However, a person shall be treated as a material advisor if that person forms or avails of an entity with the purpose of avoiding the rules of section 6111 or 6112 or the penalties under section 6707 or 6708.

(B) *Post-filing advice.* A person will not be considered to be a material advisor with respect to a transaction if that person does not make or provide a tax statement regarding the transaction until after the first tax return reflecting tax benefit(s) of the transaction is filed with the IRS. However, this exception does not apply to a person who makes a tax statement with respect to the transaction if it is expected that the taxpayer will file a supplemental or amended return reflecting additional tax benefits from the transaction.

(C) *Publicly filed statements.* A tax statement with respect to a transaction that includes only information about the transaction contained in publicly available documents filed with the Securities and Exchange Commission no later than the close of the transaction will not be considered a tax statement to or for the benefit of a person described in paragraph (b)(2) of this section.

(3) *Gross income derived for material aid, assistance, or advice*—(i) *Threshold amount*—(A) *In general.* The threshold amount of gross income is $50,000 in the case of a reportable transaction substantially all of the tax benefits from which are provided to natural persons (looking through any partnerships, S corporations, or trusts). For all other transactions, the threshold amount is $250,000.

(B) *Listed transactions and transactions of interest.* For listed transactions described in §§1.6011–4, 20.6011–4, 25.6011–4, 26.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter, the threshold amounts in paragraph (b)(3)(i)(A) of this section are reduced from $50,000 to $10,000 and from $250,000 to $25,000. For transactions of interest described in §§1.6011–4, 20.6011–4, 25.6011–4, 26.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter, the threshold amounts in paragraph (b)(3)(i)(A) of this section may be reduced as identified in the published guidance describing the transaction.

(C) [Reserved]

(D) *Substantially all of the tax benefits.* For purposes of this section, the determination of whether substantially all of the tax benefits from a reportable transaction are provided to natural persons is made based on all the facts and circumstances. Generally, unless the facts and circumstances prove otherwise, if 70 percent or more of the tax benefits from a reportable transaction are provided to natural persons (looking through any partnerships, S corporations, or trusts) then substantially all of the tax benefits will be considered to be provided to natural persons.

(ii) *Gross income derived directly or indirectly for the material aid, assistance, or advice.* In determining the amount of gross income a person derives directly or indirectly for material aid, assistance, or advice, all fees for a tax strategy or for services for advice (whether or not tax advice) or for the implementation of a reportable transaction are taken into account. Fees include consideration in whatever form paid, whether in cash or in kind, for services to analyze the transaction (whether or not related to the tax consequences of the transaction), for services to implement the transaction, for services to document the transaction, and for services to prepare tax returns to the extent return preparation fees are unreasonable in light of all of the facts

and circumstances. A fee does not include amounts paid to a person, including an advisor, in that person's capacity as a party to the transaction. For example, a fee does not include reasonable charges for the use of capital or the sale or use of property. The IRS will scrutinize carefully all of the facts and circumstances in determining whether consideration received in connection with a reportable transaction constitutes gross income derived directly or indirectly for aid, assistance, or advice. For purposes of this section, the threshold amount must be met independently for each transaction that is a reportable transaction and aggregation of fees among transactions is not required.

(4) *Date a person becomes a material advisor*—(i) *In general*. A person will be treated as becoming a material advisor when all of the following events have occurred (in no particular order)—

(A) The person provides material aid, assistance or advice as described in paragraph (b)(2) of this section;

(B) The person directly or indirectly derives gross income in excess of the threshold amount as described in paragraph (b)(3) of this section; and

(C) The transaction is entered into by the taxpayer to whom or for whose benefit the person provided the tax statement, or in the case of a tax statement provided to another material advisor, when the transaction is entered into by a taxpayer to whom or for whose benefit that material advisor provided a tax statement.

(ii) *Determining if the taxpayer entered into the transaction*. Material advisors, including those who cease providing services before the time the transaction is entered into, must make reasonable and good faith efforts to determine whether the event described in paragraph (b)(4)(i)(C) of this section has occurred.

(iii) *Listed transactions and transactions of interest*. If a transaction that was not a reportable transaction is identified as a listed transaction or a transaction of interest in published guidance after the occurrence of the events described in paragraph (b)(4)(i) of this section, the person will be treated as becoming a material advisor on the date the transaction is identified as a listed transaction or a transaction of interest.

(5) *Other persons designated as material advisors*. Published guidance may identify other types or classes of persons as material advisors.

(c) *Definitions*. For purposes of this section, the following definitions apply:

(1) *Reportable transaction*. The term *reportable transaction* is defined in § 1.6011–4(b)(1) of this chapter.

(2) *Listed transaction*. The term *listed transaction* is defined in § 1.6011–4(b)(2) of this chapter. See also §§ 20.6011–4(a), 25.6011–4(a), 26.6011–4, 31.6011–4(a), 53.6011–4(a), 54.6011–4(a), or 56.6011–4(a) of this chapter.

(3) *Derive*. The term *derive* means receive or expect to receive.

(4) *Person*. The term *person* means any person described in section 7701(a)(1), including an affiliated group of corporations that join in the filing of a consolidated return under section 1501.

(5) *Substantially similar*. The term *substantially similar* is defined in § 1.6011–4(c)(4) of this chapter.

(6) *Tax*. The term *tax* means Federal tax.

(7) *Tax benefit*. A tax benefit includes deductions, exclusions from gross income, nonrecognition of gain, tax credits, adjustments (or the absence of adjustments) to the basis of property, status as an entity exempt from Federal income taxation, and any other tax consequences that may reduce a taxpayer's Federal tax liability by affecting the amount, timing, character, or source of any item of income, gain, expense, loss, or credit.

(8) *Tax return*. The term *tax return* means a Federal tax return and a Federal information return.

(9) *Tax structure*. The tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed Federal tax treatment of the transaction.

(10) *Tax treatment*. The tax treatment of a transaction is the purported or claimed Federal tax treatment of the transaction.

(11) *Taxpayer*. The term *taxpayer* is defined in § 1.6011–4(c)(1) of this chapter.

(12) *Tax result protection*. The term *tax result protection* includes insurance company and other third party products commonly described as tax result insurance.

(13) *Transaction of interest*. The term *transaction of interest* is defined in § 1.6011–4(b)(6) of this chapter. See also §§ 20.6011–4(a), 25.6011–4(a), 26.6011–4, 31.6011–4(a), 53.6011–4(a), 54.6011–4(a), or 56.6011–4(a) of this chapter.

(d) *Form and content of material advisor's disclosure statement*—(1) *In general*. A material advisor required to file a disclosure statement under this section must file a completed Form 8918, ''Material Advisor Disclosure Statement'' (or successor form) in accordance with this paragraph (d) and the instructions to the form. To be considered complete, the information provided on the form must describe the expected tax treatment and all potential tax benefits expected to result from the transaction, describe any tax result protection with respect to the transaction, and identify and describe the transaction in sufficient detail for the IRS to be able to understand the tax structure of the reportable transaction and the identity of any material advisor(s) whom the material advisor knows or has reason to know acted as a material advisor as defined in paragraph (b) of this section with respect to the transaction. An incomplete form containing a statement that information will be provided upon request is not considered a complete disclosure statement. A material advisor may file a single form for substantially similar transactions. An amended form must be filed if information previously provided is no longer accurate, if additional information that was not disclosed becomes available, or if there are material changes to the transaction. A material advisor is not required to file an additional form for each additional taxpayer that enters into the same or substantially similar transaction. If the form is not completed in accordance with the provisions in this paragraph (d) and the instructions to the form, the material advisor will not be considered to have complied with the disclosure requirements of this section.

(2) *Reportable transaction number*. The IRS will issue to a material advisor a reportable transaction number with respect to the disclosed reportable transaction. Receipt of a reportable transaction number does not indicate that the disclosure statement is complete, nor does it indicate that the transaction has been reviewed, examined, or approved by the IRS. Material advisors must provide the reportable transaction number to all taxpayers and material advisors for whom the material advisor acts as a material advisor as defined in paragraph (b) of this section. The reportable transaction number must be provided at the time the transaction is entered into, or, if the transaction is entered into prior to the material advisor receiving the reportable transaction number, within 60 calendar days from the date the reportable transaction number is mailed to the material advisor.

(e) *Time of providing disclosure*. The material advisor's disclosure statement for a reportable transaction must be filed with the Office of Tax Shelter Analysis (OTSA) by the last day of the month that follows the end of the calendar quarter in which the advisor became a material advisor with respect to the reportable transaction or in which the circumstances necessitating an amended disclosure statement occur. The disclosure statement must be sent to OTSA at the address provided in the instructions for Form 8918 (or a successor form).

(f) *Designation agreements*. If more than one material advisor is required to disclose a reportable transaction under this section, the material advisors may designate by written agreement a single material advisor to disclose the transaction. The transaction must be disclosed by the last day of the month following the end of the calendar quarter that includes the earliest date on which a material advisor who is a party to the agreement became a material advisor with respect to the transaction as described in paragraph (b)(4) of this section. The designation of one material advisor to disclose the transaction does not relieve the other material advisors of their obligation to disclose the transaction to the IRS in accordance with this section, if the designated material advisor fails to

disclose the transaction to the IRS in a timely manner.

(g) *Protective disclosures.* If a potential material advisor is uncertain whether a transaction must be disclosed under this section, the advisor may disclose the transaction in accordance with the requirements of this section and comply with all the provisions of this section, and indicate on the disclosure statement that the disclosure statement is being filed on a protective basis. The IRS will not treat disclosure statements filed on a protective basis any differently than other disclosure statements filed under this section. For a protective disclosure to be effective, the advisor must comply with the regulations under this section and § 301.6112–1 by providing to the IRS all information requested by the IRS under these sections.

(h) *Rulings.* If a potential material advisor requests a ruling as to whether a specific transaction is a reportable transaction on or before the date that disclosure would otherwise be required under this section, the Commissioner in his discretion may determine that the submission satisfies the disclosure rules under this section for that transaction if the request fully discloses all relevant facts relating to the transaction which would otherwise be required to be disclosed under this section. The potential obligation of the person to disclose the transaction under this section (or to maintain or furnish the list under § 301.6112–1) will not be suspended during the period that the ruling request is pending.

(i) *Effective/applicability date*—(1) *In general.* This section applies to transactions with respect to which a material advisor makes a tax statement on or after August 3, 2007. However, this section applies to transactions of interest entered into on or after November 2, 2006, with respect to which a material advisor makes a tax statement under this section on or after November 2, 2006. Paragraphs (b)(2)(i)(A), (b)(3)(i)(B), (c)(2), and (c)(13) of this section apply to transactions with respect to which a material advisor makes a tax statement under this section after November 14, 2011. Paragraph (h) of this section applies to ruling requests received on or after November 2, 2006. Otherwise, the rules that apply on or before November 14, 2011 are contained in this section in effect prior to November 14, 2011 (see 26 CFR part 301 revised as of April 1, 2011).

(2) [Reserved]

[T.D. 9351, 72 FR 43159, Aug. 3, 2007, as amended by T.D. 9556, 76 FR 70341, Nov. 14, 2011]

§ 301.6112–1 Material advisors of reportable transactions must keep lists of advisees, etc.

(a) *In general.* Each material advisor, as defined in § 301.6111–3(b), with respect to any reportable transaction, as defined in § 1.6011–4(b) of this chapter, shall prepare and maintain a list in accordance with paragraph (b) of this section and shall furnish such list to the Internal Revenue Service (IRS) in accordance with paragraph (e) of this section.

(b) *Preparation and maintenance of lists*—(1) *In general.* A separate list must be prepared and maintained for each reportable transaction. However, one list must be maintained for substantially similar transactions. A material advisor will have 30 calendar days from the date the list maintenance requirement first arises (see § 301.6111–3(b)(4) and paragraph (a) of this section) with respect to a reportable transaction to prepare the list that must be maintained under this section with respect to that transaction. The Commissioner in his discretion also may provide in published guidance designating a transaction as a reportable transaction a list preparation time period greater than 30 calendar days. If a list is requested under this section during the list preparation time period, the request for the list will be treated as having been made on the day after the list preparation time period ends. A list must be maintained in a form that enables the IRS to determine without undue delay or difficulty the information required in paragraph (b)(3) of this section. The Commissioner in his discretion may provide in published guidance a form or method for maintaining or furnishing the list.

(2) *Persons required to be included on lists.* A material advisor is required to maintain a list identifying each person with respect to whom the advisor acted

as a material advisor with respect to the reportable transaction. However, a material advisor is not required to identify a person on the list if the person entered into a listed transaction or a transaction of interest more than 6 years before the transaction was identified in published guidance as a listed transaction or a transaction of interest.

(3) *Contents*. Each list must include the three components described in paragraph (b)(3)(i), (ii), and (iii) of this section.

(i) *Statement*. An itemized statement containing the following information—

(A) The name of each reportable transaction, the citation to the published guidance number identifying the transaction if the transaction is a listed transaction or a transaction of interest, and the reportable transaction number obtained under section 6111;

(B) The name, address, and TIN of each person required to be included on the list;

(C) The date on which each person required to be included on the list entered into each reportable transaction, if known by the material advisor;

(D) The amount invested in each reportable transaction by each person required to be included on the list, if known by the material advisor;

(E) A summary or schedule of the tax treatment that each person is intended or expected to derive from participation in each reportable transaction; and

(F) The name of each other material advisor to the transaction, if known by the material advisor.

(ii) *Description of the transaction*. A detailed description of each reportable transaction that describes both the tax structure of the transaction and the purported tax treatment of the transaction.

(iii) *Documents*. The following documents—

(A) A copy of any designation agreement (as described in paragraph (f) of this section) to which the material advisor is a party; and

(B) Copies of any additional written materials, including tax analyses or opinions, relating to each reportable transaction that are material to an understanding of the purported tax treatment or tax structure of the transaction that have been shown or provided to any person who acquired or may acquire an interest in the transactions, or to their representatives, tax advisors, or agents, by the material advisor or any related party or agent of the material advisor. However, a material advisor is not required to retain earlier drafts of a document provided the material advisor retains a copy of the final document (or, if there is no final document, the most recent draft of the document) and the final document (or most recent draft) contains all the information in the earlier drafts of such document that is material to an understanding of the purported tax treatment or the tax structure of the transaction.

(c) *Definitions*. For purposes of this section, the following terms are defined as:

(1) *Material advisor*. The term *material advisor* is defined in § 301.6111–3(b).

(2) *Reportable transaction*. The term *reportable transaction* is defined in § 1.6011–4(b)(1) of this chapter.

(3) *Listed transaction*. The term *listed transaction* is defined in § 1.6011–4(b)(2) of this chapter. See also §§ 20.6011–4(a), 25.6011–4(a), 26.6011–4, 31.6011–4(a), 53.6011–4(a), 54.6011–4(a), or 56.6011–4(a) of this chapter.

(4) *Substantially similar*. The term *substantially similar* is defined in § 1.6011–4(c)(4) of this chapter.

(5) *Person*. The term *person* is defined in § 301.6111–3(c)(4).

(6) *Related party*. A person is a related party with respect to another person if such person bears a relationship to such other person described in section 267(b) or 707(b).

(7) *Tax*. The term *tax* is defined in § 301.6111–3(c)(6).

(8) *Tax benefit*. The term *tax benefit* is defined in § 301.6111–3(c)(7).

(9) *Tax return*. The term *tax return* is defined in § 301.6111–3(c)(8).

(10) *Tax structure*. The term *tax structure* is defined in § 301.6111–3(c)(9).

(11) *Tax treatment*. The term *tax treatment* is defined in § 301.6111–3(c)(10).

(12) *Transaction of interest*. The term *transaction of interest* is defined in § 1.6011–4(b)(6) of this chapter. See also §§ 20.6011–4(a), 25.6011–4(a), 26.6011–4,

31.6011–4(a), 53.6011–4(a), 54.6011–4(a), or 56.6011–4(a) of this chapter.

(d) *Retention of lists.* Each material advisor must maintain each component of the list described in paragraph (b)(3) of this section in a readily accessible form for seven years following the earlier of the date on which the material advisor last made a tax statement relating to the transaction, or the date the transaction was last entered into, if known. If the material advisor required to prepare, maintain, and furnish the list is a corporation, partnership, or other entity (entity) that has dissolved or liquidated before completion of the seven-year period, the person responsible under state law for winding up the affairs of the entity must prepare, maintain and furnish each component of the list on behalf of the entity, unless the entity submits the list to the Office of Tax Shelter Analysis (OTSA) within 60 days after the dissolution or liquidation. If state law does not specify any person as responsible for winding up the affairs, then each of the directors of the corporation, the general partners of the partnership, or the trustees, owners, or members of the entity are responsible for preparing, maintaining and furnishing each component of the list on behalf of the entity, unless the entity submits the list to the OTSA within 60 days after the dissolution or liquidation. The responsible person must also provide notice to OTSA of such dissolution or liquidation within 60 days after the dissolution or liquidation. The list and the notice provided to OTSA must be sent to: Internal Revenue Service, OTSA Mail Stop 4915, 1973 North Rulon White Blvd., Ogden, Utah 84404, or to such other address as provided by the Commissioner.

(e) *Furnishing of lists*—(1) *In general.* Each material advisor responsible for maintaining a list must, upon written request by the IRS, make each component of the list described in paragraph (b)(3) of this section available to the IRS. Each component of the list must be furnished to the IRS in a form that enables the IRS to determine without undue delay or difficulty the information required in paragraph (b)(3) of this section. If any component of the list is not in a form that enables the IRS to determine without undue delay or difficulty the information required in paragraph (b)(3) of this section, the material advisor will not be considered to have complied with the list maintenance provisions in section 6112 and this section. A material advisor must make the list or each component of the list available to the IRS within the period prescribed in section 6708 or published guidance relating to section 6708.

(2) *Claims of privilege.* Each material advisor who is required to maintain a list with respect to a reportable transaction, must still maintain the list pursuant to the requirements of this section even if a person asserts a claim of privilege with respect to the information specified in paragraph (b)(3)(iii)(B) of this section.

(f) *Designation agreements.* If more than one material advisor is required to maintain a list of persons for a reportable transaction, in accordance with paragraph (b) of this section, the material advisors may designate by written agreement a single material advisor (the designated material advisor) to maintain the list or a portion of the list. A designation agreement does not relieve material advisors from their obligation to maintain a list in accordance with paragraph (b) of this section or to furnish their list to the IRS in accordance with paragraph (e)(1) of this section, but a designation agreement may allow one material advisor to maintain a list on behalf of the other material advisors who are a party to the designation agreement. A material advisor is not relieved from the requirement of this section because a material advisor is unable to obtain the list from any designated material advisor, any designated material advisor did not maintain a list, or the list maintained by any designated material advisor is not complete. The existence of a designation agreement does not affect the ability of the IRS to request a list from any party to the designation agreement. The IRS may request a list from any party to the designation agreement, and the party receiving the request must furnish their list to the IRS in accordance with paragraph (e)(1) of this section, regardless of whether their list was maintained by another

party pursuant to the terms of a designation agreement.

(g) *Effective/applicability date.* In general, this section applies to transactions with respect to which a material advisor makes a tax statement under § 301.6111–3 on or after August 3, 2007. However, this section applies to transactions of interest entered into on or after November 2, 2006, with respect to which a material advisor makes a tax statement under § 301.6111–3 on or after November 2, 2006. Paragraphs (b)(1), (c)(3), (c)(12), and (f) of this section apply to transactions with respect to which a material advisor makes a tax statement under § 301.6111–3 after *November 14, 2011.* Otherwise, the rules that apply on or before November 14, 2011 are contained in this section in effect prior to November 14, 2011 (see 26 CFR part 301 revised as of April 1, 2011).

[T.D. 9352, 72 FR 43155, Aug. 3, 2007, as amended by T.D. 9556, 76 FR 70341, Nov. 14, 2011]

§ 301.6114–1 Treaty-based return positions.

(a) *Reporting requirement*—(1) *General rule.* (i) Except as provided in paragraph (c) of this section, if a taxpayer takes a return position that any treaty of the United States (including, but not limited to, an income tax treaty, estate and gift tax treaty, or friendship, commerce and navigation treaty) overrules or modifies any provision of the Internal Revenue Code and thereby effects (or potentially effects) a reduction of any tax incurred as any time, the taxpayer shall disclose such return position on a statement (in the form required in paragraph (d) of this section) attached to such return.

(ii) If a return of tax would not otherwise be required to be filed, a return must nevertheless be filed for purposes of making the disclosure required by this section. For this purpose, such return need include only the taxpayer's name, address, taxpayer identifying number, and be signed under penalties of perjury (as well as the subject disclosure). Also, the taxpayer's taxable year shall be deemed to be the calendar year (unless the taxpayer has previously established, or timely chooses for this purpose to establish, a different taxable year). In the case of a disclosable return position relating solely to income subject to withholding (as defined in § 1.1441–2(a) of this chapter), however, the statement required to be filed in paragraph (d) of this section must instead be filed at times and in accordance with procedures published by the Internal Revenue Service.

(2) *Application.* (i) A taxpayer is considered to adopt a ''return position'' when the taxpayer determines its tax liability with respect to a particular item of income, deduction or credit. A taxpayer may be considered to adopt a return position whether or not a return is actually filed. To determine whether a return position is a ''treaty-based return position'' so that reporting is required under this paragraph (a), the taxpayer must compare:

(A) The tax liability (including credits, carrybacks, carryovers, and other tax consequences or attributes for the current year as well as for any other affected tax years) to be reported on a return of the taxpayer, and

(B) The tax liability (including such credits, carrybacks, carryovers, and other tax consequences or attributes) that would be reported if the relevant treaty provision did not exist.

If there is a difference (or potential difference) in these two amounts, the position taken on a return is a treaty-based return position that must be reported.

(ii) In the event a taxpayer's return position is based on a conclusion that a treaty provision is consistent with a Code provision, but the effect of the treaty provision is to alter the scope of the Code provision from the scope that it would have in the absence of the treaty, then the return position is a treaty-based return position that must be reported.

(iii) A return position is a treaty-based return position unless the taxpayer's conclusion that no reporting is required under paragraphs (a)(2) (i) and (ii) of this section has a substantial probability of successful defense if challenged.

(3) *Examples.* The application of section 6114 and paragraph (a)(2) of this section may be illustrated by the following examples:

Example 1: X, a Country A corporation, claims the benefit of a provision of the income tax treaty between the United States

and Country A that modifies a provision of the Code. This position does not result in a change of X's U.S. tax liability for the current tax year but does give rise to, or increases, a net operating loss which may be carried back (or forward) such that X's tax liability in the carryback (or forward) year may be affected by the position taken by X in the current year. X must disclose this treaty-based return position with its tax return for the current tax year.

Example 2: Z, a domestic corporation, is engaged in a trade or business in Country B. Country B imposes a tax on the income from certain of Z's petroleum activities at a rate significantly greater than the rate applicable to income from other activities. Z claims a foreign tax credit for this tax on its tax return. The tax imposed on Z is specifically listed as a creditable tax in the income tax treaty between the United States and Country B; however, there is no specific authority that such tax would otherwise be a creditable tax for U.S. purposes under sections 901 or 903 of the Code. Therefore, in the absence of the treaty, the creditability of this petroleum tax would lack a substantial probability of successful defense if challenged, and Z must disclose this treaty-based return position (see also paragraph (b)(7) of this section).

(b) *Reporting specifically required.* Reporting is required under this section except as expressly waived under paragraph (c) of this section. The following list is not a list of all positions for which reporting is required under this section but is a list of particular positions for which reporting is specifically required. These positions are as follows:

(1) That a nondiscrimination provision of a treaty precludes the application of any otherwise applicable Code provision, other than with respect to the making of or the effect of an election under section 897(i);

(2) That a treaty reduces or modifies the taxation of gain or loss from the disposition of a United States real property interest;

(3) That a treaty exempts a foreign corporation from (or reduces the amount of tax with respect to) the branch profits tax (section 884(a)) or the tax on excess interest (section 884(f)(1)(B));

(4) That, notwithstanding paragraph (c)(1)(i) of this section,

(i) A treaty exempts from tax, or reduces the rate of tax on, interest or dividends paid by a foreign corporation that are from sources within the United States by reason of section 861(a)(2)(B) or section 884(f)(1)(A); or

(ii) A treaty exempts from tax, or reduces the rate of tax on, fixed or determinable annual or periodical income subject to withholding under section 1441 or 1442 that a foreign person receives from a U.S. person, but only if described in paragraphs (b)(4)(ii)(A) and (B) of this section, or in paragraph (b)(4)(ii)(C) or (D) of this section as follows—

(A) the payment is not properly reported to the Service on a Form 1042S; and

(B) The foreign person is any of the following:

(*1*) A controlled foreign corporation (as defined in section 957) in which the U.S. person is a U.S. shareholder within the meaning of section 951(b);

(*2*) A foreign corporation that is controlled within the meaning of section 6038 by the U.S. person;

(*3*) A foreign shareholder of the U.S. person that, in the case of tax years beginning on or before July 10, 1989, is controlled within the meaning of section 6038A by the foreign shareholder, or, in the case of tax years beginning after July 10, 1989, is 25-percent owned within the meaning of section 6038A by the foreign shareholder; or

(*4*) With respect to payments made after October 10, 1990, a foreign related party, as defined in section 6038A (c)(2)(B), the U.S. person; or

(C) For payments made after December 31, 2000, with respect to a treaty that contains a limitation on benefits article, that—

(*1*) The treaty exempts from tax, or reduces the rate of tax on income subject to withholding (as defined in § 1.1441–2(a) of this chapter) that is received by a foreign person (other than a State, including a political subdivision or local authority) that is the beneficial owner of the income and the beneficial owner is related to the person obligated to pay the income within the meaning of sections 267(b) and 707(b), and the income exceeds $500,000; and

(*2*) A foreign person (other than an individual or a State, including a political subdivision or local authority)

meets the requirements of the limitation on benefits article of the treaty; or

(D) For payments made after December 31, 2000, with respect to a treaty that imposes any other conditions for the entitlement of treaty benefits, for example as a part of the interest, dividends, or royalty article, that such conditions are met;

(5) That, notwithstanding paragraph (c)(1)(i) of this section, under a treaty—

(i) Income that is effectively connected with a U.S. trade or business of a foreign corporation or a nonresident alien is not attributable to a permanent establishment or a fixed base of operations in the United States and, thus, is not subject to taxation on a net basis, or that

(ii) Expenses are allowable in determining net business income so attributable, notwithstanding an inconsistent provision of the Code;

(6) Except as provided in paragraph (c)(1)(iv) of this section, that a treaty alters the source of any item of income or deduction;

(7) That a treaty grants a credit for a specific foreign tax for which a foreign tax credit would not be allowed by the Code; or

(8) For returns relating to taxable years for which the due date for filing returns (without extensions) is after December 15, 1997, that residency of an individual is determined under a treaty and apart from the Internal Revenue Code.

(c) *Reporting requirement waived.* (1) Pursuant to the authority contained in section 6114 (b), reporting is waived under this section with respect to any of the following return positions taken by the taxpayer:

(i) For amounts received on or after January 1, 2001, reporting under paragraph (b)(4)(ii) is waived, unless reporting is specifically required under paragraphs (b)(4)(ii)(A) and (B) of this section, paragraph (b)(4)(ii)(C) of this section, or paragraph (b)(4)(ii)(D) of this section;

(ii) Notwithstanding paragraph (b)(4) or (5) of this section, that a treaty has reduced the rate of withholding tax otherwise applicable to a particular type of fixed or determinable annual or periodical income subject to withholding under section 1441 or 1442, such as dividends, interest, rents, or royalties to the extent such income is beneficially owned by an individual or a State (including a political subdivision or local authority);

(iii) For returns relating to taxable years for which the due date for filing returns (without extensions) is on or before December 15, 1997, that residency of an individual is determined under a treaty and apart from the Internal Revenue Code.

(iv) That a treaty reduces or modifies the taxation of income derived from dependent personal services, pensions, annuities, social security and other public pensions, or income derived by artistes, athletes, students, trainees or teachers;

(v) That income of an individual is resourced (for purposes of applying the foreign tax credit limitation) under a treaty provision relating to elimination of double taxation;

(vi) That a nondiscrimination provision of a treaty allows the making of an election under section 897(i);

(vii) That a Social Security Totalization Agreement or a Diplomatic or Consular Agreement reduces or modifies the taxation of income derived by the taxpayer; or

(viii) That a treaty exempts the taxpayer from the excise tax imposed by section 4371, but only if:

(A) The person claiming such treaty-based return position is an insured, as defined in section 4372(d) (without the limitation therein referring to section 4371(1)), or a U.S. or foreign broker of insurance risks,

(B) Reporting under this section that would otherwise be required to be made by foreign insurers or reinsurers on a Form 720 on a quarterly basis is made on an annual basis on a Form 720 by a date no later than the date on which the return is due for the first quarter after the end of the calendar year, or

(C) A closing agreement relating to entitlement to the exemption from the excise tax has been entered into with the Service by the foreign insurance company that is the beneficial recipient of the premium that is subject to the excise tax.

(ix) Notwithstanding paragraph (b)(1) of this section, that a nondiscrimination provision of a qualified income tax treaty, as defined in Treas. Reg. § 1.5000C–1(c)(13), exempts a payment from tax under section 5000C, but only if the foreign person claiming such relief has provided a Section 5000C Certificate (such as Form W–14, ''Certificate of Foreign Contracting Party Receiving Federal Procurement Payments'') to the acquiring agency in accordance with section 5000C and the regulations thereunder.

(2) Reporting is waived for an individual if payments or income items otherwise reportable under this section (other than by reason of paragraph (b)(8) of this section), received by the individual during the course of the taxable year do not exceed $10,000 in the aggregate or, in the case of payments or income items reportable only by reason of paragraph (b)(8) of this section, do not exceed $100,000 in the aggregate.

(3) Reporting with respect to payments or income items the treatment of which is mandated by the terms of a closing agreement with the Internal Revenue Service, and that would otherwise be subject to the reporting requirements of this section, is also waived.

(4) If a partnership, trust, or estate that has the taxpayer as a partner or beneficiary discloses on its information return a position for which reporting is otherwise required by the taxpayer, the taxpayer (partner or beneficiary) is then excused from disclosing that position on a return.

(5) This section does not apply to a withholding agent with respect to the performance of its withholding functions.

(6)(i) For taxable years ending after December 31, 2004, except as provided in paragraph (c)(6)(ii) of this section, reporting under paragraph (b)(4)(ii) of this section is waived for amounts received by a related party, within the meaning of section 6038A(c)(2), from a withholding agent that is a reporting corporation, within the meaning of section 6038A(a), and that are properly reported on Form 1042–S.

(ii) Paragraph (c)(6)(i) of this section does not apply to any amounts for which reporting is specifically required under the instructions to Form 8833.

(7)(i) For taxable years ending after December 31, 2004, except as provided in paragraph (c)(7)(iv) of this section, reporting under paragraph (b)(4)(ii) of this section is waived for amounts properly reported on Form 1042–S (on either a specific payee or pooled basis) by a withholding agent described in paragraph (c)(7)(ii) of this section if the beneficial owner is described in paragraph (c)(7)(iii) of this section.

(ii) A withholding agent described in this paragraph (c)(7)(ii) is a U.S. financial institution, as defined in § 1.1441–1(c)(5) of this chapter, a qualified intermediary, as defined in § 1.1441–1(e)(5)(ii) of this chapter, a withholding foreign partnership, as defined § 1.1441–5(c)(2)(i) of this chapter, or a withholding foreign trust, as defined in § 1.1441–5(e)(5)(v) of this chapter.

(iii) A beneficial owner described in this paragraph (c)(7)(iii) of this section is a direct account holder of a U.S. financial institution or qualified intermediary, a direct partner of a withholding foreign partnership, or a direct beneficiary or owner of a simple or grantor trust that is a withholding foreign trust. A beneficial owner described in this paragraph (c)(7)(iii) also includes an account holder to which a qualified intermediary has applied section 4A.01 or 4A.02 of the qualified intermediary agreement, contained in Revenue Procedure 2000–12 (2000–1 C.B. 387), (as amended by Revenue Procedure 2003–64, (2003–2 C.B. 306); Revenue Procedure 2004–21 (2004–1 C.B. 702); Revenue Procedure 2005–77 (2005–51 I.R.B. 1176) (see § 601.601(b)(2) of this chapter) a partner to which a withholding foreign partnership has applied section 10.01 or 10.02 of the withholding foreign partnership agreement, and a beneficiary or owner to which a withholding foreign trust has applied section 10.01 or 10.02 of the withholding foreign trust agreement, contained in Revenue Procedure 2003–64, (2003–2 C.B. 306), (as amended by Revenue Procedure 2004–21 (2004–1 C.B. 702); Revenue Procedure 2005–77 (2005–51 I.R.B. 1176); (see § 601.601(b)(2) of this chapter).

(iv) Paragraph (c)(7)(i) of this section does not apply to any amounts for

which reporting is specifically required under the instructions to Form 8833.

(8)(i) For taxable years ending after December 31, 2004, except as provided in paragraph (c)(8)(ii) of this section, reporting under paragraph (b)(4)(ii) of this section is waived for taxpayers that are not individuals or States and that receive amounts of income that have been properly reported on Form 1042–S, that do not exceed $500,000 in the aggregate for the taxable year and that are not received through an account with an intermediary, as defined in §1.1441–1(c) (13), or with respect to interest in a flow-through entity, as defined in §1.1441–1(c)(23),

(ii) The exception contained in paragraph (c)(8)(i) of this section does not apply to any amounts for which reporting is specifically required under the instructions to Form 8833.

(d) *Information to be reported*—(1) *Returns due after* December 15, 1997. When reporting is required under this section for a return relating to a taxable year for which the due date (without extensions) is after December 15, 1997, the taxpayer must furnish, in accordance with paragraph (a) of this section, as an attachment to the return, a fully completed Form 8833 (Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b)) or appropriate successor form.

(2) *Earlier returns.* For returns relating to taxable years for which the due date for filing returns (without extensions) is on or before December 15, 1997, the taxpayer must furnish information in accordance with paragraph (d) of this section in effect prior to December 15, 1997 (see §301.6114–1(d) as contained in 26 CFR part 301, revised April 1, 1997).

(3) *In general*—(i) *Permanent establishment.* For purposes of determining the nature and amount (or reasonable estimate thereof) of gross receipts, if a taxpayer takes a position that it does not have a permanent establishment or a fixed base in the United States and properly discloses that position, it need not separately report its payment of actual or deemed dividends or interest exempt from tax by reason of a treaty (or any liability for tax imposed by reason of section 884).

(ii) *Single income item.* For purposes of the statement of facts relied upon to support each separate Treaty-Based Return Position taken, a taxpayer may treat payments or income items of the same type (e.g., interest items) received from the same ultimate payor (e.g., the obligor on a note) as a single separate payment or income item.

(iii) *Foreign source effectively connected income.* If a taxpayer takes the return position that, under the treaty, income that would be income effectively connected with a U.S. trade or business is not subject to U.S. taxation because it is income treated as derived from sources outside the United States, the taxpayer may treat payments or income items of the same type (e.g., interest items) as a single separate payment or income item.

(iv) *Sales or services income.* Income from separate sales or services, whether or not made or performed by an agent (independent or dependent), to different U.S. customers on behalf of a foreign corporation not having a permanent establishment in the United States may be treated as a single payment or income item.

(v) *Foreign insurers or reinsurers.* For purposes of reporting by foreign insurers or reinsurers, as described in paragraph (c)(1)(vii)(B) of this section, such reporting must separately set forth premiums paid with respect to casualty insurance and indemnity bonds (subject to section 4371(1)); life insurance, sickness and accident policies, and annuity contracts (subject to section 4371(2)); and reinsurance (subject to section 4371(3)). All premiums paid with respect to each of these three categories may be treated as a single payment or income item within that category. For reports first due before May 1, 1991, the report may disclose, for each of the three categories, the total amount of premiums derived by the foreign insurer or reinsurer in U.S. dollars (even if a portion of these premiums relate to risks that are not U.S. situs). Reasonable estimates of the amounts required to be disclosed will satisfy these reporting requirements.

(e) *Effective/applicability date*—(1) *In general.* This section is effective for taxable years of the taxpayer for which the due date for filing returns (without

extensions) occurs after December 31, 1988. However, if—

(i) A taxpayer has filed a return for such a taxable year, without complying with the reporting requirement of this section, before November 13, 1989, or

(ii) A taxpayer is not otherwise than by paragraph (a) of this section required to file a return for a taxable year before November 13, 1989, such taxpayer must file (apart from any earlier filed return) the statement required by paragraph (d) of this section before June 12, 1990, by mailing the required statement to the Internal Revenue Service, P.O. Box 21086, Philadelphia, PA 19114. Any such statement filed apart from a return must be dated, signed and sworn to by the taxpayer under the penalties of perjury. In addition, with respect to any return due (without extensions) on or before March 10, 1990, the reporting required by paragraph (a) of this section must be made no later than June 12, 1990. If a taxpayer files or has filed a return on or before November 13, 1989, that provides substantially the same information required by paragraph (d) of this section, no additional submission will be required. Foreign insurers and reinsurers subject to reporting described in paragraph (c)(7)(ii) of this section must so report for calendar years 1988 and 1989 no later than August 15, 1990.

(2) *Section 5000C.* Paragraph (c)(1)(ix) of this section applies to payments made on and after November 16, 2016 pursuant to contracts entered into on and after January 2, 2011. However, a taxpayer that receives payments exempt from tax under section 5000C by reason of a qualified income tax treaty before November 16, 2016 is not required to disclose this position on Form 8833, provided it has properly relied on Notice 2015–35, I.R.B. 2016–14, 533, in claiming the exemption.

(f) *Cross reference.* For the provisions concerning penalties for failure to disclose a treaty-based return position, see section 6712 and § 301.6712–1.

[T.D. 8292, 55 FR 9440, Mar. 14, 1990; 55 FR 10237, Mar. 20, 1990, as amended by T.D. 8305, 55 FR 28609, July 12, 1990; T.D. 8733, 62 FR 53385, Oct. 14, 1997; T.D. 8734, 62 FR 53495, Oct. 14, 1997; T.D. 8804, 63 FR 72189, Dec. 31, 1998; T.D. 8856, 64 FR 73413, Dec. 30, 1999; T.D. 9253, 71 FR 13007, Mar. 14, 2006; 71 FR 27321, May 10, 2006; T.D. 9782, 81 FR 55145, Aug. 18, 2016]

Time and Place for Paying Tax

PLACE AND DUE DATE FOR PAYMENT OF TAX

§ 301.6151–1 Time and place for paying tax shown on returns.

For provisions concerning the time and place for paying tax shown on returns with respect to a particular tax, see the regulations relating to such tax.

§ 301.6153–1 Installment payments of estimated income tax by individuals.

For provisions relating to installment payments of estimated income tax by individuals, see §§ 1.6153–1 to 1.6153–4, inclusive, of this chapter (Income Tax Regulations).

§ 301.6155–1 Payment on notice and demand.

Upon receipt of notice and demand from the district director (including the Director of International Operations) or the director of the regional service center, there shall be paid at the place and time stated in such notice the amount of any tax (including any interest, additional amounts, additions to the tax, and assessable penalties) stated in such notice and demand.

§ 301.6159–0 Table of contents.

This section lists the major captions that appear in the regulations under § 301.6159–1.

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[T.D. 9473, 74 FR 61528, Nov. 25, 2009]

§ 301.6159–1 Agreements for payment of tax liabilities in installments.

(a) *Authority*. The Commissioner may enter into a written agreement with a taxpayer that allows the taxpayer to make scheduled periodic payments of any tax liability if the Commissioner determines that such agreement will facilitate full or partial collection of the tax liability.

(b) *Procedures for submission and consideration of proposed installment agreements*—(1) *In general*. A proposed installment agreement must be submitted according to the procedures, and in the form and manner, prescribed by the Commissioner.

(2) *When a proposed installment agreement becomes pending*. A proposed installment agreement becomes pending when it is accepted for processing. The Internal Revenue Service (IRS) may not accept a proposed installment agreement for processing following reference of a case involving the liability that is the subject of the proposed installment agreement to the Department of Justice for prosecution or defense. The proposed installment agreement remains pending until the IRS accepts the proposal, the IRS notifies the taxpayer that the proposal has been rejected, or the proposal is withdrawn by the taxpayer. If a proposed installment agreement that has been accepted for processing does not contain sufficient information to permit the IRS to evaluate whether the proposal should be accepted, the IRS will request the taxpayer to provide the needed additional information. If the taxpayer does not submit the additional information that the IRS has requested within a reasonable time period after such a request, the IRS may reject the proposed installment agreement.

(3) *Revised proposals of installment agreements submitted following rejection*. If, following the rejection of a proposed installment agreement, the IRS determines that the taxpayer made a good faith revision of the proposal and submitted the revision within 30 days of the date of rejection, the provisions of this section shall apply to that revised proposal. If, however, the IRS determines that a revision was not made in good faith, the provisions of this section do not apply to the revision and the appeal period in paragraph (d)(3) of this section continues to run from the date of the original rejection.

(c) *Acceptance, form, and terms of installment agreements*—(1) *Acceptance of an installment agreement*—(i) *In general*. A proposed installment agreement has not been accepted until the IRS notifies the taxpayer or the taxpayer's representative of the acceptance. Except as provided in paragraph (c)(1)(iii) of this section, the Commissioner has the discretion to accept or reject any proposed installment agreement.

(ii) *Acceptance does not reduce liabilities*. The acceptance of an installment agreement by the IRS does not reduce the amount of taxes, interest, or penalties owed. (However, penalties may continue to accrue at a reduced rate pursuant to section 6651(h).)

(iii) *Guaranteed installment agreements*. In the case of a liability of an individual for income tax, the Commissioner shall accept a proposed installment agreement if, as of the date the individual proposes the installment agreement—

(A) The aggregate amount of the liability (not including interest, penalties, additions to tax, and additional amounts) does not exceed $10,000;

(B) The taxpayer (and, if the liability relates to a joint return, the taxpayer's spouse) has not, during any of the preceding five taxable years—

(*1*) Failed to file any income tax return;

(*2*) Failed to pay any required income tax; or

(*3*) Entered into an installment agreement for the payment of any income tax;

(C) The Commissioner determines that the taxpayer is financially unable to pay the liability in full when due (and the taxpayer submits any information the Commissioner requires to make that determination);

(D) The installment agreement requires full payment of the liability within three years; and

(E) The taxpayer agrees to comply with the provisions of the Internal

Revenue Code for the period the agreement is in effect.

(2) *Form of installment agreements.* An installment agreement must be in writing. A written installment agreement may take the form of a document signed by the taxpayer and the Commissioner or a written confirmation of an agreement entered into by the taxpayer and the Commissioner that is mailed or personally delivered to the taxpayer.

(3) *Terms of installment agreements.* (i) Except as otherwise provided in this section, an installment agreement is effective from the date the IRS notifies the taxpayer or the taxpayer's representative of its acceptance until the date the agreement ends by its terms or until it is superseded by a new installment agreement.

(ii) By its terms, an installment agreement may end upon the expiration of the period of limitations on collection in section 6502 and § 301.6502–1, or at some prior date.

(iii) As a condition to entering into an installment agreement with a taxpayer, the Commissioner may require that—

(A) The taxpayer agree to a reasonable extension of the period of limitations on collection; and

(B) The agreement contain terms that protect the interests of the Government.

(iv) Except as otherwise provided in an installment agreement, all payments made under the installment agreement will be applied in the best interests of the Government.

(v) While an installment agreement is in effect, the Commissioner may request, and the taxpayer must provide, a financial condition update at any time.

(vi) At any time after entering into an installment agreement, the Commissioner and the taxpayer may agree to modify or terminate an installment agreement or may agree to a new installment agreement that supersedes the existing agreement.

(d) *Rejection of a proposed installment agreement*—(1) *When a proposed installment agreement becomes rejected.* A proposed installment agreement has not been rejected until the IRS notifies the taxpayer or the taxpayer's representative of the rejection, the reason(s) for rejection, and the right to an appeal.

(2) *Independent administrative review.* The IRS may not notify a taxpayer or taxpayer's representative of the rejection of an installment agreement until an independent administrative review of the proposed rejection is completed.

(3) *Appeal of rejection of a proposed installment agreement.* The taxpayer may administratively appeal a rejection of a proposed installment agreement to the IRS Office of Appeals (Appeals) if, within the 30-day period commencing the day after the taxpayer is notified of the rejection, the taxpayer requests an appeal in the manner provided by the Commissioner.

(e) *Modification or termination of installment agreements by the Internal Revenue Service*—(1) *Inadequate information or jeopardy.* The Commissioner may terminate an installment agreement if the Commissioner determines that—

(i) Information which was provided to the IRS by the taxpayer or the taxpayer's representative in connection with either the granting of the installment agreement or a request for a financial update was inaccurate or incomplete in any material respect; or

(ii) Collection of any liability to which the installment agreement applies is in jeopardy.

(2) *Change in financial condition, failure to timely pay an installment or another Federal tax liability, or failure to provide requested financial information.* The Commissioner may modify or terminate an installment agreement if—

(i) The Commissioner determines that the financial condition of a taxpayer that is party to the agreement has significantly changed; or

(ii) A taxpayer that is party to the installment agreement fails to—

(A) Timely pay an installment in accordance with the terms of the installment agreement;

(B) Pay any other Federal tax liability when the liability becomes due; or

(C) Provide a financial condition update requested by the Commissioner.

(3) *Request by taxpayer.* Upon request by a taxpayer that is a party to the installment agreement, the Commissioner may terminate or modify the terms of an installment agreement if the Commissioner determines that the

financial condition of the taxpayer has significantly changed. The taxpayer's request will not suspend the statute of limitations under section 6502 for collection of any liability. While the Commissioner is considering the request, the taxpayer shall comply with the terms of the existing installment agreement.

(4) *Notice*. Unless the Commissioner determines that collection of the tax is in jeopardy, the Commissioner will notify the taxpayer in writing at least 30 days prior to modifying or terminating an installment agreement pursuant to paragraph (e)(1) or (2) of this section. The notice provided pursuant to this section must briefly describe the reason for the intended modification or termination. Upon receiving notice, the taxpayer may provide information showing that the reason for the proposed modification or termination is incorrect.

(5) *Appeal of modification or termination of an installment agreement*. The taxpayer may administratively appeal the modification or termination of an installment agreement to Appeals if, following issuance of the notice required by paragraph (e)(4) of this section and prior to the expiration of the 30-day period commencing the day after the modification or termination is to take effect, the taxpayer requests an appeal in the manner provided by the Commissioner.

(f) *Effect of installment agreement or pending installment agreement on collection activity*—(1) *In general*. No levy may be made to collect a tax liability that is the subject of an installment agreement during the period that a proposed installment agreement is pending with the IRS, for 30 days immediately following the rejection of a proposed installment agreement, during the period that an installment agreement is in effect, and for 30 days immediately following the termination of an installment agreement. If, prior to the expiration of the 30-day period following the rejection or termination of an installment agreement, the taxpayer appeals the rejection or termination decision, no levy may be made while the rejection or termination is being considered by Appeals. This section will not prohibit levy to collect the liability of any person other than the person or persons named in the installment agreement.

(2) *Exceptions*. Paragraph (f)(1) of this section shall not prohibit levy if the taxpayer files a written notice with the IRS that waives the restriction on levy imposed by this section, the IRS determines that the proposed installment agreement was submitted solely to delay collection, or the IRS determines that collection of the tax to which the installment agreement or proposed installment agreement relates is in jeopardy.

(3) *Other actions by the IRS while levy is prohibited*—(i) *In general*. The IRS may take actions other than levy to protect the interests of the Government with regard to the liability identified in an installment agreement or proposed installment agreement. Those actions include, for example—

(A) Crediting an overpayment against the liability pursuant to section 6402;

(B) Filing or refiling notices of Federal tax lien; and

(C) Taking action to collect from any person who is not named in the installment agreement or proposed installment agreement but who is liable for the tax to which the installment agreement relates.

(ii) *Proceedings in court*. Except as otherwise provided in this paragraph (f)(3)(ii), the IRS will not refer a case to the Department of Justice for the commencement of a proceeding in court, against a person named in an installment agreement or proposed installment agreement, if levy to collect the liability is prohibited by paragraph (f)(1) of this section. Without regard to whether a person is named in an installment agreement or proposed installment agreement, however, the IRS may authorize the Department of Justice to file a counterclaim or third-party complaint in a refund action or to join that person in any other proceeding in which liability for the tax that is the subject of the installment agreement or proposed installment agreement may be established or disputed, including a suit against the United States under 28 U.S.C. 2410. In addition, the United States may file a claim in any bankruptcy proceeding or

insolvency action brought by or against such person. If a person named in an installment agreement is joined in a proceeding, the United States obtains a judgment against that person, and the case is referred back to the IRS for collection, collection will continue to occur pursuant to the terms of the installment agreement. Notwithstanding the installment agreement, any claim or suit permitted will be for the full amount of the liabilities owed.

(g) *Suspension of the statute of limitations on collection.* The statute of limitations under section 6502 for collection of any liability shall be suspended during the period that a proposed installment agreement relating to that liability is pending with the IRS, for 30 days immediately following the rejection of a proposed installment agreement, and for 30 days immediately following the termination of an installment agreement. If, within the 30 days following the rejection or termination of an installment agreement, the taxpayer files an appeal with Appeals, the statute of limitations for collection shall be suspended while the rejection or termination is being considered by Appeals. The statute of limitations for collection shall continue to run if an exception under paragraph (f)(2) of this section applies and levy is not prohibited with respect to the taxpayer.

(h) *Annual statement.* The Commissioner shall provide each taxpayer who is party to an installment agreement under this section with an annual statement setting forth the initial balance owed at the beginning of the year, the payments made during the year, and the remaining balance as of the end of the year.

(i) *Biennial review of partial payment installment agreements.* The Commissioner shall perform a review of the taxpayer's financial condition in the case of a partial payment installment agreement at least once every two years. The purpose of this review is to determine whether the taxpayer's financial condition has significantly changed so as to warrant an increase in the value of the payments being made or termination of the agreement.

(j) *Cross reference.* Pursuant to section 6601(b)(1), the last day prescribed for payment is determined without regard to any installment agreement, including for purposes of computing penalties and interest provided by the Internal Revenue Code. For special rules regarding the computation of the failure to pay penalty while certain installment agreements are in effect, *see* section 6651(h) and § 301.6651–1(a)(4).

(k) *Effective/applicability date.* This section is applicable on November 25, 2009.

[T.D. 9473, 74 FR 61528, Nov. 25, 2009]

EXTENSION OF TIME FOR PAYMENT

§ 301.6161–1 Extension of time for paying tax.

For provisions concerning the extension of time for paying a particular tax or for paying an amount determined as a deficiency, see the regulations relating to such tax.

§ 301.6162–1 Extension of time for payment of tax on gain attributable to liquidation of personal holding companies.

For provisions relating to the extension of time for payment of tax on gain attributable to liquidation of personal holding companies, see § 1.6162–1 of this chapter (Income Tax Regulations).

§ 301.6163–1 Extension of time for payment of estate tax on value of reversionary or remainder interest in property.

For provisions relating to the extension of time for payment of estate tax on value of reversionary or remainder interest in property, see § 20.6163–1 of this chapter (Estate Tax Regulations).

§ 301.6164–1 Extension of time for payment of taxes by corporations expecting carrybacks.

For provisions relating to the extension of time for payment of taxes by corporations expecting carrybacks, see §§ 1.6164–1 to 1.6164–9, inclusive, of this chapter (Income Tax Regulations).

§ 301.6165–1 Bonds where time to pay the tax or deficiency has been extended.

For provisions concerning bonds where time to pay a tax or deficiency has been extended, see the regulations relating to the particular tax.

§ 301.6166–1 Extension of time for payment of estate tax where estate consists largely of interest in closely held business.

For provisions relating to the extension of time for payment of estate tax where estate consists largely of interest in closely held business, see §§ 20.6166–1 to 20.6166–4, inclusive, of this chapter (Estate Tax Regulations).

Assessment

IN GENERAL

§ 301.6201–1 Assessment authority.

(a) *In general.* The district director is authorized and required to make all inquiries necessary to the determination and assessment of all taxes imposed by the Internal Revenue Code of 1954 or any prior internal revenue law. The district director is further authorized and required, and the director of the regional service center is authorized, to make the determinations and the assessments of such taxes. However, certain inquiries and determinations are, by direction of the Commissioner, made by other officials, such as assistant regional commissioners. The term ''taxes'' includes interest, additional amounts, additions to the taxes, and assessable penalties. The authority of the district director and the director of the regional service center to make assessments includes the following:

(1) *Taxes shown on return.* The district director or the director of the regional service center shall assess all taxes determined by the taxpayer or by the district director or the director of the regional service center and disclosed on a return or list.

(2) *Unpaid taxes payable by stamp.* (i) If without the use of the proper stamp:

(*a*) Any article upon which a tax is required to be paid by means of a stamp is sold or removed for sale or use by the manufacturer thereof, or

(*b*) Any transaction or act upon which a tax is required to be paid by means of a stamp occurs;

The district director, upon such information as he can obtain, must estimate the amount of the tax which has not been paid and the district director or the director of the regional service center must make assessment therefor upon the person the district director determines to be liable for the tax. However, the district director or the director of the regional service center may not assess any tax which is payable by stamp unless the taxpayer fails to pay such tax at the time and in the manner provided by law or regulations.

(ii) If a taxpayer gives a check or money order as a payment for stamps but the check or money order is not paid upon presentment, then the district director or the director of the regional service center shall assess the amount of the check or money order against the taxpayer as if it were a tax due at the time the check or money order was received by the district director.

(3) *Erroneous income tax prepayment credits.* If the amount of income tax withheld or the amount of estimated income tax paid is overstated by a taxpayer on a return or on a claim for refund, the amount so overstated which is allowed against the tax shown on the return or which is allowed as a credit or refund shall be assessed by the district director or the director of the regional service center in the same manner as in the case of a mathematical error on the return. See section 6213 (b)(1), relating to exceptions to restrictions on assessment.

(b) *Estimated income tax.* Neither the district director nor the director of the regional service center shall assess any amount of estimated income tax required to be paid under section 6153 or 6154 which is unpaid.

(c) *Compensation of child.* Any income tax assessed against a child, to the extent of the amount attributable to income included in the gross income of the child solely by reason of section 73(a) or the corresponding provision of prior law, if not paid by the child, shall, for the purposes of the income tax imposed by chapter 1 of the Code (or the corresponding provisions of prior law), be considered as having also been properly assessed against the parent. In any case in which the earnings of the child are included in the gross income of the child solely by reason of section 73(a) or the corresponding provision of prior law, the parent's liability is an amount equal to the amount by which the tax assessed against the

child (and not paid by him) has been increased by reason of the inclusion of such earnings in the gross income of the child. Thus, if for the calendar year 1954 the child has income of $1,000 from investments and of $3,000 for services rendered, and the latter amount is includible in the gross income of the child under section 73(a) and the child has no wife or dependents, the tax liability determined under section 3 is $625. If the child had only the investment income of $1,000, his tax liability would be $62. If the tax of $625 is assessed against the child, the difference between $625 and $62, or $563, is the amount of such tax which is considered to have been properly assessed against the parent, if not paid by the child.

§ 301.6203–1 Method of assessment.

The district director and the director of the regional service center shall appoint one or more assessment officers. The district director shall also appoint assessment officers in a Service Center servicing his district. The assessment shall be made by an assessment officer signing the summary record of assessment. The summary record, through supporting records, shall provide identification of the taxpayer, the character of the liability assessed, the taxable period, if applicable, and the amount of the assessment. The amount of the assessment shall, in the case of tax shown on a return by the taxpayer, be the amount so shown, and in all other cases the amount of the assessment shall be the amount shown on the supporting list or record. The date of the assessment is the date the summary record is signed by an assessment officer. If the taxpayer requests a copy of the record of assessment, he shall be furnished a copy of the pertinent parts of the assessment which set forth the name of the taxpayer, the date of assessment, the character of the liability assessed, the taxable period, if applicable, and the amounts assessed.

§ 301.6204–1 Supplemental assessments.

If any assessment is incomplete or incorrect in any material respect, the district director or the director of the regional service center, subject to the restrictions with respect to the assessment of deficiencies in income, estate, gift, chapter 41, 42, 43, and 44 taxes, and subject to the applicable period of limitation, may make a supplemental assessment for the purpose of correcting or completing the original assessment.

[T.D. 7838, 47 FR 44249, Oct. 7, 1982]

§ 301.6205–1 Special rules applicable to certain employment taxes.

For regulations under section 6205, see § 31.6205–1 of this chapter (Employment Tax Regulations).

DEFICIENCY PROCEDURES

§ 301.6211–1 Deficiency defined.

(a) In the case of the income tax imposed by subtitle A of the Code, the estate tax imposed by chapter 11, subtitle B, of the Code, the gift tax imposed by chapter 12, subtitle B, of the Code, and any excise tax imposed by chapter 41, 42, 43, or 44 of the Code, the term ''deficiency'' means the excess of the tax, (income, estate, gift, or excise tax as the case may be) over the sum of the amount shown as such tax by the taxpayer upon his return and the amounts previously assessed (or collected without assessment) as a deficiency; but such sum shall first be reduced by the amount of rebates made. If no return is made, or if the return (except a return of income tax pursuant to sec. 6014) does not show any tax, for the purpose of the definition ''the amount shown as the tax by the taxpayer upon his return'' shall be considered as zero. Accordingly, in any such case, if no deficiencies with respect to the tax have been assessed, or collected without assessment, and no rebates with respect to the tax have been made, the deficiency is the amount of the income tax imposed by subtitle A, the estate tax imposed by chapter 11, the gift tax imposed by chapter 12, or any excise tax imposed by chapter 41, 42, 43, or 44. Any amount shown as additional tax on an ''amended return,'' so-called (other than amounts of additional tax which such return clearly indicates the taxpayer is protesting rather than admitting) filed after the due date of the return, shall be treated as an amount shown by the taxpayer ''upon his return'' for purposes of computing the amount of a deficiency.

(b) For purposes of the definition, the income tax imposed by subtitle A and the income tax shown on the return shall both be determined without regard to the credit provided in section 31 for income tax withheld at the source and without regard to so much of the credit provided in section 32 for income taxes withheld at the source as exceeds 2 percent of the interest on tax-free covenant bonds described in section 1451. Payments on account of estimated income tax, like other payments of tax by the taxpayer, shall likewise be disregarded in the determination of a deficiency. Any credit resulting from the collection of amounts assessed under section 6851 or 6852 as the result of a termination assessment shall not be taken into account in determining a deficiency.

(c) The computation by the Internal Revenue Service, pursuant to section 6014, of the income tax imposed by subtitle A shall be considered as having been made by the taxpayer and the tax so computed shall be considered as the tax shown by the taxpayer upon his return.

(d) If so much of the credit claimed on the return for income taxes withheld at the source as exceeds 2 percent of the interest on tax-free convenant bonds is greater than the amount of such credit allowable, the unpaid portion of the tax attributable to such difference will be collected not as a deficiency but as an underpayment of the tax shown on the return.

(e) This section may be illustrated by the following examples:

Example 1. The amount of income tax shown by the taxpayer upon his return for the calendar year 1954 was $1,600. The taxpayer had no amounts previously assessed (or collected without assessment) as a deficiency. He claimed a credit in the amount of $2,050 for tax withheld at source on wages under section 3402, and a refund of $450 (not a rebate under section 6211) was made to him as an overpayment of tax for the taxable year. It is later determined that the correct tax for the taxable year is $1,850. A deficiency of $250 is determined as follows:

Tax imposed by subtitle A	$1,850
Tax shown on return	$1,600
Tax previously assessed (or collected without assessment) as a deficiency	None
Total	1,600
Amount of rebates made	None
Balance	51,600
Deficiency	250

Example 2. The taxpayer made a return for the calendar year 1954 showing a tax of $1,250 before any credits for tax withheld at the source. He claimed a credit in the amount of $800 for tax withheld at source on wages under section 3402 and $60 for tax paid at source under section 1451 upon interest on bonds containing a tax-free covenant. The taxpayer had no amounts previously assessed (or collected without assessment) as a deficiency. The district director determines that the 2 percent tax paid at the source on tax-free covenant bonds is $40 instead of $60 as claimed by the taxpayer and that the tax imposed by subtitle A is $1,360 (total tax $1,400 less $40 paid at source on tax-free covenant bonds). A deficiency in the amount of $170 is determined as follows:

Tax imposed by subtitle A ($1,400 minus $40)		$1,360
Tax shown on return ($1,250 minus $60)	$1,190	
Tax previously assessed (or collected without assessment) as a deficiency	None	
Total	1,190	
Amount of rebates made	None	
Balance		1,190
Deficiency		170

(f) As used in section 6211, the term *rebate* means so much of an abatement, credit, refund, or other repayment as is made on the ground that the income tax imposed by subtitle A, the estate tax imposed by chapter 11, the gift tax imposed by chapter 12, or the excise tax imposed by chapter 41, 42, 43, or 44, is less than the excess of (1) the amount shown as the tax by the taxpayer upon the return increased by the amount previously assessed (or collected without assessment) as a deficiency over (2) the amount of rebates previously made. For example, assume that the amount of income tax shown by the taxpayer upon his return for the taxable year is $600 and the amount claimed as a credit under section 31 for income tax withheld at the source is $900. If the district director determines that the tax imposed by subtitle A is $600 and makes a refund of $300, no part of such refund constitutes a ''rebate'' since the refund is not made on the ground that the tax imposed by subtitle A is less than the tax shown on the return. If, however, the district director determines that the tax imposed by subtitle A is $500 and refunds $400, the amount of $100 of such refund

would constitute a rebate since it is made on the ground that the tax imposed by subtitle A ($500) is less than the tax shown on the return ($600). The amount of such rebate ($100) would be taken into account in arriving at the amount of any deficiency subsequently determined.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7102, 36 FR 5498, Mar. 24, 1971; T.D. 7575, 43 FR 58817, Dec. 18, 1978; T.D. 7838, 47 FR 44249, Oct. 7, 1982; T.D. 8628, 60 FR 62212, Dec. 5, 1995]

§ 301.6212–1 Notice of deficiency.

(a) *General rule.* If a district director or director of a service center (or regional director of appeals), determines that there is a deficiency in respect of income, estate, or gift tax imposed by subtitle A or B, or excise tax imposed by chapter 41, 42, 43, or 44, of the Code, such official is authorized to notify the taxpayer of the deficiency by either registered or certified mail.

(b) *Address for notice of deficiency*—(1) *Income, gift, and chapter 41, 42, 43, and 44 taxes.* Unless the district director for the district in which the return in question was filed has been notified under the provisions of section 6903 as to the existence of a fiduciary relationship, notice of a deficiency in respect of income tax, gift tax, or tax imposed by chapter 41, 42, 43, or 44 shall be sufficient if mailed to the taxpayer at his last known address, even though such taxpayer is deceased, or is under a legal disability, or, in the case of a corporation, has terminated its existence.

(2) *Joint income tax returns.* If a joint income tax return has been filed by husband and wife, the district director (or assistant regional commissioner, appellate) may, unless the district director for the district in which such joint return was filed has been notified by either spouse that a separate residence has been established, send either a joint or separate notice of deficiency to the taxpayers at their last known address. If, however, the proper district director has been so notified, a separate notice of deficiency that is a duplicate original of the joint notice, must be sent by registered mail prior to September 3, 1958, and by either registered or certified mail on and after September 3, 1958, to each spouse at his or her last known address. The notice of separate residences should be addressed to the district director for the district in which the joint return was filed.

(3) *Estate tax.* In the absence of notice, under the provisions of section 6903 as to the existence of a fiduciary relationship, to the district director for the district in which the estate tax return was filed, notice of a deficiency in respect of the estate tax imposed by chapter 11, subtitle B, of the Code shall be sufficient if addressed in the name of the decedent or other person subject to liability and mailed to his last known address.

(c) *Further deficiency letters restricted.* If the district director or director of a service center (or regional director of appeals) mails to the taxpayer notice of a deficiency, and the taxpayer files a petition with the Tax Court within the prescribed period, no additional deficiency may be determined with respect to income tax for the same taxable year, gift tax for the same ''calendar period'' (as defined in § 25.2502–1(c)(1)), estate tax with respect to the taxable estate of the same decedent, chapter 41, 43, or 44 tax of the taxpayer for the same taxable year, section 4940 tax for the same taxable year, or chapter 42 tax of the taxpayer (other than under section 4940) with respect to the same act (or failure to act) to which such petition relates. This restriction shall not apply in the case of fraud, assertion of deficiencies with respect to any qualified tax (as defined in paragraph (b) of § 301.6361–4) in respect of which no deficiency was asserted for the taxable year in the notice, assertion of deficiencies with respect to the Federal tax when deficiencies with respect to only a qualified tax (and not the Federal tax) were asserted for the taxable year in the notice, assertion of greater deficiencies before the Tax Court as provided in section 6214(a), mathematical errors as provided in section 6213(b)(1), termination assessments in section 6851 or 6852, or jeopardy assessments as provided in section 6861(c). Solely for purposes of applying the restriction of section 6212(c), a notice of deficiency with respect to second tier tax under chapter 43 shall be deemed to be a notice of deficiency for the taxable year in which the taxable event occurs. See

§ 53.4963–1(e)(7)(iii) or (iv) for the date on which the taxable event occurs.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7238, 37 FR 28739, Dec. 29, 1972; T.D. 7579, 43 FR 59360, Dec. 20, 1978; T.D. 7838, 47 FR 44249, Oct. 7, 1982; T.D. 7910, 48 FR 40376, Sept. 7, 1983; T.D. 8084, 51 FR 16305, May 2, 1986; T.D. 8628, 60 FR 62212, Dec. 5, 1995]

§ 301.6212–2 Definition of last known address.

(a) *General rule*. Except as provided in paragraph (b)(2) of this section, a taxpayer's last known address is the address that appears on the taxpayer's most recently filed and properly processed Federal tax return, unless the Internal Revenue Service (IRS) is given clear and concise notification of a different address. Further information on what constitutes clear and concise notification of a different address and a properly processed Federal tax return can be found in Rev. Proc. 90–18 (1990–1 C.B. 491) or in procedures subsequently prescribed by the Commissioner.

(b) *Address obtained from third party*—(1) *In general*. Except as provided in paragraph (b)(2) of this section, change of address information that a taxpayer provides to a third party, such as a payor or another government agency, is not clear and concise notification of a different address for purposes of determining a last known address under this section.

(2) *Exception for address obtained from the United States Postal Service*—(i) *Updating taxpayer addresses*. The IRS will update taxpayer addresses maintained in IRS records by referring to data accumulated and maintained in the United States Postal Service (USPS) National Change of Address database that retains change of address information for thirty-six months (NCOA database). Except as provided in paragraph (b)(2)(ii) of this section, if the taxpayer's name and last known address in IRS records match the taxpayer's name and old mailing address contained in the NCOA database, the new address in the NCOA database is the taxpayer's last known address, unless the IRS is given clear and concise notification of a different address.

(ii) *Duration of address obtained from NCOA database*. The address obtained from the NCOA database under paragraph (b)(2)(i) of this section is the taxpayer's last known address until one of the following events occurs—

(A) The taxpayer files and the IRS properly processes a Federal tax return with an address different from the address obtained from the NCOA database; or

(B) The taxpayer provides the Internal Revenue Service with clear and concise notification of a change of address, as defined in procedures prescribed by the Commissioner, that is different from the address obtained from the NCOA database.

(3) *Examples*. The following examples illustrate the rules of paragraph (b)(2) of this section:

Example 1. (i) A is an unmarried taxpayer. The address on A's 1999 Form 1040, U.S. Individual Income Tax Return, filed on April 14, 2000, and 2000 Form 1040 filed on April 13, 2001, is 1234 Anyplace Street, Anytown, USA 43210. On May 15, 2001, A informs the USPS of a new permanent address (9876 Newplace Street, Newtown, USA 12345) using the USPS Form 3575, ''Official Mail Forwarding Change of Address Form.'' The change of address is included in the weekly update of the USPS NCOA database. On May 29, 2001, A's address maintained in IRS records is changed to 9876 Newplace Street, Newtown, USA 12345.

(ii) In June 2001 the IRS determines a deficiency for A's 1999 tax year and prepares to issue a notice of deficiency. The IRS obtains A's address for the notice of deficiency from IRS records. On June 15, 2001, the Internal Revenue Service mails the notice of deficiency to A at 9876 Newplace Street, Newtown, USA 12345. For purposes of section 6212(b), the notice of deficiency mailed on June 15, 2001, is mailed to A's last known address.

Example 2. (i) The facts are the same as in *Example 1*, except that instead of determining a deficiency for A's 1999 tax year in June 2001, the IRS determines a deficiency for A's 1999 tax year in May 2001.

(ii) On May 21, 2001, the IRS prepares a notice of deficiency for A and obtains A's address from IRS records. Because A did not inform the USPS of the change of address in sufficient time for the IRS to process and post the new address in Internal Revenue Service's records by May 21, 2001, the notice of deficiency is mailed to 1234 Anyplace Street, Anytown, USA 43210. For purposes of section 6212(b), the notice of deficiency mailed on May 21, 2001, is mailed to A's last known address.

Example 3. (i) C and D are married taxpayers. The address on C and D's 2000 Form 1040, U.S. Individual Income Tax Return,

filed on April 13, 2001, and 2001 Form 1040 filed on April 15, 2002, is 2468 Spring Street, Little City, USA 97531. On August 15, 2002, D informs the USPS of a new permanent address (8642 Peachtree Street, Big City, USA 13579) using the USPS Form 3575, ''Official Mail Forwarding Change of Address Form.'' The change of address is included in the weekly update of the USPS NCOA database. On August 29, 2002, D's address maintained in IRS records is changed to 8642 Peachtree Street, Big City, USA 13579.

(ii) In October 2002 the IRS determines a deficiency for C and D's 2000 tax year and prepares to issue a notice of deficiency. The Internal Revenue Service obtains C's address and D's address for the notice of deficiency from IRS records. On October 15, 2002, the IRS mails a copy of the notice of deficiency to C at 2468 Spring Street, Little City, USA 97531, and to D at 8642 Peachtree Street, Big City, USA 13579. For purposes of section 6212(b), the notices of deficiency mailed on October 15, 2002, are mailed to C and D's respective last known addresses.

(c) *Last known address for all notices, statements, and documents.* The rules in paragraphs (a) and (b) of this section apply for purposes of determining whether all notices, statements, or other documents are mailed to a taxpayer's last known address whenever the term *last known address* is used in the Internal Revenue Code or the regulations thereunder.

(d) *Effective Date*—(1) *In general.* Except as provided in paragraph (d)(2) of this section, this section is effective on January 29, 2001.

(2) *Individual moves in the case of joint filers.* In the case of taxpayers who file joint returns under section 6013, if the NCOA database contains change of address information for only one spouse, paragraphs (b)(2) and (3) of this section will not apply to notices, statements, and other documents mailed before the processing of the taxpayers' 2000 joint return.

[T.D. 8939, 66 FR 2820, Jan. 12, 2001]

§ 301.6213–1 Restrictions applicable to deficiencies; petition to Tax Court.

(a) *Time for filing petition and restrictions on assessment*—(1) *Time for filing petition.* Within 90 days after notice of the deficiency is mailed (or within 150 days after mailing in the case of such notice addressed to a person outside the States of the Union and the District of Columbia), as provided in section 6212, a petition may be filed with the Tax Court of the United States for a redetermination of the deficiency. In determining such 90-day or 150-day period, Saturday, Sunday, or a legal holiday in the District of Columbia is not counted as the 90th or 150th day. In determining the time for filing a petition with the Tax Court in the case of a notice of deficiency mailed to a resident of Alaska prior to 12:01 p.m., e.s.t., January 3, 1959, and in the case of a notice of deficiency mailed to a resident of Hawaii prior to 4 p.m., e.d.s.t., August 21, 1959, the term ''States of the Union'' does not include Alaska or Hawaii, respectively, and the 150-day period applies. In determining the time within which a petition to the Tax Court may be filed in the case of a notice of deficiency mailed to a resident of Alaska after 12:01 p.m., e.s.t., January 3, 1959, and in the case of a notice of deficiency mailed to a resident of Hawaii after 4 p.m., e.d.s.t., August 21, 1959, the term ''States of the Union'' includes Alaska and Hawaii, respectively, and the 90-day period applies.

(2) *Restrictions on assessment.* Except as otherwise provided by this section, by sections 6851, 6852, and 6861(a) (relating to termination and jeopardy assessments), by section 6871(a) (relating to immediate assessment of claims for income, estate, and gift taxes in bankruptcy and receivership cases), or by section 7485 (in case taxpayer petitions for a review of a Tax Court decision without filing bond), no assessment of a deficiency in respect of a tax imposed by subtitle A or B or chapter 41, 42, 43, or 44 of the Code and no levy or proceeding in court for its collection shall be made until notice of deficiency has been mailed to the taxpayer, nor until the expiration of the 90-day or 150-day period within which a petition may be filed with the Tax Court, nor, if a petition has been filed with the Tax Court, until the decision of the Tax Court has become final. As to the date on which a decision of the Tax court becomes final, see section 7481. Notwithstanding the provisions of section 7421(a), the making of an assessment or the beginning of a proceeding or levy which is forbidden by this paragraph may be enjoined by a proceeding in the proper court. In any case where the running of

the time prescribed for filing a petition in the Tax Court with respect to a tax imposed by chapter 42 or 43 is suspended under section 6213(e), no assessment of a deficiency in respect of such tax shall be made until expiration of the entire period for filing the petition.

(b) *Exceptions to restrictions on assessment of deficiencies*—(1) *Mathematical errors*. If a taxpayer is notified of an additional amount of tax due on account of a mathematical error appearing upon the return, such notice is not deemed a notice of deficiency, and the taxpayer has no right to file a petition with the Tax Court upon the basis of such notice, nor is the assessment of such additional amount prohibited by section 6213(a).

(2) *Tentative carryback adjustments*. (i) If the district director or the director of the regional service center determines that any amount applied, credited, or refunded under section 6411(b) with respect to an application for a tentative carryback adjustment is in excess of the overassessment properly attributable to the carryback upon which such application was based, the district director or the director of the regional service center may assess the amount of the excess as a deficiency as if such deficiency were due to a mathematical error appearing on the return. That is, the district director or the director of the regional service center may assess an amount equal to the excess, and such amount may be collected, without regard to the restrictions on assessment and collection imposed by section 6213(a). Thus, the district director or the director of the regional service center may assess such amount without regard to whether the taxpayer has been mailed a prior notice of deficiency. Either before or after assessing such an amount, the district director or the director of the regional service center will notify the taxpayer that such assessment has been or will be made. Such notice will not constitute a notice of deficiency, and the taxpayer may not file a petition with the Tax Court of the United States based on such notice. However, the taxpayer, within the applicable period of limitation, may file a regular claim for credit or refund based on the carryback, if he has not already filed such a claim, and may maintain a suit based on such claim if it is disallowed or if it is not acted upon by the Internal Revenue Service within 6 months from the date the claim was filed.

(ii) The method provided in subdivision (i) of this subparagraph to recover any amount applied, credited, or refunded in respect of an application for a tentative carryback adjustment which should not have been so applied, credited, or refunded is not an exclusive method. Two other methods are available to recover such amount: (*a*) By way of a deficiency notice under section 6212; or (*b*) by a suit to recover an erroneous refund under section 7405. Any one or more of the three available methods may be used to recover any amount which was improperly applied, credited, or refunded in respect of an application for a tentative carryback adjustment.

(3) *Assessment of amount paid*. Any payment made after the mailing of a notice of deficiency which is made by the taxpayer as a payment with respect to the proposed deficiency may be assessed without regard to the restrictions on assessment and collection imposed by section 6213(a) even though the taxpayer has not filed a waiver of restrictions on assessment as provided in section 6213(d). A payment of all or part of the deficiency asserted in the notice together with the assessment of the amount so paid will not affect the jurisdiction of the Tax Court. If any payment is made before the mailing of a notice of deficiency, the district director or the director of the regional service center is not prohibited by section 6213(a) from assessing such amount, and such amount may be assessed if such action is deemed to be proper. If such amount is assessed, the assessment is taken into account in determining whether or not there is a deficiency for which a notice of deficiency must be issued. Thus, if such a payment satisfies the taxpayer's tax liability, no notice of deficiency will be mailed and the Tax Court will have no jurisdiction over the matter. In any case in which there is a controversy as to the correct amount of the tax liability, the assessment of any amount pursuant to the provisions of section 6213(b)(3) shall in no way be considered

to be the acceptance of an offer by the taxpayer to settle such controversy.

(4) *Jeopardy*. If the district director believes that the assessment or collection of a deficiency will be jeopardized by delay, such deficiency shall be assessed immediately, as provided in section 6861(a).

(c) *Failure to file petition*. If no petition is filed with the Tax Court within the period prescribed in section 6213(a), the district director or the director of the regional service center shall assess the amount determined as the deficiency and of which the taxpayer was notified by registered or certified mail and the taxpayer shall pay the same upon notice and demand therefor. In such case the district director will not be precluded from determining a further deficiency and notifying the taxpayer thereof by registered or certified mail. If a petition is filed with the Tax Court the taxpayer should notify the district director who issued the notice of deficiency that the petition has been filed in order to prevent an assessment of the amount determined to be the deficiency.

(d) *Waiver of restrictions*. The taxpayer may at any time by a signed notice in writing filed with the district director waive the restrictions on the assessment and collection of the whole or any part of the deficiency. The notice must in all cases be filed with the district director or other authorized official under whose jurisdiction the audit or other consideration of the return in question is being conducted. The filing of such notice with the Tax Court does not constitute filing with the district director within the meaning of the Code. After such waiver has been acted upon by the district director and the assessment has been made in accordance with its terms, the waiver cannot be withdrawn.

(e) *Suspension of filing period for certain chapter 42 and chapter 43 taxes*. The period prescribed by section 6213(a) for filing a petition in the Tax Court with respect to the taxes imposed by section 4941,4942, 4943, 4944, 4945, 4951, 4952, 4955, 4958, 4971, or 4975, shall be suspended for any other period which the Commissioner has allowed for making correction under § 53.4963–1(e)(3). Where the time for filing a petition with the Tax Court has been suspended under the authority of this paragraph (e), the extension shall not be reduced as a result of the correction being made prior to expiration of the period allowed for making correction.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7838, 47 FR 44250, Oct. 7, 1982; T.D. 8084, 51 FR 16035, May 2, 1986; T.D. 8628, 60 FR 62212, Dec. 5, 1995; T.D. 8920, 66 FR 2171, Jan. 10, 2001]

§ 301.6215–1 Assessment of deficiency found by Tax Court.

Where a petition has been filed with the Tax Court, the entire amount redetermined as the deficiency by the decision of the Tax Court which has become final shall be assessed by the district director or the director of the regional service center and the unpaid portion of the amount so assessed shall be paid by the taxpayer upon notice and demand therefor.

§ 301.6221–1 Tax treatment determined at partnership level.

(a) *In general*. A partner's treatment of partnership items on the partner's return may not be changed except as provided in sections 6222 through 6231 and the regulations thereunder. Thus, for example, if a partner treats an item on the partner's return consistently with the treatment of the item on the partnership return, the IRS generally cannot adjust the treatment of that item on the partner's return except through a partnership-level proceeding. Similarly, the taxpayer may not put partnership items in issue in a proceeding relating to nonpartnership items. For example, the taxpayer may not offset a potential increase in taxable income based on changes to nonpartnership items by a potential decrease based on partnership items.

(b) *Restrictions inapplicable after items become nonpartnership items*. Section 6221 and paragraph (a) of this section cease to apply to items arising from a partnership with respect to a partner when those items cease to be partnership items with respect to that partner under section 6231(b).

(c) *Penalties determined at partnership level*. Any penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item shall be determined at the partnership level.

Partner-level defenses to such items can only be asserted through refund actions following assessment and payment. Assessment of any penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item shall be made based on partnership-level determinations. Partnership-level determinations include all the legal and factual determinations that underlie the determination of any penalty, addition to tax, or additional amount, other than partner-level defenses specified in paragraph (d) of this section.

(d) *Partner-level defenses.* Partner-level defenses to any penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item may not be asserted in the partnership-level proceeding, but may be asserted through separate refund actions following assessment and payment. See section 6230(c)(4). Partner-level defenses are limited to those that are personal to the partner or are dependent upon the partner's separate return and cannot be determined at the partnership level. Examples of these determinations are whether any applicable threshold underpayment of tax has been met with respect to the partner or whether the partner has met the criteria of section 6664(b) (penalties applicable only where return is filed), or section 6664(c)(1) (reasonable cause exception) subject to partnership-level determinations as to the applicability of section 6664(c)(2).

(e) *Cross-references.* See §§ 301.6231(c)–1 and 301.6231(c)–2 for special rules relating to certain applications and claims for refund based on losses, deductions, or credits from abusive tax shelter partnerships.

(f) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6221–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50544, Oct. 4, 2001]

§ 301.6221(a)–1 Determination at partnership level.

(a) *In general.* Except as otherwise provided under subchapter C of chapter 63 of the Internal Revenue Code (subchapter C of chapter 63) and the regulations in this part, any adjustment to a partnership-related item (as defined in § 301.6241–1(a)(6)(ii)) is determined, any tax imposed by chapter 1 of the Internal Revenue Code (Code) attributable thereto is assessed and collected, and the applicability of any penalty, addition to tax, or additional amount that relates to an adjustment to any partnership-related item is determined at the partnership level under subchapter C of chapter 63.

(b) *Legal and factual determinations at the partnership level.* Except as otherwise provided under subchapter C of chapter 63, any legal or factual determinations underlying any adjustment or determination made in accordance with paragraph (a) of this section are also determined at the partnership level under subchapter C of chapter 63. For instance, determinations under this paragraph (b) include any determinations necessary to calculate the imputed underpayment or any modification of the imputed underpayment under section 6225 and the period of limitations on making adjustments under subchapter C of chapter 63.

(c) *Applicability date*—(1) *In general.* Except as provided in paragraph (c)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6531, Feb. 27, 2019]

§ 301.6221(b)–1 Election out for certain partnerships with 100 or fewer partners.

(a) *In general.* The provisions of subchapter C of chapter 63 of the Internal Revenue Code (subchapter C of chapter 63) do not apply for any partnership taxable year for which an eligible partnership under paragraph (b) of this section makes a valid election in accordance with paragraph (c) of this section. For rules regarding deficiency procedures, see subchapter B of chapter 63 of the Internal Revenue Code and §§ 301.6211–1 through 301.6215–1.

(b) *Eligible partnership*—(1) *In general.* Only an eligible partnership may make an election under this section. A partnership is an eligible partnership for purposes of this section if—

(i) The partnership has 100 or fewer partners as determined in accordance with paragraph (b)(2) of this section, and

(ii) Each statement the partnership is required to furnish under section 6031(b) for the partnership taxable year is furnished to a partner that was an eligible partner (as defined in paragraph (b)(3) of this section) for the partnership's entire taxable year.

(2) *100 or fewer partners*—(i) *In general.* Except as provided in paragraph (b)(2)(ii) of this section, a partnership has 100 or fewer partners if the partnership is required to furnish 100 or fewer statements under section 6031(b) for the taxable year.

(ii) *Special rule for S corporations.* For purposes of this paragraph (b)(2), a partnership with a partner that is an S corporation (as defined in section 1361(a)(1)) must take into account each statement required to be furnished by the S corporation to its shareholders under section 6037(b) for the taxable year of the S corporation ending with or within the partnership's taxable year.

(iii) *Examples.* The following examples illustrate the provisions of this paragraph (b)(2). For purposes of these examples, each partnership is required to file a return under section 6031(a):

Example 1. During its 2020 partnership taxable year, Partnership has four partners each owning an interest in Partnership. Two of the partners are Spouse 1 and Spouse 2 who are married to each other during all of 2020. Spouse 1 and Spouse 2 each own a separate interest in Partnership. The two other partners are unmarried individuals. Under section 6031(b), Partnership is required to furnish a separate statement (that is, Schedule K–1 (Form 1065), *Partner's Share of Income, Deductions, Credits, etc.*) to each individual partner, including separate statements to Spouse 1 and Spouse 2. Therefore, for purposes of this paragraph (b)(2), Partnership has four partners during its 2020 taxable year.

Example 2. The facts are the same as in *Example 1* of this paragraph (b)(2)(iii), except Spouse 2 does not separately own an interest in Partnership during 2020 and Spouse 1 and Spouse 2 live in a community property state, State A. Spouse 1 acquired the partnership interest in such a manner that by operation of State A law, Spouse 2 has a community property interest in Spouse 1's partnership interest. Because Spouse 2's community property interest in Spouse 1's partnership interest is not taken into account for purposes of determining the number of statements Partnership is required to furnish under section 6031(b), Partnership is required to furnish a statement to Spouse 1, but not to Spouse 2. Therefore, for purposes of this paragraph (b)(2), Partnership has three partners during its 2020 taxable year.

Example 3. At the beginning of 2020, Partnership, which has a taxable year ending December 31, 2020, has three partners—individuals A, B, and C. Each individual owns an interest in Partnership. On June 30, 2020, Individual A dies, and A's interest in Partnership becomes an asset of A's estate. A's estate owns the interest for the remainder of 2020. On September 1, 2020, B sells his interest in Partnership to Individual D, who holds the interest for the remainder of the year. Under section 6031(b), Partnership is required to furnish five statements for its 2020 taxable year—one each to Individual A, the estate of Individual A, Individual B, Individual C, and Individual D. Therefore, for purposes of this paragraph (b)(2), Partnership has five partners during its 2020 taxable year.

Example 4. During its 2020 taxable year, Partnership has 51 partners—50 partners who are individuals and S, an S corporation. S and Partnership are both calendar year taxpayers. S has 50 shareholders during the 2020 taxable year. Under section 6031(b), Partnership is required to furnish 51 statements for the 2020 taxable year—one to S and one to each of Partnership's 50 partners who are individuals. Under section 6037(b), S is required to furnish a statement (that is, Schedule K–1 (Form 1120–S), *Shareholder's Share of Income, Deductions, Credits, etc.*) to each of its 50 shareholders. Under paragraph (b)(2)(ii) of this section, the number of statements required to be furnished by S under section 6037(b), which is 50, is taken into account to determine whether partnership has 100 or fewer partners. Accordingly, for purposes of this paragraph (b)(2), Partnership has a total of 101 partners (51 statements furnished by Partnership to its partners plus 50 statements furnished by S to its shareholders) and is therefore not an eligible partnership under paragraph (b)(1) of this section. Because Partnership is not an eligible partnership, it cannot make the election under paragraph (a) of this section.

Example 5. During its 2020 taxable year, Partnership has two partners, A, an individual, and E, an estate of a deceased partner. E has 10 beneficiaries. Under section 6031(b), Partnership is required to furnish two statements, one to A and one to E. Any

statements that E may be required to furnish to its beneficiaries are not taken into account for purposes of this paragraph (b)(2). Therefore, for purposes of this paragraph (b)(2), Partnership has two partners.

(3) *Eligible Partners*—(i) *In general.* For purposes of paragraph (b)(1)(ii) of this section, the term *eligible partner* means a partner that is an individual, a C corporation (as defined by section 1361(a)(2)), an eligible foreign entity described in paragraph (b)(3)(iii) of this section, an S corporation, or an estate of a deceased partner. An S corporation is an eligible partner regardless of whether one or more shareholders of the S corporation are not an eligible partner.

(ii) *Partners that are not eligible partners.* A partner is not an eligible partner under paragraph (b)(3)(i) of this section if the partner is—

(A) A partnership,

(B) A trust,

(C) A foreign entity that is not an eligible foreign entity described in paragraph (b)(3)(iii) of this section,

(D) A disregarded entity described in § 301.7701–2(c)(2)(i),

(E) An estate of an individual other than a deceased partner, or

(F) Any person that holds an interest in the partnership on behalf of another person.

(iii) *Eligible foreign entity.* For purposes of this paragraph (b)(3), a foreign entity is an eligible partner if the foreign entity would be treated as a C corporation if it were a domestic entity. For purposes of the preceding sentence, a foreign entity would be treated as a C corporation if it were a domestic entity if the entity is classified as a per se corporation under § 301.7701–2(b)(1), (3), (4), (5), (6), (7), or (8), is classified by default as an association taxable as a corporation under § 301.7701–3(b)(2)(i)(B), or is classified as an association taxable as a corporation in accordance with an election under § 301.7701–3(c).

(iv) *Examples.* The following examples illustrate the rules of this paragraph (b)(3). For purposes of these examples, each partnership is required to file a return under section 6031(a):

Example 1. During the 2020 taxable year, Partnership has four equal partners. Two partners are individuals. One partner is a C corporation. The fourth partner, D, is a partnership. Because D is a partnership, D is not an eligible partner under paragraph (b)(3)(i) of this section. Accordingly, Partnership is not an eligible partnership under paragraph (b)(1) of this section and, therefore, cannot make the election under paragraph (a) of this section for its 2020 taxable year.

Example 2. During its 2020 taxable year, Partnership has four equal partners. Two partners are individuals. One partner is a C corporation. The fourth partner, S, is an S corporation. S has ten shareholders. One of S's shareholders is a disregarded entity, and one is a qualified small business trust. S is an eligible partner under paragraph (b)(3)(i) of this section even though S's shareholders would not be considered eligible partners if those shareholders held direct interests in Partnership. See paragraph (b)(3)(i) of this section. Accordingly, Partnership meets the requirements under this paragraph (b)(3) for its 2020 taxable year.

Example 3. During its 2020 taxable year, Partnership has two equal partners, A, an individual, and C, a disregarded entity, wholly owned by B, an individual. C is not an eligible partner under paragraph (b)(3)(i) of this section. Accordingly, Partnership is not an eligible partnership under paragraph (b)(1) of this section and, therefore, is ineligible to make the election under paragraph (a) of this section for its 2020 taxable year.

(c) *Election*—(1) *In general.* An election under this section must be made on the eligible partnership's timely filed return, including extensions, for the taxable year to which the election applies and include all information required by the Internal Revenue Service (IRS) in forms, instructions, or other guidance. An election is not valid unless the partnership discloses to the IRS all of the information required under paragraph (c)(2) of this section and, in the case of a partner that is an S corporation, the shareholders of such S corporation. An election once made may not be revoked without the consent of the IRS.

(2) *Disclosure of partner information to the IRS.* A partnership making an election under this section must disclose to the IRS information about each person that was a partner at any time during the taxable year of the partnership to which the election applies, including each partner's name and correct U.S. taxpayer identification number (TIN) (or alternative form of identification required by forms, instructions, or other guidance), each partner's Federal

tax classification, an affirmative statement that the partner is an eligible partner under paragraph (b)(3)(i) of this section, and any other information required by the IRS in forms, instructions, or other guidance. If a partner is an S corporation, the partnership must also disclose to the IRS information about each shareholder of the S corporation that was a shareholder at any time during the taxable year of the S corporation ending with or within the partnership's taxable year, including each shareholder's name and correct TIN (or alternative form of identification as prescribed by forms, instructions, or other guidance), each shareholder's Federal tax classification, and any other information required by the IRS in forms, instructions, or other guidance.

(3) *Partner notification.* A partnership that makes an election under this section must notify each of its partners of the election within 30 days of making the election in the form and manner determined by the partnership.

(d) *Election made by a partnership that is a partner* —(1) *In general.* The fact that a partnership has made an election under this section does not affect whether the provisions of subchapter C of chapter 63 apply to any other partnership, including a partnership in which the partnership making the election is a partner. Accordingly, the provisions of subchapter C of chapter 63 that apply to partners in a partnership that has not made an election under this section apply, to the extent provided in the regulations under subchapter C of chapter 63, to partners (that are themselves partnerships that have made an election under this section) in their capacity as partners in the other partnership.

(2) *Examples.* The following examples illustrate the rules of paragraph (d)(1) of this section. For purposes of these examples, each partnership is required to file a return under section 6031(a):

Example 1. During its 2020 taxable year, Partnership, a calendar year taxpayer, has two partners. One partner, A, is also a calendar year partnership. A files a valid election under this section with its timely filed partnership return for its 2020 taxable year. Partnership does not file an election under this section. Notwithstanding A's valid election under this section, with respect to A's interest in Partnership, A is subject to the rules applicable to partners in a partnership subject to the rules under subchapter C of chapter 63, including the consistency requirements of section 6222 and the regulations thereunder.

Example 2. The facts are the same as *Example 1* of this paragraph (d)(2). The IRS mails to Partnership a notice of final partnership adjustment under section 6231 with respect to Partnership's 2020 taxable year. Partnership timely elects the alternative to payment of imputed underpayment under section 6226 and the regulations thereunder. Partnership must provide A with a statement under section 6226 reflecting A's share of the adjustments for Partnership's 2020 taxable year. A is subject to the rules applicable to partners in a partnership subject to the rules under subchapter C of chapter 63 with respect to A's interest in Partnership.

(e) *Effect of an election*—(1) *In general.* An election made under this section is an action taken under subchapter C of chapter 63 by the partnership for purposes of section 6223. Accordingly, the partnership and all partners are bound by an election of the partnership under this section unless the IRS determines that the election is invalid. See § 301.6223–2 for the binding nature of actions taken by a partnership under subchapter C of chapter 63.

(2) *IRS determination that election is invalid.* If the IRS determines that an election under this section for a partnership taxable year is invalid, the IRS will notify the partnership in writing and the provisions of subchapter C of chapter 63 will apply to that partnership taxable year.

(f) *Applicability date.* These regulations are applicable to partnership taxable years beginning after December 31, 2017.

[T.D. 9829, 83 FR 31, Jan. 2, 2018]

§ 301.6222–1 Partner's return must be consistent with partnership return.

(a) *Consistent treatment of partnership-related items*—(1) *In general.* The treatment of partnership-related items (as defined in § 301.6241–1(a)(6)(ii)) on a partner's return must be consistent with the treatment of such items on the partnership return in all respects, including the amount, timing, and characterization of such items. A partner has not satisfied the requirement of this paragraph (a) if the treatment of the partnership-related item on the

partner's return is consistent with how such item was treated on a schedule or other information furnished to the partner by the partnership but inconsistent with the treatment of the item on the partnership return actually filed. For rules relating to the election to be treated as having reported the inconsistency where the partner treats a partnership-related item consistently with an incorrect schedule or other information furnished by the partnership, see paragraph (d) of this section. For purposes of this section, the term *partner's return* includes any return, statement, schedule, or list, and any amendment or supplement thereto, filed by the partner with respect to any tax imposed by the Internal Revenue Code (Code).

(2) *Partner that is a partnership with an election in effect under section 6221(b).* The rules of this section apply to all partners, including a partnership-partner (as defined in § 301.6241–1(a)(7)) that has an election in effect under section 6221(b) for any taxable year. Accordingly, unless the requirements of paragraph (c) of this section are satisfied, a partnership-partner must treat partnership-related items of a partnership in which it is a partner consistent with the treatment of such items on the partnership return filed by the partnership in which it is a partner.

(3) *Partnership does not file a return.* A partner's treatment of a partnership-related item attributable to a partnership that does not file a return is per se inconsistent.

(4) *Treatment of items on a partnership return.* For purposes of this section, the treatment of a partnership-related item on a partnership return includes—

(i) The treatment of such item on the partnership's return of partnership income filed with the Internal Revenue Service (IRS) under section 6031, and any amendment or supplement thereto, including an administrative adjustment request (AAR) filed pursuant to section 6227; and

(ii) The treatment of such item on any statement, schedule or list, and any amendment or supplement thereto, filed by the partnership with the IRS, including any statements filed pursuant to section 6226.

(5) *Examples.* The following examples illustrate the rules of this paragraph (a). For purposes of these examples, each partnership is subject to the provisions of subchapter C of chapter 63 of the Code (subchapter C of chapter 63), and each partnership and its partners are calendar year taxpayers, unless otherwise stated.

(i) *Example 1.* A is a partner in Partnership during 2018 and 2019. In December 2018, Partnership receives an advance payment for services to be performed in 2019 and reports this amount as income on its partnership return for 2018. A includes its distributive share of income from the advance payment on A's income tax return for 2019 and not on A's income tax return for 2018. A has not satisfied the requirements of paragraph (a) of this section because A's treatment of the income attributable to Partnership is inconsistent with the treatment of that item by Partnership on its partnership return.

(ii) *Example 2.* B is a partner in Partnership during 2018. Partnership incurred start-up costs before it was actively engaged in its business. Partnership capitalized these costs on its 2018 partnership return. B deducted his distributive share of the start-up costs on B's 2018 income tax return. B has not satisfied the requirements of paragraph (a) of this section because B's treatment of the start-up costs is inconsistent with the treatment of that item by Partnership on its partnership return.

(iii) *Example 3.* C is a partner in Partnership during 2018. Partnership reports a loss of $100,000 on its partnership return for 2018. On the 2018 Schedule K–1 attached to the partnership return, Partnership reports $5,000 as C's distributive share of that loss. On the 2018 Schedule K–1 furnished to C, however, Partnership reports $15,000 as C's distributive share of the loss. C reports the $15,000 loss on C's 2018 income tax return. C has not satisfied the requirements of paragraph (a) of this section because C reported C's distributive share of the loss in a manner that is inconsistent with how C's distributive share of the loss was reported on the 2018 partnership return actually filed. See, however, paragraph (d) of this section for the election to be treated as

having reported the inconsistency where the partner treats an item consistently with an incorrect schedule.

(iv) *Example 4.* D was a partner in Partnership during 2018. Partnership reports a loss of $100,000 on its partnership return for 2018. In 2020, Partnership files an AAR under section 6227 reporting that the amount of the loss on its 2018 partnership return is $90,000, rather than $100,000 as originally reported. Pursuant to section 6227, Partnership elects to have its partners take the adjustment into account, and furnishes D a statement showing D's share of the reduced loss for 2018. D fails to take his share of the reduced loss for 2018 into account in accordance with section 6227. D has not satisfied the requirements of paragraph (a) of this section because D has not taken into account his share of the loss in a manner consistent with how Partnership treated such items on the partnership return actually filed.

(v) *Example 5.* E was a partner in Partnership during 2018. In 2021, Partnership receives a notice of final partnership adjustment (FPA) in an administrative proceeding under subchapter C of chapter 63 with respect to Partnership's 2018 taxable year. The FPA reflects an imputed underpayment. Partnership properly elects the application of section 6226 with respect to the imputed underpayment and files with the IRS and furnishes to E a statement of E's share of adjustments with respect to Partnership's 2018 taxable year. E fails to take his share of the adjustments into account in accordance with section 6226. E has not satisfied the requirements of paragraph (a) of this section because E has not taken into account his share of adjustments with respect to Partnership's 2018 taxable year in a manner consistent with how Partnership treated such items on the section 6226 statement filed with the IRS.

(vi) *Example 6.* F was a partner in Partnership during 2018. F has a valid election under section 6221(b) in effect with respect to F's 2018 partnership taxable year. Notwithstanding F's election under section 6221(b) for its 2018 taxable year, F is subject to section 6222 for taxable year 2018. F must treat, on its 2018 partnership return, any items attributable to F's interest in Partnership in a manner that is consistent with the treatment of those items on the 2018 partnership return actually filed by Partnership.

(vii) *Example 7.* G was a partner in Partnership during 2018. G's taxable year ends on the same day as Partnership's 2018 taxable year. Partnership did not file a partnership return for its 2018 taxable year. G files an income tax return for its 2018 taxable year and reports G's share of a loss attributable to G's interest in Partnership. Because Partnership failed to file a partnership return, G's treatment of such loss is per se inconsistent pursuant to paragraph (a)(3) of this section.

(b) *Effect of inconsistent treatment*—(1) *Determination of underpayment of tax resulting from inconsistent treatment.* If a partner fails to satisfy the requirements of paragraph (a) of this section, unless the partner provides notice in accordance with paragraph (c) of this section, the IRS may adjust the inconsistently reported partnership-related item on the partner's return to make it consistent with the treatment of such item on the partnership return (or where no partnership return was filed, remove any treatment of such items from the partner's return) and determine any underpayment of tax that results from that adjustment. For purposes of this section, except as provided in paragraph (b)(3) of this section, the underpayment of tax is the amount by which the correct tax, as determined by making the partner's return consistent with the partnership return, exceeds the tax shown on the partner's return.

(2) *Assessment and collection of tax.* The IRS may assess and collect any underpayment of tax resulting from an adjustment described in paragraph (b)(1) of this section in the same manner as if the underpayment of tax were on account of a mathematical or clerical error appearing on the partner's return, except that the procedures under section 6213(b)(2) for requesting abatement of an assessment do not apply.

(3) *Effect when partner is a partnership.* For the effect of a failure to satisfy the requirements of paragraph (a) of this section where the partner is

itself a partnership (a partnership-partner), see section 6232(d)(1)(B) and § 301.6232–1(d).

(4) *Examples*. The following examples illustrate the rules of this paragraph (b). For purposes of these examples, each partnership is subject to the provisions of subchapter C of chapter 63, and each partnership and its partners are calendar year taxpayers, unless otherwise stated.

(i) *Example 1*. H, an individual, is a partner in Partnership. On its partnership return for taxable year 2018, Partnership reports $100,000 in ordinary income. On the Schedule K–1 attached to the partnership return, as well as on the Schedule K–1 furnished to H, Partnership reports $15,000 as H's distributive share of the $100,000 in ordinary income. H reports only $5,000 of the $15,000 of ordinary income on his 2018 income tax return. The IRS may determine the amount of tax that results from adjusting the ordinary income attributable to H's interest in Partnership reported on H's 2018 income tax return from $5,000 to $15,000 and assess that resulting underpayment in tax as if it were on account of a mathematical or clerical error appearing on H's return. H may not request an abatement of that assessment under section 6213(b).

(ii) *Example 2*. J was a partner in Partnership during 2018. In 2021, Partnership receives an FPA in an administrative proceeding under subchapter C of chapter 63 with respect to Partnership's 2018 taxable year. The FPA reflects an imputed underpayment. Partnership properly elects the application of section 6226 with respect to the imputed underpayment and files with the IRS and furnishes to J a statement of J's share of adjustments with respect to Partnership's 2018 taxable year. J fails to report one adjustment reflected on the statement, J's share of a decrease in the amount of losses for 2018, on J's return as required by section 6226. The IRS may determine the amount of tax that results from adjusting the decrease in the amount of losses on J's return to be consistent with the amount included on the section 6226 statement filed with the IRS and may assess the resulting underpayment in tax as if it were on account of a mathematical or clerical error appearing on J's return. J may not request an abatement of that assessment under section 6213(b).

(c) *Notification to the IRS when items attributable to a partnership are treated inconsistently*—(1) *In general*. Paragraphs (a) and (b) of this section (regarding the consistent treatment of partnership-related items and the effect of inconsistent treatment) do not apply to partnership-related items identified as inconsistent (or that may be inconsistent) in a statement that the partner provides to the IRS according to the forms, instructions, and other guidance prescribed by the IRS. Instead, the procedures in paragraph (c)(3) of this section apply. A statement does not identify an inconsistency for purposes of this paragraph (c) unless it is attached to the partner's return on which the partnership-related item is treated inconsistently.

(2) *Coordination with section 6223*. Paragraph (c)(1) of this section is not applicable to a partnership-related item the treatment of which is binding on the partner because of actions taken by the partnership under subchapter C of chapter 63 or because of a final decision in a proceeding with respect to the partnership under subchapter C of chapter 63. For instance, the provisions of paragraph (c)(1) of this section do not apply with respect to the partner's treatment of a partnership-related item reflected on a statement described in § 301.6226–2 filed by the partnership with the IRS. See § 301.6226–1(e) (regarding the binding nature of statements described in § 301.6226–2). Any underpayment resulting from the inconsistent treatment of an item described in this paragraph (c)(2) may be assessed and collected in accordance with paragraph (b)(2) of this section.

(3) *Partner protected only to extent of notification*. A partner who reports the inconsistent treatment of a partnership-related item is not subject to paragraphs (a) and (b) of this section only with respect to those items identified in the statement described in paragraph (c)(1) of this section. Thus, if a partner notifying the IRS with respect to one partnership-related item does not report the inconsistent treatment of another partnership-related item,

the IRS may determine the amount of tax that results from adjusting the unidentified, inconsistently reported item on the partner's return to make it consistent with the treatment of such item on the partnership return and assess the resulting underpayment of tax in accordance with paragraph (b)(2) of this section.

(4) *Adjustment after notification*—(i) *In general*. If a partner notifies the IRS of the inconsistent treatment of a partnership-related item in accordance with paragraph (c)(1) of this section and the IRS disagrees with the inconsistent treatment, the IRS may adjust the identified, inconsistently reported item in a proceeding with respect to the partner. Nothing in this paragraph (c)(4)(i) precludes the IRS from also conducting a proceeding with respect to the partnership. If the IRS conducts a proceeding with respect to the partnership regarding the identified, inconsistently reported item, each partner of the partnership, including any partner that notified the IRS of inconsistent treatment in accordance with paragraph (c)(1) of this section, is bound by actions taken by the partnership and by any final decision in the proceeding with respect to the partnership. See paragraph (c)(2) of this section.

(ii) *Adjustments in partner proceeding*. In a proceeding with respect to a partner described in paragraph (c)(4)(i) of this section, the IRS may adjust any identified, inconsistently reported partnership-related item to make the item consistent with the treatment of that item on the partnership return or determine that the correct treatment of such item differs from the treatment on the partnership return and instead adjust the item to reflect the correct treatment, notwithstanding the treatment of that item on the partnership return. The IRS may also adjust any item on the partner's return, including items that are not partnership-related items. Any final decision with respect to an inconsistent position in a proceeding to which the partnership is not a party is not binding on the partnership.

(5) *Limitation on treating partnership-related items inconsistently after notice of administrative proceeding*. After a notice of administrative proceeding with respect to a partnership taxable year has been mailed by the IRS under section 6231, a partner may not notify the IRS the partner is treating a partnership-related item on the partner's return inconsistently with how such item was treated on the partnership return for such taxable year, except as provided in § 301.6225–2.

(6) *Examples*. The following examples illustrate the rules of this paragraph (c). For purposes of these examples, each partnership is subject to the provisions of subchapter C of chapter 63, and each partnership and partner is a calendar year taxpayer, unless otherwise stated.

(i) *Example 1*. K is a partner in Partnership during 2018. K treats a deduction and a capital gain attributable to Partnership on K's 2018 income tax return in a manner that is inconsistent with the treatment of those items by Partnership on its 2018 partnership return. K reports the inconsistent treatment of the deduction in accordance with paragraph (c)(1) of this section, but not the inconsistent treatment of the gain. Because K did not notify the IRS of the inconsistent treatment of the gain in accordance with paragraph (c)(1) of this section, the IRS may determine the amount of tax that results from adjusting the gain reported on K's 2018 income tax return in order to make the treatment of that gain consistent with how the gain was treated on Partnership's partnership return. Pursuant to paragraph (c)(3) of this section, the IRS may assess and collect the underpayment of tax resulting from the adjustment to the gain as if it were on account of a mathematical or clerical error appearing on K's return.

(ii) *Example 2*. L is a partner in Partnership during 2018. On its 2018 partnership return, Partnership treats partner L's distributive share of ordinary loss attributable to Partnership as $8,000. L, however, claims an ordinary loss of $9,000 as attributable to Partnership on its 2018 income tax return and notifies the IRS of the inconsistent treatment in accordance with paragraph (c)(1) of this section. As a result of the notice of inconsistent treatment, the IRS conducts a separate proceeding under subchapter B of chapter 63 of the Internal Revenue Code with respect to L's 2018

income tax return, a proceeding to which Partnership is not a party. During the proceeding, the IRS determines that the proper amount of L's distributive share of the ordinary loss from Partnership is $3,000. During the same proceeding, the IRS also determines that L overstated a charitable contribution deduction in the amount of $2,500 on its 2018 income tax return. The determination of the adjustment of L's share of ordinary loss is not binding on Partnership. The charitable contribution deduction is not attributable to Partnership or to another partnership subject to the provisions of subchapter C of chapter 63. The IRS may determine the amount of tax that results from adjusting the $9,000 ordinary loss deduction to $3,000 and from adjusting the charitable contribution deduction. Pursuant to paragraph (c)(4)(ii) of this section, the IRS is not limited to only adjusting the ordinary loss of $9,000, as originally reported on L's partner return, to $8,000, as originally reported by Partnership on its partnership return, nor is the IRS prohibited from adjusting the charitable contribution deduction in the proceeding with respect to L.

(d) *Partner receiving incorrect information*—(1) *In general*. A partner is treated as having complied with section 6222(c)(1)(B) and paragraph (c)(1) of this section with respect to a partnership-related item if the partner—

(i) Demonstrates that the treatment of such item on the partner's return is consistent with the treatment of that item on the statement, schedule, or other form prescribed by the IRS and furnished to the partner by the partnership; and

(ii) The partner makes an election in accordance with paragraph (d)(2) of this section.

(2) *Time and manner of making election*—(i) *In general*. An election under paragraph (d) of this section must be filed in writing with the IRS office set forth in the notice that notified the partner of the inconsistency no later than 60 days after the date of such notice.

(ii) *Contents of election*. The election described in paragraph (d)(2)(i) of this section must be—

(A) Clearly identified as an election under section 6222(c)(2)(B);

(B) Signed by the partner making the election;

(C) Accompanied by a copy of the statement, schedule, or other form furnished to the partner by the partnership and a copy of the IRS notice that notified the partner of the inconsistency; and

(D) Include any other information required in forms, instructions, or other guidance prescribed by the IRS.

(iii) *Treatment of partnership-related item is unclear*. Generally, the requirement described in paragraph (d)(2)(ii)(C) of this section will be satisfied by attaching a copy of the statement, schedule, or other form furnished to the partner by the partnership to the election (in addition to a copy of the IRS notice that notified the partner of the inconsistency). However, if it is not clear from the statement, schedule, or other form furnished by the partnership that the partner's treatment of the partnership-related item on the partner's return is consistent, the election must also include an explanation of how the treatment of such item on the statement, schedule, or other form furnished by the partnership is consistent with the treatment of the item on the partner's return, including with respect to the characterization, timing, and amount of such item.

(3) *Example*. M is a partner in Partnership for 2018. Partnership is subject to subchapter C of chapter 63, and both Partnership and M are calendar year taxpayers. On its 2018 partnership return, Partnership reports that M's distributive share of ordinary income attributable to Partnership is $1,000. Partnership furnishes to M a Schedule K–1 for 2018 showing $500 as M's distributive share of ordinary income. M reports $500 of ordinary income attributable to Partnership on its 2018 income tax return consistent with the Schedule K–1 furnished to M. The IRS notifies M that M's treatment of the ordinary income attributable to Partnership on its 2018 income tax return is inconsistent with how Partnership treated the ordinary income allocated to M on its 2018 partnership return. Within 60 days of receiving the notice

from the IRS of the inconsistency, M files an election with the IRS in accordance with paragraph (d)(2) of this section. Because M made a valid election under section 6222(c)(2)(B) and paragraph (d)(1) of this section, M is treated as having notified the IRS of the inconsistency with respect to the ordinary income attributable to Partnership under paragraph (c)(1) of this section.

(e) *Applicability date*—(1) *In general.* Except as provided in paragraph (e)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6531, Feb. 27, 2019]

§ 301.6222(a)–1 Consistent treatment of partnership items.

(a) *In general.* The treatment of a partnership item on the partner's return must be consistent with the treatment of that item by the partnership on the partnership return in all respects including the amount, timing, and characterization of the item.

(b) *Treatment must be consistent with partnership return.* The treatment of a partnership item on the partner's return must be consistent with the treatment of that item on the partnership return. Thus, a partner who treats an item consistently with a schedule or other information furnished to the partner by the partnership has not satisfied the requirement of paragraph (a) of this section if the treatment of that item is inconsistent with the treatment of the item on the partnership return actually filed. For rules relating to the election to be treated as having reported the inconsistency where the partner treats an item consistently with an incorrect schedule, see § 301.6222(b)–3.

(c) *Examples.* The following examples illustrate the principles of this section:

Example 1. B is a partner of Partnership P. Both B and P use the calendar year as the taxable year. In December 2001, P receives an advance payment for services to be performed in 2002 and reports this amount as income for calendar year 2001. However, B reports B's distributive share of this amount on B's income tax return for 2002 and not on B's return for 2001. B's treatment of this partnership item is inconsistent with the treatment of the item by P.

Example 2. Partnership P incurred certain start-up costs before P was actively engaged in its business. P capitalized these costs. C, a partner in P, deducted C's proportionate share of these start-up costs. C's treatment of the partnership expenditure is inconsistent with the treatment of that item by P.

Example 3. D is a partner in partnership P. P reports a loss of $100,000 on its return, $5,000 of which it reports on the Schedule K–1 attached to its return as D's distributive share. However, P reports $15,000 as D's distributive share of P's loss on the Schedule K–1 furnished to D. D reports the $15,000 loss on D's income tax return. D has not satisfied the consistent reporting requirement. See, however, § 301.6222(b)–3 for an election to be treated as having reported the inconsistency.

(d) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001.

For years beginning prior to October 4, 2001, see § 301.6222(a)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50545, Oct. 4, 2001]

§ 301.6222(a)–2 Application of consistent reporting and notification rules to indirect partners.

(a) *In general.* The consistent reporting requirement of § 301.6222(a)–1 is generally applied with respect to the source partnership. For purposes of this section, the term *source partnership* means the partnership (within the meaning of section 6231(a)(1)) from which the partnership item originates.

(b) *Indirect partner files consistently with source partnership.* An indirect partner who treats an item from a source partnership in a manner consistent with the treatment of that item on the source partnership's return satisfies the consistency requirement of section 6222(a) regardless of whether the indirect partner treats that item in a manner consistent with the treatment of that item by the pass-thru partner through which the indirect partner holds the interest in the source partnership. Under these circumstances, therefore, the Internal Revenue Service shall not send to the

indirect partner the notice described in section 6231(b)(1)(A).

(c) *Indirect partner files inconsistently with source partnership*—(1) *Indirect partner notifies the Internal Revenue Service of inconsistency*. An indirect partner who—

(i) Treats an item from a source partnership in a manner inconsistent with the treatment of that item on the source partnership's return; and

(ii) Files a statement identifying the inconsistency with the source partnership in accordance with § 301.6222(c)–1, shall not be subject to a computational adjustment to conform the treatment of that item to the treatment of that item on the return of the source partnership.

(2) *Indirect partner does not notify the Internal Revenue Service of inconsistency*. Except as provided in paragraph (b)(3) of this section, an indirect partner who—

(i) Treats an item from a source partnership in a manner inconsistent with the treatment of that item on the source partnership's return; and

(ii) Fails to file a statement identifying the inconsistency with the source partnership in accordance with § 301.6222(b)–1, is subject to a computational adjustment to conform the treatment of that item to the treatment of that item on the return of the source partnership.

(3) *Indirect partner files consistently with a pass-thru partner that notifies the Internal Revenue Service of the inconsistency*. If an indirect partner treats an item from a source partnership in a manner consistent with the treatment of that item by a pass-thru partner through which the indirect partner holds the interest in the source partnership and that pass-thru partner—

(i) Treats that item in a manner inconsistent with the treatment of that item on the source partnership's return; and

(ii) Files a statement identifying the inconsistency with the source partnership in accordance with § 301.6222(b)–1, the indirect partner is not subject to a computational adjustment to conform to the treatment of that item on the return of the source partnership.

(d) *Examples*. The following examples illustrate the principles of this section:

Example 1. One of the partners in Partnership A is Partnership B, which has four equal partners C, D, E, and F. Both A and B are partnerships within the meaning of section 6231(a)(1). On its return, A reports $100,000 as B's distributive share of A's ordinary income. B, however, reports only $80,000 as its distributive share of the income and does not notify the Internal Revenue Service of this inconsistent treatment with respect to A. C reports $20,000 as its distributive share of the item. Although C reports the item consistently with B, C is subject to a computational adjustment to conform the treatment of that item on C's return to the treatment of that item on A's return.

Example 2. Assume the same facts as in Example 1, except that B notified the Internal Revenue Service of its inconsistent treatment with respect to source partnership A. C is not subject to a computational adjustment.

Example 3. Assume the same facts as in *Example 1*. D reports only $15,000 as D's distributive share of the income and does not report the inconsistency. F reports only $9,000 as its distributive share of the item but reports this inconsistency with respect to source partnership A. D is subject to a computational adjustment to conform the treatment of that item on D's return to the treatment of that item on A's return. F is not subject to a computational adjustment.

Example 4. Assume the same facts as in *Example 3*, except that F reported the inconsistency with respect to B and did not report the inconsistency with respect to source partnership A. F is subject to a computational adjustment to conform the treatment of that item on F's return to the treatment of that item on A's return.

Example 5. Assume the same facts as in Example 1. E reports $25,000 as its distributive share of the item. Regardless of whether E reports the inconsistency between its treatment of the item and that by B, E is neither subject to a computational adjustment to conform E's treatment of that item to that of B nor subject to the notice described in section 6231(b)(1)(A) with respect to any such notification of inconsistent treatment.

(e) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6222(a)–2T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50545, Oct. 4, 2001]

§ 301.6222(b)–1 Notification to the Internal Revenue Service when partnership items are treated inconsistently.

(a) *In general.* The statement identifying an inconsistency described in section 6222(b)(1)(B) shall be filed by filing the form prescribed for that purpose in accordance with the instructions accompanying that form.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6222(b)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50546, Oct. 4, 2001]

§ 301.6222(b)–2 Effect of notification of inconsistent treatment.

(a) *In general.* Generally, if a partner treats a partnership item on the partner's return in a manner inconsistent with the treatment of that item on the partnership return, the Internal Revenue Service may make a computational adjustment to conform the treatment of the item by the partner with the treatment of that item on the partnership return. Any additional tax resulting from that computational adjustment may be assessed without either the commencement of a partnership proceeding or notification to the partner that all partnership items arising from that partnership will be treated as nonpartnership items. However, if a partner notifies the Internal Revenue Service of the inconsistent treatment of a partnership item in the manner prescribed in § 301.6222(b)–1, the Internal Revenue Service generally may not make an adjustment with respect to that partnership item unless the Internal Revenue Service—

(1) Conducts a partnership-level proceeding; or

(2) Notifies the partner under section 6231(b)(1)(A) that all partnership items arising from that partnership will be treated as nonpartnership items. See, however, §§ 301.6231(c)–1 and 301.6231(c)–2 for special rules relating to certain applications and claims for refund based on losses, deductions, or credits from abusive tax shelter partnerships.

(b) *Partner protected only to extent of notification.* (1) A partner who reports the inconsistent treatment of partnership items on the partner's return is protected from computational adjustments under section 6222(c) only with respect to those partnership items the inconsistent treatment of which is reported. Thus, if a partner notifying the Internal Revenue Service with respect to one item fails to report the inconsistent treatment of another item, the partner is subject to a computational adjustment with respect to that other item.

(2) The following example illustrates the principles of this paragraph (b):

Example. Partner A of Partnership P treats a deduction and a capital gain arising from P on A's return in a manner that is inconsistent with the treatment of those items by P. A reports the inconsistent treatment of the deduction but not of the gain. A is subject to a computational adjustment under section 6222(c) with respect to the gain.

(c) *Adjustments in a separate proceeding not limited to conforming adjustments.* (1) If the Internal Revenue Service conducts a separate proceeding with a partner whose partnership items are treated as nonpartnership items under section 6231(b), the Internal Revenue Service is not limited to making adjustments that merely conform the partner's return to the partnership return.

(2) *Example.* The following example illustrates the principles of this paragraph (c):

Example. Partnership P allocates to E, one of its partners, a loss of $8,000. E, however, claims a loss of $9,000 and reports the inconsistent treatment. The Internal Revenue Service notifies E that it will treat all of E's partnership items arising from P as nonpartnership items. As a result of a separate proceeding with E, the Internal Revenue Service may issue a deficiency notice which could include reducing the loss to $3,000.

(d) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6222(b)–2T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50546, Oct. 4, 2001]

§ 301.6222(b)–3 Partner receiving incorrect schedule.

(a) *In general.* A partner shall be treated as having complied with section 6222(b)(1)(B) and § 301.6222(b)–1 with

respect to a partnership item if the partner—

(1) Demonstrates that the treatment of the partnership item on the partner's return is consistent with the treatment of that item on the schedule prescribed by the Internal Revenue Service and furnished to the partner by the partnership showing the partner's share of income, credits, deductions, etc.; and

(2) Elects in accordance with the rules prescribed in paragraph (b) of this section to have this section apply with respect to that item.

(b) *Election provisions*—(1) *Time and manner of making election*. The election described in paragraph (a) of this section shall be made by filing a statement with the Internal Revenue Service office issuing the notice of computational adjustment within 30 days after the notice is mailed to the partner.

(2) *Contents of statement*. The statement described in paragraph (b)(1) of this section shall be—

(i) Clearly identified as an election under section 6222(b)(2);

(ii) Signed by the partner making the election; and

(iii) Accompanied by copies of the schedule furnished to the partner by the partnership and of the notice of computational adjustment. The partner need not enclose a copy of the notice of computational adjustment, however, if the partner clearly identifies the notice of computational adjustment. Generally, the requirement described in paragraph (a)(1) of this section will be satisfied by attaching to the statement a copy of the schedule furnished to the partner by the partnership. However, if it is not clear from the information contained on the schedule that the treatment of the partnership item on the schedule is consistent with the partner's treatment of such item on the partner's return the statement shall also include an explanation of how the treatment of such item on the schedule is consistent with the treatment on the partner's return with respect to the characterization, timing, and amount of such item.

(c) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6222(b)–3T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50546, Oct. 4, 2001]

§ 301.6223–1 Partnership representative.

(a) *Each partnership must have a partnership representative*. A partnership subject to subchapter C of chapter 63 of the Internal Revenue Code (subchapter C of chapter 63) for a partnership taxable year must designate a partnership representative for the partnership taxable year in accordance with this section. There may be only one designated partnership representative for a partnership taxable year at any time. The designation of a partnership representative for a partnership taxable year under this section remains in effect until the date on which the designation of the partnership representative is terminated by valid resignation (as described in paragraph (d) of this section), valid revocation (as described in paragraph (e) of this section), or a determination by the Internal Revenue Service (IRS) that the designation is not in effect (as described in paragraph (f) of this section). A designation of a partnership representative for a partnership taxable year under paragraphs (e) or (f) of this section supersedes all prior designations of a partnership representative for that year. If required by forms, instructions, and other guidance prescribed by the IRS, a partnership representative must update the partnership representative's contact information when such information changes. Only a person designated as a partnership representative in accordance with this section will be recognized as the partnership representative under section 6223. A power of attorney (including a Form 2848, Power of Attorney) may not be used to designate a partnership representative. See § 301.6223–2(a), (b), and (c) with regard to the binding effect of actions taken by the partnership representative. See § 301.6223–2(d) with regard to the sole authority of the partnership representative to act on behalf of the partnership. See paragraph (f) of this section for rules regarding designation of a partnership representative by the IRS.

(b) *Eligibility to serve as a partnership representative*—(1) *In general.* Any person (as defined in section 7701(a)(1)) that meets the requirements of paragraphs (b)(2) and (3) of this section, as applicable, is eligible to serve as a partnership representative, including a wholly owned entity disregarded as separate from its owner for federal tax purposes. A person designated under this section as partnership representative is deemed to be eligible to serve as the partnership representative unless and until the IRS determines that the person is ineligible. A partnership can designate itself as its own partnership representative provided it meets the requirements of paragraphs (b)(2) and (3) of this section.

(2) *Substantial presence in the United States.* A person must have substantial presence in the United States to be the partnership representative. A person has substantial presence in the United States for the purposes of this section if—

(i) The person makes themselves available to meet in person with the IRS in the United States at a reasonable time and place as determined by the IRS in accordance with § 301.7605–1; and

(ii) The person has a United States taxpayer identification number, a street address that is in the United States and a telephone number with a United States area code.

(3) *Eligibility of an entity to be a partnership representative*—(i) *In general.* A person who is not an individual may be a partnership representative only if an individual who meets the requirements of paragraph (b)(2) of this section is appointed by the partnership as the sole individual through whom the partnership representative will act for all purposes under subchapter C of chapter 63. A partnership representative meeting the requirements of this paragraph (b)(3) is an *entity partnership representative*, and the individual through whom such entity partnership representative acts is the *designated individual.* Designated individual status automatically terminates on the date that the designation of the entity partnership representative for which the designated individual was appointed is no longer in effect in accordance with paragraph (d), (e), or (f) of this section.

(ii) *Appointment of a designated individual.* A designated individual must be appointed by the partnership at the time of the designation of the entity partnership representative in the manner prescribed by the IRS in forms, instructions, and other guidance. Accordingly, if the entity partnership representative is designated on the partnership return for the taxable year in accordance with paragraph (c)(2) of this section, the designated individual must be appointed by the partnership at that time. Similarly, if the entity partnership representative is designated under paragraph (e) of this section (regarding revocation and subsequent designation after revocation of a partnership representative), the designated individual must be appointed at that time. If the partnership fails to appoint a designated individual at the time and in the manner set forth in this paragraph (b)(3)(ii), the IRS may determine that the entity partnership representative designation is not in effect under paragraph (f) of this section.

(4) *Examples.* The following examples illustrate the rules of this paragraph (b).

Example 1. Partnership designates PR as its partnership representative for its 2018 tax year on its timely filed 2018 partnership return. The IRS initiates an administrative proceeding with respect to Partnership's 2018 tax year. PR has a United States taxpayer identification number, a United States street address, and a phone number with a United States area code. The IRS contacts PR and requests an in-person meeting with respect to the administrative proceeding. PR works with the IRS and agrees to meet. PR has substantial presence in the United States because she meets all the requirements under paragraph (b)(2) of this section.

Example 2. The facts are the same as in *Example 1* of this paragraph (b)(4), except that PR is an entity and Partnership appointed DI, a designated individual to act on behalf of PR for its 2018 tax year on its timely filed 2018 partnership return. DI has a United States taxpayer identification number and a phone number with a United States area code. However, the address provided for DI is not a United States address. Accordingly, PR is not an eligible partnership representative because PR is an entity and DI does not satisfy the requirements of paragraph (b)(3)(i) of this section. Although DI does not have substantial presence in the United States under

paragraph (b)(2) of this section and therefore PR is not an eligible partnership representative, until there is a resignation or revocation under paragraph (d) or (e) of this section or until the IRS determines the partnership representative designation is no longer in effect under paragraph (f) of this section, the designation of PR as the partnership representative remains in effect in accordance with paragraph (a) of this section, and Partnership and all its partners are bound by the actions of PR as the partnership representative.

Example 3. The facts are the same as in *Example 1* of this paragraph (b)(4), except PR works in a foreign country and spends the majority of her time there. Unless PR otherwise fails to meet one of the requirements under paragraph (b)(2) of this section, PR has substantial presence in the United States. However, even if PR fails to meet one of the requirements under paragraph (b)(2) of this section, until there is a resignation or revocation under paragraph (d) or (e) of this section or until the IRS determines the partnership representative designation is no longer in effect under paragraph (f) of this section, the designation of PR as the partnership representative remains in effect in accordance with paragraph (a) of this section, and Partnership and all its partners are bound by the actions of PR as the partnership representative.

(c) *Designation of partnership representative by the partnership*—(1) *In general*. The partnership must designate a partnership representative separately for each taxable year. The designation of a partnership representative for one taxable year is effective only for the taxable year for which it is made.

(2) *Designation*. Except in the case of a designation of a partnership representative (and the appointment of the designated individual, if applicable) after an event described in paragraph (d) of this section (regarding resignation), paragraph (e) of this section (regarding revocation by the partnership), or paragraph (f) of this section (regarding designation made by the IRS), or except as prescribed in forms, instructions, and other guidance, designation of a partnership representative (and the appointment of the designated individual, if applicable) must be made on the partnership return for the partnership taxable year to which the designation relates and must include all of the information required by forms, instructions, and other guidance, including information about the designated individual if paragraph (b)(3) of this section applies. The designation of the partnership representative (and the appointment of the designated individual, if applicable) is effective on the date that the partnership return is filed.

(3) *Example*. The following example illustrates the rules of this paragraph (c).

Example. Partnership properly designates PR1 as its partnership representative for taxable year 2018 on its 2018 partnership return. Partnership designates PR2 as its partnership representative for taxable year 2021 on its 2021 partnership return. In 2022, the IRS mails Partnership a notice of administrative proceeding under section 6231(a)(1) with respect to Partnership's 2018 taxable year. PR1 is the partnership representative for the 2018 partnership taxable year, notwithstanding the designation of PR2 as partnership representative for the 2021 partnership taxable year.

(d) *Resignations*—(1) *In general*. A partnership representative or designated individual may resign as partnership representative or designated individual, as applicable, for a partnership taxable year for any reason by notifying the IRS in writing of the resignation in accordance with forms, instructions, and other guidance prescribed by the IRS. A resigning partnership representative may not designate a successor partnership representative. A resigning designated individual may not designate a successor designated individual or partnership representative. No later than 30 days after the IRS receives a written notification of resignation, the IRS will send written confirmation of receipt of the written notification to the partnership and the resigning partnership representative (to the attention of the designated individual if appropriate). A failure by the IRS to send any notification under this paragraph (d) does not invalidate a valid resignation made pursuant to this paragraph (d). A failure by the partnership representative (or designated individual, if the designated individual is the person resigning) to satisfy the requirements of this paragraph (d) is treated as if there were no resignation, and the partnership representative designation (and designated individual appointment, if applicable) remains in effect until the

designation (or appointment) is terminated by valid resignation (as described in this paragraph (d)), valid revocation by the partnership (as described in paragraph (e) of this section), or a determination by the IRS that the designation is not in effect (as described in paragraph (f) of this section). See § 301.6223–2 for binding nature of actions taken by the partnership representative or designated individual on behalf of a partnership representative, if applicable, prior to resignation.

(2) *Time for resignation.* A partnership representative or designated individual may submit the written notification of resignation described in paragraph (d)(1) of this section to the IRS only after the IRS issues a notice of administrative proceeding (NAP) under section 6231(a)(1) for the partnership taxable year for which the partnership representative designation is in effect or at such other time as prescribed by the IRS in forms, instructions, or other guidance. If the IRS withdraws the NAP pursuant to § 301.6231–1(f), any valid resignation by the partnership representative or designated individual under this paragraph (d) prior to the withdrawal of the NAP remains in effect.

(3) *Effective date of resignation.* A valid resignation is immediately effective upon the IRS's receipt of the written notification described in paragraph (d)(1) of this section. As of the effective date of the resignation—

(i) The resigning partnership representative (and designated individual, if applicable) may not take any action on behalf of the partnership with respect to the partnership taxable year affected by the resignation;

(ii) The partnership representative designation is no longer in effect with respect to the partnership taxable year affected by the resignation;

(iii) In the case of a resigning entity partnership representative, the appointment of the designated individual is no longer in effect with respect to the partnership taxable year affected by the resignation; and

(iv) In the case of a resigning designated individual, the designation of the entity partnership representative is no longer in effect with respect to the partnership taxable year affected by the resignation.

(e) *Revocations*—(1) *In general.* A partnership may revoke a designation of a partnership representative or appointment of a designated individual for a partnership taxable year for any reason by notifying the IRS in writing of the revocation in accordance with forms, instructions, and other guidance prescribed by the IRS. The partnership may make such revocation regardless of when and how the designation or appointment was made, except as provided in paragraph (e)(6) of this section (regarding designation by the IRS). The revocation must include the designation of a successor partnership representative (and the appointment of a designated individual, if applicable). In the case of a revocation of only the designated individual appointment, the partnership must designate a successor designated individual. No later than 30 days after the IRS receives a written notification of revocation submitted at the time described in paragraph (e)(2)(i) of this section, the IRS will send written confirmation of receipt of the written notification to the partnership, the revoked partnership representative or, in the case of a revocation of only the appointment of a designated individual, to the revoked designated individual, and to the newly designated partnership representative. In the case of a revocation of an entity partnership representative, the notification will be sent to the entity partnership representative, to the attention of the designated individual. A failure by the IRS to send any notification under this paragraph (e) does not invalidate a valid revocation made pursuant to this paragraph (e). A failure by the partnership to satisfy the requirements of this paragraph (e), including failure to designate a successor, is treated as if no revocation has occurred and the partnership representative designation (and designated individual appointment, if applicable) remains in effect until the designation (or appointment) is terminated either by valid resignation (as described in paragraph (d) of this section), valid revocation by the partnership (as described in this paragraph (e)), or determination by the IRS that

the designation is not in effect (as described in paragraph (f) of this section). See § 301.6223–2 for binding nature of actions taken by the partnership representative or designated individual on behalf of a partnership representative, if applicable, prior to revocation.

(2) *Time for revocation*—(i) *Revocation during an administrative proceeding*. Except as provided in paragraph (e)(2)(ii) of this section or in forms, instructions, or other guidance prescribed by the IRS, a partnership may revoke a designation of a partnership representative or appointment of a designated individual only after the IRS issues a notice of selection for examination or a NAP under section 6231(a)(1) for the partnership taxable year for which the designation or appointment is in effect. If the IRS withdraws the NAP pursuant to § 301.6231–1(f), any valid revocation of a partnership representative designation or designated individual appointment under this paragraph (e) prior to the withdrawal of the NAP remains in effect.

(ii) *Revocation with an AAR*. The partnership may revoke a designation of a partnership representative or appointment of a designated individual for the taxable year prior to receiving a notice of selection for examination or a NAP by filing a valid administrative adjustment request (AAR) in accordance with section 6227 for a partnership taxable year. A partnership may not use the form prescribed by the IRS for filing an AAR solely for the purpose of revoking a designation of a partnership representative or appointment of a designated individual. See § 301.6227–1 for the rules regarding the time and manner of filing an AAR.

(3) *Effective date of revocation*. Except as described in paragraph (e)(6)(ii) of this section (regarding the effective date of a revocation of a partnership representative designated by the IRS under paragraph (f)(5) of this section), a valid revocation is immediately effective upon the IRS's receipt of the written notification described in paragraph (e)(1) of this section. A revocation of a partnership representative designation and a designation of a new partnership representative (and appointment of a new designated individual, if applicable) is effective on the date the partnership files a valid AAR. Similarly, a revocation of a designated individual appointment and appointment of a new designated individual is effective on the date the partnership files a valid AAR. As of the effective date of the revocation—

(i) The revoked partnership representative (and designated individual, if applicable) may not take any action on behalf of the partnership with respect to the partnership taxable year affected by the revocation;

(ii) The designation of the revoked partnership representative is no longer in effect, and the successor partnership representative designation (and designated individual appointment, if applicable) is in effect with respect to the partnership taxable year affected by the revocation;

(iii) In the case of a revoked entity partnership representative, the appointment of the designated individual is no longer in effect with respect to the partnership taxable year affected by the revocation; and

(iv) In the case of a revoked designated individual where the designation of the entity partnership representative has not been revoked, the revoked designated individual may not take any action on behalf of the partnership with respect to the partnership taxable year affected by the revocation, the appointment of the revoked designated individual is no longer in effect, and the appointment of the successor designated individual is in effect.

(4) *Partners who may sign revocation*. A revocation under this paragraph (e) must be signed by a person who was a partner at any time during the partnership taxable year to which the revocation relates or as provided in forms, instructions, and other guidance prescribed by the IRS.

(5) *Form of the revocation*. The written notification of revocation described in paragraph (e)(1) of this section must include the items described in this paragraph (e)(5). A notification of revocation described in paragraph (e)(1) of this section that does not include each of the following items is not a valid revocation:

(i) A certification under penalties of perjury that the person signing the notification is a partner described in paragraph (e)(4) of this section authorized by the partnership to revoke the designation of the partnership representative (or appointment of the designated individual, if applicable).

(ii) A statement that the person signing the notification is revoking the designation of the partnership representative (or appointment of the designated individual, if applicable);

(iii) A designation of a successor partnership representative (and appointment of a designated individual, if applicable) in accordance with this section and forms, instructions, and other guidance prescribed by the IRS; and

(iv) In the case of a revocation of an appointment of a designated individual, appointment of a successor designated individual in accordance with this section and forms, instructions, and other guidance prescribed by the IRS.

(6) *Partnership representative designated by the IRS*—(i) *In general.* If a partnership representative is designated (and a designated individual is appointed, if applicable) by the IRS pursuant to paragraph (f)(5) of this section, the partnership may only revoke that designation (or the appointment of the designated individual, if applicable) with the permission of the IRS, which the IRS will not unreasonably withhold.

(ii) *Effective date of revocation.* The effective date of any revocation submitted in accordance with paragraph (e)(6)(i) of this section is the date on which the IRS sends notification that the revocation is valid.

(7) *Multiple revocations*—(i) *In general.* The IRS may determine that a designation is not in effect under paragraph (f) of this section if:

(A) The IRS receives a revocation of a designation of a partnership representative or appointment of a designated individual, and

(B) Within the 90-day period prior to the date the revocation described in paragraph (e)(7)(i)(A) of this section was received, the IRS received another revocation for the same partnership taxable year.

(ii) *Time limitation.* The IRS may not determine that a designation is not in effect in accordance with paragraph (e)(7)(i) of this section later than 90 days after the IRS's receipt of the revocation described in paragraph (e)(7)(i)(A) of this section.

(8) *Examples.* The following examples illustrate the rules of this paragraph (e).

Example 1. Partnership properly designates PR, an individual, as partnership representative for its 2018 taxable year on its timely filed 2018 partnership return. In 2020, Partnership mails written notification to the IRS to revoke designation of PR as its partnership representative for Partnership's 2018 taxable year. The revocation is not made in connection with an AAR for Partnership's 2018 taxable year, and the IRS has not mailed Partnership a notice of selection for examination or a NAP under section 6231(a)(1) with respect to Partnership's 2018 taxable year. Because the revocation was not made when permitted under paragraph (e)(2) of this section, the revocation is not effective and B remains the partnership representative for Partnership's 2018 taxable year unless and until B's status as partnership representative is properly revoked under paragraph (e) of this section or terminated in accordance with paragraph (d) (regarding resignation) or (f) (regarding IRS designation) of this section.

Example 2. During an administrative proceeding with respect to Partnership's 2018 taxable year, Partnership provides the IRS with written notification to revoke its designation of PR, an individual, as its partnership representative for the 2018 taxable year. The written notification does not include a designation of a new partnership representative for Partnership's 2018 taxable year. Because the revocation does not include a designation of a new partnership representative as required under paragraph (e)(1) of this section, the revocation is not effective and PR remains the partnership representative for Partnership's 2018 taxable year unless and until B's status as partnership representative is properly revoked under paragraph (e) of this section or terminated in accordance with paragraph (d) (regarding resignation) or (f) (regarding IRS designation) of this section.

(f) *Designation of the partnership representative by the IRS*—(1) *In general.* If the IRS determines that a designation of a partnership representative is not in effect for a partnership taxable year in accordance with paragraph (f)(2) of this section, the IRS will notify the

partnership that a partnership representative designation is not in effect. The IRS will also notify the most recent partnership representative for the partnership taxable year, except as described in paragraph (f)(2)(iii) of this section. In the case of an entity partnership representative, the notification will be sent to the entity partnership representative, to the attention of the designated individual. The determination that a designation is not in effect is effective on the date the IRS mails the notification. Except as described in paragraph (f)(4) of this section, the partnership may designate, in accordance with paragraph (f)(3) of this section, a successor partnership representative (and designated individual, if applicable) eligible under paragraph (b) of this section within 30 days of the date the IRS mails the notification. In the case of a resignation of a partnership representative, this notification may include the written confirmation of receipt described in paragraph (d)(1) of this section. See paragraph (f)(2)(iv) of this section. If the partnership does not designate a successor within 30 days from the date of IRS notification, the IRS will designate a partnership representative in accordance with paragraph (f)(5) of this section. A partnership representative designation made in accordance with paragraphs (c), (e), or (f) of this section remains in effect until the IRS determines the designation is not in effect. See § 301.6223–2 for binding nature of actions taken by the partnership representative or designated individual on behalf of a partnership representative, if applicable, prior to a determination by the IRS that the designation is not in effect.

(2) *IRS determination that partnership representative designation not in effect.* The IRS may, but is not required to, determine that a partnership representative designation is not in effect. The IRS is not obligated to search for or otherwise seek out information related to the circumstances in which the IRS may determine a partnership representative designation is not in effect, and the fact that the IRS is aware of any such circumstances does not obligate the IRS to determine that a partnership representative designation is not in effect. The IRS may determine that the partnership representative designation is not in effect if the IRS determines that—

(i) The partnership representative or the designated individual does not have substantial presence as described in paragraph (b)(2) of this section;

(ii) The partnership failed to appoint a designated individual as described in paragraph (b)(3) of this section, as applicable;

(iii) The partnership failed to make a valid designation as described in paragraph (c) of this section;

(iv) The partnership representative or designated individual resigns as described in paragraph (d) of this section;

(v) The partnership has made multiple revocations as described in paragraph (e)(7) of this section; or

(vi) The partnership representative designation is no longer in effect as described in other published guidance.

(3) *Designation by the partnership during the 30-day period.* Designation of a partnership representative (and appointment of a designated individual, if applicable) by the partnership during the 30-day period described in paragraph (f)(1) of this section must be made in accordance with forms, instructions, and other guidance prescribed by the IRS. If the partnership fails to provide all information required by forms, instructions, and other guidance, the partnership will have failed to make a designation (and appointment, if applicable). If the partnership does not fully comply with the requirement of this paragraph (f)(3) within the 30-day period described in paragraph (f)(1) of this section, the IRS will designate a partnership representative (and appoint a designated individual, if applicable).

(4) *No opportunity for designation by the partnership in the case of multiple revocations.* In the event that the IRS determines a partnership representative designation is not in effect due to multiple revocations as described in paragraph (e)(7) of this section, the partnership will not be given an opportunity to designate the successor partnership representative prior to the designation by the IRS as described in

paragraph (f)(5) of this section. However, see paragraph (e)(6) of this section regarding revocation of a partnership representative designated by the IRS.

(5) *Designation by the IRS*—(i) *In general.* The IRS designates a partnership representative under this paragraph (f)(5) by notifying the partnership of the name, address, and telephone number of the new partnership representative. If the IRS designates an entity partnership representative, the IRS will also appoint a designated individual to act on behalf of the entity partnership representative. The designation of a partnership representative (and appointment of a designated individual, if applicable) by the IRS is effective on the date on which the IRS mails the notification of the designation (and appointment, if applicable) to the partnership. The IRS will also mail a copy of the notification of the designation (and appointment, if applicable) to the new partnership representative (through the new designated individual, if applicable) that has been designated (and appointed, if applicable) by the IRS under this section.

(ii) *Factors considered when partnership representative designated by the IRS.* The IRS will ordinarily consider one or more of the factors set forth in this paragraph (f)(5)(ii) when determining whom to designate as partnership representative. No single factor is determinative, and other than as described in paragraph (f)(5)(iii) of this section, the IRS may exercise its discretion to designate a person as partnership representative even if none of the factors are applicable to such person. The factors are not requirements for eligibility to be designated by the IRS as partnership representative; the only requirements for eligibility are described under paragraph (b) of this section. The IRS is not obligated to search for or otherwise seek out information related to the factors, and the fact that the IRS is aware of any information related to such factors does not obligate the IRS to designate a particular person. Although the IRS may designate any person to be the partnership representative, a principal consideration in determining whom to designate as a partnership representative is whether there is a reviewed year partner that is eligible to serve as the partnership representative in accordance with paragraph (b)(1) of this section or whether there is a partner at the time the partnership representative designation is made that is eligible to serve as the partnership representative. Other factors that will ordinarily be considered by the IRS in determining whom to designate as a partnership representative include, but are not limited to:

(A) The views of the partners having a majority interest in the partnership regarding the designation;

(B) The general knowledge of the person in tax matters and the administrative operation of the partnership;

(C) The person's access to the books and records of the partnership;

(D) Whether the person is a United States person (within the meaning of section 7701(a)(30)); and

(E) The profits interest of the partner in the case of a partner.

(iii) *IRS employees.* The IRS will not designate a current employee, agent, or contractor of the IRS as the partnership representative unless that employee, agent, or contractor was a reviewed year partner or is currently a partner in the partnership.

(6) *Examples.* The following examples illustrate the rules of this paragraph (f).

Example 1. The IRS determines that Partnership has designated a partnership representative that does not have substantial presence in the United States as defined in paragraph (b)(2) of this section. The IRS may, but is not required to, determine that the designation is not in effect and designate a new partnership representative after following the procedures in this paragraph (f).

Example 2. Partnership designates as its partnership representative a corporation but fails to appoint a designated individual to act on behalf of the corporation as required under paragraph (b)(3) of this section. The IRS may, but is not required to, determine that the partnership representative designation is not in effect and may designate a new partnership representative after following the procedures in this paragraph (f).

Example 3. The partnership representative resigns pursuant to paragraph (d) of this section. The IRS mails Partnership a notification informing Partnership that no designation is in effect and that the IRS plans to designate a new partnership representative. Partnership fails to respond within 30 days of the date the IRS mails the notification. The

IRS must designate a partnership representative pursuant to this paragraph (f).

Example 4. Partnership designated on its partnership return a partnership representative, PR1. After Partnership received a NAP, Partnership submits to the IRS the form described in paragraph (e)(4) of this section requesting the revocation of PR1's designation as partnership representative and designating PR2 as the partnership representative. Sixty days later, Partnership signs and submits a form described in paragraph (e)(4) of this section requesting the revocation of PR2's designation as partnership representative and designating PR3 as the partnership representative. The IRS accepts the revocation of PR2 and designation of PR3 as valid and effective upon receipt pursuant to paragraph (e)(3) of this section. However, because PR2's revocation was within 90 days of PR1's revocation, the IRS may determine within 90 days of IRS's receipt of PR2's revocation, pursuant to paragraphs (e)(7) and (f)(2) of this section, that there is no designation in effect due to multiple revocations. The IRS may then designate a new partnership representative pursuant to this paragraph (f) without allowing Partnership an opportunity to designate a partnership representative within the 30-day period described in paragraph (f)(1) of this section.

(g) *Reliance on forms required by this section.* The IRS may rely on any form or other document filed or submitted under this section as evidence of the designation, resignation, or revocation on such form and as evidence of the date on which such form was filed or submitted relating to a designation, resignation, or revocation.

(h) *Applicability date*—(1) *In general.* Except as provided in paragraph (h)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable years beginning after November 2, 2015 and before January 1, 2018 for which a valid election under § 301.9100–22 is in effect.

[T.D. 9839, 83 FR 39344, Aug. 9, 2018, as amended by T.D. 9839, 84 FR 46440, Sept. 4, 2019]

§ 301.6223–2 Binding effect of actions of the partnership and partnership representative.

(a) *Binding nature of actions by partnership and final decision in a partnership proceeding.* The actions of the partnership and the partnership representative taken under subchapter C of chapter 63 of the Internal Revenue Code (subchapter C of chapter 63) and any final decision in a proceeding brought under subchapter C of chapter 63 with respect to the partnership bind the partnership, all partners of the partnership (including partnership-partners as defined in § 301.6241–1(a)(7) that have a valid election under section 6221(b) in effect for any taxable year that ends with or within the taxable year of the partnership), and any other person whose tax liability is determined in whole or in part by taking into account directly or indirectly adjustments determined under subchapter C of chapter 63 (for example, indirect partners as defined in § 301.6241–1(a)(4)). For instance, a settlement agreement entered into by the partnership representative on behalf of the partnership, a notice of final partnership adjustment (FPA) with respect to the partnership that is not contested by the partnership, or the final decision of a court with respect to the partnership if the FPA is contested, binds all persons described in the preceding sentence.

(b) *Actions by the partnership representative before termination of designation.* A termination of the designation of a partnership representative because of a resignation under § 301.6223–1(d) or a revocation under § 301.6223–1(e), or as a result of a determination by the Internal Revenue Service (IRS) under § 301.6223–1(f) that the designation is not in effect, does not affect the validity of any action taken by that partnership representative during the period prior to such termination. For example, if a partnership representative properly designated under § 301.6223–1 consented to an extension of the period of limitations on making adjustments under section 6235(b) in accordance with § 301.6235–1(d), that extension remains valid even after termination of the designation of that partnership representative.

(c) *Actions by the partnership representative upon withdrawal of notice of administrative proceeding.* If the IRS issues a notice of administrative proceeding (NAP) under section 6231(a)(1) and subsequently withdraws such NAP pursuant to § 301.6231–1(f), any actions taken by a partnership representative

(or successor partnership representative after a change to the partnership representative that occurred after the issuance of the NAP and before the NAP was withdrawn) are binding as described in paragraph (a) of this section even though the NAP has been withdrawn and has no effect for purposes of subchapter C of chapter 63.

(d) *Partnership representative has the sole authority to act on behalf of the partnership*—(1) *In general.* The partnership representative has the sole authority to act on behalf of the partnership for all purposes under subchapter C of chapter 63. In the case of an entity partnership representative, the designated individual has the sole authority to act on behalf of the partnership representative and the partnership. Except for a partner that is the partnership representative or the designated individual, no partner, or any other person, may participate in an administrative proceeding without the permission of the IRS. The failure of the partnership representative to follow any state law, partnership agreement, or other document or agreement has no effect on the authority of the partnership representative or the designated individual as described in section 6223, § 301.6223–1, and this section. Nothing in this section affects, or otherwise restricts, the ability of a partnership representative to authorize a person to represent the partnership representative, in the partnership representative's capacity as the partnership representative, before the IRS under a valid power of attorney in a proceeding involving the partnership under subchapter C of chapter 63.

(2) *Designation provides authority to bind the partnership*—(i) *Partnership representative.* A partnership representative, by virtue of being designated under section 6223 and § 301.6223–1, has the authority to bind the partnership for all purposes under subchapter C of chapter 63.

(ii) *Designated individual.* A partnership that is required to appoint a designated individual described under § 301.6223–1(b)(3)(i) acts through such designated individual. By virtue of being appointed as part of the designation of the partnership representative under § 301.6223–1, the designated individual has the sole authority to bind the partnership representative and therefore the partnership, its partners, and any other person as described in paragraph (a) of this section for all purposes under subchapter C of chapter 63 so long as the partnership representative designation and designated individual appointment are in effect.

(e) *Examples.* The following examples illustrate the rules of this section.

Example 1. Partnership designates a partnership representative, PR, on its timely filed partnership return for 2020. PR is a partner in Partnership. The partnership agreement for Partnership includes a clause that requires PR to consult with an identified management group of partners in Partnership before taking any action with respect to an administrative proceeding before the IRS. The IRS initiates an administrative proceeding with respect to Partnership's 2020 taxable year. During the course of the administrative proceeding, PR consents to an extension of the period of limitations on making adjustments under section 6235(b) allowing additional time for the IRS to mail an FPA. PR failed to consult with the management group of partners prior to agreeing to this extension of time. PR's consent provided to the IRS to extend the time period is valid and binding on Partnership because, pursuant to section 6223, PR, as the designated partnership representative, has authority to bind Partnership and all its partners.

Example 2. Partnership designates a partnership representative, PR, on its timely filed partnership return for 2020. PR is not a partner in Partnership. During an administrative proceeding with respect to Partnership's 2020 taxable year, PR agrees to certain partnership adjustments and within 45 days after the issuance of the FPA elects the alternative to payment of the imputed underpayment under section 6226. Certain partners in Partnership challenge the actions taken by PR during the administrative proceeding and the validity of the section 6226 statements furnished to those partners, alleging that PR was never authorized to act on behalf of Partnership under state law or the partnership agreement. Because PR was designated by Partnership as the partnership representative under section 6223 and this section, PR was authorized to act on behalf of Partnership for all purposes under subchapter C of chapter 63, and the IRS may rely on that designation as conclusive evidence of PR's authority to act on behalf of Partnership.

Example 3. Partnership designates an entity partnership representative, EPR, and appoints an individual, A, as the designated individual on its timely filed partnership return for 2020. EPR is a C corporation. A is unaffiliated with EPR and is not an officer, director, or employee of EPR. During an administrative proceeding with respect to Partnership's 2020 taxable year, A, acting for EPR, agrees to an extension of the period of limitations on making adjustments under section 6235(b) from March 15, 2024 to December 31, 2024. The IRS mails an FPA with respect to the 2020 partnership taxable year on December 13, 2024, before expiration of the extended period of limitations on making adjustments as agreed to by EPR, but after the expiration of the unextended period of limitations on making adjustments. Partnership challenges the FPA as untimely, alleging that A was not authorized under state law to act on behalf of EPR and thus the extension agreement was invalid. Because A was appointed by the partnership as the designated individual to act on behalf of EPR, A was authorized to act on behalf of EPR for all purposes under subchapter C of chapter 63, and the IRS may rely on that appointment as conclusive evidence of A's authority to act on behalf of EPR and Partnership.

Example 4. The partnership representative, PR, consents to an extension of the period of limitations on making adjustments under section 6235(b) and § 301.6235–1(d) for Partnership for the partnership taxable year. After signing the consent, PR resigns as partnership representative in accordance with § 301.6223–1(d). The consent to extend the period of limitations on making adjustments under section 6235(b) remains valid even after PR resigns.

Example 5. Partnership designates a partnership representative who does not make themselves available to meet with the IRS in person in the United States as required by § 301.6223–1(b). Although the partnership representative does not have substantial presence in the United States within the meaning of § 301.6223–1(b)(2), until a termination occurs under § 301.6223–1(d) or (e) or the IRS determines the partnership representative designation is no longer in effect under § 301.6223–1(f), the partnership representative designation remains in effect, and Partnership and all its partners are bound by the actions of the partnership representative.

Example 6. Partnership designates PR1 as the partnership representative on its timely filed partnership return for 2020. On September 1, 2022, the IRS sends a NAP for the 2020 taxable year to Partnership and PR, and Partnership revokes PR1's designation and designates PR2 as the partnership representative in accordance with § 301.6223–1(e). On November 1, 2023, PR2 consents to an extension of the period of limitations on making adjustments under section 6235(b) and § 301.6235(d) for Partnership's 2020 taxable year. On December 1, 2023, the IRS then withdraws the NAP. PR2 remains the partnership representative, and the consent to extend the period of limitations on making adjustments under section 6235(b) remains valid even after the NAP is withdrawn.

(f) *Applicability date*—(1) *In general.* Except as provided in paragraph (f)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable years beginning after November 2, 2015 and before January 1, 2018 for which a valid election under § 301.9100–22 is in effect.

[T.D. 9839, 83 FR 39349, Aug. 9, 2018]

§ 301.6223(a)–1 Notice sent to tax matters partner.

(a) *In general.* For purposes of subchapter C of chapter 63 of the Internal Revenue Code, a notice is treated as mailed to the tax matters partner on the earlier of—

(1) The date on which the notice is mailed to ''THE TAX MATTERS PARTNER'' at the address of the partnership (as provided on the partnership return, except as updated under § 301.6223(c)–1); or

(2) The date on which the notice is mailed to the person who is the tax matters partner at the address of that person (as provided on the partner's return, except as updated under § 301.6223(c)–1) or the partnership. See § 301.6223(c)–1 for rules relating to the information used by the Internal Revenue Service in providing notices, etc.

(b) *Example.* The provisions of this section may be illustrated by the following example:

Example. Partnership P designates B as its tax matters partner in accordance with § 301.6231(a)(7)–1(b). On December 1 a notice of the beginning of an administrative proceeding is mailed to ''THE TAX MATTERS PARTNER'' at the address of P. On January 10, a copy of the notice is mailed to B at B's address. December 1 is treated as the date that the notice was mailed to the tax matters partner.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4,

2001, see § 301.6223(a)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50547, Oct. 4, 2001]

§ 301.6223(a)–2 Withdrawal of notice of the beginning of an administrative proceeding.

(a) *In general.* If the Internal Revenue Service, within 45 days after the day on which the notice specified in section 6223(a)(1) is mailed to the tax matters partner, decides not to propose any adjustments to the partnership return as filed, the Internal Revenue Service may withdraw the notice specified in section 6223(a)(1) by mailing a letter to that effect to the tax matters partner within that 45-day period. Even if the Internal Revenue Service does not withdraw the notice specified in section 6223(a)(1), the Internal Revenue Service is not required to issue a notice of final partnership administrative adjustment. If the Internal Revenue Service withdraws the notice specified in section 6223(a)(1), neither the Internal Revenue Service nor the tax matters partner is required to furnish any notice with respect to that proceeding to any other partner. Except as provided in paragraph (b) of this section, a notice specified in section 6223(a)(1) which has been withdrawn shall be treated for purposes of subchapter C of chapter 63 of the Internal Revenue Code as if that notice had never been mailed to the tax matters partner.

(b) *Internal Revenue Service may not reissue notice except under certain circumstances.* If the notice specified in section 6223(a)(1) was mailed to the tax matters partner with respect to a partnership taxable year and that notice was later withdrawn as provided in paragraph (a) of this section, the Internal Revenue Service shall not mail a second notice specified in section 6223(a)(1) with respect to that taxable year unless—

(1) There is evidence of fraud, malfeasance, collusion, concealment, or misrepresentation of a material fact;

(2) The prior proceeding involved the misapplication or erroneous interpretation of an established Internal Revenue Service position existing at the time of the previous examination, or the failure to make an adjustment based on such a position; or

(3) Other circumstances exist which indicate that failure to reissue the notice would be a serious administrative omission.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6223(a)–2T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50547, Oct. 4, 2001]

§ 301.6223(b)–1 Notice group.

(a) *In general.* If a group of partners having in the aggregate a 5 percent or more interest in the profits of a partnership requests and designates one of their members to receive the notices described in section 6223(a)(1) and (2), the member so designated shall be treated as a partner to whom section 6223(a) applies. Thus, the designated representative is entitled to receive any notice described in section 6223(a) that is mailed to the tax matters partner 30 days or more after the day on which the Internal Revenue Service receives the request from the group.

(b) *Request for notice*—(1) *In general.* The Internal Revenue Service shall mail to the member of the notice group designated to receive such notice any notice described in section 6223(a) that is mailed to the tax matters partner 30 days or more after the day on which the Internal Revenue Service receives the request for notice from the group if such request for notice is made in accordance with the rules prescribed in this paragraph (b).

(2) *Content of request.* The request for notice from a notice group shall—

(i) Identify the partnership by name, address, and taxpayer identification number;

(ii) Specify the taxable year or years for which the notice group is formed;

(iii) Designate the member of the group to receive the notices;

(iv) Set out the name, address, taxpayer identification number, and profits interest of each member of the group; and

(v) Be signed by all partners comprising the notice group.

(3) *Place for filing.* The request for notice from a notice group generally must be filed with the service center where the partnership return is filed.

However, if the notice group representative knows that the notice described in section 6223(a)(1) (beginning of an administrative proceeding) has already been mailed to the tax matters partner, the statement should be filed with the Internal Revenue Service office that mailed that notice.

(4) *Copy to be sent to the tax matters partner.* A copy of the request for notice from a notice group shall be provided to the tax matters partner by the notice group representative within 30 days after the request is filed with the Internal Revenue Service.

(5) *Years covered by request.* A request for notice by a notice group may relate only to partnership taxable years that have ended before the request is filed. A request, however, may relate to more than one partnership taxable year if the 5 percent or more profits interest requirement of section 6223(b)(2) is satisfied for each year to which the request relates.

(c) *Composition of notice group*—(1) *In general.* A notice group shall be comprised only of persons who were partners at some time during the partnership taxable year for which the group is formed. If a notice group is formed for more than one taxable year, each member of the group must have been a partner at some time during at least one of the taxable years for which the group is formed. A notice group may include a partner entitled to separate notice. See section 6231(d) and § 301.6231(d)–1 for rules relating to determining the interest of a partner in the profits of a partnership for a partnership taxable year for purposes of section 6223(b). See paragraph (c)(6) of this section for rules relating to indirect and pass-thru partners.

(2) *Partner may be a member of only one group.* A partner cannot be a member of more than one notice group with respect to the same partnership for the same partnership taxable year. See paragraph (c)(6) of this section for rules relating to indirect and pass-thru partners.

(3) *Partner may join group after formation.* A partner may join a notice group at any time after the formation of that group by filing with the Internal Revenue Service office where the notice group filed its request a statement that it is joining the notice group. The statement shall identify the partner joining the notice group, the partnership, and the members of the notice group by name, address, and taxpayer identification number and shall be signed by the joining partner. A copy of the statement shall be provided by the joining partner to both the tax matters partner and the notice group representative within 30 days after the request is filed with the Internal Revenue Service. The partner shall become a member of the notice group for each partnership taxable year for which the group was formed and for which the partner was a partner at any time during such partnership taxable year.

(4) *Date on which a partner becomes a member of notice group.* A partner shall become a member of a notice group on the 30th day after the day on which the Internal Revenue Service receives—

(i) A request for notice from a notice group that identifies that partner as a member of that notice group; or

(ii) A statement filed in accordance with paragraph (c)(3) of this section that states that the partner is joining the notice group.

(5) *No withdrawal from notice group.* A partner who has signed a notice group request filed with the Internal Revenue Service remains a member of that notice group until the group terminates. A partner cannot withdraw from the notice group.

(6) *Indirect and pass-thru partners*—(i) *Pass-thru partners and unidentified indirect partners.* A pass-thru partner may become a member of a notice group as provided in this section. For purposes of applying the aggregate interest requirement specified in paragraph (a) of this section to a pass-thru partner, the partnership interest held by the pass-thru partner shall not include any interest held through the pass-thru partner by an indirect partner that has been identified as provided in section 6223(c)(3) and § 301.6223(c)–1 before the date on which the pass-thru partner becomes a member of the notice group.

(ii) *Indirect partners identified before the pass-thru partner joins a notice group.* An indirect partner may become a member of a notice group with respect to a partnership taxable year only if—

(A) The indirect partner held an interest in the partnership (either directly or through one or more pass-thru partners) at some time during that taxable year; and

(B) The indirect partner was identified as provided in section 6223(c)(3) and § 301.6223(c)–1 on or before the date on which the pass-thru partner became a member of a notice group.

(d) *Termination of notice group.* Unless the original request for notice from the notice group or a subsequent statement filed by the representative (in accordance with paragraphs (b)(3) and (4) of this section) designates a successor to the designated group representative, the group terminates if the representative dies (or, in the case of an entity, if the entity is dissolved), resigns, or is adjudicated incompetent.

(e) *Notice group is not a 5-percent group.* The forming of a notice group under this section does not constitute the forming of a 5-percent group for purposes of litigation. A notice group is formed solely for the purpose of receiving notices. A 5-percent group is formed solely for the purpose of filing a petition for judicial review or appealing a judicial determination. See § 301.6226(b)–1. Thus, a member of a notice group may choose not to join a 5-percent group formed by other members of the notice group.

(f) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6223(b)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50547, Oct. 4, 2001]

§ 301.6223(c)–1 Additional information regarding partners furnished to the Internal Revenue Service.

(a) *In general.* In addition to the names, addresses, and profits interests as shown on the partnership return, the Internal Revenue Service will use additional information as provided in this section for purposes of administering subchapter C of chapter 63 of the Internal Revenue Code.

(b) *Procedure for furnishing additional information*—(1) *In general.* Any person may furnish additional information at any time by filing a written statement with the Internal Revenue Service. However, the information contained in the statement will be considered for purposes of determining whether a partner is entitled to a notice described in section 6223(a) only if the Internal Revenue Service receives the statement at least 30 days before the date on which the Internal Revenue Service mails the notice to the tax matters partner. Similarly, information contained in the statement generally will not be taken into account for other purposes by the Internal Revenue Service until 30 days after the statement is received.

(2) *Where statement must be filed.* A statement furnished under this section generally must be filed with the service center where the partnership return is filed. However, if the person filing the statement knows that the notice described in section 6223(a)(1) (beginning of an administrative proceeding) has already been mailed to the tax matters partner, the statement should be filed with the Internal Revenue Service office that mailed such notice.

(3) *Contents of statement.* The statement shall—

(i) Identify the partnership, each partner for whom information is supplied, and the person supplying the information by name, address, and taxpayer identification number;

(ii) Explain that the statement is furnished to correct or supplement earlier information with respect to the partners in the partnership;

(iii) Specify the taxable year to which the information relates;

(iv) Set out the corrected or additional information; and

(v) Be signed by the person supplying the information.

(c) *No incorporation by reference to previously furnished documents.* Incorporation by reference of information contained in another document previously furnished to the Internal Revenue Service will not be given effect for purposes of section 6223(c) or 6229(e). For example, reference to a return filed by a pass-thru partner which contains identifying information with respect to the indirect partners of that pass-thru partner is not sufficient to identify the indirect partners unless a copy of the document referred to is attached to the statement. Furthermore, reference to a

prior general notification to the Internal Revenue Service that a partner who would otherwise be the tax matters partner is a debtor in a bankruptcy proceeding or has had a receiver appointed for the partner in a receivership proceeding is not sufficient unless a copy of the notification document referred to is attached to the statement.

(d) *Information supplied by a person other than the tax matters partner.* The Internal Revenue Service may require appropriate verification in the case of information furnished by a person other than the tax matters partner. The 30-day period referred to in paragraph (b)(1) of this section shall not begin until that verification is supplied.

(e) *Power of attorney*—(1) *In general.* This paragraph (e) applies to powers of attorney with respect to proceedings under subchapter C of chapter 63 of the Internal Revenue Code (chapter 63C) that begin on or after January 2, 2002.

(2) *Specifically for purposes of subchapter C of chapter 63 of the Internal Revenue Code.* A power of attorney specifically for purposes of subchapter C of chapter 63 of the Internal Revenue Code shall be furnished in accordance with paragraph (b)(2) of this section.

(3) *Existing power of attorney.* A power of attorney granted to another person by a partner for other tax purposes shall not be given effect for purposes of subchapter C of chapter 63 unless the partner specifically requests that the power be given such effect in a statement furnished to the Internal Revenue Service in accordance with paragraph (b) of this section.

(f) *Internal Revenue Service may use other information.* In addition to the information on the partnership return and that supplied on statements filed under this section, the Internal Revenue Service may use other information in its possession (for example, a change in address reflected on a partner's return) in administering subchapter C of chapter 63 of the Internal Revenue Code. However, the Internal Revenue Service is not obligated to search its records for information not expressly furnished under this section.

(g) *Effective date.* Except as provided in paragraph (e)(1) of this section, this section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6223(c)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50548, Oct. 4, 2001]

§ 301.6223(e)–1 Effect of Internal Revenue Service's failure to provide notice.

(a) *Notice group.* Section 6223(e)(1)(B)(ii) applies with respect to a notice group only if the request for notice described in § 301.6223(b)–1 is received by the Internal Revenue Service at least 30 days before the notice is mailed to the tax matters partner.

(b) *Indirect partners*—(1) *In general.* For purposes of section 6223(e), the Internal Revenue Service's failure to provide notice to a pass-thru partner entitled to notice under section 6223(b) is deemed a failure to provide notice to indirect partners holding an interest in the partnership through the pass-thru partner. However, this rule does not apply if the indirect partner—

(i) Receives notice from the Internal Revenue Service;

(ii) Is identified as provided in section 6223(c)(3) and § 301.6223(c)–1 at least 30 days before the notice is mailed to the tax matters partner; or

(iii) Is a member of a notice group entitled to notice under paragraph (a) of this section.

(2) *Examples.* The provisions of paragraph (b)(1) of this section may be illustrated by the following examples:

Example 1. Partnership ABC has as one of its partners, A, a partnership with three partners, X, Y, and Z. ABC does not have more than 100 partners, and partnership A is entitled to notice under section 6223(a). In addition, Z was identified as provided in section 6223(c)(3) and § 301.6223(c)–1 on May 1, 2002. The Internal Revenue Service mailed a notice to the tax matters partner of ABC on July 1, 2002, but failed to provide notice to partnership A. Notwithstanding the Internal Revenue Service's notice to the tax matters partner, the Internal Revenue Service is deemed to have failed to provide notice to X and Y. The Internal Revenue Service's failure to provide notice to A, however, has no effect on Z; whether notice was provided to Z is determined independently.

Example 2. Assume the same facts as in *Example 1*, except that the Internal Revenue Service provided notice to partnership A but

did not provide separate notice to Z. Notwithstanding the Internal Revenue Service's notice to partnership A, the Internal Revenue Service is deemed to have failed to provide notice to Z.

Example 3. Assume the same facts as in *Example 1*, except that partnership ABC has more than 100 partners and partnership A is entitled to notice under section 6223(b) because it had at least a 1 percent profits interest in partnership ABC. In addition, X became a member of a notice group on June 1, 2002, and the Internal Revenue Service mailed a notice to the designated member of that notice group. The Internal Revenue Service also mailed a separate notice to Z. The Internal Revenue Service's failure to provide notice to partnership A only affects Y, who is deemed not to have been provided notice by the Internal Revenue Service.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6223(e)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50549, Oct. 4, 2001]

§ 301.6223(e)–2 Elections if Internal Revenue Service fails to provide timely notice.

(a) *In general.* This section applies in any case in which the Internal Revenue Service fails to timely mail any notice described in section 6223(a) of the Internal Revenue Code to a partner entitled to such notice within the period specified in section 6223(d). The failure to issue any notice within the period specified in section 6223(d) does not invalidate the notice of the beginning of an administrative proceeding or final partnership administrative adjustment (FPAA). An untimely FPAA enables the recipient of the untimely notice to make the elections described in paragraphs (b), (c), and (d) of this section. The period within which to make the elections described in paragraphs (b), (c), and (d) of this section commences with the mailing of an FPAA to the partner. In the absence of an election, paragraphs (b) and (c) of this section provide for the treatment of a partner's partnership items.

(b) *Proceeding finished.* If at the time the Internal Revenue Service mails the partner an FPAA—

(1) The period within which a petition for review of the FPAA under section 6226 may be filed has expired and no petition has been filed; or

(2) The decision of a court in an action begun by such a petition has become final, the partner may elect in accordance with paragraph (d) of this section to have that adjustment, that decision, or a settlement agreement described in section 6224(c)(2) with respect to the partnership taxable year to which the adjustment relates apply to that partner. If the partner does not make an election in accordance with paragraph (d) of this section, the partnership items of the partner for the partnership taxable year to which the proceeding relates shall be treated as having become nonpartnership items as of the day on which the Internal Revenue Service mails the partner the FPAA.

(c) *Proceeding still going on.* If at the time the Internal Revenue Service mails the partner an FPAA, paragraphs (b)(1) and (2) of this section do not apply, the partner shall be a party to the proceeding unless the partner elects, in accordance with paragraph (d) of this section, to have—

(1) A settlement agreement described in section 6224(c)(2) with respect to the partnership taxable year to which the proceeding relates apply to the partner; or

(2) The partnership items of the partner for the partnership taxable year to which the proceeding relates treated as having become nonpartnership items as of the day on which the Internal Revenue Service mails the partner the FPAA.

(d) *Election*—(1) *In general.* The election described in paragraph (b) or (c) of this section shall be made in the manner prescribed in this paragraph (d). The election shall apply to all partnership items for the partnership taxable year to which the election relates.

(2) *Time and manner of making election.* The election shall be made by filing a statement with the Internal Revenue Service office mailing the FPAA within 45 days after the date on which the FPAA was mailed to the partner making the election.

(3) *Contents of statement.* The statement shall—

(i) Be clearly identified as an election under section 6223(e)(2) or (3);

(ii) Specify the election being made (that is, application of final partnership administrative adjustment, court decision, consistent settlement agreement, or nonpartnership item treatment);

(iii) Identify the partner making the election and the partnership by name, address, and taxpayer identification number;

(iv) Specify the partnership taxable year to which the election relates; and

(v) Be signed by the partner making the election.

(e) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6223(e)–2T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50550, Oct. 4, 2001]

§ 301.6223(f)–1 Duplicate copy of final partnership administrative adjustment.

(a) *In general*. Section 6223(f) does not prohibit the Internal Revenue Service from issuing a duplicate copy of the notice of final partnership administrative adjustment (for example, in the event the original notice is lost).

(b) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6223(f)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50550, Oct. 4, 2001]

§ 301.6223(g)–1 Responsibilities of the tax matters partner.

(a) *Notices described in section 6223(a)*—(1) *Notice of beginning of proceeding*. Except as otherwise provided in § 301.6223(a)–2, the tax matters partner shall, within 75 days after the Internal Revenue Service mails the notice specified in section 6223(a)(1), forward a copy of that notice to each partner not entitled to notice from the Internal Revenue Service under section 6223. See § 301.6230(e)–1 for information to be furnished to the Internal Revenue Service.

(2) *Notice of final partnership administrative adjustment*. The tax matters partner shall, within 60 days after the Internal Revenue Service mails the notice specified in section 6223(a)(2), forward a copy of that notice to each partner not entitled to notice from the Internal Revenue Service under section 6223.

(3) *Requirement inapplicable in certain cases*. The tax matters partner is not required to send notice to a partner if—

(i) Before the expiration of the applicable 75-day or 60-day period the partnership items of that partner have become nonpartnership items (for example, by settlement);

(ii) That partner is an indirect partner and has not been identified to the tax matters partner at least 30 days before the tax matters partner is required to send such notice;

(iii) That partner is treated as a partner solely by virtue of § 301.6231(a)(2)–1;

(iv) That partner was a member of a notice group as of the date on which the notice was mailed to the tax matters partner (see § 301.6223(b)–1(c)(4) for the date on which a partner becomes a member of a notice group);

(v) The notice has already been provided to that partner by another person; or

(vi) The notice is withdrawn by the Internal Revenue Service under § 301.6223(a)–2.

(b) *Other notices or information*—(1) *In general*. The tax matters partner shall furnish to the partners specified in paragraph (b)(2) of this section information with respect to the following—

(i) Closing conference with the examining agent;

(ii) Proposed adjustments, rights of appeal, and requirements for filing of a protest;

(iii) Time and place of any Appeals conference;

(iv) Acceptance by the Internal Revenue Service of any settlement offer;

(v) Consent to the extension of the period of limitations with respect to all partners;

(vi) Filing of a request for administrative adjustment (including a request for substituted return treatment under § 301.6227(c)–1) on behalf of the partnership;

(vii) Filing by the tax matters partner or any other partner of any petition for judicial review under sections 6226 or 6228(a);

(viii) Filing of any appeal with respect to any judicial determination provided for in sections 6226 or 6228(a); and

(ix) Final judicial redetermination.

(2) *Partners to be notified.* The tax matters partner shall provide information with respect to any action or other matter specified in paragraph (b)(1) of this section to all notice group representatives and all other partners except partners—

(i) Whose partnership items become nonpartnership items before the expiration of the period specified in paragraph (b)(3) of this section for furnishing that information;

(ii) Who are indirect partners and who are not identified to the tax matters partner at least 30 days before the tax matters partner is required to provide the information;

(iii) Who are treated as partners solely by virtue of § 301.6231(a)(2)–1;

(iv) Who are members of a notice group as of the date on which the tax matters partner takes that action or receives information with respect to that matter (see § 301.6223(b)–1(c)(4) for the date on which a partner becomes a member of a notice group); or

(v) Who have already received information with respect to the action or matter from any other person.

(3) *Time for furnishing information.* The tax matters partner shall furnish information with respect to an action or other matter described in paragraph (b)(1) of this section within 30 days of taking the action or receiving information with respect to that matter.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6223(g)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50550, Oct. 4, 2001]

§ 301.6223(h)–1 Responsibilities of pass-thru partner.

(a) *In general.* The pass-thru partner shall, within 30 days of receiving notice or any other information regarding a partnership proceeding from the Internal Revenue Service, the tax matters partner, or another pass-thru partner, forward a copy of that notice or information to the person or persons holding an interest through the pass-thru partner in the profits or losses of the partnership for the partnership taxable year to which the notice or information relates. In the case of a pass-thru partner that is a partnership within the meaning of section 6231(a)(1), the tax matters partner of such partnership shall forward copies of the notice or information to the partners of such partnership.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6223(h)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50551, Oct. 4, 2001]

§ 301.6224(a)–1 Participation in administrative proceedings.

(a) *In general.* Every partner in the partnership, including an indirect partner, has the right to participate in any phase of administrative proceedings. However, except as provided in section 6223 and the regulations thereunder, neither the Internal Revenue Service nor the tax matters partner is required to provide notice of any proceeding to the partners. Consequently, a partner who wishes, for example, to be present during a preliminary discussion between an examining agent and the tax matters partner should make special arrangements with the tax matters partner to obtain information as to the time and place of the discussion. The Internal Revenue Service and the tax matters partner will determine the time and place for all administrative proceedings. Arrangements will generally not be changed merely for the convenience of another partner.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6224(a)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50551, Oct. 4, 2001]

§ 301.6224(b)–1 Partner may waive rights.

(a) *In general.* A partner may at any time waive any right that the partner has or any restriction on action by the

Internal Revenue Service under subchapter C of chapter 63 of the Internal Revenue Code.

(b) *Form and manner of making waiver*. The waiver described in paragraph (a) of this section shall be made by a written statement. If the Internal Revenue Service furnishes a form to be used for this purpose, the partner may make the waiver by completing the form in accordance with the form's instructions. If such a form is not furnished, the statement shall—

(1) Be clearly identified as a waiver under section 6224(b);

(2) Identify the partner and the partnership by name, address, and taxpayer identification number;

(3) Specify the right or restriction being waived and the taxable year(s) to which the waiver applies;

(4) Be signed by the partner making the waiver; and

(5) Be filed with the service center where the partnership return is filed. However, if the person filing the statement knows that the notice described in section 6223(a)(1) (beginning of an administrative proceeding) has already been mailed to the tax matters partner, the statement shall be filed with the Internal Revenue Service office that mailed such notice.

(c) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6224(b)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50551, Oct. 4, 2001]

§ 301.6224(c)–1 Tax matters partner may bind nonnotice partners.

(a) *In general*. In the absence of a showing of fraud, malfeasance, or misrepresentation of fact, if the tax matters partner enters into a settlement agreement with the Internal Revenue Service with respect to partnership items, including partnership-level determinations relating to any penalty, addition to tax, or additional amounts that relate to adjustments to partnership items, and expressly states that the agreement shall be binding on the other partners, then that agreement shall be binding on all partners except those who—

(1) Are, as of the day on which the agreement is entered into, either notice partners or members of a notice group (see § 301.6223(b)–1(c)(4) for the date on which a partner becomes a member of a notice group); or

(2) Have, at least 30 days before the day on which the agreement is entered into, filed with the Internal Revenue Service the statement described in paragraph (c) of this section.

(b) *Indirect partners*—(1) *In general*. If, under paragraph (a) of this section, a pass-thru partner is not bound by an agreement entered into by the tax matters partner, all indirect partners holding an interest in the partnership through that pass-thru partner shall not be bound by that agreement. If, however, the pass-thru partner is bound by an agreement entered into by the tax matters partner, paragraph (a) of this section shall be applied separately to each indirect partner holding an interest in the partnership through the pass-thru partner to determine whether the indirect partner is also bound by the agreement.

(2) *Example*. The following example illustrates the principles of this section:

Example. Partnership P has over 100 partners. Partnership J is a partner in partnership P with a profits interest of less than 1 percent. Partnership J has three partners, A, B, and C. A is a member of a notice group with respect to partnership P, but B and C are not. On July 1, 2002, B filed the statement described in paragraph (c) of this section not to be bound by any settlement agreement entered into by the tax matters partner of partnership P. On August 1, 2002, the tax matters partner of partnership P enters into a settlement agreement with the Internal Revenue Service and states that the agreement is binding on other partners as provided in section 6224(c)(3). Because partnership J is bound by the settlement agreement, paragraph (a) of this section is applied separately to each of the indirect partners to determine whether they are bound. A is not bound by the agreement because A was a member of a notice group on the day the agreement was entered into and B is not bound because B filed the statement not to be bound at least 30 days before the agreement was entered into. C is bound by the settlement agreement.

(c) *Statement not to be bound*—(1) *Contents of statement*. The statement referred to in paragraph (a)(2) of this section shall—

(i) Be clearly identified as a statement to deny settlement authority to the tax matters partner under section 6224(c)(3)(B);

(ii) Identify the partner and partnership by name, address, and taxpayer identification number;

(iii) Specify the taxable year or years to which the statement applies; and

(iv) Be signed by the partner filing the statement.

(2) *Place where statement is to be filed.* The statement described in paragraph (c)(1) of this section generally shall be filed with the Internal Revenue Service service center where the partnership return is filed. However, if the partner knows that the notice described in section 6223(a)(1) (beginning of an administrative proceeding) has already been mailed to the tax matters partner, the statement shall be filed with the Internal Revenue Service office that mailed that notice.

(3) *Consolidated statements.* The statement described in paragraph (c)(1) of this section may be filed with respect to more than one partner if the requirements of that paragraph (c)(1) (including signatures) are satisfied with respect to each partner.

(d) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6224(c)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50551, Oct. 4, 2001]

§ 301.6224(c)–2 Pass-thru partner binds indirect partners.

(a) *Pass-thru partner binds unidentified indirect partners*—(1) *In general.* If a pass-thru partner enters into a settlement agreement with the Internal Revenue Service with respect to partnership items, that agreement binds all indirect partners holding an interest in that partnership through the pass-thru partner except those indirect partners who have been identified as provided in section 6223(c)(3) and § 301.6223(c)–1 at least 30 days before the date on which the agreement is entered into. A settlement with respect to partnership items includes partnership-level determinations relating to any penalty, addition to tax, and additional amounts that relate to adjustments to partnership items. However, if, in addition to the interest in the partnership held through the pass-thru partner entering into a settlement agreement, an indirect partner holds a separate interest in that partnership, either directly or indirectly through a different pass-thru partner, then the indirect partner shall not be bound by that settlement agreement with respect to the interests held directly or indirectly through a pass-thru partner other than the pass-thru partner entering into the settlement agreement.

(2) *Example.* The provisions of paragraph (a)(1) of this section may be illustrated by the following example:

Example. Partnership J is a partner in partnership P. C is a partner in J but has not been identified as provided in section 6223(c)(3) and § 301.6223(c)–1. The only interest that C holds in P is through J. The tax matters partner of J enters into a settlement agreement with the Internal Revenue Service with respect to partnership items arising from P. C is bound by the settlement agreement entered into by the tax matters partner of J.

(b) *Person in pass-thru partner authorized to enter into settlement agreement that binds indirect partners.* In the case of a pass-thru partner that is—

(1) A partnership within the meaning of section 6231(a)(1), the tax matters partner of that partnership;

(2) A partnership other than a partnership described in paragraph (b)(1) of this section, any general partner of that partnership;

(3) An S corporation, any officer of that S corporation; or

(4) A trust, estate, or nominee, any person authorized in writing to act on behalf of that trust, estate, or nominee, may enter into a settlement agreement with the Internal Revenue Service on behalf of its respective entity that would bind the unidentified indirect partners that hold a partnership interest through the pass-thru partner.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6224(c)–2T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50552, Oct. 4, 2001]

§ 301.6224(c)–3 Consistent settlements.

(a) *In general.* If the Internal Revenue Service enters into a settlement agreement with any partner with respect to partnership items, whether comprehensive or partial, the Internal Revenue Service shall offer to any other partner who so requests in accordance with paragraph (c) of this section, settlement terms consistent with those contained in the settlement agreement entered into.

(b) *Requirements for consistent settlement terms*—(1) *In general.* Consistent settlement terms are those based on the same determinations with respect to partnership items. However, consistent settlement terms also may include partnership-level determinations of any penalty, addition to tax, or additional amount that relates to partnership items. Settlements with respect to partnership items shall be self-contained; thus, a concession by one party with respect to a partnership item may not be based upon a concession by another party with respect to any item that is not a partnership item other than a partnership-level determination of any penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item. Consistent agreements must be identical to the original settlement (that is, the settlement upon which the offered settlement terms are based). A consistent agreement must mirror the original settlement and may not be limited to selected items from the original settlement. Once a partner has settled a partnership item, or a partnership-level determination of any penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item, that partner may not subsequently request settlement terms consistent with a settlement that contains the previously settled item. The requirement for consistent settlement terms applies only if—

(i) The items were partnership items (or a partnership-level determination of any related penalty, addition to tax, or additional amount) for the partner entering into the original settlement immediately before the original settlement; and

(ii) The items are partnership items (or a partnership-level determination of any related penalty, addition to tax, or additional amount) for the partner requesting the consistent settlement at the time the partner files the request.

(2) *Effect of consistent agreement.* Consistent settlement terms are reflected in a consistent agreement. A consistent agreement is not a settlement agreement that gives rise to further consistent settlement rights because it is required to be given without volitional agreement of the Secretary. Therefore, a consistent agreement required to be offered to a requesting taxpayer is not a settlement agreement under section 6224(c)(2) or paragraph (c)(3) of this section which starts a new period for requesting consistent settlement terms. For all other purposes of the Internal Revenue Code, however, (e.g., binding effect under section 6224(c)(1) and conversion to nonpartnership items under section 6231(b)(1)(C)), a consistent agreement is treated as a settlement agreement.

(c) *Time and manner of requesting consistent settlements*—(1) *In general.* A partner desiring settlement terms consistent with the terms of any settlement agreement entered into between any other partner and the Internal Revenue Service shall submit a written statement to the Internal Revenue Service office that entered into the settlement.

(2) *Contents of statement.* Except as otherwise provided in instructions to the taxpayer from the Internal Revenue Service, the written statement described in paragraph (c)(1) of this section shall—

(i) Identify the statement as a request for consistent settlement terms under section 6224(c)(2);

(ii) Contain the name, address, and taxpayer identification number of the partnership and of the partner requesting the settlement offer (and, in the case of an indirect partner, of the pass-thru partner through which the indirect partner holds an interest);

(iii) Identify the earlier agreement to which the request refers; and

(iv) Be signed by the partner making the request.

(3) *Time for filing request.* The statement shall be filed not later than the later of—

(i) The 150th day after the day on which the notice of final partnership administrative adjustment is mailed to the tax matters partner; or

(ii) The 60th day after the day on which the settlement agreement was entered into.

(d) *Examples*. The following examples illustrate the principles of this section:

Example 1. The Internal Revenue Service seeks to disallow a $100,000 loss reported by Partnership P $20,000 of which was allocated to partner X, and $10,000 of which was allocated to partner Y. The Internal Revenue Service agrees to a settlement with X in which the Internal Revenue Service allows $12,000 of the loss, accepts the treatment of all other partnership items on the partnership return, and imposes a penalty for negligence related to the $8,000 loss disallowance. Partner Y requests settlement terms consistent with the settlement made between X and the Internal Revenue Service. The items are partnership items (or a related penalty) for X immediately before X enters into the settlement agreement and are partnership items (or a related penalty) for Y at the time of the request. The Internal Revenue Service must offer Y settlement terms allowing a $6,000 loss, a negligence penalty on the $4,000 disallowance, and otherwise reflecting the treatment of partnership items on the partnership return.

Example 2. F files inconsistently with Partnership P and reports the inconsistency. The Internal Revenue Service notifies F that it will treat all partnership items arising from P as nonpartnership items with respect to F. Later, the Internal Revenue Service enters into a settlement with F on these items. The Internal Revenue Service is not required to offer the other partners of P settlement terms consistent with the settlement reached between F and the Internal Revenue Service because the items arising from P are not partnership items with respect to F.

Example 3. G, a partner in Partnership P, filed suit under section 6228(b) after the Internal Revenue Service failed to allow an administrative adjustment request with respect to a partnership item arising from P for a taxable year. Under section 6231(b)(1)(B), the partnership items of G for the partnership taxable year became nonpartnership items as of the date G filed suit. After G filed suit, another partner and the Internal Revenue Service entered into a settlement agreement with respect to items arising from P in that year. G is not entitled to consistent settlement terms because, at the time of the settlement, the items arising from P are no longer partnership items with respect to G.

(e) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6224(c)–3T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50552, Oct. 4, 2001]

§ 301.6225–1 Partnership adjustment by the Internal Revenue Service.

(a) *Imputed underpayment based on partnership adjustments*—(1) *In general*. In the case of any partnership adjustments (as defined in § 301.6241–1(a)(6)) by the Internal Revenue Service (IRS), if the adjustments result in an imputed underpayment (as determined in accordance with paragraph (b) of this section), the partnership must pay an amount equal to such imputed underpayment in accordance with paragraph (a)(2) of this section. If the adjustments do not result in an imputed underpayment (as described in paragraph (f) of this section), such adjustments must be taken into account by the partnership in the adjustment year (as defined in § 301.6241–1(a)(1)) in accordance with § 301.6225–3. Partnership adjustments may result in more than one imputed underpayment pursuant to paragraph (g) of this section. Each imputed underpayment determined under this section is based solely on partnership adjustments with respect to a single taxable year.

(2) *Partnership pays the imputed underpayment*. An imputed underpayment (determined in accordance with paragraph (b) of this section and included in a notice of final partnership adjustment (FPA) under section 6231(a)(3)) must be paid by the partnership in the same manner as if the imputed underpayment were a tax imposed for the adjustment year in accordance with § 301.6232–1. The FPA will include the amount of any imputed underpayment, as modified under § 301.6225–2 if applicable, unless the partnership waives its right to such FPA under section 6232(d)(2). See § 301.6232–1(d)(2). For the alternative to payment of the imputed underpayment by the partnership, see § 301.6226–1. If a partnership pays an imputed underpayment, the partnership's expenditure for the imputed underpayment is taken into account by the partnership in accordance with

§ 301.6241–4. For interest and penalties with respect to an imputed underpayment, see section 6233.

(3) *Imputed underpayment set forth in notice of proposed partnership adjustment.* An imputed underpayment set forth in a notice of proposed partnership adjustment (NOPPA) under section 6231(a)(2) is determined in accordance with paragraph (b) of this section without regard to any modification under § 301.6225–2. Modifications under § 301.6225–2, if allowed by the IRS, may change the amount of an imputed underpayment set forth in the NOPPA and determined in accordance with paragraph (b) of this section. Only the partnership adjustments set forth in a NOPPA are taken into account for purposes of determining an imputed underpayment under this section and for any modification under § 301.6225–2.

(b) *Determination of an imputed underpayment*—(1) *In general.* In the case of any partnership adjustment by the IRS, an imputed underpayment is determined by–

(i) Grouping the partnership adjustments in accordance with paragraph (c) of this section and, if appropriate, subgrouping such adjustments in accordance with paragraph (d) of this section;

(ii) Netting the adjustments in accordance with paragraph (e) of this section;

(iii) Calculating the total netted partnership adjustment in accordance with paragraph (b)(2) of this section;

(iv) Multiplying the total netted partnership adjustment by the highest rate of Federal income tax in effect for the reviewed year under section 1 or 11; and

(v) Increasing or decreasing the product that results under paragraph (b)(1)(iv) of this section by—

(A) Any amounts treated as net positive adjustments (as defined in paragraph (e)(4)(i) of this section) under paragraph (e)(3)(ii) of this section; and

(B) Except as provided in paragraph (e)(3)(ii) of this section, any amounts treated as net negative adjustments (as defined in paragraph (e)(4)(ii) of this section) under paragraph (e)(3)(ii) of this section.

(2) *Calculation of the total netted partnership adjustment.* For purposes of determining an imputed underpayment under paragraph (b)(1) of this section, the *total netted partnership adjustment* is the sum of all net positive adjustments in the reallocation grouping described in paragraph (c)(2) of this section and the residual grouping described in paragraph (c)(5) of this section.

(3) *Adjustments to items for which tax has been collected under chapters 3 and 4 of the Internal Revenue Code.* A partnership adjustment is disregarded for purposes of calculating the imputed underpayment under paragraph (b) of this section to the extent that the IRS has collected the tax required to be withheld under chapter 3 or chapter 4 (as defined in § 301.6241–6(b)(2)(ii) and (iii)) that is attributable to the partnership adjustment. See § 301.6241–6(b)(3) for rules that apply when a partnership pays an imputed underpayment that includes a partnership adjustment to an amount subject to withholding (as defined in § 301.6241–6(b)(2)(i)) under chapter 3 or chapter 4 for which such tax has not yet been collected.

(4) *Treatment of adjustment as zero for purposes of calculating the imputed underpayment.* If the effect of one partnership adjustment is reflected in one or more other partnership adjustments, the IRS may treat the one adjustment as zero solely for purposes of calculating the imputed underpayment.

(c) *Grouping of partnership adjustments*—(1) *In general.* To determine an imputed underpayment under paragraph (b) of this section, partnership adjustments are placed into one of four groupings. These groupings are the reallocation grouping described in paragraph (c)(2) of this section, the credit grouping described in paragraph (c)(3) of this section, the creditable expenditure grouping described in paragraph (c)(4) of this section, and the residual grouping described in paragraph (c)(5) of this section. Adjustments in groupings may be placed in subgroupings, as appropriate, in accordance with paragraph (d) of this section. The IRS may, in its discretion, group adjustments in a manner other than the manner described in this paragraph (c) when such grouping would appropriately reflect the facts and circumstances. For requests to modify the groupings, see § 301.6225–2(d)(6).

(2) *Reallocation grouping*—(i) *In general.* Any adjustment that allocates or reallocates a partnership-related item to and from a particular partner or partners is a *reallocation adjustment.* Except in the case of an adjustment to a credit (as described in paragraph (c)(3) of this section) or to a creditable expenditure (as described in paragraph (c)(4) of this section), reallocation adjustments are placed in the reallocation grouping. Adjustments that reallocate a credit to and from a particular partner or partners are placed in the credit grouping (see paragraph (c)(3) of this section), and adjustments that reallocate a creditable expenditure to and from a particular partner or partners are placed in the creditable expenditure grouping (see paragraph (c)(4) of this section).

(ii) *Each reallocation adjustment results in at least two separate adjustments.* Each reallocation adjustment generally results in at least two separate adjustments. One adjustment reverses the effect of the improper allocation of a partnership-related item, and the other adjustment effectuates the proper allocation of the partnership-related item. Generally, a reallocation adjustment results in one positive adjustment (as defined in paragraph (d)(2)(iii) of this section) and one negative adjustment (as defined in paragraph (d)(2)(ii) of this section).

(3) *Credit grouping.* Each adjustment to a partnership-related item that is reported or could be reported by a partnership as a credit on the partnership's return, including a reallocation adjustment, is placed in the credit grouping.

(4) *Creditable expenditure grouping*—(i) *In general.* Each adjustment to a creditable expenditure, including a reallocation adjustment to a creditable expenditure, is placed in the creditable expenditure grouping.

(ii) *Adjustment to a creditable expenditure*—(A) *In general.* For purposes of this section, an adjustment to a partnership-related item is treated as an adjustment to a creditable expenditure if any person could take the item that is adjusted (or item as adjusted if the item was not originally reported by the partnership) as a credit. See §1.704–1(b)(4)(ii) of this chapter. For instance, if the adjustment is a reduction of qualified research expenses, the adjustment is to a creditable expenditure for purposes of this section because any person allocated the qualified research expenses by the partnership could claim a credit with respect to their allocable portion of such expenses under section 41, rather than a deduction under section 174.

(B) *Creditable foreign tax expenditures.* The creditable expenditure grouping includes each adjustment to a creditable foreign tax expenditure (CFTE) as defined in §1.704–1(b)(4)(viii)(*b*) of this chapter, including any reallocation adjustment to a CFTE.

(5) *Residual grouping*—(i) *In general.* Any adjustment to a partnership-related item not described in paragraph (c)(2), (3), or (4) of this section is placed in the residual grouping.

(ii) *Adjustments to partnership-related items that are not allocated under section 704(b).* The residual grouping includes any adjustment to a partnership-related item that derives from an item that would not have been required to be allocated by the partnership to a reviewed year partner under section 704(b).

(6) *Recharacterization adjustments*—(i) *Recharacterization adjustment defined.* An adjustment that changes the character of a partnership-related item is a recharacterization adjustment. For instance, an adjustment that changes a loss from ordinary to capital or from active to passive is a recharacterization adjustment.

(ii) *Grouping recharacterization adjustments.* A recharacterization adjustment is placed in the appropriate grouping as described in paragraphs (c)(2) through (5) of this section.

(iii) *Recharacterization adjustments result in two partnership adjustments.* In general, a recharacterization adjustment results in at least two separate adjustments in the appropriate grouping under paragraph (c)(6)(ii) of this section. One adjustment reverses the improper characterization of the partnership-related item, and the other adjustment effectuates the proper characterization of the partnership-related item. A recharacterization adjustment results in two adjustments regardless of whether the amount of the partnership-related item is being adjusted.

Generally, recharacterization adjustments result in one positive adjustment and one negative adjustment.

(d) *Subgroupings*—(1) *In general.* If all partnership adjustments are positive adjustments, this paragraph (d) does not apply. If any partnership adjustment within any grouping described in paragraph (c) of this section is a negative adjustment, the adjustments within that grouping are subgrouped in accordance with this paragraph (d). The IRS may, in its discretion, subgroup adjustments in a manner other than the manner described in this paragraph (d) when such subgrouping would appropriately reflect the facts and circumstances. For requests to modify the subgroupings, see § 301.6225–2(d)(6).

(2) *Definition of negative adjustments and positive adjustments*—(i) *In general.* For purposes of this section, partnership adjustments made by the IRS are treated as follows:

(A) An increase in an item of gain is treated as an increase in an item of income;

(B) A decrease in an item of gain is treated as a decrease in an item of income;

(C) An increase in an item of loss or deduction is treated as a decrease in an item of income; and

(D) A decrease in an item of loss or deduction is treated as an increase in an item of income.

(ii) *Negative adjustment.* A *negative adjustment* is any adjustment that is a decrease in an item of income, a partnership adjustment treated under paragraph (d)(2)(i) of this section as a decrease in an item of income, or an increase in an item of credit.

(iii) *Positive adjustment*—(A) *In general.* A *positive adjustment* is any adjustment that is not a negative adjustment as defined in paragraph (d)(2)(ii) of this section.

(B) *Treatment of adjustments that cannot be allocated under section 704(b).* For purposes of determining an imputed underpayment under this section, an adjustment described in paragraph (c)(5)(ii) of this section that could result in an increase in income or decrease in a loss, deduction, or credit for any person without regard to any particular person's specific circumstances is treated, to the extent appropriate, either as a positive adjustment to income or to a credit.

(3) *Subgrouping rules*—(i) *In general.* Except as otherwise provided in this paragraph (d)(3), an adjustment is subgrouped according to how the adjustment would be required to be taken into account separately under section 702(a) or any other provision of the Code, regulations, forms, instructions, or other guidance prescribed by the IRS applicable to the adjusted partnership-related item. A negative adjustment must be placed in the same subgrouping as another adjustment if the negative adjustment and the other adjustment would have been properly netted at the partnership level and such netted amount would have been required to be allocated to the partners of the partnership as a single partnership-related item for purposes of section 702(a), other provision of the Code, regulations, forms, instructions, or other guidance prescribed by the IRS. For purposes of creating subgroupings under this section, if any adjustment could be subject to any preference, limitation, or restriction under the Code (or not allowed, in whole or in part, against ordinary income) if taken into account by any person, the adjustment is placed in a separate subgrouping from all other adjustments within the grouping.

(ii) *Subgrouping reallocation adjustments*—(A) *Reallocation adjustments in the reallocation grouping.* Each positive adjustment and each negative adjustment resulting from a reallocation adjustment as described in paragraph (c)(2)(ii) of this section is placed in its own separate subgrouping within the reallocation grouping. For instance, if the reallocation adjustment reallocates a deduction from one partner to another partner, the decrease in the deduction (positive adjustment) allocated to the first partner is placed in a subgrouping within the reallocation grouping separate from the increase in the deduction (negative adjustment) allocated to the second partner. Notwithstanding the requirement that reallocation adjustments be placed into separate subgroupings, if a particular partner or group of partners has two or more reallocation adjustments allocable to such partner or group, such

adjustments may be subgrouped in accordance with paragraph (d)(3)(i) of this section and netted in accordance with paragraph (e) of this section.

(B) *Reallocation adjustments in the credit grouping*. In the case of a reallocation adjustment to a credit, which is placed in the credit grouping pursuant to paragraph (c)(3) of this section, the decrease in credits allocable to one partner or group of partners is treated as a positive adjustment, and the increase in credits allocable to another partner or group of partners is treated as a negative adjustment. Each positive adjustment and each negative adjustment resulting from a reallocation adjustment to credits is placed in its own separate subgrouping within the credit grouping.

(iii) *Subgroupings within the creditable expenditure grouping*—(A) *In general*. Each adjustment in the creditable expenditure grouping described in paragraph (c)(4) of this section is subgrouped in accordance with paragraphs (d)(3)(i) and (iii) of this section. For rules related to creditable expenditures other than CFTEs, see paragraph (d)(3)(iii)(C) of this section.

(B) *Subgroupings for adjustments to CFTEs*. Each adjustment to a CFTE is subgrouped based on the separate category of income to which the CFTE relates in accordance with section 904(d) and the regulations in part 1 of this chapter, and to account for any different allocation of the CFTE between partners. Two or more adjustments to CFTEs are included within the same subgrouping only if each adjustment relates to CFTEs in the same separate category, and each adjusted partnership-related item would be allocated to the partners in the same ratio had those items been properly reflected on the partnership return for the reviewed year.

(C) [Reserved]

(iv) *Subgrouping recharacterization adjustments*. Each positive adjustment and each negative adjustment resulting from a recharacterization adjustment as described in paragraph (c)(6) of this section is placed in its own separate subgrouping within the residual grouping. If a particular partner or group of partners has two or more recharacterization adjustments allocable to such partner or group, such adjustments may be subgrouped in accordance with paragraph (d)(3)(i) of this section and netted in accordance with paragraph (e) of this section.

(e) *Netting adjustments within each grouping or subgrouping*—(1) *In general*. All adjustments within a subgrouping determined in accordance with paragraph (d) of this section are netted in accordance with this paragraph (e) to determine whether there is a net positive adjustment (as defined in paragraph (e)(4)(i) of this section) or net negative adjustment (as defined in paragraph (e)(4)(ii) of this section) for that subgrouping. If paragraph (d) of this section does not apply because a grouping only includes positive adjustments, all adjustments in that grouping are netted in accordance with this paragraph (e). For purposes of this paragraph (e), netting means summing all adjustments together within each grouping or subgrouping, as appropriate.

(2) *Limitations on netting adjustments*. Positive adjustments and negative adjustments may only be netted against each other if they are in the same grouping in accordance with paragraph (c) of this section. If a negative adjustment is in a subgrouping in accordance with paragraph (d) of this section, the negative adjustment may only net with a positive adjustment also in that same subgrouping in accordance with paragraph (d) of this section. An adjustment in one grouping or subgrouping may not be netted against an adjustment in any other grouping or subgrouping. Adjustments from one taxable year may not be netted against adjustments from another taxable year.

(3) *Results of netting adjustments within groupings or subgroupings*—(i) *Groupings other than the credit and creditable expenditure groupings*. Except as described in paragraphs (e)(3)(ii) and (iii) of this section, each net positive adjustment (as defined in paragraph (e)(4)(i) of this section) with respect to a particular grouping or subgrouping that results after netting the adjustments in accordance with this paragraph (e) is included in the calculation

of the total netted partnership adjustment under paragraph (b)(2) of this section. Each net negative adjustment (as defined in paragraph (e)(4)(ii) of this section) with respect to a grouping or subgrouping that results after netting the adjustments in accordance with this paragraph (e) is excluded from the calculation of the total netted partnership adjustment under paragraph (b)(2) of this section. Adjustments underlying a net negative adjustment described in the preceding sentence are adjustments that do not result in an imputed underpayment (as described in paragraph (f) of this section).

(ii) *Credit grouping.* Any net positive adjustment or net negative adjustment in the credit grouping (including any such adjustment with respect to a subgrouping within the credit grouping) is excluded from the calculation of the total netted partnership adjustment. A net positive adjustment described in this paragraph (e)(3)(ii) is taken into account under paragraph (b)(1)(v) of this section. A net negative adjustment described in this paragraph (e)(3)(ii), including a negative adjustment to a credit resulting from a reallocation adjustment that was placed in a separate subgrouping pursuant to paragraph (d)(3)(ii)(B) of this section, is treated as an adjustment that does not result in an imputed underpayment in accordance with paragraph (f)(1)(i) of this section, unless the IRS determines that such net negative adjustment should be taken into account under paragraph (b)(1)(v) of this section.

(iii) *Treatment of creditable expenditures*—(A) *Creditable foreign tax expenditures.* A net decrease to a CFTE in any CFTE subgrouping (as described in paragraph (d)(3)(iii) of this section) is treated as a net positive adjustment described in paragraph (e)(3)(ii) of this section and is excluded from the calculation of the total netted partnership adjustment under paragraph (b)(2) of this section. A net increase to a CFTE in any CFTE subgrouping is treated as a net negative adjustment described in paragraph (e)(3)(i) of this section. For rules related to creditable expenditures other than CFTEs, see paragraph (e)(3)(iii)(B) of this section.

(B) [Reserved]

(4) *Net positive adjustment and net negative adjustment defined*—(i) *Net positive adjustment.* A *net positive adjustment* means an amount that is greater than zero which results from netting adjustments within a grouping or subgrouping in accordance with this paragraph (e). A net positive adjustment includes a positive adjustment that was not netted with any other adjustment. A net positive adjustment includes a net decrease in an item of credit.

(ii) *Net negative adjustment.* A *net negative adjustment* means any amount which results from netting adjustments within a grouping or subgrouping in accordance with this paragraph (e) that is not a net positive adjustment (as defined in paragraph (e)(4)(i) of this section). A net negative adjustment includes a negative adjustment that was not netted with any other adjustment.

(f) *Partnership adjustments that do not result in an imputed underpayment*—(1) *In general.* Except as otherwise provided in paragraph (e) of this section, a partnership adjustment does not result in an imputed underpayment if—

(i) After grouping, subgrouping, and netting the adjustments as described in paragraphs (c), (d), and (e) of this section, the result of netting with respect to any grouping or subgrouping that includes a particular partnership adjustment is a net negative adjustment (as described in paragraph (e)(4)(ii) of this section); or

(ii) The calculation under paragraph (b)(1) of this section results in an amount that is zero or less than zero.

(2) *Treatment of an adjustment that does not result in an imputed underpayment.* Any adjustment that does not result in an imputed underpayment (as described in paragraph (f)(1) of this section) is taken into account by the partnership in the adjustment year in accordance with § 301.6225–3. If the partnership makes an election pursuant to section 6226 with respect to an imputed underpayment, the adjustments that do not result in that imputed underpayment that are associated with that imputed underpayment (as described in paragraph (g)(2)(iii)(B) of this section) are taken into account by the reviewed year partners in accordance with § 301.6226–3.

(g) *Multiple imputed underpayments in a single administrative proceeding*—(1) *In general*. The IRS, in its discretion, may determine that partnership adjustments for the same partnership taxable year result in more than one imputed underpayment. The determination of whether there is more than one imputed underpayment for any partnership taxable year, and if so, which partnership adjustments are taken into account to calculate any particular imputed underpayment is based on the facts and circumstances and nature of the partnership adjustments. See § 301.6225–2(d)(6) for modification of the number and composition of imputed underpayments.

(2) *Types of imputed underpayments*—(i) *In general*. There are two types of imputed underpayments: A general imputed underpayment (described in paragraph (g)(2)(ii) of this section) and a specific imputed underpayment (described in paragraph (g)(2)(iii) of this section). Each type of imputed underpayment is separately calculated in accordance with this section.

(ii) *General imputed underpayment*. The general imputed underpayment is calculated based on all adjustments (other than adjustments that do not result in an imputed underpayment under paragraph (f) of this section) that are not taken into account to determine a specific imputed underpayment under paragraph (g)(2)(iii) of this section. There is only one general imputed underpayment in any administrative proceeding. If there is one imputed underpayment in an administrative proceeding, it is a general imputed underpayment and may take into account adjustments described in paragraph (g)(2)(iii) of this section, if any, and all adjustments that do not result in that general imputed underpayment (as described in paragraph (f) of this section) are associated with that general imputed underpayment.

(iii) *Specific imputed underpayment*—(A) *In general*. The IRS may, in its discretion, designate a specific imputed underpayment with respect to adjustments to a partnership-related item or items that were allocated to one partner or a group of partners that had the same or similar characteristics or that participated in the same or similar transaction or on such other basis as the IRS determines properly reflects the facts and circumstances. The IRS may designate more than one specific imputed underpayment with respect to any partnership taxable year. For instance, in a single partnership taxable year there may be a specific imputed underpayment with respect to adjustments related to a transaction affecting some, but not all, partners of the partnership (such as adjustments that are specially allocated to certain partners) and a second specific imputed underpayment with respect to adjustments resulting from a reallocation of a distributive share of income from one partner to another partner. The IRS may, in its discretion, determine that partnership adjustments that could be taken into account to calculate one or more specific imputed underpayments under this paragraph (g)(2)(iii)(A) for a partnership taxable year are more appropriately taken into account in determining the general imputed underpayment for such taxable year. For instance, the IRS may determine that it is more appropriate to calculate only the general imputed underpayment if, when calculating the specific imputed underpayment requested by the partnership, there is an increase in the number of the partnership adjustments that after grouping and netting result in net negative adjustments and are disregarded in calculating the specific imputed underpayment.

(B) *Adjustments that do not result in an imputed underpayment associated with a specific imputed underpayment*. If the IRS designates a specific imputed underpayment, the IRS will designate which adjustments that do not result in an imputed underpayment, if any, are appropriate to associate with that specific imputed underpayment. If the adjustments underlying that specific imputed underpayment are reallocation adjustments or recharacterization adjustments, the net negative adjustment that resulted from the reallocation or recharacterization is associated with the specific imputed underpayment. Any adjustments that do not result in an imputed underpayment that are not associated with a specific imputed underpayment under this paragraph (g)(2)(iii)(B) are associated

with the general imputed underpayment.

(h) *Examples*. The following examples illustrate the rules of this section. For purposes of these examples, unless otherwise stated, each partnership is subject to the provisions of subchapter C of chapter 63 of the Code, each partnership and its partners are calendar year taxpayers, all partners are U.S. persons, the highest rate of income tax in effect for all taxpayers is 40 percent for all relevant periods, and no partnership requests modification under § 301.6225–2.

(1) *Example 1*. Partnership reports on its 2019 partnership return $100 of ordinary income and an ordinary deduction of −$70. The IRS initiates an administrative proceeding with respect to Partnership's 2019 taxable year and determines that ordinary income was $105 instead of $100 ($5 adjustment) and that the ordinary deduction was −$80 instead of −$70 (−$10 adjustment). Pursuant to paragraph (c) of this section, the adjustments are both in the residual grouping. The −$10 adjustment to the ordinary deduction would not have been netted at the partnership level with the $5 adjustment to ordinary income and would not have been required to be allocated to the partners of the partnership as a single partnership-related item for purposes of section 702(a), other provision of the Code, regulations, forms, instructions, or other guidance prescribed by the IRS. Because the −$10 adjustment to the ordinary deduction would result in a decrease in the imputed underpayment if netted with the $5 adjustment to ordinary income and because it might be limited if taken into account by any person, the −$10 adjustment must be placed in a separate subgrouping from the $5 adjustment to ordinary income. See paragraph (d)(3)(i) of this section. The total netted partnership adjustment is $5, which results in an imputed underpayment of $2. The −$10 adjustment to the ordinary deduction is a net negative amount and is an adjustment that does not result in an imputed underpayment which is taken into account by Partnership in the adjustment year in accordance with § 301.6225–3.

(2) *Example 2*. The facts are the same as *Example 1* in paragraph (h)(1) of this section, except that the −$10 adjustment to the ordinary deduction would have been netted at the partnership level with the $5 adjustment to ordinary income and would have been required to be allocated to the partners of the partnership as a single partnership-related item for purposes of section 702(a), other provision of the Code, regulations, forms, instructions, or other guidance prescribed by the IRS. Therefore, the $5 adjustment and the −$10 adjustment must be placed in the same subgrouping within the residual grouping. The $5 adjustment and the −$10 adjustments are then netted in accordance with paragraph (e) of this section. Such netting results in a net negative adjustment (as defined under paragraph (e)(4)(ii) of this section) of −$5. Pursuant to paragraph (f) of this section, the −$5 net negative adjustment is an adjustment that does not result in an imputed underpayment. Because the only net adjustment is an adjustment that does not result in an imputed underpayment, there is no imputed underpayment.

(3) *Example 3*. Partnership reports on its 2019 partnership return ordinary income of $300, long-term capital gain of $125, long-term capital loss of −$75, a depreciation deduction of −$100, and a tax credit that can be claimed by the partnership of $5. In an administrative proceeding with respect to Partnership's 2019 taxable year, the IRS determines that ordinary income is $500 ($200 adjustment), long-term capital gain is $200 ($75 adjustment), long-term capital loss is −$25 ($50 adjustment), the depreciation deduction is −$70 ($30 adjustment), and the tax credit is $3 ($2 adjustment). Pursuant to paragraph (c) of this section, the adjustment to the tax credit is in the credit grouping under paragraph (c)(3) of this section. The remaining adjustments are part of the residual grouping under paragraph (c)(5) of this section. Pursuant to paragraph (d)(2) of this section, all of the adjustments in the residual grouping are positive adjustments. Because there are no negative adjustments, there are no subgroupings within the residual grouping. Under paragraph (b)(2) of this section, the adjustments in the residual grouping are summed

for a total netted partnership adjustment of $355. Under paragraph (b)(1)(iv) of this section, the total netted partnership adjustment is multiplied by 40 percent (highest tax rate in effect), which results in $142. Under paragraph (b)(1)(v) of this section, the $142 is increased by the $2 credit adjustment, resulting in an imputed underpayment of $144.

(4) *Example 4*. Partnership reported on its 2019 partnership return long-term capital gain of $125. In an administrative proceeding with respect to Partnership's 2019 taxable year, the IRS determines the long-term capital gain should have been reported as ordinary income of $125. There are no other adjustments for the 2019 taxable year. This recharacterization adjustment results in two adjustments in the residual grouping pursuant to paragraph (c)(6) of this section: an increase in ordinary income of $125 ($125 adjustment) as well as a decrease of long-term capital gain of $125 (−$125 adjustment). The decrease in long-term capital gain is a negative adjustment under paragraph (d)(2)(ii) of this section and the increase in ordinary income is a positive adjustment under paragraph (d)(2)(iii) of this section. Under paragraph (d)(3)(i) of this section, the adjustment to long-term capital gain is placed in a subgrouping separate from the adjustment to ordinary income because the reduction of long-term capital gain is required to be taken into account separately pursuant to section 702(a). The $125 decrease in long-term capital gain is a net negative adjustment in the long-term capital subgrouping and, as a result, is an adjustment that does not result in an imputed underpayment under paragraph (f) of this section and is taken into account in accordance with § 301.6225–3. The $125 increase in ordinary income results in a net positive adjustment under paragraph (e)(4)(i) of this section. Because the ordinary subgrouping is the only subgrouping resulting in a net positive adjustment, $125 is the total netted partnership adjustment under paragraph (b)(2) of this section. Under paragraph (b)(1)(iv) of this section, $125 is multiplied by 40 percent resulting in an imputed underpayment of $50.

(5) *Example 5*. Partnership reported a $100 deduction for certain expenses on its 2019 partnership return and an additional $100 deduction with respect to the same type of expenses on its 2020 partnership return. The IRS initiates an administrative proceeding with respect to Partnership's 2019 and 2020 taxable years and determines that Partnership reported a portion of the expenses as a deduction in 2019 that should have been taken into account in 2020. Therefore, for taxable year 2019, the IRS determines that Partnership should have reported a deduction of $75 with respect to the expenses ($25 adjustment in the 2019 residual grouping). For 2020, the IRS determines that Partnership should have reported a deduction of $125 with respect to these expenses (−$25 adjustment in the 2020 residual grouping). There are no other adjustments for the 2019 and 2020 partnership taxable years. Pursuant to paragraph (e)(2) of this section, the adjustments for 2019 and 2020 are not netted with each other. The 2019 adjustment of $25 is the only adjustment for that year and a net positive adjustment under paragraph (e)(4)(i) of this section, and therefore the total netted partnership adjustment for 2019 is $25 pursuant to paragraph (b)(2) of this section. The $25 total netted partnership adjustment is multiplied by 40 percent resulting in an imputed underpayment of $10 for Partnership's 2019 taxable year. The $25 increase in the deduction for 2020, a net negative adjustment under paragraph (e)(4)(ii) of this section, is an adjustment that does not result in an imputed underpayment for that year. Therefore, there is no imputed underpayment for 2020.

(6) *Example 6*. On its partnership return for the 2020 taxable year, Partnership reported ordinary income of $100 and a capital gain of $50. Partnership had four equal partners during the 2020 tax year, all of whom were individuals. On its partnership return for the 2020 tax year, the capital gain was allocated to partner E and the ordinary income was allocated to all partners based on their interests in Partnership. In an administrative proceeding with respect to Partnership's 2020 taxable year, the IRS determines that for 2020 the capital gain allocated to E should have

been $75 instead of $50 and that Partnership should have recognized an additional $10 in ordinary income. In the NOPPA mailed by the IRS, the IRS may determine pursuant to paragraph (g) of this section that there is a general imputed underpayment with respect to the increase in ordinary income and a specific imputed underpayment with respect to the increase in capital gain specially allocated to E.

(7) *Example 7*. On its partnership return for the 2020 taxable year, Partnership reported a recourse liability of $100. During an administrative proceeding with respect to Partnership's 2020 taxable year, the IRS determines that the $100 recourse liability should have been reported as a $100 nonrecourse liability. Under paragraph (d)(2)(iii)(B) of this section, the adjustment to the character of the liability is an adjustment to an item that cannot be allocated under section 704(b). The adjustment therefore is treated as a $100 increase in income because such recharacterization of a liability could result in up to $100 in taxable income if taken into account by any person. The $100 increase in income is a positive adjustment in the residual grouping under paragraph (c)(5)(ii) of this section. There are no other adjustments for the 2020 partnership taxable year. The $100 positive adjustment is treated as a net positive adjustment under paragraph (e)(4)(i) of this section, and the total netted partnership adjustment under paragraph (b)(2) of this section is $100. Pursuant to paragraph (b)(1) of this section, the total netted partnership adjustment is multiplied by 40 percent for an imputed underpayment of $40.

(8) *Example 8*. Partnership reports on its 2019 partnership return $400 of CFTEs in the general category under section 904(d). The IRS initiates an administrative proceeding with respect to Partnership's 2019 taxable year and determines that the amount of CFTEs was $300 instead of $400 (−$100 adjustment to CFTEs). No other adjustments are made for the 2019 taxable year. The −$100 adjustment to CFTEs is placed in the creditable expenditure grouping described in paragraph (c)(4) of this section. Pursuant to paragraph (e)(3)(iii) of this section, the decrease to CFTEs in the creditable expenditure grouping is treated as a positive adjustment to (decrease in) credits in the credit grouping under paragraph (c)(3) of this section. Because no other adjustments have been made, the $100 decrease in credits produces an imputed underpayment of $100 under paragraph (b)(1) of this section.

(9) *Example 9*. Partnership reports on its 2019 partnership return $400 of CFTEs in the passive category under section 904(d). The IRS initiates an administrative proceeding with respect to Partnership's 2019 taxable year and determines that the CFTEs reported by Partnership were general category instead of passive category CFTEs. No other adjustments are made. Under the rules in paragraph (c)(6) of this section, an adjustment to the category of a CFTE is treated as two separate adjustments: An increase to general category CFTEs of $400 and a decrease to passive category CFTEs of $400. Both adjustments are included in the creditable expenditure grouping under paragraph (c)(4) of this section, but they are included in separate subgroupings. Therefore, the two amounts do not net. Instead, the $400 increase to CFTEs in the general category subgrouping is treated as a net negative adjustment under paragraph (e)(3)(iii)(A) of this section and is an adjustment that does not result in an imputed underpayment under paragraph (f) of this section. The decrease to CFTEs in the passive category subgrouping of the creditable expenditure grouping results in a decrease in CFTEs. Therefore, pursuant to paragraph (e)(3)(iii)(A) of this section, it is treated as a positive adjustment to (decrease in) credits in the credit grouping under paragraph (c)(3) of this section, which results in an imputed underpayment of $400 under paragraph (b)(1) of this section.

(10) *Example 10*. Partnership has two partners, A and B. Under the partnership agreement, $100 of the CFTE is specially allocated to A for the 2019 taxable year. The IRS initiates an administrative proceeding with respect to Partnership's 2019 taxable year and determines that $100 of CFTE should be reallocated from A to B. Because the

adjustment reallocates a creditable expenditure, paragraph (c)(4) of this section provides that it is included in the creditable expenditure grouping rather than the reallocation grouping. The partnership adjustment is a −$100 adjustment to general category CFTE allocable to A and an increase of $100 to general category CFTE allocable to B. Pursuant to paragraph (d)(3)(iii) of this section, the −$100 adjustment to general category CFTE and the increase of $100 to general category CFTE are included in separate subgroupings in the creditable expenditure grouping. The $100 increase in general category CFTEs, B-allocation subgrouping, is a net negative adjustment, which does not result in an imputed underpayment and is therefore taken into account by the partnership in the adjustment year in accordance with § 301.6225–3. The net decrease to CFTEs in the general-category, A-allocation subgrouping, is treated as a positive adjustment to (decrease in) credits in the credit grouping under paragraph (c)(3) of this section, resulting in an imputed underpayment of $100 under paragraph (b)(1) of this section.

(11) *Example 11.* Partnership has two partners, A and B. Partnership owns two entities, DE1 and DE2, that are disregarded as separate from their owner for Federal income tax purposes and are operating in and paying taxes to foreign jurisdictions. The partnership agreement provides that all items from DE1 and DE2 are allocable to A and B in the following manner. Items related to DE1: To A 75 percent and to B 25 percent. Items related to DE2: To A 25 percent and to B 75 percent. On Partnership's 2018 return, Partnership reports CFTEs in the general category of $300, $100 with respect to DE1 and $200 with respect to DE2. Partnership allocates the $300 of CFTEs $125 and $175 to A and B respectively. During an administrative proceeding with respect to Partnership's 2018 taxable year, the IRS determines that Partnership understated the amount of creditable foreign tax paid by DE2 by $40 and overstated the amount of creditable foreign tax paid by DE1 by $80. No other adjustments are made. Because the two adjustments each relate to CFTEs that are subject to different allocations, the two adjustments are in different subgroupings under paragraph (d)(3)(iii)(B) of this section. The adjustment reducing the CFTEs related to DE1 results in a decrease in CFTEs within that subgrouping and under paragraph (e)(3)(iii)(A) of this section is treated as a decrease in credits in the credit grouping under paragraph (c)(3) of this section and results in an imputed underpayment of $80 under paragraph (b)(1) of this section. The increase of $40 of general category CFTE related to the DE2 subgrouping results in an increase in CFTEs within that subgrouping and is treated as a net negative adjustment, which does not result in an imputed underpayment and is taken into account in the adjustment year in accordance with § 301.6225–3.

(12) *Example 12.* Partnership has two partners, A and B. For the 2019 taxable year, Partnership allocated $70 of long term capital loss to B as well as $30 of ordinary income. In an administrative proceeding with respect to Partnership's 2019 taxable year, the IRS determines that the $30 of ordinary income and the $70 of long term capital loss should be reallocated from B to A. The partnership adjustments are a decrease of $30 of ordinary income (−$30 adjustment) allocated to B and a corresponding increase of $30 of ordinary income ($30 adjustment) allocated to A, as well as a decrease of $70 of long term capital loss ($70 adjustment) allocated to B and a corresponding increase of $70 of long term capital loss (−$70 adjustment) allocated to A. See paragraph (c)(2)(ii) of this section. Pursuant to paragraph (d)(3)(ii)(A) of this section, for purposes of determining the imputed underpayment, each positive adjustment and each negative adjustment allocated to A and B is placed in its own separate subgrouping. However, notwithstanding the general requirement that reallocation adjustments be subgrouped separately, the reallocation adjustments allocated to A and B may be subgrouped in accordance with paragraph (d)(3)(i) of this section because there are two reallocation adjustments allocated to each of A and B, respectively. Pursuant to paragraph (d)(3)(i) of this section, because the partnership adjustment allocated to A would not

have been netted at the partnership level and would not have been allocated to A as a single partnership-related item for purposes of section 702(a), other provisions of the Code, regulations, forms, instructions, or other guidance prescribed by the IRS, the positive adjustment and the negative adjustment allocated to A remain in separate subgroupings. For the same reasons with respect to the adjustments allocated to B, the positive adjustment and the negative adjustment allocated to B also remain in separate subgroupings. As a result, the reallocation grouping would have four subgroupings, one for each adjustment: The decrease in ordinary income allocated to B (−$30 adjustment), the increase in ordinary income allocated to A ($30 adjustment), the decrease in long term capital loss allocated to B ($70 adjustment), and the increase long term capital loss allocated to A (−$70 adjustment). Pursuant to paragraph (e) of this section, no netting may occur between subgroupings. Accordingly, the ordinary income allocated to A ($30 adjustment) and the long term capital loss allocated to B ($70 adjustment) are both net positive adjustments. These net positive adjustments are added together to determine the total netted partnership adjustment of $100. The total netted partnership adjustment is multiplied by 40 percent, which results in an imputed underpayment of $40. The ordinary income allocated to B (−$30 adjustment) and the long term capital loss allocated to A (−$70 adjustment) are net negative adjustments treated as adjustments that do not result in an imputed underpayment taken into account by the partnership pursuant to § 301.6225–3.

(i) *Applicability date*—(1) *In general.* Except as provided in paragraph (i)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015 and before January 1, 2018, for which a valid election under § 301.9100–22T is in effect.

[T.D. 9844, 84 FR 6534, Feb. 27, 2019]

§ 301.6225–2 Modification of imputed underpayment.

(a) *Partnership may request modification of an imputed underpayment.* A partnership that has received a notice of proposed partnership adjustment (NOPPA) under section 6231(a)(2) from the Internal Revenue Service (IRS) may request modification of a proposed imputed underpayment set forth in the NOPPA in accordance with this section and any forms, instructions, and other guidance prescribed by the IRS. The effect of modification on a proposed imputed underpayment is described in paragraph (b) of this section. Unless otherwise described in paragraph (d) of this section, a partnership may request any type of modification of an imputed underpayment described in paragraph (d) of this section in the time and manner described in paragraph (c) of this section. A partnership may request modification with respect to a partnership adjustment (as defined in § 301.6241–1(a)(6)) that does not result in an imputed underpayment (as described in § 301.6225–1(f)(1)(ii)) as described in paragraph (e) of this section. Only the partnership representative may request modification under this section. See section 6223 and § 301.6223–2 for rules regarding the binding authority of the partnership representative. For purposes of this section, the term *relevant partner* means any person for whom modification is requested by the partnership that is—

(1) A reviewed year partner (as defined in § 301.6241–1(a)(9)), including any pass-through partner (as defined in § 301.6241–1(a)(5)), except for any reviewed year partner that is a wholly-owned entity disregarded as separate from its owner for Federal income tax purposes; or

(2) An indirect partner (as defined in § 301.6241–1(a)(4)) except for any indirect partner that is a wholly-owned entity disregarded as separate from its owner for Federal income tax purposes.

(b) *Effect of modification*–(1) *In general.* A modification of an imputed underpayment under this section that is approved by the IRS may result in an increase or decrease in the amount of an imputed underpayment set forth in the NOPPA. A modification under this section has no effect on the amount of any

partnership adjustment determined under subchapter C of chapter 63 of the Internal Revenue Code (subchapter C of chapter 63). See paragraph (e) of this section for the effect of modification on adjustments that do not result in an imputed underpayment. A modification may increase or decrease an imputed underpayment by affecting the extent to which adjustments factor into the determination of the imputed underpayment (as described in paragraph (b)(2) of this section), the tax rate that is applied in calculating the imputed underpayment (as described in paragraph (b)(3) of this section), and the number and composition of imputed underpayments, including the placement of adjustments in groupings and subgroupings (if applicable) (as described in paragraph (b)(4) of this section), as well as to the extent of other modifications allowed under rules provided in forms, instructions, or other guidance prescribed by the IRS (as described in paragraph (b)(5) of this section). If a partnership requests more than one modification under this section, modifications are taken into account in the following order:

(i) Modifications that affect the extent to which an adjustment factors into the determination of the imputed underpayment under paragraph (b)(2) of this section;

(ii) Modification of the number and composition of imputed underpayments under paragraph (b)(4) of this section; and

(iii) Modifications that affect the tax rate under paragraph (b)(3) of this section.

(2) *Modifications that affect partnership adjustments for purposes of determining the imputed underpayment.* If the IRS approves modification with respect to a partnership adjustment, such partnership adjustment is excluded from the determination of the imputed underpayment as determined under § 301.6225–1(b). This paragraph (b)(2) applies to modifications under—

(i) Paragraph (d)(2) of this section (amended returns and the alternative procedure to filing amended returns);

(ii) Paragraph (d)(3) of this section (tax-exempt status);

(iii) Paragraph (d)(5) of this section (specified passive activity losses);

(iv) Paragraph (d)(7) of this section (qualified investment entities);

(v) Paragraph (d)(8) of this section (closing agreements), if applicable;

(vi) Paragraph (d)(9) of this section (tax treaty modifications), if applicable; and

(vii) Paragraph (d)(10) of this section (other modifications), if applicable.

(3) *Modifications that affect the tax rate*—(i) *In general.* If the IRS approves a modification with respect to the tax rate applied to a partnership adjustment, such modification results in a reduction in tax rate applied to the total netted partnership adjustment with respect to the partnership adjustments in accordance with this paragraph (b)(3). A modification of the tax rate does not affect how the partnership adjustment factors into the calculation of the total netted partnership adjustment. This paragraph (b)(3) applies to modifications under—

(A) Paragraph (d)(4) of this section (rate modification);

(B) Paragraph (d)(8) of this section (closing agreements), if applicable;

(C) Paragraph (d)(9) of this section (tax treaty modifications), if applicable; and

(D) Paragraph (d)(10) of this section (other modifications), if applicable.

(ii) *Determination of the imputed underpayment in the case of rate modification.* Except as described in paragraph (b)(3)(iv) of this section, in the case of an approved modification described under paragraph (b)(3)(i) of this section, the imputed underpayment is the sum of the total netted partnership adjustment consisting of the net positive adjustments not subject to rate reduction under paragraph (b)(3)(i) of this section (taking into account any approved modifications under paragraph (b)(2) of the section), plus the *rate-modified netted partnership adjustment* determined under paragraph (b)(3)(iii) of this section, reduced or increased by any adjustments to credits (taking into account any modifications under paragraph (b)(4) of this section). The total netted partnership adjustment not subject to rate reduction under paragraph (b)(3)(i) of this section (taking into account any approved modifications under paragraph (b)(2) of the section) is

determined by multiplying the partnership adjustments included in the total netted partnership adjustment that are not subject to rate modification under paragraph (b)(3)(i) of this section (including any partnership adjustment that remains after applying paragraph (b)(3)(iii) of this section) by the highest tax rate (as described in § 301.6225–1(b)(1)(iv)).

(iii) *Calculation of rate-modified netted partnership adjustment in the case of a rate modification.* The *rate-modified netted partnership adjustment* is determined as follows—

(A) Determine each relevant partner's distributive share of the partnership adjustments subject to an approved modification under paragraph (b)(3)(i) of this section based on how each adjustment subject to rate modification was allocated in the NOPPA, or if the appropriate allocation was not addressed in the NOPPA, how the adjustment would be properly allocated under subchapter K of chapter 1 of the Internal Revenue Code (subchapter K) to such relevant partner in the reviewed year (as defined in § 301.6241–1(a)(8)).

(B) Multiply each partnership adjustment determined under paragraph (b)(3)(iii)(A) of this section by the tax rate applicable to such adjustment based on the approved modification described under paragraph (b)(3)(i) of this section.

(C) Add all of the amounts calculated under paragraph (b)(3)(iii)(B) of this section with respect to each partnership adjustment subject to an approved modification described under paragraph (b)(3)(i) of this section.

(iv) *Rate modification in the case of special allocations.* If an imputed underpayment results from adjustments to more than one partnership-related item and any relevant partner for whom modification described under paragraph (b)(3)(i) of this section is approved has a distributive share of such items that is not the same with respect to all such items, the imputed underpayment as modified based on the modification types described under paragraph (b)(3)(i) of this section is determined as described in paragraphs (b)(3)(ii) and (iii) of this section except that each relevant partner's distributive share is determined based on the amount of net gain or loss to the partner that would have resulted if the partnership had sold all of its assets at their fair market value as of the close of the reviewed year appropriately adjusted to reflect any approved modification under paragraphs (d)(2), (3), and (5) through (10) of this section with respect to any relevant partner. Notwithstanding the preceding sentence, the partnership may request that the IRS apply the rule in paragraph (b)(3)(iii)(A) of this section when determining each relevant partner's distributive share for purposes of this paragraph (b)(3)(iv). Upon request by the IRS, the partnership may be required to provide the relevant partners' capital account calculation through the end of the reviewed year, a calculation of asset liquidation gain or loss, and any other information necessary to determine whether rate modification is appropriate, consistent with the rules of paragraph (c)(2) of this section. Any calculation by the partnership that is necessary to comply with the rules in this paragraph (b)(3)(iv) is not considered a revaluation for purposes of section 704.

(4) *Modification of the number and composition of imputed underpayments.* Once approved by the IRS, a modification under paragraph (d)(6) of this section affects the manner in which adjustments are placed into groupings and subgroupings (as described in § 301.6225–1(c) and (d)) or whether the IRS designates one or more specific imputed underpayments (as described in § 301.6225–1(g)). If the IRS approves a request for modification under this paragraph (b)(4), the imputed underpayment and any specific imputed underpayment affected by or resulting from the modification is determined according to the rules of § 301.6225–1 subject to any other modifications approved by the IRS under this section.

(5) *Other modifications.* The effect of other modifications described in paragraph (d)(10) of this section, including the order that such modification will be taken into account for purposes of paragraph (b)(1) of this section, may be set forth in forms, instructions, or other guidance prescribed by the IRS.

(c) *Time, form, and manner for requesting modification*—(1) *In general.* In addition to the requirements described in paragraph (d) of this section, a request for modification under this section must be submitted in accordance with, and include the information required by, the forms, instructions, and other guidance prescribed by the IRS. The partnership representative must submit any request for modification and all relevant information (including information required under paragraphs (c)(2) and (d) of this section) to the IRS within the time described in paragraph (c)(3) of this section. The IRS will notify the partnership representative in writing of the approval or denial, in whole or in part, of any request for modification. A request for modification, including a request by the IRS for information related to a request for modification, and the determination by the IRS to approve or not approve all or a portion of a request for modification, is part of the administrative proceeding with respect to the partnership under subchapter C of chapter 63 and does not constitute an examination, inspection, or other administrative proceeding with respect to any other person for purposes of section 7605(b).

(2) *Partnership must substantiate facts supporting a request for modification*—(i) *In general.* A partnership requesting modification under this section must substantiate the facts supporting such a request to the satisfaction of the IRS. The documents and other information necessary to substantiate a particular request for modification are based on the facts and circumstances of each request, as well as the type of modification requested under paragraph (d) of this section, and may include tax returns, partnership operating documents, certifications in the form and manner required with respect to the particular modification, and any other information necessary to support the requested modification. The IRS may, in forms, instructions, or other guidance, set forth procedures with respect to information and documents supporting the modification, including procedures to require particular documents or other information to substantiate a particular type of modification, the manner for submitting documents and other information to the IRS, and recordkeeping requirements. Pursuant to section 6241(10), the IRS may require the partnership to file or submit anything required to be filed or submitted under this section to be filed or submitted electronically. The IRS will deny a request for modification if a partnership fails to provide information the IRS determines is necessary to substantiate a request for modification, or if the IRS determines there is a failure by any person to make any required payment, within the time restrictions described in paragraph (c) of this section.

(ii) *Information to be furnished for any modification request.* In the case of any modification request, the partnership representative must furnish to the IRS such information as is required by forms, instructions, and other guidance prescribed by the IRS or that is otherwise requested by the IRS related to the requested modification. Such information may include a detailed description of the partnership's structure, allocations, ownership, and ownership changes, its relevant partners for each taxable year relevant to the request for modification, as well as the partnership agreement as defined in §1.704–1(b)(2)(ii)(*h*) of this chapter for each taxable year relevant to the modification request. In the case of any modification request with respect to a relevant partner that is an indirect partner, the partnership representative must provide to the IRS any information that the IRS may require relevant to any pass-through partner or wholly-owned entity disregarded as separate from its owner for Federal income tax purposes through which the relevant partner holds its interest in the partnership. For instance, if the partnership requests modification with respect to an amended return filed by a relevant partner pursuant to paragraph (d)(2) of this section, the partnership representative may be required to provide to the IRS information that would have been required to have been filed by pass-through partners through which the relevant partner holds its interest in the partnership as if those pass-through partners had also filed their own amended returns.

(3) *Time for submitting modification request and information*—(i) *Modification request*. Unless the IRS grants an extension of time, all information required under this section with respect to a request for modification must be submitted to the IRS in the form and manner prescribed by the IRS on or before 270 days after the date the NOPPA is mailed.

(ii) *Extension of the 270-day period*. The IRS may, in its discretion, grant a request for extension of the 270-day period described in paragraph (c)(3)(i) of this section provided the partnership submits such request to the IRS, in the form and manner prescribed by forms, instructions, or other guidance prescribed by the IRS before expiration of such period, as extended by any prior extension granted under this paragraph (c)(3)(ii).

(iii) *Expiration of the 270-day period by agreement*. The 270-day period described in paragraph (c)(3)(i) of this section (including any extensions under paragraph (c)(3)(ii) of this section) expires as of the date the partnership and the IRS agree, in the form and manner prescribed by form, instructions, or other guidance prescribed by the IRS to waive the 270-day period after the mailing of the NOPPA and before the IRS may issue a notice of final partnership adjustment. See section 6231(b)(2)(A); § 301.6231–1(b)(2).

(4) *Approval of modification by the IRS*. Notification of approval will be provided to the partnership only after receipt of all relevant information (including any supplemental information required by the IRS) and all necessary payments with respect to the particular modification requested before expiration of the 270-day period in paragraph (c)(3)(i) of this section plus any extension granted by the IRS under paragraph (c)(3)(ii) of this section.

(d) *Types of modification*—(1) *In general*. Except as otherwise described in this section, a partnership may request one type of modification or more than one type of modification described in paragraph (d) of this section.

(2) *Amended returns by partners*—(i) *In general*. A partnership may request a modification of an imputed underpayment based on an amended return filed by a relevant partner provided all of the partnership adjustments properly allocable to such relevant partner are taken into account and any amount due is paid in accordance with paragraph (d)(2) of this section. Only adjustments to partnership-related items or adjustments to a relevant partner's tax attributes affected by adjustments to partnership-related items may be taken into account on an amended return under paragraph (d)(2) of this section. A partnership may request a modification for purposes of paragraph (d)(2) of this section by submitting a modification request based on the alternative procedure to filing amended returns as described in paragraph (d)(2)(x) of this section. The partnership may not request an additional modification of any imputed underpayment for a partnership taxable year under this section with respect to any relevant partner that files an amended return (or utilizes the alternative procedure to filing amended returns) under paragraph (d)(2) of this section or with respect to any partnership adjustment allocated to such relevant partner.

(ii) *Requirements for approval of a modification request based on amended return*. Except as otherwise provided under the alternative procedure described in paragraph (d)(2)(x) of this section, an amended return modification request under paragraph (d)(2) of this section will not be approved unless the provisions of this paragraph (d)(2)(ii) are satisfied. The partnership may satisfy the requirements of paragraph (d)(2) of this section by demonstrating in accordance with forms, instructions, and other guidance provided by the IRS that a relevant partner has previously taken into account the partnership adjustments described in paragraph (d)(2)(i) of this section, made any required adjustments to tax attributes resulting from the partnership adjustments for the years described in paragraph (d)(2)(ii)(B) of this section, and made all required payments under paragraph (d)(2)(ii)(A) of this section.

(A) *Full payment required*. An amended return modification request under paragraph (d)(2) of this section will not be approved unless the relevant partner

filing the amended return has paid all tax, penalties, additions to tax, additional amounts, and interest due as a result of taking into account all partnership adjustments in the first affected year (as defined in § 301.6226–3(b)(2)) and all modification years (as described in paragraph (d)(2)(ii)(B) of this section) at the time such return is filed with the IRS. Except for a pass-through partner calculating its payment amount pursuant to paragraph (d)(2)(vi) of this section, for purposes of this paragraph (d)(2)(ii)(A), the term *tax* means tax imposed by chapter 1 of the Internal Revenue Code (chapter 1).

(B) *Amended returns for all relevant taxable years must be filed.* Modification under paragraph (d)(2) of this section will not be approved by the IRS unless a relevant partner files an amended return for the first affected year and any modification year. A *modification year* is any taxable year with respect to which any tax attribute (as defined in § 301.6241–1(a)(10)) of the relevant partner is affected by reason of taking into account the relevant partner's distributive share of all partnership adjustments in the first affected year. A modification year may be a taxable year before or after the first affected year, depending on the effect on the relevant partner's tax attributes of taking into account the relevant partner's distributive share of the partnership adjustments in the first affected year.

(C) *Amended returns for partnership adjustments that reallocate distributive shares.* Except as described in this paragraph (d)(2)(ii)(C), in the case of partnership adjustments that reallocate the distributive shares of any partnership-related item from one partner to another, a modification under paragraph (d)(2) of this section will be approved only if all partners affected by such adjustments file amended returns in accordance with paragraph (d)(2) of this section. The IRS may determine that the requirements of this paragraph (d)(2)(ii)(C) are satisfied even if not all relevant partners affected by such adjustments file amended returns provided any relevant partners affected by the reallocation not filing amended returns take into account their distributive share of the adjustments through other modifications approved by the IRS (including the alternative procedure to filing amended returns under paragraph (d)(2)(x) of this section) or if a pass-through partner takes into account the relevant adjustments in accordance with paragraph (d)(2)(vi) of this section. For instance, in the case of adjustments that reallocate a loss from one partner to another, the IRS may determine that the requirements of this paragraph (d)(2)(ii)(C) have been satisfied if one affected relevant partner files an amended return taking into account the adjustments and the other affected relevant partner signs a closing agreement with the IRS taking into account the adjustments. Similarly, in the case of adjustment that reallocate income from one partner to another, the IRS may determine that the requirements of this paragraph (d)(2)(ii)(C) have been satisfied to the extent an affected relevant partner meets the requirements of paragraph (d)(3) of this section (regarding tax-exempt partners) and through such modification fully takes into account all adjustments reallocated to the affected relevant partner.

(iii) *Form and manner for filing amended returns.* A relevant partner must file all amended returns required for modification under paragraph (d)(2) of this section with the IRS in accordance with forms, instructions, and other guidance prescribed by the IRS. Except as otherwise provided under the alternative procedure described in paragraph (d)(2)(x) of this section, the IRS will not approve modification under paragraph (d)(2) of this section unless prior to the expiration of the 270-day period described in paragraph (c)(3) of this section, the partnership representative provides to the IRS, in the form and manner prescribed by the IRS, an affidavit from each relevant partner signed under penalties of perjury by such partner stating that all of the amended returns required to be filed under paragraph (d)(2) of this section has been filed (including the date on which such amended returns were filed) and that the full amount of tax, penalties, additions to tax, additional amounts, and interest was paid (including the date on which such amounts were paid).

(iv) *Period of limitations*. Generally, the period of limitations under sections 6501 and 6511 do not apply to an amended return filed under paragraph (d)(2) of this section provided the amended return otherwise meets the requirements of paragraph (d)(2) of this section.

(v) *Amended returns in the case of adjustments allocated through certain pass-through partners*. A request for modification related to an amended return of a relevant partner that is an indirect partner holding its interest in the partnership (directly or indirectly) through a pass-through partner that could be subject to tax imposed by chapter 1 (chapter 1 tax) on the partnership adjustments that are properly allocated to such pass-through partner will not be approved unless the partnership—

(A) Establishes that the pass-through partner is not subject to chapter 1 tax on the adjustments that are properly allocated to such pass-through partner; or

(B) Requests modification with respect to the adjustments resulting in chapter 1 tax for the pass-through partner, including full payment of such chapter 1 tax for the first affected year and all modification years under paragraph (d)(2) of this section or in accordance with forms, instructions, or other guidance prescribed by the IRS.

(vi) *Amended returns in the case of pass-through partners*—(A) *Pass-through partners may file amended returns*. A relevant partner that is a pass-through partner, including a partnership-partner (as defined in § 301.6241–1(a)(7)) that has a valid election under section 6221(b) in effect for a partnership taxable year, may, in accordance with forms, instructions, and other guidance provided by the IRS and solely for purposes of modification under paragraph (d)(2) of this section, take into account its share of the partnership adjustments and determine and pay an amount calculated in the same manner as the amount computed under § 301.6226–3(e)(4)(iii) subject to paragraph (d)(2)(vi)(B) of this section.

(B) *Modifications with respect to upper-tier partners of the pass-through partner*. In accordance with forms, instructions, and other guidance provided by the IRS, for purposes of determining and calculating the amount a pass-through partner must pay under paragraph (d)(2)(vi)(A) of this section, the pass-through partner may take into account modifications with respect to its direct and indirect partners to the extent that such modifications are requested by the partnership requesting modification and approved by the IRS under this section.

(vii) *Limitations on amended returns*—(A) *In general*. A relevant partner may not file an amended return or claim for refund that takes into account partnership adjustments except as described in paragraph (d)(2) of this section.

(B) *Further amended returns restricted*. Except as described in paragraph (d)(2)(vii)(C) of this section, if a relevant partner files an amended return under paragraph (d)(2) of this section, or satisfies paragraph (d)(2) of this section by following the alternative procedure under paragraph (d)(2)(x) of this section (the alternative procedure), such partner may not file a subsequent amended return or claim for refund to change the treatment of partnership adjustments taken into account through amended return or the alternative procedure.

(C) *Subsequent returns in the case of changes to partnership adjustments or denial of modification*. Notwithstanding paragraph (d)(2)(vii)(B) of this section, a relevant partner that has previously filed an amended return under paragraph (d)(2) of this section, or satisfied the requirements of paragraph (d)(2) of this section through the alternative procedure, to take partnership adjustments into account may, in accordance with forms, instructions, and other guidance prescribed by the IRS, file a subsequent return or claim for refund if a determination is made by a court or by the IRS that results in a change to the partnership adjustments taken into account in modification under paragraph (d)(2) of this section or a denial of modification by the IRS under paragraph (c)(2)(i) of this section with respect to a modification request under paragraph (d)(2) of this section. Such determinations include a court decision that changes the partnership adjustments for which modification was requested or a settlement between the IRS and the partnership pursuant to which the partnership is not liable for

all or a portion of the imputed underpayment for which modification was requested. Any amended return or claim for refund filed under this paragraph (d)(2)(vii) is subject to the period of limitations under section 6511.

(viii) *Penalties*. The applicability of any penalties, additions to tax, or additional amounts that relate to an adjustment to a partnership-related item is determined at the partnership level in accordance with section 6221(a). However, the amount of penalties, additions to tax, and additional amounts a relevant partner must pay under paragraph (d)(2)(ii)(A) of this section for the first affected year and for any modification year is based on the underpayment or understatement of tax, if any, reflected on the amended return filed by the relevant partner under paragraph (d)(2) of this section. For instance, if after taking into account the adjustments, the return of the relevant partner for the first affected year or any modification year reflects an underpayment or an understatement that falls below the applicable threshold for the imposition of a penalty under section 6662(d), no penalty would be due from that relevant partner for such year. Unless forms, instructions or other guidance provided by the IRS allow for an alternative procedure for raising a partner-level defense (as described in § 301.6226–3(d)(3)), a relevant partner may raise a partner-level defense by first paying the penalty, addition to tax, or additional amount with the amended return filed under paragraph (d)(2) of this section and then filing a claim for refund in accordance with forms, instructions, and other guidance.

(ix) *Effect on tax attributes binding*. Any adjustments to the tax attributes of any relevant partner which are affected by modification under paragraph (d)(2) of this section are binding on the relevant partner with respect to the first affected year and all modification years (as defined in paragraph (d)(2)(ii)(B) of this section). A failure to adjust any tax attribute in accordance with this paragraph (d)(2)(ix) is a failure to treat a partnership-related item in a manner which is consistent with the treatment of such item on the partnership return within the meaning of section 6222. The provisions of section 6222(c) and § 301.6222–1(c) (regarding notification of inconsistent treatment) do not apply with respect to tax attributes under this paragraph (d)(2)(ix).

(x) *Alternative procedure to filing amended returns*—(A) *In general*. A partnership may satisfy the requirements of paragraph (d)(2) of this section by submitting on behalf of a relevant partner, in accordance with forms, instructions, and other guidance provided by the IRS, all information and payment of any tax, penalties, additions to tax, additional amounts, and interest that would be required to be provided if the relevant partner were filing an amended return under paragraph (d)(2) of this section, except as otherwise provided in relevant forms, instructions, and other guidance provided by the IRS. A relevant partner for which the partnership seeks modification under paragraph (d)(2)(x) of this section must agree to take into account, in accordance with forms, instructions, and other guidance provided by the IRS, adjustments to any tax attributes of such relevant partner. A modification request submitted in accordance with the alternative procedure under paragraph (d)(2)(x) of this section is not a claim for refund with respect to any person.

(B) *Modifications with respect to reallocation adjustments*. A submission made in accordance with paragraph (d)(2)(x) of this section with respect to any relevant partner is treated as if such relevant partner filed an amended return for purposes of paragraph (d)(2)(ii)(C) of this section (regarding the requirement that all relevant partners affected by a reallocation must file an amended return to be eligible to for the modification under paragraph (d)(2) of this section) provided the submission is with respect to the first affected year and all modification years of such relevant partner as required under paragraph (d)(2) of this section.

(3) *Tax-exempt partners*—(i) *In general*. A partnership may request modification of an imputed underpayment with respect to partnership adjustments that the partnership demonstrates to the satisfaction of the IRS are allocable to a relevant partner that would not owe tax by reason of its status as

a tax-exempt entity (as defined in paragraph (d)(3)(ii) of this section) in the reviewed year (tax-exempt partner).

(ii) *Definition of tax-exempt entity*. For purposes of paragraph (d)(3) of this section, the term *tax-exempt entity* means a person or entity defined in section 168(h)(2)(A), (C), or (D).

(iii) *Modification limited to portion of partnership adjustments for which tax-exempt partner not subject to tax*. Only the portion of the partnership adjustments properly allocated to a tax-exempt partner with respect to which the partner would not be subject to tax for the reviewed year (tax-exempt portion) may form the basis of a modification of the imputed underpayment under paragraph (d)(3) of this section. A modification under paragraph (d)(3) of this section will not be approved by the IRS unless the partnership provides documentation in accordance with paragraph (c)(2) of this section to support the tax-exempt partner's status and the tax-exempt portion of the partnership adjustment allocable to the tax-exempt partner.

(4) *Modification based on a rate of tax lower than the highest applicable tax rate*. A partnership may request modification based on a lower rate of tax for the reviewed year with respect to adjustments that are attributable to a relevant partner that is a C corporation and adjustments with respect to capital gains or qualified dividends that are attributable to a relevant partner who is an individual. In no event may the lower rate determined under the preceding sentence be less than the highest rate in effect for the reviewed year with respect to the type of income and taxpayer. For instance, with respect to adjustments that are attributable to a C corporation, the highest rate in effect for the reviewed year with respect to all C corporations would apply to that adjustment, regardless of the rate that would apply to the C corporation based on the amount of that C corporation's taxable income. For purposes of this paragraph (d)(4), an S corporation is treated as an individual.

(5) *Certain passive losses of publicly traded partnerships*—(i) *In general*. In the case of a publicly traded partnership (as defined in section 469(k)(2)) requesting modification under this section, an imputed underpayment is determined without regard to any adjustment that the partnership demonstrates would be reduced by a specified passive activity loss (as defined in paragraph (d)(5)(ii) of this section) which is allocable to a specified partner (as defined in paragraph (d)(5)(iii) of this section) or qualified relevant partner (as defined in paragraph (d)(5)(iv) of this section).

(ii) *Specified passive activity loss*. A specified passive activity loss carryover amount for any specified partner or qualified relevant partner of a publicly traded partnership is the lesser of the section 469(k) passive activity loss of that partner which is separately determined with respect to such partnership—

(A) At the end of the first affected year (affected year loss); or

(B) At the end of—

(*1*) The specified partner's taxable year in which or with which the adjustment year (as defined in § 301.6241–1(a)(1)) of the partnership ends, reduced to the extent any such partner has utilized any portion of its affected year loss to offset income or gain relating to the ownership or disposition of its interest in such publicly traded partnership during either the adjustment year or any other year; or

(*2*) If the adjustment year has not yet been determined, the most recent year for which the publicly traded partnership has filed a return under section 6031, reduced to the extent any such partner has utilized any portion of its affected year loss to offset income or gain relating to the ownership or disposition of its interest in such publicly traded partnership during any year.

(iii) *Specified partner*. A specified partner is a person that for each taxable year beginning with the first affected year through the person's taxable year in which or with which the partnership adjustment year ends satisfies the following three requirements–

(A) The person is a partner of the publicly traded partnership requesting modification under this section;

(B) The person is an individual, estate, trust, closely held C corporation, or personal service corporation; and

(C) The person has a specified passive activity loss with respect to the publicly traded partnership.

(iv) *Qualified relevant partner*. A *qualified relevant partner* is a relevant partner that meets the three requirements to be a specified partner (as described in paragraphs (d)(5)(iii)(A), (B), and (C) of this section) for each year beginning with the first affected year through the year described in paragraph (d)(5)(ii)(B)(*2*) of this section. Notwithstanding the preceding sentence, an indirect partner of the publicly traded partnership requesting modification under this section may also be a qualified relevant partner under this paragraph (d)(5)(iv) if that indirect partner meets the requirements of paragraph (d)(5)(iii)(B) and (C) of this section for each year beginning with the first affected year through the year described in paragraph (d)(5)(ii)(B)(*2*) of this section.

(v) *Partner notification requirement to reduce passive losses*. If the IRS approves a modification request under paragraph (d)(5) of this section, the partnership must report, in accordance with forms, instructions, or other guidance prescribed by the IRS, to each specified partner the amount of that specified partner's reduction of its suspended passive activity loss carryovers at the end of the adjustment year to take into account the amount of any passive activity losses applied in connection with such modification request. In the case of a qualified relevant partner, the partnership must report, in accordance with forms, instructions, or other guidance prescribed by the IRS, to each qualified relevant partner the amount of that qualified relevant partner's reduction of its suspended passive activity loss carryovers at the end of the taxable year for which the partnership's next return is due to be filed under section 6031 to be taken into account by the qualified relevant partner on the partner's return for the year that includes the end of the partnership's taxable year for which the partnership's next return is due to be filed under section 6031. In the case of an indirect partner that is a qualified relevant partner, the IRS may prescribe additional guidance through forms, instructions, or other guidance to require reporting under this paragraph (d)(5)(v). The reduction in suspended passive activity loss carryovers as reported to a specified partner or qualified relevant partner under this paragraph (d)(5)(v) is a determination of the partnership under subchapter C of chapter 63 and is binding on the specified partners and qualified relevant partners under section 6223.

(6) *Modification of the number and composition of imputed underpayments*—(i) *In general*. A partnership may request modification of the number or composition of any imputed underpayment included in the NOPPA by requesting that the IRS include one or more partnership adjustments in a particular grouping or subgrouping (as described in § 301.6225–1(c) and (d)) or specific imputed underpayments (as described in § 301.6225–1(g)) different from the grouping, subgrouping, or imputed underpayment set forth in the NOPPA. For example, a partnership may request under paragraph (d)(6) of this section that one or more partnership adjustments taken into account to determine a general imputed underpayment set forth in the NOPPA be taken into account to determine a specific imputed underpayment.

(ii) *Request for particular treatment regarding limitations or restrictions*. A modification request under paragraph (d)(6) of this section includes a request that one or more partnership adjustments be treated as if no limitations or restrictions under § 301.6225–1(d) apply and as a result such adjustments may be subgrouped with other adjustments.

(7) *Partnerships with partners that are ''qualified investment entities'' described in section 860*—(i) *In general*. A partnership may request a modification of an imputed underpayment based on the partnership adjustments allocated to a relevant partner where the modification is based on deficiency dividends distributed as described in section 860(f) by a relevant partner that is a qualified investment entity (QIE) under section 860(b) (which includes both a regulated investment company (RIC) and a real estate investment

trust (REIT)). Modification under paragraph (d)(7) of this section is available only to the extent that the deficiency dividends take into account adjustments described in § 301.6225–1 that are also adjustments within the meaning of section 860(d)(1) or (d)(2) (whichever applies).

(ii) *Documentation of deficiency dividend.* The partnership must provide documentation in accordance with paragraph (c) of this section of the ''determination'' described in section 860(e). Under section 860(e)(2), § 1.860–2(b)(1)(i) of this chapter, and paragraph (d)(8) of this section, a closing agreement entered into by the QIE partner pursuant to section 7121 and paragraph (d)(8) of this section is a determination described in section 860(e), and the date of the determination is the date in which the closing agreement is approved by the IRS. In addition, under section 860(e)(4), a determination also includes a Form 8927, *Determination Under Section 860(e)(4) by a Qualified Investment Entity*, properly completed and filed by the RIC or REIT pursuant to section 860(e)(4). To establish the date of the determination under section 860(e)(4) and the amount of deficiency dividends actually paid, the partnership must provide a copy of Form 976, *Claim for Deficiency Dividends Deductions by a Personal Holding Company, Regulated Investment Company, or Real Estate Investment Trust*, properly completed by or on behalf of the QIE pursuant to section 860(g), together with a copy of each of the required attachments for Form 976.

(8) *Closing agreements.* A partnership may request modification based on a closing agreement entered into by the IRS and the partnership or any relevant partner, or both if appropriate, pursuant to section 7121. If modification under this paragraph (d)(8) is approved by the IRS, any partnership adjustment that is taken into account under such closing agreement and for which any required payment under the closing agreement is made will not be taken into account in determining the imputed underpayment under § 301.6225–1. Any required payment under the closing agreement may include amounts of tax, including tax under chapters other than chapter 1, interest, penalties, additions to tax and additional amounts. Generally, the IRS will not approve any additional modification under this section with respect to a relevant partner to which a modification under this paragraph (d)(8) has been approved.

(9) *Tax treaty modifications.* A partnership may request a modification under this paragraph (d)(9) with respect to a relevant partner's distributive share of an adjustment to a partnership-related item if, in the reviewed year, the relevant partner was a foreign person who qualified under an income tax treaty with the United States for a reduction or exemption from tax with respect to such partnership-related item. A partnership requesting modification under this section may also request a treaty modification under this paragraph (d)(9) regardless of the treaty status of its partners if, in the reviewed year, the partnership itself was an entity eligible for such treaty benefits.

(10) *Other modifications.* A partnership may request a modification not otherwise described in paragraph (d) of this section, and the IRS will determine whether such modification is accurate and appropriate in accordance with paragraph (c)(4) of this section. Additional types of modifications and the documentation necessary to substantiate such modifications may be set forth in forms, instructions, or other guidance prescribed by the IRS.

(e) *Modification of adjustments that do not result in an imputed underpayment.* A partnership may request modification of adjustments that do not result in an imputed underpayment (as described in § 301.6225–1(f)(1)(ii)) using modifications described in paragraph (d)(2) of this section (amended returns and the alternative procedure to filing amended returns), paragraph (d)(6) of this section (number and composition of the imputed underpayment), paragraph (d)(8) of this section (closing agreements), or, if applicable, paragraph (d)(10) of this section (other modifications).

(f) *Examples.* The following examples illustrate the rules of this section. For purposes of these examples, each partnership is subject to the provisions of subchapter C of chapter 63, each partnership and its relevant partners are calendar year taxpayers, all relevant

partners are U.S. persons (unless otherwise stated), the highest rate of income tax in effect for all taxpayers is 40 percent for all relevant periods, and no partnership requests modification under this section except as provided in the example.

(1) *Example 1.* Partnership has two partners during its 2019 partnership taxable year: P and S. P is a partnership, and S is an S corporation. P has four partners during its 2019 partnership taxable year: A, C, T and DE. A is an individual, C is a C corporation, T is a trust, and DE is a wholly-owned entity disregarded as separate from its owner for Federal income tax purposes. The owner of DE is B, an individual. T has two beneficiaries during its 2019 taxable year: F and G, both individuals. S has 3 shareholders during its 2019 taxable year: H, J, and K, all individuals. For purposes of this section, if Partnership requests modification with respect to A, B, C, F, G, H, J, and K, those persons are all relevant partners (as defined in paragraph (a) of this section). P, S, and DE are not relevant partners (as defined in paragraph (a) of this section) because DE is a wholly-owned entity disregarded as separate from its owner for Federal income tax purposes and modification was not requested with respect to P and S.

(2) *Example 2.* The IRS initiates an administrative proceeding with respect to Partnership's 2019 taxable year. The IRS mails a NOPPA to Partnership for the 2019 partnership taxable year proposing a single partnership adjustment increasing ordinary income by $100, resulting in a $40 imputed underpayment ($100 multiplied by the 40 percent tax rate). Partner A, an individual, held a 20 percent interest in Partnership during 2019. Partnership timely requests modification under paragraph (d)(2) of this section based on A's filing an amended return for the 2019 taxable year taking into account $20 of the partnership adjustment and paying the tax and interest due attributable to A's share of the increased income and the tax rate applicable to A for the 2019 tax year. No tax attribute in any other taxable year of A is affected by A's taking into account A's share of the partnership adjustment for 2019. In accordance with paragraph (d)(2)(iii) of this section, Partnership's partnership representative provides the IRS with documentation demonstrating that A filed the 2019 return and paid all tax and interest due. The IRS approves the modification and, in accordance with paragraph (b)(2) of this section, the $20 increase in ordinary income allocable to A is not included in the calculation of the total netted partnership adjustment (determined in accordance with § 301.6225–1). Partnership's total netted partnership adjustment is reduced to $80 ($100 adjustment less $20 taken into account by A), and the imputed underpayment is reduced to $32 (total netted partnership adjustment of $80 after modification multiplied by 40 percent).

(3) *Example 3.* The IRS initiates an administrative proceeding with respect to Partnership's 2019 taxable year. Partnership has two equal partners during its entire 2019 taxable year: an individual, A, and a partnership-partner, B. During all of 2019, B has two equal partners: a tax-exempt entity, C, and an individual, D. The IRS mails a NOPPA to Partnership for its 2019 taxable year proposing a single partnership adjustment increasing Partnership's ordinary income by $100, resulting in a $40 imputed underpayment ($100 total netted partnership adjustment multiplied by 40 percent). Partnership timely requests modification under paragraph (d)(3) of this section with respect to B's partner, C, a tax-exempt entity. In accordance with paragraph (d)(3)(iii) of this section, Partnership's partnership representative provides the IRS with documentation substantiating to the IRS's satisfaction that C held a 25 percent indirect interest in Partnership through its interest in B during the 2019 taxable year, that C was a tax-exempt entity defined in paragraph (d)(3)(ii) of this section during the 2019 taxable year, and that C was not subject to tax with respect to its entire allocable share of the partnership adjustment allocated to B (which is $25 (50 percent × 50 percent × $100)). The IRS approves the modification and, in accordance with paragraph (b)(2) of this section, the $25 increase in ordinary income allocated to C, through B, is not included in the

calculation of the total netted partnership adjustment (determined in accordance with § 301.6225–1). Partnership's total netted partnership adjustment is reduced to $75 ($100 adjustment less C's share of the adjustment, $25), and the imputed underpayment is reduced to $30 (total netted partnership adjustment of $75, after modification, multiplied by 40 percent).

(4) *Example 4*. The facts are the same as in *Example 3* in paragraph (f)(3) of this section, except $10 of the $25 of the adjustment allocated to C is unrelated business taxable income (UBTI) as defined in section 512 because it is debt-financed income within the meaning of section 514 (no section 512 UBTI modifications apply) with respect to which C would be subject to tax if taken into account by C. As a result, the modification under paragraph (d)(3) of this section with respect to C relates only to $15 of the $25 of ordinary income allocated to C that is not UBTI. Therefore, only a modification of $15 ($25 less $10) of the total $100 partnership adjustment may be approved by the IRS under paragraph (d)(3) of this section and, in accordance with paragraph (b)(2) of this section, excluded when determining the imputed underpayment for Partnership's 2019 taxable year. The total netted partnership adjustment (determined in accordance with § 301.6225–1) is reduced to $85 ($100 less $15), and the imputed underpayment is reduced to $34 (total netted partnership adjustment of $85, after modification, multiplied by 40 percent).

(5) *Example 5*. The facts are the same as in *Example 3* in paragraph (f)(3) of this section, except that Partnership also timely requests modification under paragraph (d)(2) of this section with respect to an amended return filed by B, and, in accordance with (d)(2)(iii) of this section, Partnership's partnership representative provides the IRS with documentation demonstrating that B filed the 2019 return and paid all tax and interest due. B reports 50 percent of the partnership adjustments ($50) on its amended return, and B calculates an amount under paragraph (d)(2)(vi)(A) of this section and § 301.6226–3(e)(4)(iii) that, pursuant to paragraph (d)(2)(vi)(B) of this section, takes into account the modification under paragraph (d)(3) of this section approved by the IRS with respect to B's partner C, a tax-exempt entity. B makes a payment pursuant to paragraph (d)(2)(ii)(A) of this section, and the IRS approves the requested modification. Partnership's total netted partnership adjustment is reduced by $50 (the amount taken into account by B). Partnership's total netted partnership adjustment (determined in accordance with § 301.6225–1) is $50, and the imputed underpayment, after modification, is $20.

(6) *Example 6*. The facts are the same as in *Example 3* in paragraph (f)(3) of this section, except that in addition to the modification with respect to tax-exempt entity C, which reduced the imputed underpayment by excluding from the determination of the imputed underpayment $25 of the $100 partnership adjustment reflected in the NOPPA, Partnership timely requests modification under paragraph (d)(2) of this section with respect to an amended return filed by individual D, and, in accordance with paragraph (d)(2)(iii) of this section, Partnership's partnership representative provides the IRS with documentation demonstrating that D filed the 2019 return and paid all tax and interest due. D's amended return for D's 2019 taxable year takes into account D's share of the partnership adjustment (50 percent of B's 50 percent interest in Partnership, or $25) and D paid the tax and interest due as a result of taking into account D's share of the partnership adjustment in accordance with paragraph (d)(2) of this section. No tax attribute in any other taxable year of D is affected by D taking into account D's share of the partnership adjustment for 2019. The IRS approves the modification and the $25 increase in ordinary income allocable to D is not included in the calculation of the total netted partnership adjustment (determined in accordance with § 301.6225–1). As a result, Partnership's total netted partnership adjustment is $50 ($100, less $25 allocable to C, less $25 taken into account by D), and the imputed underpayment, after modification, is $20.

(7) *Example 7*. The IRS initiates an administrative proceeding with respect to Partnership's 2019 taxable year. All

of Partnership's partners during its 2019 taxable year are individuals. The IRS mails a NOPPA to Partnership for the 2019 taxable year proposing three partnership adjustments. The first partnership adjustment is an increase to ordinary income of $75 for 2019. The second partnership adjustment is an increase in the depreciation deduction allowed for 2019 of $25, which under § 301.6225–1(d)(2)(i) is treated as a $25 decrease in income. The third adjustment is an increase in long-term capital gain of $10 for 2019. Under the partnership agreement in effect for Partnership's 2019 taxable year, the long-term capital gain and the increase in depreciation would be specially allocated to B and the increase in ordinary income would be specially allocated to A. In accordance with § 301.6225–1(c) and (d), the three adjustments are placed into three separate subgroupings within the residual grouping because the partnership adjustments would not have been netted at the partnership level and would not have been required to be allocated to the partners of the partnership as a single, net partnership-related item for purposes of section 702(a), other provisions of the Code, regulations, forms, instructions, or other guidance prescribed by the IRS. Accordingly, the total netted partnership adjustment is $85 ($75 net positive adjustment to ordinary income plus $10 net positive adjustment to long term capital gain), and the imputed under payment is $34 ($85 multiplied by 40 percent). The net negative adjustment to depreciation is an adjustment that does not result in an imputed underpayment subject to treatment under § 301.6225–3. Partnership requests a modification under paragraph (d)(6) of this section to determine a specific imputed underpayment with respect to the $75 adjustment to ordinary income allocated to A. The specific imputed underpayment is with respect to $75 of the increase in income specially allocated to A and the general imputed underpayment is with respect to $10 of the increase in capital gain and the $25 increase in depreciation deduction specially allocated to B. If the modification is approved by the IRS, the specific imputed underpayment would consist of the $75 increase in ordinary income, and thus the total netted partnership adjustment for the specific imputed underpayment would be $75. The specific imputed underpayment is thus $30 ($75 multiplied by 40 percent). The general imputed underpayment would consist of two adjustments: The long term capital gain adjustment and the depreciation adjustment. The long term capital gain adjustment and the depreciation adjustment would be placed in different subgroupings under § 301.6225–1(d) because they are treated separately under section 702. Accordingly, the long term capital gain adjustment and the depreciation adjustment are not netted, and the long term capital gain adjustment would be a net positive adjustment while the depreciation adjustment would be a net negative adjustment. The long term capital gain net positive adjustment would be the only net positive adjustment, resulting in a total netted partnership adjustment of $10. The general imputed underpayment is $4 ($10 multiplied by 40 percent), and the net negative adjustment to depreciation of $25 would be an adjustment that does not result in an imputed underpayment under § 301.6225–1(f) associated with the general imputed underpayment.

(8) *Example 8.* Partnership has two reviewed year partners, C1 and C2, both of which are C corporations. The IRS mails to Partnership a NOPPA with two adjustments, both based on rental real estate activity. The first adjustment is an increase of rental real estate income of $100 attributable to Property A. The second adjustment is an increase of rental real estate loss of $30 attributable to Property B. The Partnership did not treat the leasing arrangement with respect to Property A and Property B as an appropriate economic unit for purposes of section 469. If the $100 increase in income attributable to Property A and the $30 increase in loss attributable to Property B were included in the same subgrouping and netted, then taking the $30 increase in loss into account would result in a decrease in the amount of the imputed underpayment. Also, the $30 increased loss might be limited or restricted if taken into account by any person under the passive activity rules under section 469. For instance, under

section 469, rental activities of the two properties could be treated as two activities, which could limit a partner's ability to claim the loss. In addition to the potential limitations under section 469, there are other potential limitations that might apply if the $30 loss were taken into account by any person. Therefore, in accordance with § 301.6225–1(d), the two adjustments are placed in separate subgroupings within the residual grouping, the total netted partnership adjustment is $100, the imputed underpayment is $40 ($100 × 40 percent), and the $30 increase in loss is an adjustment that does not result in an imputed underpayment under § 301.6225–1(f). Partnership requests modification under paragraph (d)(6) of this section, substantiating to the satisfaction of the IRS that C1 and C2 are publicly traded C corporations, and therefore, the passive activity loss limitations under section 469 of the Code do not apply. Partnership also substantiates to the satisfaction of the IRS that no other limitation or restriction applies that would prevent the grouping of the $100 with the $30 loss. The IRS approves Partnership's modification request and places the $100 of income and the $30 loss into the subgrouping in the residual grouping under the rules described in § 301.6225–1(c)(5). Under § 301.6225–1(e), because the two adjustments are in one subgrouping, they are netted together, resulting in a total netted partnership adjustment of $70 ($100 plus −$30) and an imputed underpayment of $28 ($70 × 40 percent). After modification, none of the adjustments is an adjustment that does not result in an imputed underpayment under § 301.6225–1(f) because the $30 loss is now netted with the $100 of income in a net positive adjustment for the residual grouping.

(g) *Applicability date*—(1) *In general*. Except as provided in paragraph (g)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect*. This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6539, Feb. 27, 2019]

§ 301.6225–3 Treatment of partnership adjustments that do not result in an imputed underpayment.

(a) *In general*. Partnership adjustments (as defined in § 301.6241–1(a)(6)) that do not result in an imputed underpayment (as described in § 301.6225–1(f)) are taken into account by a partnership in the adjustment year (as defined in § 301.6241–1(a)(1)) in accordance with paragraph (b) of this section.

(b) *Treatment of adjustments by the partnership*—(1) *In general*. Except as described in paragraphs (b)(2) through (7) of this section, a partnership adjustment that does not result in an imputed underpayment is taken into account as a reduction in non-separately stated income or as an increase in non-separately stated loss for the adjustment year depending on whether the adjustment is to a partnership-related item that is an item of income or loss.

(2) *Separately stated items*. In the case of a partnership adjustment to partnership-related item that is required to be separately stated under section 702, the adjustment is taken into account by the partnership in the adjustment year as a reduction in such separately stated item or as an increase in such separately stated item depending on whether the adjustment is a reduction or an increase to the separately stated item.

(3) *Credits*. In the case of an adjustment to a partnership-related item that is reported or could be reported by a partnership as a credit on the partnership's return for the reviewed year (as defined in § 301.6241–1(a)(8)), the adjustment is taken into account by the partnership in the adjustment year as a separately stated item.

(4) *Reallocation adjustments*. A partnership adjustment that reallocates a partnership-related item to or from a particular partner or partners that also does not result in an imputed underpayment pursuant to § 301.6225–1(f) is taken into account by the partnership in the adjustment year as a separately stated item or a non-separately stated item, as required by section 702. Except as provided in forms, instructions, and

other guidance prescribed by the Internal Revenue Service (IRS), the portion of an adjustment allocated under this paragraph (b)(4) is allocated to adjustment year partners (as defined in § 301.6241–1(a)(2)) who are also reviewed year partners (as defined in § 301.6241–1(a)(9)) with respect to whom the amount was reallocated.

(5) *Adjustments taken into account by partners as part of the modification process.* If, as part of modification under § 301.6225–2, a relevant partner (as defined in § 301.6225–2(a)) takes into account a partnership adjustment that does not result in an imputed underpayment, and the IRS approves the modification, such partnership adjustment is not taken into account by the partnership in the adjustment year in accordance with § 301.6225–1(a).

(6) *Effect of election under section 6226.* If a partnership makes a valid election under § 301.6226–1 with respect to an imputed underpayment, a partnership adjustment that does not result in an imputed underpayment and that is associated with such imputed underpayment as described in § 301.6225–1(g) is taken into account by the reviewed year partners in accordance with § 301.6226–3 and is not taken into account under this section.

(7) *Adjustments taken into account previously by partners.* If, prior to the mailing of a notice of administrative proceeding by the IRS or the filing of an administrative adjustment request by the partnership, a partner has previously taken into account an adjustment that does not result in an imputed underpayment that would have been taken into account under this section, such partnership adjustment is not taken into account by such partner.

(c) *Treatment of adjustment year partners.* The rules under subchapter K of chapter 1 of the Internal Revenue Code with respect to the treatment of partners apply in the case of adjustments taken into account by the partnership under this section.

(d) *Examples.* The following examples illustrate the rules of this section. For purposes of these examples, unless otherwise provided, each partnership is subject to the provisions of subchapter C of chapter 63 of the Internal Revenue Code, each partnership and its relevant partners are calendar year taxpayers, all relevant partners are U.S. persons (unless otherwise stated), the highest rate of income tax in effect for all taxpayers is 40 percent for all relevant periods, and no partnership requests modification.

(1) *Example 1.* For all of Partnership's 2019, 2020, and 2021 partnership taxable years, Partnership has two equal partners, A and B. The IRS initiates an administrative proceeding with respect to Partnership's 2019 partnership taxable year. The IRS mails a notice of proposed partnership adjustment (NOPPA) to Partnership for the 2019 partnership taxable year proposing a recharacterization adjustment, changing a $100 ordinary loss to a $100 long term capital loss. Under § 301.6225–1, this recharacterization adjustment results in two adjustments: A $100 increase to ordinary income (positive adjustment) and a −$100 decrease in long term capital gain (negative adjustment). Under § 301.6225–1(b), the $100 positive adjustment is the total netted partnership adjustment, which is multiplied by the highest rate of 40 percent, resulting in a $40 imputed underpayment. Under § 301.6225–1(f), the −$100 negative adjustment is an adjustment that does not result in an imputed underpayment and is taken into account in accordance with this section. On March 1, 2021, the IRS mails a notice of final partnership adjustment (FPA), and because Partnership does not file a petition for readjustment with respect to the FPA, the adjustments are finally determined in 2021, and the adjustment year is determined to be 2021 pursuant to § 301.6241–1(a)(1). Pursuant to paragraph (a) of this section, Partnership takes into account the −$100 adjustment that does not result in an imputed underpayment on its 2021 partnership return. In addition to the −$100 adjustment to partnership's 2019 taxable year taken into account under this section, Partnership has an additional $300 in long term capital gain reportable in its 2021 taxable year. The −$100 negative adjustment and the $300 long term capital gain are Partnership's only long term capital gains and losses for its 2021 taxable year. Because the −$100 net negative adjustment is

an adjustment to long term capital gain, which is a separately stated item under section 702(a)(2), the −$100 negative adjustment must be taken into account in accordance with paragraph (b)(2) of this section. Partnership includes both the −$100 negative adjustment and the $300 in long term capital gain as separately stated items on its 2021 tax return.

(2) *Example 2*. The facts are the same as in *Example 1* in paragraph (d)(1) of this section, except that the IRS proposes a reallocation adjustment instead of a recharacterization adjustment. The IRS determines that the −$100 ordinary loss that the Partnership allocated equally to A and B should instead all be allocated all to A. The IRS mails a NOPPA for the 2019 partnership taxable year proposing a reallocation adjustment resulting in a $50 increase in ordinary loss allocated to A (negative adjustment) and a $50 decrease in ordinary loss allocated to B (positive adjustment). Because the adjustments are the result of a reallocation, they are placed in separate subgroupings pursuant to § 301.6225–1(d). Because the adjustments are in different subgroupings, the adjustments are not netted under § 301.6225–1(e), resulting in a net negative adjustment of −$50 allocated to A and a net positive adjustment of $50 to B. Pursuant to § 301.6225–1(b), the total netted partnership adjustment includes the $50 net positive adjustment, and the imputed underpayment is $20 ($50 total netted partnership adjustment × 40 percent). Pursuant to § 301.6225–1(f), the −$50 net negative adjustment is an adjustment that does not result in an imputed underpayment and is taken into account in accordance with this section. On March 1, 2021, the IRS mails an FPA, and because Partnership does not file a petition for readjustment with respect to the FPA, the adjustments are finally determined in 2021, and the adjustment year is determined to be 2021 pursuant to § 301.6241–1(a)(1). Pursuant to paragraph (a) of this section, Partnership takes into account the −$50 adjustment that does not result in an imputed underpayment on its 2021 partnership return. In addition to the −$50 net negative adjustment to partnership's 2019 taxable year taken into account under this section, Partnership also has an additional $300 in ordinary income reportable in its 2021 taxable year unrelated to the administrative proceeding with respect to Partnership's 2019 partnership taxable year. Because the −$50 net negative adjustment is due to a reallocation, the adjustment must be taken into account under paragraph (b)(4) of this section. Because the net negative adjustment was determined to have been entirely allocable to A, and because A was a reviewed year partner and is also an adjustment year partner, the net negative adjustment is taken into account by Partnership by allocating the entire adjustment to A on its 2021 tax return. The −$50 negative adjustment does not reduce the $300 in ordinary income.

(e) *Applicability date*—(1) *In general*. Except as provided in paragraph (e)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect*. This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6547, Feb. 27, 2019]

§ 301.6226–1 Election for an alternative to the payment of the imputed underpayment.

(a) *In general*. A partnership may elect under this section an alternative to the payment by the partnership of an imputed underpayment determined under section 6225. In addition, a partnership making a valid election under paragraph (c) of this section is no longer liable for the imputed underpayment (as defined in § 301.6241–1(a)(3)) to which the election applies. If a notice of final partnership adjustment (FPA) mailed under section 6231 includes more than one imputed underpayment (as described in § 301.6225–1(g)), a partnership may make an election under this section with respect to one or more imputed underpayments included in the FPA.

(b) *Effect of election*—(1) *Reviewed year partners*. If a partnership makes a valid election under this section with respect

to any imputed underpayment, the reviewed year partners (as defined in § 301.6241–1(a)(9)) must take into account their share of the partnership adjustments (as defined in § 301.6241–1(a)(6)) that are associated with that imputed underpayment and are liable for any tax, penalties, additions to tax, additional amounts, and interest as described in § 301.6226–3. See § 301.6226–2(f) regarding the determination of each reviewed year partner's share of the partnership adjustments, including the effect of any modification approved by the Internal Revenue Service (IRS) under § 301.6225–2.

(2) *Partnership*. A partnership making a valid election under this section is not liable for the imputed underpayment to which the election applies (and no assessment of tax, levy, or proceeding in any court for the collection of such imputed underpayment may be made against such partnership). Any adjustments that do not result in an imputed underpayment described in § 301.6225–1(f) that are associated with an imputed underpayment (as described in § 301.6225–1(g)) for which an election under this section is made are not taken into account by the partnership in the adjustment year (as defined in § 301.6241–1(a)(1)) and instead each reviewed year partners' share of the adjustments determined in accordance with § 301.6226–2(f) must be included on the statement described in § 301.6226–2.

(c) *Time, form, and manner for making the election*—(1) *In general*. An election under this section is valid only if all of the provisions of this section and § 301.6226–2 (regarding statements filed with the IRS and furnished to reviewed year partners) are satisfied. An election under this section is valid until the IRS determines that the election is invalid. An election under this section may only be revoked with the consent of the IRS.

(2) *Time for making the election*. An election under this section must be filed within 45 days of the date the FPA is mailed by the IRS. The time for filing such an election may not be extended.

(3) *Form and manner of the election*—(i) *In general*. An election under this section must be signed by the partnership representative and filed in accordance with forms, instructions, and other guidance prescribed by the IRS and include the information specified in paragraph (c)(3)(ii) of this section.

(ii) *Contents of the election*. An election under this section must include the following correct information—

(A) The name, address, and taxpayer identification number (TIN) of the partnership;

(B) The taxable year to which the election relates;

(C) A copy of the FPA to which the election relates;

(D) In the case of an FPA that includes more than one imputed underpayment, identification of the imputed underpayment to which the election applies;

(E) The name and TIN (or alternative form of identification as prescribed by forms, instructions, or other guidance) of each reviewed year partner of the partnership;

(F) The current or last address of each reviewed year partner that is known to the partnership; and

(G) Any other information prescribed by the IRS in forms, instructions, and other guidance.

(d) *Determining an election is invalid*. The IRS may determine an election to be invalid without first notifying the partnership or providing the partnership an opportunity to correct any failure to satisfy all of the provisions of this section and § 301.6226–2. If an election under this section is determined by the IRS to be invalid, the IRS will notify the partnership and the partnership representative within 30 days of the determination that the election is invalid and the reason for the determination that the election is invalid. If the IRS makes a determination that an election under this section is invalid, section 6225 applies with respect to the imputed underpayment as if the election was never made, the IRS may assess the imputed underpayment against the partnership (without regard to the limitations under section 6232(b)), and the partnership must pay the imputed underpayment under section 6225 and any penalties and interest under section 6233. The IRS may not determine that an election is invalid based on errors timely corrected by the

partnership in accordance with § 301.6226–2(d).

(e) *Binding nature of statements.* The election under this section, which includes filing and furnishing statements described in § 301.6226–2, are actions of the partnership under section 6223 and, unless determined otherwise by the IRS, the partner's share of the adjustments and the applicability of any penalties, additions to tax, and additional amounts as set forth in the statement are binding on the partner pursuant to section 6223. Accordingly, a partner may not treat any partnership-related items (as defined in § 301.6241–1(a)(6)(ii)) reflected on a statement described in § 301.6226–2 on the partner's return inconsistently with how those items are treated on the statement that is filed with the IRS. See § 301.6222–1(c)(2) (regarding partnership-related items the treatment of which a partner is bound to under section 6223).

(f) *Coordination with section 6234 regarding judicial review.* Nothing in this section affects the rules regarding judicial review of a partnership adjustment. Accordingly, a partnership that makes an election under this section is not precluded from filing a petition under section 6234(a). See § 301.6226–2(b)(3)(iii).

(g) *Applicability date*—(1) *In general.* Except as provided in paragraph (g)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6548, Feb. 27, 2019]

§ 301.6226–2 Statements furnished to partners and filed with the IRS.

(a) *In general.* A partnership that makes an election under § 301.6226–1 must furnish to each reviewed year partner (as defined in § 301.6241–1(a)(9)) and file with the Internal Revenue Service (IRS) a statement that includes the items required by paragraphs (e) and (f) of this section with respect to each reviewed year partner's share of partnership adjustments (as defined in § 301.6241–1(a)(6)) associated with the imputed underpayment for which an election under § 301.6226–1 is made. The statements furnished to the reviewed year partners under this section are in addition to, and must be filed and furnished separate from, any other statements required to be filed with the IRS and furnished to partners, including any statements under section 6031(b). A separate statement under this section must be furnished to each reviewed year partner with respect to each reviewed year (as defined in § 301.6241–1(a)(8)) subject to an election under § 301.6226–1. A failure to furnish a correct statement in accordance with this section is subject to penalty under section 6722. See section 6724(d)(2).

(b) *Time and manner for furnishing the statements to partners*—(1) *In general.* The statements described in paragraph (a) of this section must be furnished to the reviewed year partners no later than 60 days after the date all of the partnership adjustments to which the statement relates are finally determined. The partnership adjustments are finally determined upon the later of:

(i) The expiration of the time to file a petition under section 6234; or

(ii) If a petition under section 6234 is filed, the date when the court's decision becomes final.

(2) *Address used for reviewed year partners.* The partnership must furnish the statements described in paragraph (a) of this section to each reviewed year partner in accordance with the forms, instructions, and other guidance prescribed by the IRS. If the partnership mails the statement, it must mail the statement to the current or last address of the reviewed year partner that is known to the partnership. If a statement is returned to the partnership as undeliverable, the partnership must undertake reasonable diligence to identify a correct address for the reviewed year partner to which the statement relates and, if a correct address is identified, mail the statement to the reviewed year partner at the correct address.

(3) *Examples.* The following examples illustrate the rules of this paragraph (b).

(i) *Example 1.* During Partnership's 2020 taxable year, A, an individual, was a partner in Partnership and had an address at 123 Main St. On February 1, 2021, A sells his interest in Partnership and informs Partnership that A moved to 456 Broad St. On March 15, 2021, Partnership mails A's statement under section 6031(b) for the 2020 taxable year to 456 Broad St. On June 1, 2023, A moves again but does not inform Partnership of A's new address. In 2023, the IRS initiates an administrative proceeding with respect to Partnership's 2020 taxable year and mails a notice of final partnership adjustment (FPA) to Partnership for that year that includes a single imputed underpayment. Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the imputed underpayment and on May 31, 2024, timely mails a statement described in paragraph (a) of this section to A at 456 Broad St. Although the statement was mailed to the last address for A that was known to Partnership, it is returned to Partnership as undeliverable because unknown to Partnership, A had moved. After undertaking reasonable diligence to obtain the correct address of A, Partnership is unable to ascertain the correct address. Therefore, pursuant to paragraph (b)(2) of this section, Partnership properly furnished the statement to A when it mailed the statement to 456 Broad St.

(ii) *Example 2.* The facts are the same as in *Example 1* in paragraph (b)(3)(i) of this section, except that A lives at 789 Forest Ave during all of 2024 and reasonable diligence would have revealed that 789 Forest Ave is the correct address for A, but Partnership did not undertake such diligence. Because the statement was returned as undeliverable and Partnership did not undertake reasonable diligence to obtain the correct address for A, Partnership failed to properly furnish the statement with respect to A pursuant to paragraph (b)(2) of this section.

(iii) *Example 3.* Partnership is a calendar year taxpayer. The IRS initiates an administrative proceeding with respect to Partnership's 2020 taxable year. On January 1, 2024, the IRS mails an FPA with respect to the 2020 taxable year to Partnership that includes a single imputed underpayment. Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the imputed underpayment. Partnership timely files a petition for readjustment under section 6234 with the Tax Court. The IRS prevails, and the Tax Court sustains all of the adjustments in the FPA with respect to the 2020 taxable year. The time to appeal the Tax Court decision expires, and the Tax Court decision becomes final on April 10, 2025. Under paragraph (b)(1)(ii) of this section, the adjustments in the FPA are finally determined on April 10, 2025, and Partnership must furnish the statements described in paragraph (a) of this section to its reviewed year partners and electronically file the statements with the IRS no later than June 9, 2025. See paragraph (c) of this section for the rules regarding filing the statements with the IRS.

(c) *Time and manner for filing the statements with the IRS.* No later than 60 days after the date the partnership adjustments are finally determined (as described in paragraph (b)(1) of this section), the partnership must electronically file with the IRS the statements that the partnership furnishes to each reviewed year partner under this section, along with a transmittal that includes a summary of the statements filed and such other information required in forms, instructions, and other guidance prescribed by the IRS.

(d) *Correction of statements*—(1) *In general.* A partnership corrects an error in a statement furnished under paragraph (b) of this section or filed under paragraph (c) of this section by filing the corrected statement with the IRS in the manner prescribed in paragraph (c) of this section and furnishing a copy of the corrected statement to the reviewed year partner to whom the statement relates in accordance with the forms, instructions, and other guidance prescribed by the IRS.

(2) *Error discovered by partnership*—(i) *Discovery within 60 days of statement due date.* If a partnership discovers an error in a statement within 60 days of the due date for furnishing the statements to partners and filing the statements with the IRS (as described in paragraphs (b) and (c) of this section and

§ 301.6226–3(e)(3)(ii)), the partnership must correct the error in accordance with paragraph (d)(1) of this section and does not have to seek consent of the IRS prior to doing so.

(ii) *Error discovered more than 60 days after statement due date.* If a partnership discovers an error more than 60 days after the due date for furnishing the statements to partners and filing the statements with the IRS (as described in paragraphs (b) and (c) of this section and § 301.6226–3(e)(3)(ii)), the partnership may only correct the error after receiving consent of the IRS in accordance with the forms, instructions, and other guidance prescribed by the IRS. The partnership may not furnish corrected statements unless it receives consent of the IRS to make the correction.

(3) *Error discovered by the IRS.* If the IRS discovers an error in the statements furnished or filed under paragraphs (b) and (c) of this section and § 301.6226–3(e)(3) or the IRS cannot determine whether the statements furnished or filed by the partnership are correct because of a failure by the partnership to comply with any requirement under this section or § 301.6226–3(e), the IRS may require the partnership to correct such errors in accordance with paragraph (d)(1) of this section or to provide additional information as necessary. Failure by the partnership to correct an error or to provide information when required by the IRS may be treated by the IRS as a failure to properly furnish correct statements to partners and file the correct statements with the IRS as described in paragraphs (b) and (c) of this section or in § 301.6226–3(e)(3). Whether the IRS requires the partnership to correct any errors discovered by the IRS or provide additional information is discretionary on the part of the IRS and the IRS is under no obligation to require the partnership to provide additional information or to correct any errors discovered or brought to the IRS's attention at any time.

(4) *Adjustments in the corrected statements taken into account by the reviewed year partners.* The adjustments included on a corrected statement are taken into account by a reviewed year partner in accordance with § 301.6226–3 for the reporting year (as defined in § 301.6226–3(a)).

(e) *Content of the statements.* Each statement described in paragraph (a) of this section must include the following correct information:

(1) The name and TIN (or alternative form of identification as prescribed by forms, instructions, or other guidance) of the reviewed year partner to whom the statement is being furnished;

(2) The current or last address of the reviewed year partner that is known to the partnership;

(3) The reviewed year partner's share of items as originally reported for the reviewed year to the partner on statements furnished to the partner under section 6031(b) and, if applicable, section 6227;

(4) The reviewed year partner's share of partnership adjustments determined under paragraph (f)(1) of this section;

(5) Modifications approved by the IRS with respect to the reviewed year partner (or with respect to any indirect partner (as defined in § 301.6241–1(a)(4)) that holds its interest in the partnership through its interest in the reviewed year partner);

(6) The applicability of any penalty, addition to tax, or additional amount determined at the partnership level that relates to any adjustments allocable to the reviewed year partner and the adjustments to which the penalty, addition to tax, or additional amount relates, the section of the Internal Revenue Code (Code) under which each penalty, addition to tax, or additional amount is imposed, and the applicable rate of each penalty, addition to tax, or additional amount determined at the partnership level;

(7) The date the statement is furnished to the reviewed year partner;

(8) The partnership taxable year to which the adjustments relate; and

(9) Any other information required by forms, instructions, and other guidance prescribed by the IRS.

(f) *Determination of each partner's share of adjustments*—(1) *Adjustments and other amounts*—(i) *In general.* Except as described in paragraph (f)(1)(ii) or (iii) or (f)(2) of this section, the adjustments set forth in the statement described in paragraph (a) of this section are reported to the reviewed year

partner in the same manner as each adjusted partnership-related item was originally allocated to the reviewed year partner on the partnership return for the reviewed year.

(ii) *Adjusted partnership-related item not reported on the partnership's return for the reviewed year.* Except as described in paragraph (f)(1)(iii) of this section, if the adjusted partnership-related item was not reported on the partnership return for the reviewed year, each reviewed year partner's share of the adjustments must be determined in accordance with how such partnership-related items would have been allocated under rules that apply with respect to partnership allocations, including under the partnership agreement.

(iii) *Adjustments that specifically allocate items.* If an adjustment involves an allocation of a partnership-related item to a specific partner or in a specific manner, including a reallocation of such an item, the reviewed year partner's share of the adjustment set forth in the statement is determined in accordance with the adjustment as finally determined (as described in paragraph (b)(1) of this section).

(2) *Treatment of modifications disregarded.* Any modifications approved by the IRS with respect to the reviewed year partner (or with respect to any indirect partner that holds its interest in the partnership through its interest in the reviewed year partner) under § 301.6225–2 are disregarded for purposes of determining each partner's share of the adjustments under paragraph (f)(1) of this section.

(g) *Coordination with other provisions under subtitle A of the Code*—(1) *Statements furnished to qualified investment entities described in section 860.* If a reviewed year partner is a qualified investment entity within the meaning of section 860(b) and the partner receives a statement described in paragraph (a) of this section, the partner may be able to avail itself of the deficiency dividend procedure described in § 301.6226–3(b)(4).

(2) *Liability for tax under section 7704(g)(3).* An election under this section has no effect on a partnership's liability for any tax under section 7704(g)(3) (regarding the exception for electing 1987 partnerships from the general rule that certain publicly traded partnerships are treated as corporations).

(3) *Adjustments subject to chapters 3 and 4 of the Internal Revenue Code.* A partnership that makes an election under § 301.6226–1 with respect to an imputed underpayment must pay the amount of tax required to be withheld under chapter 3 or chapter 4, if any, in accordance with § 301.6241–6(b)(4).

(h) *Applicability date*—(1) *In general.* Except as provided in paragraph (h)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6549, Feb. 27, 2019]

§ 301.6226–3 Adjustments taken into account by partners.

(a) *Effect of taking adjustments into account on tax imposed by chapter 1.* Except as otherwise provided in this section, the tax imposed by chapter 1 of the Internal Revenue Code (chapter 1 tax) for each reviewed year partner (as defined in § 301.6241–1(a)(9)) for the taxable year that includes the date a statement was furnished in accordance with § 301.6226–2 (the reporting year) is increased by the additional reporting year tax, or if the additional reporting year tax is less than zero, decreased by such amount. The additional reporting year tax is the aggregate of the correction amounts (determined in accordance with paragraph (b) of this section). In addition to being liable for the additional reporting year tax, a reviewed year partner must also calculate and pay for the reporting year any penalties, additions to tax, and additional amounts (as determined under paragraph (d) of this section). Finally, a reviewed year partner must also calculate and pay for the reporting year any interest (as determined under paragraph (c) of this section).

(b) *Determining the aggregate of the correction amounts*—(1) *In general.* For

purposes of paragraph (a) of this section, the aggregate of the correction amounts is the sum of the correction amounts described in paragraphs (b)(2) and (3) of this section. A correction amount under paragraph (b)(2) or (3) of this section may be less than zero, and any correction amount that is less than zero may reduce any other correction amount with the result that the aggregate of the correction amounts under this paragraph (b)(1) may also be less than zero. However, nothing in this section entitles any partner to a refund of chapter 1 tax to which such partner is not entitled. See paragraphs (c) and (d) of this section requiring a separate determination of interest and penalties, additions to tax, and additional amounts on the correction amount for each applicable taxable year (as defined in paragraph (c)(1) of this section) without regard to the correction amount for any other applicable taxable year.

(2) *Correction amount for the first affected year*—(i) *In general.* The correction amount for the taxable year of the partner that includes the end of the reviewed year (the first affected year) is the amount by which the reviewed year partner's chapter 1 tax would increase or decrease for the first affected year if the partner's taxable income for such year was recomputed by taking into account the reviewed year partner's share of the partnership adjustments (as defined in § 301.6241–1(a)(6)) reflected on the statement described in § 301.6226–2 with respect to the partner.

(ii) *Calculation of the correction amount for the first affected year.* The correction amount is the amount of chapter 1 tax that would have been imposed for the first affected year if the items as adjusted in the statement described in § 301.6226–2 had been reported as such on the return for the first affected year less the sum of:

(A) The amount of chapter 1 tax shown by the partner on the return for the first affected year (which includes amounts shown on an amended return for such year, including an amended return filed under section 6225(c)(2) by the reviewed year partner); plus

(B) Amounts not included in paragraph (b)(2)(ii)(A) of this section but previously assessed or collected (including the amounts defined in § 1.6664–2(d) of this chapter and any amounts paid by the partner in accordance with § 301.6225–2); less

(C) The amount of rebates made (as defined in § 1.6664–2(e) of this chapter).

(iii) *Formulaic expression of the correction amount for the first affected year.* The correction amount also may be expressed as—

$$\text{Correction amount} = A - (B + C - D)$$

Where:

A = the amount of chapter 1 tax that would have been imposed had the items as adjusted been properly reported on the return for the first affected year;

B = the amount shown as chapter 1 tax on the return for the first affected year (taking into account amended returns);

C = amounts previously assessed or collected; and

D = the amount of rebates made.

(3) *Correction amount for the intervening years*—(i) *In general.* The correction amount for all taxable years after the first affected year and before the reporting year (the intervening years) is the aggregate of the correction amounts determined for each intervening year. Determining the correction amount for each intervening year is a year-by-year determination. The correction amount for each intervening year is the amount by which the reviewed year partner's chapter 1 tax for such year would increase or decrease if the partner's taxable income for such year was recomputed by taking into account any adjustments to tax attributes (as defined in § 301.6241–1(a)(10)) of the partner under paragraph (b)(3) of this section.

(ii) *Calculation of the correction amount for the intervening years.* The correction amount for each intervening year is the amount of chapter 1 tax that would have been imposed for the intervening year if any tax attribute of the partner for the intervening year had been adjusted after taking into account the reviewed year partner's share of the adjustments for the first affected year as described in paragraph (b)(2) of this section (and if any tax attribute of the partner for the intervening year had been adjusted, after taking into account any adjustments to tax attributes of the partner in any

prior intervening year(s)) exceeds less the sum of—

(A) The amount of chapter 1 tax shown by the partner on the return for the intervening year (which includes amounts shown on an amended return for such year, including an amended return filed under section 6225(c)(2) by a reviewed year partner); plus

(B) Amounts not included in paragraph (b)(3)(ii)(A) of this section but previously or collected (including the amounts defined in § 1.6664–2(d) of this chapter and any amounts paid by the partner in accordance with § 301.6225–2); less

(C) The amount of rebates made (as defined in § 1.6664–2(e) of this chapter).

(iii) *Formulaic expression of the correction amount for the intervening years.* The correction amount also may be expressed as—

$$\text{Correction amount} = A - (B + C - D)$$

Where:

A = the amount of chapter 1 tax that would have been imposed for the intervening year;

B = the amount shown as chapter 1 tax on the return for the intervening year (taking into account amended returns);

C = amounts previously assessed or collected; and

D = the amount of rebates made.

(4) *Coordination of sections 860 and 6226.* If a qualified investment entity (QIE) within the meaning of section 860(b) receives a statement described in § 301.6226–2(a) and correctly makes a determination within the meaning of section 860(e)(4) that one or more of the adjustments reflected in the statement is an adjustment within the meaning of section 860(d) with respect to that QIE for a taxable year, the QIE may distribute deficiency dividends within the meaning of section 860(f) for that taxable year and avail itself of the deficiency dividend procedures set forth in section 860. If the QIE utilizes the deficiency dividend procedures with respect to adjustments in a statement described in § 301.6226–2(a), the QIE may claim a deduction for deficiency dividends against the adjustments furnished to the QIE in the statement in calculating any correction amounts under paragraphs (b)(2) and (3) of this section, and interest on such correction amounts under paragraph (c) of this section, to the extent that the QIE makes deficiency dividend distributions under section 860(f) and complies with all requirements of section 860 and the regulations under part 1 of this chapter.

(c) *Interest*—(1) *Interest on the correction amounts.* Interest on the correction amounts determined under paragraph (b) of this section is the aggregate of all interest calculated for each applicable taxable year in which there was a correction amount greater than zero at the rate set forth in paragraph (c)(3) of this section. For each applicable taxable year, interest on the correction amount is calculated from the due date (without extension) of the reviewed year partner's return for such applicable taxable year until the amount is paid. For purposes of this paragraph (c)(1), the term *applicable taxable year* means the reviewed year partner's taxable year affected by taking into account adjustments as described in paragraph (b) of this section (for instance, the first affected year and any intervening year in which there is a correction amount greater than zero). For purposes of calculating interest under this paragraph (c), a correction amount under paragraph (b)(2) or (3) of this section for an applicable taxable year that is less than zero does not reduce the correction amount for any other applicable taxable year.

(2) *Interest on penalties.* Interest on any penalties, additions to tax, or additional amounts determined under paragraph (d) of this section is calculated at the rate set forth in paragraph (c)(3) of this section from the due date (including any extension) of the reviewed year partner's return for the applicable taxable year until the amount is paid.

(3) *Rate of interest.* For purposes of paragraph (c) of this section, interest is calculated using the underpayment rate under section 6621(a)(2) by substituting ''5 percentage points'' for ''3 percentage points'' in section 6621(a)(2)(B).

(d) *Penalties*—(1) *Applicability determined at the partnership level.* In the case of a partnership that makes an election under section 6226, the applicability of any penalty, addition to tax, and additional amount that relates to

an adjustment to any partnership-related item is determined at the partnership level in accordance with section 6221(a). The partnership's reviewed year partners are liable for such penalties, additions to tax, and additional amounts as determined under paragraph (d)(2) of this section.

(2) *Amount calculated at partner level.* A reviewed year partner calculates the amount of any penalty, addition to tax, or additional amount relating to the partnership adjustments taken into account under paragraph (b)(1) of this section as if the correction amount were an underpayment or understatement of the reviewed year partner for the first affected year or intervening year, as applicable. The calculation of any penalty, addition to tax, or additional amount is based on the characteristics of, and facts and circumstances applicable to, the reviewed year partner for the first affected year or intervening year, as applicable after taking into account the partnership adjustments reflected on the statement. If after taking into account the partnership adjustments in accordance with this section, the reviewed year partner does not have an underpayment, or has an understatement that falls below the applicable threshold for the imposition of a penalty, no penalty is due from that reviewed year partner under this paragraph (d)(2). For penalties in the case of a pass-through partner that makes a payment under paragraph (e)(4) of this section, see paragraph (e)(4)(iv) of this section.

(3) *Partner-level defenses to penalties.* A reviewed year partner (including a pass-through partner (as defined in § 301.6241–1(a)(5))) claiming that a penalty, addition to tax, or additional amount that relates to a partnership adjustment reflected on a statement described in § 301.6226–2 (or paragraph (e)(3) of this section) is not due because of a partner-level defense must first pay the penalty and file a claim for refund for the reporting year. Partner-level defenses are limited to those that are personal to the reviewed year partner (for example, a reasonable cause and good faith defense under section 6664(c) that is based on the facts and circumstances applicable to the partner).

(e) *Pass-through partners*—(1) *In general.* Except as provided in paragraph (e)(6) of this section, if a pass-through partner is furnished a statement described in § 301.6226–2 (including a statement described in paragraph (e)(3) of this section) with respect to adjustments of a partnership that made an election under § 301.6226–1 (audited partnership), the pass-through partner must file with the IRS a partnership adjustment tracking report in accordance with forms, instructions, or other guidance prescribed by the IRS on or before the due date described in paragraph (e)(3)(ii) of this section, and file and furnish statements in accordance with paragraph (e)(3) of this section. The pass-through partner must comply with paragraph (e) of this section with respect to each statement furnished to the pass-through partner.

(2) *Failure to file and furnish required documents*—(i) *Failure to timely file and furnish statements.* If any pass-through partner fails to timely file and furnish correct statements in accordance with paragraph (e)(3) of this section, the pass-through partner must compute and pay an imputed underpayment, as well as any penalties, additions to tax, additional amounts, and interest with respect to the adjustments reflected on the statement furnished to the pass-through partner in accordance with paragraph (e)(4) of this section. The IRS may assess such imputed underpayment against such pass-through partner without regard to the limitations under section 6232(b). See § 301.6232–1(c)(2). A failure to furnish statements in accordance with paragraph (e)(3) of this section is treated as a failure to timely pay an imputed underpayment required under paragraph (e)(4)(i) of this section, unless the pass-through partner computes and pays an imputed underpayment in accordance with paragraph (e)(4) of this section. See section 6651(i).

(ii) *Failures relating to partnership adjustment tracking report.* Failure to timely file the partnership adjustment tracking report as required in paragraph (e)(1) of this section, or filing such report without showing the information required under paragraph (e)(1) of this section, is subject to the penalty imposed by section 6698.

(3) *Furnishing statements to partners*—(i) *In general.* A pass-through partner described in paragraph (e)(1) of this section must furnish a statement that includes the items required by paragraph (e)(3)(iii) of this section to each partner that held an interest in the pass-through partner at any time during the taxable year of the pass-through partner to which the adjustments in the statement furnished to the pass-through partner relate (affected partner). The statements described in this paragraph (e)(3) must be filed with the IRS by the due date prescribed in paragraph (e)(3)(ii) of this section. Except as otherwise provided in paragraphs (e)(3)(ii), (iii), and (v) of this section, the rules applicable to statements described in § 301.6226–2 are applicable to statements described in this paragraph (e)(3).

(ii) *Time for filing and furnishing the statements.* In accordance with forms, instructions, and other guidance prescribed by the IRS, the pass-through partner must file with the IRS and furnish to its affected partners the statements described in paragraph (e)(3) of this section no later than the extended due date for the return for the adjustment year (as defined in § 301.6241–1(a)(1)) of the audited partnership. For purposes of this section, the extended due date is the extended due date under section 6081 regardless of whether the audited partnership is required to file a return for the adjustment year or timely files a request for an extension under section 6081.

(iii) *Contents of statements.* Each statement described in paragraph (e)(3) of this section must include the following correct information—

(A) The name and taxpayer identification number (TIN) of the audited partnership;

(B) The adjustment year of the audited partnership;

(C) The extended due date for the return for the adjustment year of the audited partnership (as described in paragraph (e)(3)(ii) of this section);

(D) The date on which the audited partnership furnished its statements required under § 301.6226–2(b);

(E) The name and TIN of the partnership that furnished the statement to the pass-through partner if different from the audited partnership;

(F) The name and TIN of the pass-through partner;

(G) The pass-through partner's taxable year to which the adjustments reflected on the statements described in paragraph (e)(3) of this section relates;

(H) The name and TIN (or alternative form of identification as prescribed by forms, instructions, or other guidance) of the affected partner to whom the statement is being furnished;

(I) The current or last address of the affected partner that is known to the pass-through partner;

(J) The affected partner's share of items as originally reported to such partner under section 6031(b) and, if applicable, section 6227, for the taxable year to which the adjustments reflected on the statement furnished to the pass-through partner relate;

(K) The affected partner's share of partnership adjustments determined under § 301.6226–2(f)(1) as if the affected partner were the reviewed year partner and the pass-through partner were the partnership;

(L) Modifications approved by the IRS with respect to the affected partner that holds its interest in the audited partnership through the pass-through partner;

(M) The applicability of any penalties, additions to tax, or additional amounts determined at the audited partnership level that relate to any adjustments allocable to the affected partner and the adjustments allocated to the affected partner to which such penalties, additions to tax, or additional amounts relate, the section of the Internal Revenue Code under which each penalty, addition to tax, or additional amount is imposed, and the applicable rate of each penalty, addition to tax, or additional amount; and

(N) Any other information required by forms, instructions, and other guidance prescribed by the IRS.

(iv) *Affected partner must take into account the adjustments.* A statement furnished to an affected partner in accordance with paragraph (e)(3) of this section is treated as if it were a statement described in § 301.6226–2. An affected partner that is a pass-through partner

must take into account the adjustments reflected on such a statement in accordance with this paragraph (e). An affected partner that is not a pass-through partner must take into account the adjustments reflected on such a statement in accordance with this section by treating references to ''reviewed year partner'' as ''affected partner''. For purposes of this paragraph (e)(3)(iv), an affected partner that is not a pass-through partner takes into account the adjustments in accordance with this section by determining its reporting year based on the date upon which the audited partnership furnished its statements to its reviewed year partners (as described in paragraph (a) of this section). No addition to tax under section 6651 related to any additional reporting year tax will be imposed if an affected partner that is not a pass-through partner reports and pays the additional reporting year tax within 30 days of the extended due date for the return for the adjustment year of the audited partnership (as described in paragraph (e)(3)(ii) of this section).

(v) *Adjustments subject to chapters 3 and 4 of the Internal Revenue Code.* If a pass-through partner furnishes statements to its affected partners in accordance with paragraph (e)(3) of this section, the pass-through partner must comply with the requirements of § 301.6241–6(b)(4), and an affected partner must comply with the requirements of paragraph (f) of this section. For purposes of applying both § 301.6241–6(b)(4) and paragraph (f) of this section, as appropriate, references to the ''partnership'' should be replaced with references to the ''pass-through partner''; references to the ''reviewed year partner'' should be replaced with references to the ''affected partner''; references to the statement required under paragraph (a) of this section and its due date should be replaced with references to the statement required under paragraph (e)(3) of this section and its due date described in paragraph (e)(3)(ii) of this section; references to the ''reporting year'' should be read in accordance with paragraph (e)(3)(iv) of this section; and references to the partnership return should be read as references to the return for the adjustment year of the audited partnership as described in paragraph (e)(3)(ii) of this section.

(4) *Pass-through partner pays an imputed underpayment*—(i) *In general.* If a pass-through partner described in paragraph (e)(1) of this section does not furnish statements in accordance with paragraph (e)(3) of this section, the pass-through partner must compute and pay an imputed underpayment determined under paragraph (e)(4)(iii) of this section. The pass-through partner must also pay any penalties, additions to tax, additional amounts, and interest as determined under paragraph (e)(4)(iv) of this section. A failure to timely pay an imputed underpayment required under this paragraph (e)(4) is subject to penalty under section 6651(i).

(ii) *Time of payment.* A pass-through partner must file a partnership adjustment tracking report and compute and pay the imputed underpayment and any penalties, additions to tax, additional amounts, and interest, as described in paragraph (e)(4)(i) of this section, in accordance with forms, instructions, and other guidance no later than the extended due date for the return for the adjustment year of the audited partnership.

(iii) *Computation of the imputed underpayment.* The imputed underpayment under paragraph (e)(4)(i) of this section is computed in the same manner as an imputed underpayment under section 6225 and § 301.6225–1, except that adjustments reflected on the statement furnished to the pass-through partner under § 301.6226–2 are treated as partnership adjustments (as defined in § 301.6241–1(a)(6)) for the first affected year. Any modification approved by the IRS under § 301.6225–2 with respect to the pass-through partner (including any modifications with respect to a relevant partner (as defined in § 301.6225–2(a)) that holds its interest in the audited partnership through its interest in the pass-through partner) reflected on the statement furnished to the pass-through partner under § 301.6226–2 (or paragraph (e)(3) of this section) is taken into account in calculating the imputed underpayment under this paragraph (e)(4)(iii). Any modification that was not approved by the IRS under § 301.6225–2 may not be taken into

account in calculating the imputed underpayment under this paragraph (e)(4)(iii).

(iv) *Penalties and interest*—(A) *Penalties.* A pass-through partner must compute and pay any applicable penalties, additions to tax, and additional amounts on the imputed underpayment calculated under paragraph (e)(4)(iii) of this section as if such amount were an imputed underpayment for the pass-through partner's first affected year. See § 301.6233(a)–1(c).

(B) *Interest.* A pass-through partner must pay interest on the imputed underpayment calculated under paragraph (e)(4)(iii) of this section in accordance with paragraph (c) of this section as if such imputed underpayment were a correction amount for the first affected year.

(v) *Adjustments that do not result in an imputed underpayment.* Adjustments taken into account under paragraph (e)(4) of this section that do not result in an imputed underpayment (as defined in § 301.6225–1(f)) are taken into account by the pass-through partner in accordance with § 301.6225–3 in the taxable year of the pass-through partner that includes the date the imputed underpayment required under paragraph (e)(4)(i) of this section is paid. If, after making the computation described in paragraph (e)(4)(iii) of this section, no imputed underpayment exists and therefore no payment is required under paragraph (e)(4)(i) of this section, the adjustments that did not result in an imputed underpayment are taken into account by the pass-through partner in accordance with § 301.6225–3 in the taxable year of the pass-through partner that includes the date the statement described in § 301.6226–2 (or paragraph (e)(3) of this section) is furnished to the pass-through partner.

(vi) *Coordination with chapters 3 and 4.* If a pass-through partner pays an imputed underpayment described in paragraph (e)(4)(i) of this section, § 301.6241–6(b)(3) applies to the pass-through partner by substituting ''pass-through partner'' for ''partnership'' where § 301.6241–6(b)(3) refers to the partnership that pays the imputed underpayment.

(5) *Treatment of pass-through partners that are not partnerships*—(i) *S corporations.* For purposes of this paragraph (e), an S corporation is treated as a partnership and its shareholders are treated as partners.

(ii) *Trusts and estates.* Except as provided in paragraph (g) of this section, for purposes of paragraph (e) of this section, a trust and its beneficiaries, and an estate and its beneficiaries are treated in the same manner as a partnership and its partners.

(6) *Pass-through partners subject to chapter 1 tax.* A pass-through partner that is subject to tax under chapter 1 of the Code on the adjustments (or a portion of the adjustments) reflected on the statement furnished to such partner under § 301.6226–2 (or paragraph (e)(3) of this section) takes the adjustments into account under this paragraph (e)(6) when the pass-through partner calculates and pays the additional reporting year tax as determined under paragraph (b) of this section and furnishes statements to its partners in accordance with paragraph (e)(3) of this section. Notwithstanding the prior sentence, a pass-through partner is only required to include on a statement under paragraph (e)(3) of this section the adjustments that would be required to be included on statements furnished to owners or beneficiaries under sections 6037 and 6034A, as applicable, if the pass-through partner had correctly reported the items for the year to which the adjustments relate. If the pass-through partner fails to comply with the requirements of this paragraph (e)(6), the pass-through partner must compute and pay an imputed underpayment, as well as any penalties, additions to tax, additional amounts, and interest with respect to the adjustments reflected on the statement furnished to such partner in accordance with paragraph (e)(4) of this section.

(f) *Partners subject to withholding under chapters 3 and 4.* A reviewed year partner that is subject to withholding under § 301.6241–6(b)(4) must file an income tax return for the reporting year to report its additional reporting year tax and its share of any penalties, additions to tax, additional amounts, and interest (notwithstanding any filing exception in § 1.6012–1(b)(2)(i) or § 1.6012–2(g)(2)(i) of this chapter). The amount of tax paid by a partnership under § 301.6241–6(b)(4) is allowed as a credit

under section 33 to the reviewed year partner to the extent that the tax is allocable to the reviewed year partner (within the meaning of § 1.1446–3(d)(2) of this chapter) or is actually withheld from the reviewed year partner (within the meaning of § 1.1464–1(a) or § 1.1474–3 of this chapter). The credit is allowed against the reviewed year partner's income tax liability for its reporting year. The reviewed year partner must substantiate the credit by attaching the applicable Form 1042–S, *Foreign Person's U.S. Source Income Subject to Withholding*, or Form 8805, *Foreign Partner's Information Statement of Section 1446 Withholding Tax*, to its income tax return for the reporting year, as well as satisfying any other requirements prescribed by the IRS in forms and instructions.

(g) *Treatment of disregarded entities and wholly-owned grantor trusts*. In the case of a reviewed year partner that is a wholly-owned entity disregarded as separate from its owner for Federal income tax purposes in the reviewed year or a trust that is wholly owned by only one person in the reviewed year, whether the grantor or another person, and where the trust reports the owner's information to payors under § 1.671–4(b)(2)(i)(A) of this chapter and that is furnished a statement described in § 301.6226–2 (or paragraph (e)(3) of this section), the owner of the disregarded entity or wholly-owned grantor trust must take into account the adjustments reflected on that statement in accordance with this section as if the owner were the reviewed year partner.

(h) *Examples*. The following examples illustrate the rules of this section. For purposes of these examples, unless otherwise stated, each partnership is subject to subchapter C of chapter 63 of the Code, each partnership and partner has a calendar year taxable year, no modifications are requested by any partnership under § 301.6225–2, no penalties, additions to tax, or additional amounts are determined at the partnership level, all persons are U.S. persons, the highest rate of income tax in effect for is 40 percent for all relevant periods, the highest rate of income tax in effect for corporations is 20 percent for all relevant periods, and the highest rate of tax for individuals for capital gains is 15 percent for all relevant periods.

(1) *Example 1*. On its partnership return for the 2020 tax year, Partnership reported ordinary income of $1,000 and charitable contributions of $400. On June 1, 2023, the IRS mails a notice of final partnership adjustment (FPA) to Partnership for Partnership's 2020 year disallowing the charitable contribution in its entirety and determining that a 20 percent accuracy-related penalty under section 6662(b) applies to the disallowance of the charitable contribution, and setting forth a single imputed underpayment with respect to such adjustments. Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the imputed underpayment in the FPA for Partnership's 2020 year and files a timely petition in the Tax Court challenging the partnership adjustments. The Tax Court determines that Partnership is not entitled to any of the claimed $400 in charitable contributions and upholds the applicability of the penalty. The decision regarding Partnership's 2020 tax year becomes final on December 15, 2025. Pursuant to § 301.6226–2(b), the partnership adjustments are finally determined on December 15, 2025. On February 2, 2026, Partnership files the statements described under § 301.6226–2 with the IRS and furnishes to partner A, an individual who was a partner in Partnership during 2020, a statement described in § 301.6226–2. A had a 25 percent interest in Partnership during all of 2020 and was allocated 25 percent of all items from Partnership for that year. The statement shows A's share of ordinary income reported on Partnership's return for the reviewed year of $250 and A's share of the charitable contribution reported on Partnership's return for the reviewed year of $100. The statement also shows an adjustment to A's share of the charitable contribution, a reduction of $100 resulting in $0 charitable contribution allocated to A from Partnership for 2020. In addition, the statement reports that a 20 percent accuracy-related penalty under section 6662(b) applies. A must pay the additional reporting year tax as determined in accordance with paragraph (b) of

this section, in addition to A's penalties and interest. A computes his additional reporting year tax as follows. First, A determines the correction amount for the first affected year (the 2020 taxable year) by taking into account A's share of the partnership adjustment (−$100 reduction in charitable contribution) for the 2020 taxable year. A determines the amount by which his chapter 1 tax for 2020 would have increased or decreased if the $100 adjustment to the charitable contribution from Partnership were taken into account for that year. There is no adjustment to tax attributes in A's intervening years as a result of the adjustment to the charitable contribution for 2020. Therefore, A's aggregate of the correction amounts is the correction amount for 2020, A's first affected year. In addition to the aggregate of the correction amounts being added to the chapter 1 tax that A owes for 2026, the reporting year, A must calculate a 20 percent accuracy-related penalty on A's underpayment attributable to the $100 adjustment to the charitable contribution, as well as interest on the correction amount for the first affected year and the penalty determined in accordance with paragraph (c) of this section. Interest on the correction amount for the first affected tax year runs from April 15, 2021, the due date of A's 2020 return (the first affected tax year) until A pays this amount. In addition, interest runs on the penalty from April 15, 2021, the due date of A's 2020 return for the first affected year until A pays this amount. On his 2026 income tax return, A must report the additional reporting year tax determined in accordance with paragraph (b) of this section, which is the correction amount for 2020, plus the accuracy-related penalty determined in accordance with paragraph (d) of this section, and interest determined in accordance with paragraph (c) of this section on the correction amount for 2020 and the penalty.

(2) *Example 2.* On its partnership return for the 2020 tax year, Partnership reported an ordinary loss of $500. On June 1, 2023, the IRS mails an FPA to Partnership for the 2020 taxable year determining that $300 of the $500 in ordinary loss should be recharacterized as a long-term capital loss. Partnership has no long-term capital gain for its 2020 tax year. The FPA for Partnership's 2020 tax year reflects an adjustment of an increase in ordinary income of $300 (as a result of the disallowance of the recharacterization of $300 from ordinary loss to long-term capital loss) and an imputed underpayment related to that adjustment, as well as an adjustment of an additional $300 in long-term capital loss for 2020 which does not result in an imputed underpayment under § 301.6225–1(f). Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the imputed underpayment in the FPA and does not file a petition for readjustment under section 6234. Accordingly, under § 301.6226–1(b)(2) and § 301.6225–3(b)(6), the adjustment year partners (as defined in § 301.6241–1(a)(2)) do not take into account the $300 long-term capital loss that does not result in an imputed underpayment. Rather, the $300 long-term capital loss is taken into account by the reviewed year partners. The time to file a petition expires on August 30, 2023. Pursuant to § 301.6226–2(b), the partnership adjustments become finally determined on August 31, 2023. On September 30, 2023, Partnership files with the IRS statements described in § 301.6226–2 and furnishes statements to all of its reviewed year partners in accordance with § 301.6226–2. One partner of Partnership in 2020, B (an individual), had a 25 percent interest in Partnership during all of 2020 and was allocated 25 percent of all items from Partnership for that year. The statement filed with the IRS and furnished to B shows B's allocable share of the ordinary loss reported on Partnership's return for the 2020 taxable year as $125. The statement also shows an adjustment to B's allocable share of the ordinary loss in the amount of −$75, resulting in a corrected ordinary loss allocated to B of $50 for taxable year 2020 ($125 originally allocated to B less $75 which is B's share of the adjustment to the ordinary loss). In addition, the statement shows an increase to B's share of long-term capital loss in the amount of $75 (B's share of the adjustment that did not result in the imputed underpayment with respect to Partnership). B must pay the additional reporting

year tax as determined in accordance with paragraph (b) of this section. B computes his additional reporting year tax as follows. First, B determines the correction amount for the first affected year (the 2020 taxable year) by taking into account B's share of the partnership adjustments (a $75 reduction in ordinary loss and an increase of $75 in long-term capital loss) for the 2020 taxable year. B determines the amount by which his chapter 1 tax for 2020 would have increased or decreased if the $75 adjustment to ordinary loss and the $75 adjustment to long-term capital loss from Partnership were taken into account for that year. Second, B determines if there is any increase or decrease in chapter 1 tax for any intervening year as a result of the adjustment to the ordinary and capital losses for 2020. B's aggregate of the correction amounts is the correction amount for 2020, B's first affected year plus any correction amounts for any intervening years. B is also liable for any interest on the correction amount for the first affected year and for any intervening year as determined in accordance with paragraph (c) of this section.

(3) *Example 3.* On its partnership return for the 2020 tax year, Partnership, a domestic partnership, reported U.S. source dividend income of $2,000. On June 1, 2023, the IRS mails an FPA to Partnership for Partnership's 2020 year increasing the amount of U.S. source dividend income to $4,000 and determining that a 20 percent accuracy-related penalty under section 6662(b) applies to the increase in U.S. source dividend income. Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the imputed underpayment in the FPA for Partnership's 2020 year and does not file a petition for readjustment under section 6234. The time to file a petition expires on August 30, 2023. Pursuant to § 301.6226–2(b), the partnership adjustments become finally determined on August 31, 2023. On September 30, 2023, Partnership files the statements described under § 301.6226–2 with the IRS and furnishes to partner C, a nonresident alien individual who was a partner in Partnership during 2020 (and remains a partner in Partnership in 2023), a statement described in § 301.6226–2. C had a 50 percent interest in Partnership during all of 2020 and was allocated 50 percent of all items from Partnership for that year. The statement shows C's share of U.S. source dividend income reported on Partnership's return for the reviewed year of $1,000 and an adjustment to U.S. source dividend income of $1,000. In addition, the statement reports that a 20 percent accuracy-related penalty under section 6662(b) applies. Under § 301.6241–6(b)(4)(i), because the additional $1,000 in U.S. source dividend income allocated to C is an amount subject to withholding (as defined in § 301.6241–6(b)(2)), Partnership must pay the amount of tax required to be withheld on the adjustment. See §§ 1.1441–1(b)(1) and 1.1441–5(b)(2)(i)(A) of this chapter. Under § 301.6241–6(b)(4)(ii), Partnership may reduce the amount of withholding tax it must pay because it has valid documentation from 2020 that establishes that C was entitled to a reduced rate of withholding in 2020 on U.S. source dividend income of 10 percent pursuant to a treaty. Partnership withholds $100 of tax from C's distributive share, remits the tax to the IRS, and files the necessary return and information returns required by § 1.1461–1 of this chapter. On his 2023 return, C must report the additional reporting year tax determined in accordance with paragraph (b) of this section, the accuracy-related penalty determined in accordance with paragraph (d) of this section, and interest determined in accordance with paragraph (c) of this section on the correction amount for the first affected year, the correction amount for any intervening year, and the penalty. Under paragraph (f) of this section, C may claim the $100 withholding tax paid by Partnership pursuant to § 301.6241–6(b)(4)(i) as a credit under section 33 against C's income tax liability on his 2023 return.

(4) *Example 4.* On its partnership return for the 2020 tax year, Partnership reported ordinary income of $100 and a long-term capital gain of $40. Partnership had four equal partners during the 2020 tax year: E, F, G, and H, all of whom were individuals. On its partnership return for the 2020 tax year, the

entire long-term capital gain was allocated to partner E and the ordinary income was allocated to all partners based on their equal (25 percent) interest in Partnership. The IRS initiates an administrative proceeding with respect to Partnership's 2020 taxable year and determines that the long-term capital gain should have been allocated equally to all four partners and that Partnership should have recognized an additional $10 in ordinary income. On June 1, 2023, the IRS mails an FPA to Partnership reflecting the reallocation of the $40 long-term capital gain so that F, G, and H each have $10 increase in long-term capital gain and E has a $30 reduction in long-term capital gain for 2020. In addition, the FPA reflects the partnership adjustment increasing ordinary income by $10. The FPA reflects a general imputed underpayment with respect to the increase in ordinary income and a specific imputed underpayment with respect to the increase in long-term capital gain allocated to F, G, and H. In addition, the FPA reflects a $30 partnership adjustment that does not result in an imputed underpayment, that is, the reduction of $30 in long-term capital gain with respect to E that is associated with the specific imputed underpayment in accordance with § 301.6225–1(g)(2)(iii)(B). Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the specific imputed underpayment relating to the reallocation of long-term capital gain. Partnership does not file a petition for readjustment under section 6234. The time to file a petition expires on August 30, 2023. Pursuant to § 301.6226–2(b), the partnership adjustments become finally determined on August 31, 2023. Partnership timely pays the general imputed underpayment that resulted from the partnership adjustment to ordinary income. On September 30, 2023, Partnership files with the IRS statements described in § 301.6226–2 and furnishes statements to its partners reflecting their share of the partnership adjustments as finally determined in the FPA that relate to the specific imputed underpayment, that is, the reallocation of long-term capital gain. The statements for F, G, and H each reflect a partnership adjustment of an additional $10 of long-term capital gain for 2020. The statement for E reflects a partnership adjustment of a reduction of $30 of long-term capital gain for 2020. Because E, F, G, and H are all individuals, all partners must report the additional reporting year tax as determined in accordance with paragraph (b) of this section in the partners' reporting year, which is 2023. They compute their additional reporting year tax as follows. First, they determine the correction amount for the first affected year (the 2020 taxable year) by taking into account their share of the partnership adjustments for the 2020 taxable year. They each determine the amount by which their chapter 1 tax for 2020 would have increased or decreased if the adjustment to long-term capital gain from Partnership were taken into account for that year. Second, they determine if there is any increase or decrease in chapter 1 tax for any intervening year as a result of the adjustment to the long-term capital gain for 2020. Their aggregate of the correction amounts is the sum of the correction amount for 2020, their first affected year and any correction amounts for any intervening years. They are also liable for any interest on the correction amount for the first affected year and for any intervening year as determined in accordance with paragraph (c) of this section.

(5) *Example 5.* On its partnership return for the 2020 taxable year, Partnership reported a long-term capital loss of $500. During an administrative proceeding with respect to Partnership's 2020 taxable year, the IRS mails a notice of proposed partnership adjustment (NOPPA) in which it proposes to disallow $200 of the reported $500 long-term capital loss, the only adjustment. Accordingly, the imputed underpayment reflected in the NOPPA is $80 ($200 × 40 percent). F, a C corporation partner with a 50 percent interest in Partnership, received 50 percent of all long-term capital losses for 2020. As part of the modification process described in § 301.6225–2(d)(2), F files an amended return for 2020 taking into account F's share of the partnership adjustment ($100 reduction in long-term capital loss) and pays the tax owed for

2020, including interest. Also as part of the modification process, F also files amended returns for 2021 and 2022 and pays additional tax (and interest) for these years because the reduction in long-term capital loss for 2020 affected the tax due from F for 2021 and 2022. See § 301.6225–2(d)(2). The reduction of the long-term capital loss in 2020 did not affect any other taxable year of F. This is the only modification requested. The IRS approves the modification with respect to F and on June 1, 2023, mails an FPA to Partnership for Partnership's 2020 year reflecting the partnership adjustment reducing the long-term capital loss in the amount of $200. The FPA also reflects the modification to the imputed underpayment based on the amended returns filed by F taking into account F's share of the reduction in the long-term capital loss. Therefore, the imputed underpayment in the FPA is $40 ($100 × 40 percent). Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the imputed underpayment in the FPA for Partnership's 2020 year and files a timely petition in the Tax Court challenging the partnership adjustments. The Tax Court upholds the determinations in the FPA and the decision regarding Partnership's 2020 tax year becomes final on December 15, 2025. Pursuant to § 301.6226–2(b), the partnership adjustments are finally determined on December 15, 2025. On February 1, 2026, Partnership files the statements described under § 301.6226–2 with the IRS and furnishes to its partners statements reflecting their shares of the partnership adjustment. The statement issued to F reflects F's share of the partnership adjustment for Partnership's 2020 taxable year as finally determined by the Tax Court. The statement shows F's share of the long-term capital loss adjustment for the reviewed year of $100, as well as the $100 long-term capital loss taken into account by F as part of the amended return modification. Accordingly, in accordance with paragraph (b) of this section, when F computes its correction amounts for the first affected year (the 2020 taxable year) and the intervening years (the 2021 through 2026 taxable years), F computes any increase or decrease in chapter 1 tax for those years using the returns for the 2020, 2021, and 2022 taxable years as amended during the modification process and taking into account any chapter 1 tax paid with those amended returns. F also takes into account the interest paid with F's amended returns when determining the interest under paragraph (c) of this section that must be paid in the reporting year.

(6) *Example 6*. Partnership has two equal partners for the 2020 tax year: M (an individual) and J (a partnership). For the 2020 tax year, J has two equal partners—K and L—both individuals. On June 1, 2023, the IRS mails an FPA to Partnership for Partnership's 2020 year increasing Partnership's ordinary income by $500,000 and asserting an imputed underpayment of $200,000. Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the imputed underpayment in the FPA for Partnership's 2020 year and does not file a petition for readjustment under section 6234. The time to file a petition expires on August 30, 2023. Pursuant to § 301.6226–2(b), the partnership adjustments become finally determined on August 31, 2023. Therefore, Partnership's adjustment year is 2023, the due date of the adjustment year return is March 15, 2024 and the extended due date for the adjustment year return is September 16, 2024. On October 12, 2023, Partnership timely files with the IRS statements described in § 301.6226–2 and timely furnishes statements to its partners reflecting their share of the partnership adjustments as finally determined in the FPA. The statements to M and J each reflect a partnership adjustment of $250,000 of ordinary income. M takes her share of the adjustments reflected on the statements furnished by Partnership into account on M's return for the 2023 tax year in accordance with paragraph (b) of this section. On April 1, 2024, J files the adjustment tracking report and files and furnishes statements to K and L reflecting each partner's share of the adjustments reflected on the statements Partnership furnished to J. K and L must take their share of adjustments reflected on the statements furnished by J into account on their returns for the 2023 tax

year in accordance with paragraph (b) of this section by treating themselves as reviewed year partners for purposes of paragraph (b).

(7) *Example 7.* On its partnership return for the 2020 tax year, Partnership reported that it placed Asset, which had a depreciable basis of $210,000, into service in 2020 and depreciated Asset over 5 years, using the straight-line method. Accordingly, Partnership claimed depreciation of $42,000 in each year related to Asset. Partnership has two equal partners for the 2020 tax year: M (a partnership) and N (an S corporation). For the 2020 tax year, N has one shareholder, O, who is an individual. On June 1, 2023, the IRS mails an FPA to Partnership for Partnership's 2020 year. In the FPA, the IRS determines that Asset should have been depreciated over 7 years instead of 5 years and adjusts the depreciation for the 2020 tax year to $30,000 instead of $42,000 resulting in a $12,000 adjustment. This adjustment results in an imputed underpayment of $4,800 ($12,000 × 40 percent). Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the imputed underpayment in the FPA for Partnership's 2020 year and does not file a petition for readjustment under section 6234. The time to file a petition expires on August 30, 2023. Pursuant to § 301.6226–2(b), the partnership adjustments become finally determined on August 31, 2023. On October 12, 2023, Partnership timely files with the IRS statements described in § 301.6226–2 and furnishes statements to its partners reflecting their share of the partnership adjustments as finally determined in the FPA. The statements to M and N reflect a partnership adjustment of $6,000 of ordinary income for the 2020 tax year. On February 1, 2024, N takes the adjustments into account under paragraph (e)(3) of this section by filing a partnership adjustment tracking report and furnishing a statement to O reflecting her share of the adjustments reported to N on the statement it received from Partnership. M does not furnish statements and instead chooses to calculate and pay an imputed underpayment under paragraph (e)(4) of this section equal to $1,200 ($6,000 × 40 percent) on the adjustments reflected on the statement it received from Partnership plus interest on the amount calculated in accordance with paragraph (e)(4)(iv)(B) of this section. On her 2023 return, O properly takes the adjustments into account under this section. Therefore, O reports and pays the additional reporting year tax determined in accordance with paragraph (b) of this section, which is the correction amount for 2020 plus any correction amounts for 2021 and 2022 (if the adjustments in 2020 resulted in any changes to the tax attributes of O in those years), and pays interest determined in accordance with paragraph (c) of this section on the correction amounts for each of those years.

(8) *Example 8.* On its partnership return for the 2020 tax year, Partnership reported $1,000 of ordinary loss. Partnership has two equal partners for the 2020 tax year: P and Q, both S corporations. For the 2020 tax year, P had one shareholder, R, an individual. For the 2020 tax year, Q had two shareholders, S and T, both individuals. On June 1, 2023, the IRS mails an FPA to Partnership for Partnership's 2020 year determining $500 of the $1,000 of ordinary loss should be recharacterized as $500 of long-term capital loss and $500 of the ordinary loss should be disallowed. The FPA asserts an imputed underpayment of $400 ($1,000 × 40 percent) with respect to the $1,000 reduction to ordinary loss and reflecting an adjustment that does not result in an imputed underpayment of a $500 capital loss. Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the imputed underpayment in the FPA for Partnership's 2020 year and does not file a petition for readjustment under section 6234. The time to file a petition expires on August 30, 2023. Pursuant to § 301.6226–2(b), the partnership adjustments become finally determined on August 31, 2023. On October 12, 2023, Partnership timely files with the IRS statements described in § 301.6226–2 and furnishes statements to its partners reflecting their share of the partnership adjustments as finally determined in the FPA. The statements to P and Q each reflect a partnership adjustment of $500 increase in ordinary income and a $250 increase in capital loss in accordance with

§ 301.6225–3(b)(6). P takes the adjustments into account under paragraph (e)(3) of this section by timely filing a partnership adjustment tracking report and furnishing a statement to R. Q timely filed a partnership adjustment tracking report, but chooses not to furnish statements and instead must calculate and pay an imputed underpayment under paragraph (e)(4) of this section as well as interest on the imputed underpayment determined under paragraph (e)(4)(iv)(B) of this section. After applying the rules set forth in § 301.6225–1, Q calculates the imputed underpayment that it is required to pay of $200 ($500 adjustment to ordinary income × 40 percent). Q also has one adjustment that does not result in an imputed underpayment—the $250 increase to capital loss. Pursuant to paragraph (e)(1) of this section, Q files the partnership adjustment tracking report and pay the amounts due under paragraph (e)(4) of this section by September 15, 2024, the extended due date of Partnership's return for the adjustment year, 2023. Pursuant to paragraph (e)(4)(v) of this section, on its 2024 return, the year in which Q made its payment of the imputed underpayment, Q reports and allocates the $250 capital loss to its shareholders for its 2024 taxable year as a capital loss as provided in § 301.6225–3.

(9) *Example 9*. On its partnership return for the 2020 tax year, Partnership reported a $1,000 long-term capital gain on the sale of Stock. Partnership has two equal partners for the 2020 tax year: U (an individual) and V (a partnership). For the 2020 tax year, V has two equal partners: W (an individual) and X (a partnership). For the 2020 tax year, X has two equal partners: Y and Z, both of which are C corporations. On June 1, 2023, the IRS mails a NOPPA to Partnership for Partnership's 2020 year proposing a $500 increase in the long-term capital gain from the sale of Stock and an imputed underpayment of $200 ($500 × 40 percent). On July 17, 2023, Partnership timely submits a request to modify the rate used in calculating the imputed underpayment under § 301.6225–2(d)(4). Partnership submits sufficient information demonstrating that $375 of the $500 adjustment is allocable to individuals (50 percent of the $500 adjustment allocable to U and 25 percent of the $500 adjustment allocable to W) and the remaining $125 is allocable to C corporations (the indirect partners Y and Z). The IRS approves the modification and the imputed underpayment is reduced to $81.25 (($375 × 15 percent) + ($125 × 20 percent)). See § 301.6225–2(b)(3). No other modifications are requested. On February 28, 2024, the IRS mails an FPA to Partnership for Partnership's 2020 year determining a $500 increase in the long-term capital gain on the sale of Stock and asserting an imputed underpayment of $81.25 after taking into account the approved modifications. Partnership makes a timely election under section 6226 in accordance with § 301.6226–1 with respect to the imputed underpayment in the FPA for Partnership's 2020 year and does not file a petition for readjustment under section 6234. The time to file a petition expires on May 28, 2024. Pursuant to § 301.6226–2(b), the partnership adjustments become finally determined on May 29, 2024. On July 26, 2024, Partnership timely files with the IRS statements described in § 301.6226–2 and furnishes statements to its partners reflecting their share of the partnership adjustments as finally determined in the FPA. The statements to U and V each reflect a partnership adjustment of a $250 increase in long-term capital gain. V timely files the adjustment tracking report but fails to furnish statements and therefore must calculate and pay an imputed underpayment under paragraph (e)(4) of this section as well as interest on the imputed underpayment determined under paragraph (e)(4)(iv)(B) of this section. On February 3, 2025, V pays an imputed underpayment of $43.75 (($125 × 20 percent for the adjustments allocable to X) + ($125 × 15 percent for the adjustments allocable to W)) which takes into account the rate modifications approved by the IRS with respect to Y and Z. V must also pay any interest on the amount as determined in accordance with paragraph (e)(4)(iv)(B) of this section. V must file the adjustment tracking report and pay the amounts due under paragraph (e)(4) of this section no later than September 15, 2025, the extended due date of Partnership's return for the

2024 year, which is the adjustment year.

(i) *Applicability date*—(1) *In general*. Except as provided in paragraph (i)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect*. This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6551, Feb. 27, 2019]

§ 301.6226(a)–1 Principal place of business of partnership.

(a) *In general*. The principal place of a partnership's business for purposes of determining the appropriate district court in which a petition for a readjustment of partnership items may be filed is its principal place of business as of the date the petition is filed.

(b) *Example*. The provisions of paragraph (a) of this section may be illustrated by the following example:

Example. The principal place of Partnership A's business on the day that the notice of the final partnership administrative adjustment was mailed to A's tax matters partner was Cincinnati, Ohio. However, by the day on which a petition seeking judicial review of that adjustment was filed, A had moved its principal place of business to Louisville, Kentucky. For purposes of section 6226(a)(2), A's principal place of business is Louisville.

(c) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6226(a)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50553, Oct. 4, 2001]

§ 301.6226(b)–1 5-percent group.

(a) *In general*. All members of a 5-percent group shall join in filing any petition for judicial review. The designation of a partner as a representative of a notice group does not authorize that partner to file a petition for a readjustment of partnership items on behalf of the notice group.

(b) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6226(b)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50553, Oct. 4, 2001]

§ 301.6226(e)–1 Jurisdictional requirement for bringing an action in District Court or United States Court of Federal Claims.

(a) *Amount to be deposited*—(1) *In general*. The jurisdictional amount that the filing partner (or, in the case of a petition filed by a 5-percent group, each member of the group, or, for civil actions beginning on or after April 2, 2002, in the case of a petition filed by a pass-thru partner, each indirect partner holding an interest through the pass-thru partner) shall deposit is the amount by which the tax liability of the partner would be increased if the treatment of the partnership items on the partner's return were made consistent with the treatment of partnership items on the partnership return, as adjusted by the notice of final partnership administrative adjustment. The partner is not required to pay other outstanding liabilities in order to deposit a jurisdictional amount.

(2) *Example*. The provisions of paragraph (a)(1) of this section may be illustrated by the following example:

Example. A files a petition for readjustment of partnership items in the United States Court of Federal Claims. A's tax liability would be increased by $4,000 if partnership items on A's return were conformed to the partnership return, as adjusted by the notice of final partnership administrative adjustment. A has an unpaid liability of $10,000 attributable to nonpartnership items. A is required to deposit $4,000 in order to satisfy the jurisdictional requirement.

(b) *Deposit taken into account in computing interest*. The amount deposited is treated as a payment of tax for purposes of chapter 67 of the Internal Revenue Code (relating to interest).

(c) *Deposit generally not treated as payment of tax*. Except as provided in paragraph (b) of this section, an amount deposited under section 6226(e) shall not be treated as a payment of tax. Thus, the Internal Revenue Service may proceed against the depositor for a deficiency based on nonpartnership items without regard to this deposit.

(d) *Amount deposited may be applied against assessment.* If the restriction on assessment provided under section 6225(a) lapses with respect to a deficiency attributable to partnership items for a partnership taxable year while an amount is on deposit under section 6226(e) in connection with a petition relating to those items, the Internal Revenue Service may apply the amount deposited against any such deficiency that is assessed.

(e) *Effective date.* Except as otherwise provided in paragraph (a)(1) of this section, this section is applicable to civil actions beginning on or after October 4, 2001. For civil actions beginning prior to October 4, 2001, see § 301.6226(e)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50554, Oct. 4, 2001]

§ 301.6226(f)–1 Scope of judicial review.

(a) *In general.* A court reviewing a notice of final partnership administrative adjustment has jurisdiction to determine all partnership items for the taxable year to which the notice relates and the proper allocation of such items among the partners. Thus, the review is not limited to the items adjusted in the notice. In addition, the court has jurisdiction in the partnership-level proceeding to determine any penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item. However, the court does not have jurisdiction in the partnership-level proceeding to consider any partner-level defenses to any penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item. See section 6230(c)(4) and § 301.6221–1(c) and (d).

(b) *Example.* The provisions of paragraph (a) of this section may be illustrated by the following example:

Example. The Internal Revenue Service issues a notice of final partnership administrative adjustment with respect to Partnership ABC in which the only item adjusted is depreciation. A petition for judicial review of that notice is filed. During the judicial proceeding, a partner of ABC, in accordance with the applicable court rules, raises an issue relating to the treatment of intangible drilling costs. The court reviewing the notice has jurisdiction to determine the intangible drilling cost issue in addition to the depreciation issue.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6226(f)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50554, Oct. 4, 2001]

§ 301.6227–1 Administrative adjustment request by partnership.

(a) *In general.* A partnership may file a request for an administrative adjustment with respect to any partnership-related item (as defined in § 301.6241–1(a)(6)(ii)) for any partnership taxable year. When filing an administrative adjustment request (AAR), the partnership must determine whether the adjustments requested in the AAR result in an imputed underpayment in accordance with § 301.6227–2(a) for the reviewed year (as defined in § 301.6241–1(a)(8)). If the adjustments requested in the AAR result in an imputed underpayment, the partnership must take the adjustments into account under the rules described in § 301.6227–2(b) unless the partnership makes an election under § 301.6227–2(c), in which case each reviewed year partner (as defined in § 301.6241–1(a)(9)) must take the adjustments into account in accordance with § 301.6227–3. If the adjustments requested in the AAR are adjustments described in § 301.6225–1(f)(1) that do not result in an imputed underpayment (as determined under § 301.6227–2(a)), such adjustments must be taken into account by the reviewed year partners in accordance with § 301.6227–3. A partner may not make a request for an administrative adjustment of a partnership-related item except in accordance with § 301.6222–1 or if the partner is doing so on behalf of the partnership in the partner's capacity as the partnership representative designated under section 6223. In addition, a partnership may not file an AAR solely for the purpose of changing the designation of a partnership representative or changing the appointment of a designated individual. See § 301.6223–1 (regarding designation of the partnership representative). When the partnership changes

the designation of the partnership representative (or appointment of the designated individual) in conjunction with the filing of an AAR in accordance with § 301.6223–1(e), the change in designation (or appointment) is treated as occurring prior to the filing of the AAR. For rules regarding a notice of change to the amount of creditable foreign tax expenditures see paragraph (g) of this section.

(b) *Time for filing an AAR.* An AAR may only be filed by a partnership with respect to a partnership taxable year after a partnership return for that taxable year has been filed with the Internal Revenue Service (IRS). A partnership may not file an AAR with respect to a partnership taxable year more than three years after the later of the date the partnership return for such partnership taxable year was filed or the last day for filing such partnership return (determined without regard to extensions). Except as provided in § 301.6231–1(f), an AAR (including a request filed by a partner in accordance with § 301.6222–1) may not be filed for a partnership taxable year after a notice of administrative proceeding with respect to such taxable year has been mailed by the IRS under section 6231.

(c) *Form and manner for filing an AAR*—(1) *In general.* An AAR by a partnership, including any required statements, forms, and schedules as described in this section, must be filed with the IRS in accordance with the forms, instructions, and other guidance prescribed by the IRS, and must be signed under penalties of perjury by the partnership representative (as described in §§ 301.6223–1 and 301.6223–2).

(2) *Contents of AAR filed with the IRS.* A partnership must include the information described in this paragraph (c)(2) when filing an AAR with the IRS. In the case of a failure by the partnership to provide the information described in this paragraph (c)(2), the IRS may, but is not required to, invalidate an AAR or readjust any items that were adjusted on the AAR. An AAR filed with the IRS must include—

(i) The adjustments requested;

(ii) If a reviewed year partner is required to take into account the adjustments requested under § 301.6227–3, statements described in paragraph (e) of this section, including any transmittal with respect to such statements required by forms, instructions, and other guidance prescribed by the IRS; and

(iii) Other information prescribed by the IRS in forms, instructions, or other guidance.

(d) *Copy of statement furnished to reviewed year partners in certain cases.* If a reviewed year partner is required to take into account adjustments requested in an AAR under § 301.6227–3, the partnership must furnish a copy of the statement described in paragraph (e) of this section to the reviewed year partner to whom the statement relates in accordance with the forms, instructions and other guidance prescribed by the IRS. If the partnership mails the statement, it must mail the statement to the current or last address of the reviewed year partner that is known to the partnership. The statement must be furnished to the reviewed year partner on the date the AAR is filed with the IRS.

(e) *Statements*—(1) *Contents.* Each statement described in this paragraph (e) must include the following correct information:

(i) The name and TIN of the reviewed year partner to whom the statement is being furnished;

(ii) The current or last address of the partner that is known to the partnership;

(iii) The reviewed year partner's share of items as originally reported on statements furnished to the partner under section 6031(b) and, if applicable, section 6227;

(iv) The reviewed year partner's share of the adjustments as described under paragraph (e)(2) of this section;

(v) The date the statement is furnished to the partner;

(vi) The partnership taxable year to which the adjustments relate; and

(vii) Any other information required by forms, instructions, and other guidance prescribed by the IRS.

(2) *Determination of each partner's share of adjustments*—(i) *In general.* Except as provided in paragraphs (e)(2)(ii) and (iii) of this section, each reviewed year partner's share of the adjustments requested in the AAR is determined in the same manner as each adjusted

partnership-related item was originally allocated to the reviewed year partner on the partnership return for the reviewed year. If the partnership pays an imputed underpayment under § 301.6227–2(b) with respect to the adjustments requested in the AAR, the reviewed year partner's share of the adjustments requested in the AAR only includes any adjustments that did not result in the imputed underpayment, as determined under § 301.6227–2(a).

(ii) *Adjusted partnership-related item not reported on the partnership's return for the reviewed year.* Except as provided in paragraph (e)(2)(iii) of this section, if the adjusted partnership-related item was not reported on the partnership return for the reviewed year, each reviewed year partner's share of the adjustments must be determined in accordance with how such items would have been allocated under rules that apply with respect to partnership allocations, including under the partnership agreement.

(iii) *Allocation adjustments.* If an adjustment involves allocation of a partnership-related item to a specific partner or in a specific manner, including a reallocation of an item, the reviewed year partner's share of the adjustment requested in the AAR is determined in accordance with the AAR.

(f) *Administrative proceeding for a taxable year for which an AAR is filed.* Within the period described in section 6235, the IRS may initiate an administrative proceeding with respect to the partnership for any partnership taxable year regardless of whether the partnership filed an AAR with respect to such taxable year and may adjust any partnership-related item, including any partnership-related item adjusted in an AAR filed by the partnership. The amount of an imputed underpayment determined by the partnership under § 301.6227–2(a)(1), including any modifications determined by the partnership under § 301.6227–2(a)(2), may be redetermined by the IRS.

(g) *Notice requirement and partnership adjustments required as a result of a foreign tax redetermination.* For special rules applicable when an adjustment to a partnership related item (as defined in section 6241(2)) is required as part of a redetermination of U.S. tax liability under section 905(c) and § 1.905–3(b) of this chapter as a result of a foreign tax redetermination (as defined in § 1.905–3(a) of this chapter), see § 1.905–4(b)(2)(ii) of this chapter.

(h) *Applicability date*—(1) *In general.* Except as provided in paragraph (h)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6558, Feb. 27, 2019, as amended by T.D. 9922, 85 FR 72074, Nov. 12, 2020]

§ 301.6227–2 Determining and accounting for adjustments requested in an administrative adjustment request by the partnership.

(a) *Determining whether adjustments result in an imputed underpayment*—(1) *Determination of an imputed underpayment.* The determination of whether adjustments requested in an administrative adjustment request (AAR) result in an imputed underpayment in the reviewed year (as defined in § 301.6241–1(a)(8)) and the determination of the amount of any imputed underpayment is made in accordance with the rules under § 301.6225–1.

(2) *Modification of imputed underpayment for purposes of this section.* A partnership may apply modifications to the amount of an imputed underpayment determined under paragraph (a)(1) of this section using only the provisions under § 301.6225–2(d)(3) (regarding tax-exempt partners), § 301.6225–2(d)(4) (regarding modification of applicable tax rate), § 301.6225–2(d)(5) (regarding specified passive activity losses), § 301.6225–2(d)(6)(ii) (regarding limitations or restrictions in the grouping of adjustments), § 301.6225–2(d)(7) (regarding certain qualified investment entities), § 301.6225–2(d)(9) (regarding tax treaty modifications), or as provided in forms, instructions, or other guidance prescribed by the IRS with respect to AARs. The partnership may not modify an imputed underpayment resulting from adjustments

requested in an AAR except as described in this paragraph (a)(2). When applying modifications to the amount of an imputed underpayment under this paragraph (a)(2):

(i) The partnership is not required to seek the approval from the Internal Revenue Service (IRS) prior to applying modifications to the amount of any imputed underpayment under paragraph (a)(1) of this section reported on the AAR; and

(ii) As part of the AAR filed with the IRS in accordance with forms, instructions, and other guidance prescribed by the IRS, the partnership must—

(A) Notify the IRS of any modification;

(B) Describe the effect of the modification on the imputed underpayment;

(C) Provide an explanation of the basis for such modification; and

(D) Provide documentation to support the partnership's eligibility for the modification.

(b) *Adjustments resulting in an imputed underpayment taken into account by the partnership*—(1) *In general.* Except in the case of a valid election under paragraph (c) of this section, a partnership must pay any imputed underpayment (as determined under paragraph (a) of this section) resulting from the adjustments requested in an AAR on the date the partnership files the AAR. For the rules applicable to the partnership's expenditure for an imputed underpayment, as well as any penalties and interest paid by the partnership with respect to an imputed underpayment, see § 301.6241–4.

(2) *Penalties and interest.* The IRS may impose a penalty, addition to tax, and additional amount with respect to any imputed underpayment determined under this section in accordance with section 6233(a)(3) (penalties determined from the reviewed year). In addition, the IRS may impose a penalty, addition to tax, and additional amount with respect to a failure to pay any imputed underpayment on the date an AAR is filed in accordance with section 6233(b)(3) (penalties with respect to the adjustment year return). Interest on an imputed underpayment is determined under chapter 67 of the Internal Revenue Code for the period beginning on the date after the due date of the partnership return for the reviewed year (as defined in § 301.6241–1(a)(8)) (determined without regard to extension) and ending on the date the AAR is filed. See § 301.6233(a)–1(b). In the case of any failure to pay an imputed underpayment on the date the AAR is filed, interest is determined in accordance with section 6233(b)(2) and § 301.6233(b)–1(c).

(3) *Coordination with chapters 3 and 4 of the Internal Revenue Code*—(i) *Coordination when partnership pays an imputed underpayment.* If a partnership pays an imputed underpayment resulting from adjustments requested in an AAR under paragraph (b)(1) of this section, the rules in § 301.6241–6(b)(3) apply to treat the partnership as having paid the amount required to be withheld under chapter 3 or chapter 4 (as defined in § 301.6241–6(b)(2)).

(ii) *Coordination when partnership elects to have adjustments taken into account by reviewed year partners.* If a partnership elects under paragraph (c) of this section to have its reviewed year partners take into account adjustments requested in an AAR, the rules in § 301.6226–2(g)(3) apply to the partnership, and the rules in § 301.6226–3(f) apply to the reviewed year partners that take into account the adjustments pursuant to § 301.6227–3.

(c) *Election to have adjustments resulting in an imputed underpayment taken into account by reviewed year partners.* In lieu of paying an imputed underpayment under paragraph (b) of this section, the partnership may elect to have each reviewed year partner (as defined in § 301.6241–1(a)(9)) take into account the adjustments requested in the AAR that are associated with such imputed underpayment in accordance with § 301.6227–3. A partnership makes an election under this paragraph (c) at the time the AAR is filed in accordance with the forms, instructions, and other guidance prescribed by the IRS. If the partnership makes a valid election in accordance with this paragraph (c), the partnership is not liable for, nor required to pay, the imputed underpayment to which the election relates. Rather, each reviewed year partner must take into account their share of the adjustments requested in the AAR that are associated with such imputed

underpayment in accordance with § 301.6227–3. If an election is made under this paragraph (c) with respect to an imputed underpayment, modifications applied under paragraph (a)(2) of this section to such imputed underpayment are disregarded and all adjustments requested in the AAR that are associated with such imputed underpayment must be taken into account by each reviewed year partner in accordance with § 301.6227–3.

(d) *Adjustments not resulting in an imputed underpayment.* If any adjustments requested in an AAR are adjustments that do not result in an imputed underpayment (as determined under paragraph (a) of this section), the partnership must furnish statements to each reviewed year partner and file such statements with the IRS in accordance with § 301.6227–1. Each reviewed year partner must take into account its share of the adjustments that do not result in an imputed underpayment requested in the AAR in accordance with § 301.6227–3.

(e) *Applicability date*—(1) *In general.* Except as provided in paragraph (e)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6559, Feb. 27, 2019]

§ 301.6227–3 Adjustments requested in an administrative adjustment request taken into account by reviewed year partners.

(a) *In general.* Each reviewed year partner (as defined in § 301.6241–1(a)(9)) is required to take into account its share of adjustments requested in an administrative adjustment request (AAR) that either do not result in an imputed underpayment (as described in § 301.6225–1(f)(1)) or are associated with an imputed underpayment for which the partnership makes an election under § 301.6227–2(c). Each reviewed year partner receiving a statement furnished in accordance with § 301.6227–1(d) must take into account adjustments reflected in the statement in the reviewed year partner's taxable year that includes the date the statement is furnished (reporting year) in accordance with paragraph (b) of this section.

(b) *Adjustments taken into account by the reviewed year partner in the reporting year*—(1) *In general.* Except as provided in paragraph (c) of this section, a reviewed year partner that is furnished a statement described in paragraph (a) of this section must treat the statement as if it were issued under section 6226(a)(2) and, on or before the due date for the reporting year must report and pay the additional reporting year tax (as defined in § 301.6226–3(a)), if any, determined after taking into account that partner's share of the adjustments requested in the AAR in accordance with § 301.6226–3. A reviewed year partner may, in accordance with § 301.6226–3(a), reduce chapter 1 tax for the reporting year where the additional reporting year tax is less than zero. For purposes of paragraph (b) of this section, the rule under § 301.6226–3(c)(3) (regarding the increased rate of interest) does not apply. Nothing in this section entitles any partner to a refund of tax imposed by chapter 1 of the Internal Revenue Code (chapter 1 tax) to which such partner is not entitled. For instance, a partnership-partner (as defined in § 301.6241–1(a)(7)) may not claim a refund with respect to its share of any adjustment.

(2) *Examples.* The following examples illustrate the rules of paragraph (b) of this section.

(i) *Example 1.* In 2022, partner A, an individual, received a statement described in paragraph (a) of this section from Partnership with respect to Partnership's 2020 taxable year. Both A and Partnership are calendar year taxpayers and A is not claiming any refundable tax credit in 2020. The only adjustment shown on the statement is an increase in ordinary loss. Taking into account the adjustment, A determines that his additional reporting year tax for 2022 (the reporting year) is -$100 (that is, a reduction of $100.) A's chapter 1 tax for 2022 (without regard to any additional reporting year tax) is $150. Applying the rules in paragraph (b)(1) of this section, A's chapter 1 tax for 2022 is reduced to $50 ($150 chapter 1

tax without regard to the additional reporting year tax plus -$100 additional reporting year tax).

(ii) *Example 2.* The facts are the same as in *Example 1* in paragraph (b)(2)(i) of this section, except A's chapter 1 tax for 2022 (without regard to any additional reporting year tax) is $75. Applying the rules in paragraph (b)(1) of this section, A's chapter 1 tax for 2022 is reduced by the -$100 of additional reporting year tax. Accordingly, A's chapter 1 tax for 2022 is -$25 ($75 chapter 1 tax without regard to any additional reporting year tax plus -$100 of additional reporting year tax), A owes no chapter 1 tax for 2022, and A may make a claim for refund with respect to any overpayment.

(c) *Reviewed year partners that are pass-through partners*—(1) *In general.* Except as provided in paragraph (c) of this section, if a statement described in paragraph (a) of this section (including a statement described in this paragraph (c)(1)) is furnished to a reviewed year partner that is a pass-through partner (as defined in § 301.6241–1(a)(5)), the pass-through partner must take into account the adjustments reflected on that statement in accordance with § 301.6226–3(e) by treating the partnership that filed the AAR as the partnership that made an election under § 301.6226–1. A pass-through partner that furnishes statements in accordance with § 301.6226–3(e)(3) must provide the information described in paragraph (c)(3) of this section in lieu of the information described in § 301.6226–3(e)(3)(iii) on the statements the pass-through partner furnishes to its partners. A pass-through partner that computes and pays an imputed underpayment in accordance with § 301.6226–3(e)(4)(iii) may not apply any modifications to the amount of imputed underpayment. For purposes of this paragraph (c)(1), the statement furnished to the pass-through partner by the partnership filing the AAR is treated as if it were a statement issued under section 6226(a)(2) and described in § 301.6226–2.

(2) *Adjustments that do not result in an imputed underpayment.* If adjustments on a statement received by the pass-through partner under paragraph (a) or (c)(1) of this section do not result in an imputed underpayment for the pass-through partner (as described in § 301.6225–1(f)(1)), the pass-through partner must take the adjustments that do not result in an imputed underpayment into account in accordance with § 301.6226–3(e)(3). The pass-through partner must take such adjustments into account under this paragraph (c)(2) even in situations where the pass-through partner pays an imputed underpayment in accordance with § 301.6226–3(e)(4)(iii). The pass-through partner must provide the information described in paragraph (c)(3) of this section in lieu of the information described in § 301.6226–3(e)(3)(iii) on the statements the pass-through partner furnishes to its affected partners (as defined in § 301.6226–3(e)(3)(i)).

(3) *Contents of statements.* Each statement described in paragraph (c)(1) or (2) of this section must include the following correct information—

(i) The name and taxpayer identification number (TIN) of the partnership that filed the AAR with respect to the adjustments reflected on the statements described in paragraph (c)(1) of this section;

(ii) The adjustment year (as defined in § 301.6241–1(a)(1)) of the partnership described in paragraph (c)(3)(i) of this section;

(iii) The extended due date for the return for the adjustment year of the partnership described in paragraph (c)(3)(i) of this section (as described in § 301.6226–3(e)(3)(ii));

(iv) The date on which the partnership described in paragraph (c)(3)(i) of this section furnished its statements required under § 301.6227–1(d);

(v) The name and TIN of the partnership that furnished the statement to the pass-through partner if different from the partnership described in paragraph (c)(3)(i) of this section;

(vi) The name and TIN of the pass-through partner;

(vii) The pass-through partner's taxable year to which the adjustments set forth in the statement described in paragraph (c)(1) of this section relate;

(viii) The name and TIN of the affected partner to whom the statement is being furnished;

(ix) The current or last address of the affected partner that is known to the pass-through partner;

(x) The affected partner's share of items as originally reported to such partner under section 6031(b) and, if applicable, section 6227, for the taxable year to which the adjustments reflected on the statement furnished to the pass-through partner relate;

(xi) The affected partner's share of partnership adjustments determined under § 301.6227–1(e)(2) as if the affected partner were the reviewed year partner and the partnership were the pass-through partner;

(xii) Any other information required by forms, instructions, and other guidance prescribed by the IRS.

(4) *Affected partners must take into account the adjustments.* A statement furnished to an affected partner in accordance with paragraph (c)(1) or (2) of this section is to be treated by the affected partner as if it were a statement described in paragraph (a) of this section. The affected partner must take into account its share of the adjustments reflected on such a statement in accordance with this section by treating references to ''reviewed year partner'' as ''affected partner.'' When taking into account the adjustments as described in § 301.6226–3(e)(3)(iv), the rules under § 301.6226–3(c)(3) (regarding the increased rate of interest) do not apply.

(d) *Applicability date*—(1) *In general.* Except as provided in paragraph (d)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6560, Feb. 27, 2019]

§ 301.6227(c)–1 Administrative adjustment request by the tax matters partner on behalf of the partnership.

(a) *In general.* A request for an administrative adjustment filed by the tax matters partner on behalf of the partnership shall be filed on the form prescribed by the Internal Revenue Service for that purpose in accordance with that form's instructions. Except as otherwise provided in that form's instructions, the request shall be—

(1) Filed with the service center where the original partnership return was filed (but, if the notice described in section 6223(a)(1) (beginning of an administrative proceeding) has already been mailed to the tax matters partner, the statement should be filed with the Internal Revenue Service office that mailed such notice);

(2) Signed by the tax matters partner; and

(3) Accompanied by revised schedules showing the effects of the proposed changes on each partner and an explanation of the changes.

(b) *Denied request for treatment as a substituted return remains administrative adjustment request.* An administrative adjustment request filed by the tax matters partner on behalf of the partnership for which substituted return treatment is requested but not granted remains an administrative adjustment request. Thus, for example, the tax matters partner may file suit under section 6228(a) if the Internal Revenue Service fails to take timely action on the request.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6227(b)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50554, Oct. 4, 2001]

§ 301.6227(d)–1 Administrative adjustment request filed on behalf of a partner.

(a) *In general.* A request for an administrative adjustment on behalf of a partner shall be filed on the form prescribed by the Internal Revenue Service for that purpose in accordance with that form's instructions. Except as otherwise provided in that form's instructions, the request shall—

(1) Be filed in duplicate, the original copy filed with the partner's amended income tax return (on which the partner computes the amount by which the partner's tax liability should be adjusted if the request is granted) and the other copy filed with the service center where the partnership return is filed (but, if the notice described in section

6223(a)(1) (beginning of an administrative proceeding) has already been mailed to the tax matters partner, the statement should be filed with the Internal Revenue Service office that mailed such notice);

(2) Identify the partner and the partnership by name, address, and taxpayer identification number;

(3) Specify the partnership taxable year to which the administrative adjustment request applies;

(4) Relate only to partnership items; and

(5) Relate only to one partnership and one partnership taxable year.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6227(c)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50555, Oct. 4, 2001]

§ 301.6229(b)–1 Extension by agreement.

(a) *In general.* Any partnership may authorize any person to extend the period described in section 6229(a) with respect to all partners by filing a statement to that effect with the service center where the partnership return is filed (but, if the notice described in section 6223(a)(1) (beginning of an administrative proceeding) has already been mailed to the tax matters partner, the statement should be filed with the Internal Revenue Service office that mailed such notice). The statement shall—

(1) Provide that it is an authorization for a person other than the tax matters partner to extend the assessment period with respect to all partners;

(2) Identify the partnership and the person being authorized by name, address, and taxpayer identification number;

(3) Specify the partnership taxable year or years for which the authorization is effective; and

(4) Be signed by all persons who were general partners (or, in the case of an LLC, member-managers, as those terms are defined in § 301.6231(a)(7)–2(b)) at any time during the year or years for which the authorization is effective.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6229(b)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50555, Oct. 4, 2001]

§ 301.6229(b)–2 Special rule with respect to debtors in title 11 cases.

(a) *In general.* Notwithstanding any other law or rule of law, if an agreement is entered into under section 6229(b)(1)(B), and the agreement is signed by a person who would be the tax matters partner but for the fact that, at the time that the agreement is executed, the person is a debtor in a bankruptcy proceeding under title 11 of the United States Code, such agreement shall be binding on all partners in the partnership unless the Internal Revenue Service has been notified of the bankruptcy proceeding in accordance with paragraph (b) of this section.

(b) *Procedures for notifying the Internal Revenue Service of a partner's bankruptcy proceeding.* (1) The Internal Revenue Service shall be notified of the bankruptcy proceeding of the tax matters partner in accordance with the procedures set forth in § 301.6223(c)–1.

(2) In addition to the information specified in § 301.6223(c)–1, notification that a person is (or was) a debtor in a bankruptcy proceeding shall include the date the bankruptcy proceeding was filed, the name and address of the court in which the bankruptcy proceeding exists (or took place), the caption of the bankruptcy proceeding (including the docket number or other identification number used by the court), and the status of the proceeding as of the date of notification.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6229(b)–2T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50555, Oct. 4, 2001]

§ 301.6229(c)(2)–1 Substantial omission of income.

(a) *Partnership return*—(1) *General rule.* (i) If any partnership omits from the gross income stated in its return

an amount properly includible therein and that amount is described in clause (i) of section 6501(e)(1)(A), subsection (a) of section 6229 shall be applied by substituting ''6 years'' for ''3 years.''

(ii) For purposes of paragraph (a)(1)(i) of this section, the term *gross income,* as it relates to a trade or business, means the total of the amounts received or accrued from the sale of goods or services, to the extent required to be shown on the return, without reduction for the cost of those goods or services.

(iii) For purposes of paragraph (a)(1)(i) of this section, the term *gross income,* as it relates to any income other than from the sale of goods or services in a trade or business, has the same meaning as provided under section 61(a), and includes the total of the amounts received or accrued, to the extent required to be shown on the return. In the case of amounts received or accrued that relate to the disposition of property, and except as provided in paragraph (a)(1)(ii) of this section, gross income means the excess of the amount realized from the disposition of the property over the unrecovered cost or other basis of the property. Consequently, except as provided in paragraph (a)(1)(ii) of this section, an understated amount of gross income resulting from an overstatement of unrecovered cost or other basis constitutes an omission from gross income for purposes of section 6229(c)(2).

(iv) An amount shall not be considered as omitted from gross income if information sufficient to apprise the Commissioner of the nature and amount of the item is disclosed in the return, including any schedule or statement attached to the return.

(b) *Effective/applicability date.* This section applies to taxable years with respect to which the period for assessing tax was open on or after September 24, 2009.

[T.D. 9511, 75 FR 78898, Dec. 17, 2010]

§ 301.6229(e)–1 Information with respect to unidentified partner.

(a) *In general.* A partner who is not properly identified on the partnership return (including an indirect partner) remains an unidentified partner for purposes of section 6229(e) until identifying information is furnished as provided in § 301.6223(c)–1.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6229(e)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50555, Oct. 4, 2001]

§ 301.6229(f)–1 Special rule for partial settlement agreements.

(a) *In general.* If a partner enters into a settlement agreement with the Internal Revenue Service with respect to the treatment of some of the partnership items or partnership-level determinations of any penalty, addition to tax, or additional amount in dispute for a partnership taxable year, but one or more other partnership items or determinations remain in dispute, the period of limitations for assessing any tax attributable to the settled items shall be determined as if such agreement had not been entered into.

(b) *Other items remaining in dispute.* Pursuant to section 6226(c), a partner is a party to a partnership-level judicial proceeding with respect to partnership items and partnership-level determinations of penalties, additions to tax or additional amounts. When a partner settles partnership items, the settled partnership items convert to nonpartnership items under section 6231(b)(1)(C) and will not be subject to any future or pending partnership-level proceeding pursuant to section 6226(d)(1). The remaining unsettled partnership items, as well as any unsettled penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item (regardless of whether the partnership item to which it relates has been settled), however, will remain subject to determination under partnership-level administrative and judicial procedures. Consequently, any remaining unsettled items, including any unsettled penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item, will be deemed to remain in dispute. Thus, the period for assessing any tax attributable to the settled items will be governed by the

period for assessing any tax attributable to the remaining unsettled items.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6229(f)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50555, Oct. 4, 2001]

§ 301.6230(b)–1 Request that correction not be made.

(a) *In general.* The request that a correction not be made under section 6230(b)(2) shall be in writing and shall—

(1) State that it is a request that a correction not be made under section 6230(b);

(2) Identify the partnership and the partner filing the request by name, address, and taxpayer identification number;

(3) Be signed by the partner filing the request; and

(4) Be filed with the Internal Revenue Service office that provided the notice of the correction of the error.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6230(b)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50556, Oct. 4, 2001]

§ 301.6230(c)–1 Claim arising out of erroneous computation, etc.

(a) *In general.* A claim for refund under section 6230(c) shall state the grounds for the claim and shall be filed with the service center where the partner's return is filed.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6230(c)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50556, Oct. 4, 2001]

§ 301.6230(e)–1 Tax matters partner required to furnish names.

(a) *In general.* If a notice of the beginning of an administrative proceeding is mailed to the tax matters partner with respect to any partnership taxable year, the tax matters partner shall furnish to the Internal Revenue Service office that issued the notice the name, address, profits interest, and taxpayer identification number of each person who was a partner in the partnership at any time during that taxable year if that information was not provided on the partnership return filed for that year.

(b) *Revised or additional information.* If the tax matters partner discovers that any information furnished to the Internal Revenue Service on the partnership return or under paragraph (a) of this section was incorrect or incomplete, the tax matters partner shall furnish revised or additional information to the Internal Revenue Service within 15 days of discovering that the information furnished to the Internal Revenue Service was incorrect or incomplete.

(c) *Information required with respect to indirect partners.* The requirements of this section for identifying information apply with respect to indirect partners to the extent that the tax matters partner has such information.

(d) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6230(e)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50556, Oct. 4, 2001]

§ 301.6231–1 Notice of proceedings and adjustments.

(a) *Notices to which this section applies.* In the case of any administrative proceeding under subchapter C of chapter 63 of the Internal Revenue Code (subchapter C of chapter 63), including an administrative proceeding with respect to an administrative adjustment request (AAR) filed by a partnership under section 6227, the following notices must be mailed to the partnership and the partnership representative (as described in section 6223 and § 301.6223–1)—

(1) Notice of any administrative proceeding initiated at the partnership level with respect to an adjustment of any partnership-related item (as defined in § 301.6241–1(a)(6)(ii)) for any partnership taxable year under subchapter C of chapter 63 (notice of administrative proceeding (NAP));

(2) Notice of any proposed partnership adjustment resulting from an administrative proceeding under subchapter C of chapter 63 (notice of proposed partnership adjustment (NOPPA)); and

(3) Notice of any final partnership adjustment resulting from an administrative proceeding under subchapter C of chapter 63 (notice of final partnership adjustment (FPA)).

(b) *Time for mailing notices*—(1) *Notice of proposed partnership adjustment*. A NOPPA is timely if it is mailed before the expiration of the period for making adjustments under section 6235(a)(1) (including any extensions under section 6235(b) and any special rules under section 6235(c)).

(2) *Notice of final partnership adjustment*. An FPA may not be mailed earlier than 270 days after the date on which the NOPPA is mailed unless the partnership agrees, in writing, with the Internal Revenue Service (IRS) to waive the 270-day period. See § 301.6225–2(c)(3)(iii) for the effect of a waiver under this paragraph (b)(2) on the 270-period for requesting a modification under section 6225(c). See § 301.6232–1(d)(2) for the rules regarding a waiver of the limitations on assessment under § 301.6232–1(c).

(c) *Last known address*. A notice described in paragraph (a) of this section is sufficient if mailed to the last known address of the partnership representative and the partnership (even if the partnership or partnership representative has terminated its existence).

(d) *Notice mailed to partnership representative*—(1) *In general*. A notice described in paragraph (a) of this section will be treated as mailed to the partnership representative if the notice is mailed to the partnership representative that is reflected in the IRS records as of the date the letter is mailed.

(2) *No partnership representative in effect*. In any case in which no partnership representative designation is in effect in accordance with § 301.6223–1(f), a notice described in paragraph (a) of this section mailed to ''PARTNERSHIP REPRESENTATIVE'' at the last known address of the partnership satisfies the requirements of this section.

(e) *Restrictions on additional FPAs after petition filed*. The IRS may mail more than one FPA to any partnership for any partnership taxable year. However, except in the case of fraud, malfeasance, or misrepresentation of a material fact, the IRS may not mail an FPA to a partnership with respect to a partnership taxable year after the partnership has filed a timely petition for readjustment under section 6234 with respect to an FPA issued with respect to such partnership taxable year.

(f) *Withdrawal of NAP or NOPPA*. The IRS may, without consent of the partnership, withdraw any NAP or NOPPA. Except as described in § 301.6223–1(d)(2) and (e)(2), if the IRS withdraws a NAP or NOPPA under this paragraph (f), the NAP or NOPPA is treated as if it were never issued, and the withdrawn NAP or NOPPA has no effect for purposes of subchapter C of chapter 63. For instance, if the IRS withdraws a NAP with respect to a partnership taxable year, the limitation under § 301.6222–1(c)(5) regarding inconsistent treatment, and the prohibition under section 6227(c) on filing an AAR, after the mailing of a NAP no longer applies with respect to such taxable year.

(g) *Rescission of FPA*. The IRS may, with the consent of the partnership, rescind any FPA. An FPA that is rescinded is not an FPA for purposes of subchapter C of chapter 63, and the partnership cannot bring a proceeding under section 6234 with respect to such FPA.

(h) *Applicability date*—(1) *In general*. Except as provided in paragraph (h)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect*. This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6561, Feb. 27, 2019]

§ 301.6231(a)(1)–1 Exception for small partnerships.

(a) *In general*. For purposes of the exception for small partnerships under section 6231(a)(1)(B), the rules contained in this section shall apply.

(1) *10 or fewer*. The 10 or fewer limitation described in section 6231(a)(1)(B)(i)

is applied to the number of natural persons, C corporations, and estates of deceased partners that were partners at any one time during the partnership taxable year. Thus, for example, a partnership that at no time during the taxable year had more than 10 partners may be treated as a small partnership even if, because of transfers of interests in the partnership, 11 or more natural persons, C corporations, or estates of deceased partners owned interests in the partnership for some portion of the taxable year. See section 1361(a)(2) for the definition of a *C corporation*. For purposes of section 6231(a)(1)(B) and this section, a husband and wife (and their estates) are treated as one person.

(2) *Pass-thru partner*. The exception provided in section 6231(a)(1)(B) does not apply to a partnership for a taxable year if any partner in the partnership during that taxable year is a pass-thru partner as defined in section 6231(a)(9). For purposes of this paragraph (a)(2), an estate shall not be treated as a pass-thru partner.

(3) *Determination made annually*. The determination of whether a partnership meets the requirements for the exception for small partnerships under section 6231(a)(1)(B) and this paragraph (a) shall be made with respect to each partnership taxable year. Thus, a partnership that does not qualify as a small partnership in one taxable year may qualify as a small partnership in another taxable year if the requirements for the exception under section 6231(a)(1)(B) and this paragraph (a) are met with respect to that other taxable year.

(b) *Election to have subchapter C of chapter 63 apply*—(1) *In general*. Any partnership that meets the requirements set forth in section 6231(a)(1)(B) and paragraph (a) of this section (relating to the exception for small partnerships) may elect under paragraph (b)(2) of this section to have the provisions of subchapter C of chapter 63 of the Internal Revenue Code apply with respect to that partnership.

(2) *Method of election*. A partnership shall make the election described in paragraph (b)(1) of this section by attaching a statement to the partnership return for the first taxable year for which the election is to be effective. The statement shall be identified as an election under section 6231(a)(1)(B)(ii), shall be signed by all persons who were partners of that partnership at any time during the partnership taxable year to which the return relates, and shall be filed at the time (determined with regard to any extension of time for filing) and place prescribed for filing the partnership return. However, for any partnership taxable year for which the due date of the return (determined without regard to extensions) is before January 2, 2002, the partnership may file the statement described in the preceding sentence on or before the date which is one year before the date specified in section 6229(a) for the expiration of the period of limitations with respect to that partnership (determined with regard to extensions of that period under section 6229(b)).

(3) *Years covered by election*. The election shall be effective for the partnership taxable year to which the return relates and all subsequent partnership taxable years unless revoked with the consent of the Commissioner.

(c) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(a)(1)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50556, Oct. 4, 2001]

§ 301.6231(a)(2)–1 Persons whose tax liability is determined indirectly by partnership items.

(a) *Spouse filing joint return with individual holding a separate interest*—(1) *In general*. Except as otherwise provided in this paragraph (a), a spouse who files a joint return with an individual holding a separate interest in the partnership shall be treated as a partner for purposes of subchapter C of chapter 63 of the Internal Revenue Code. Thus, the spouse who files a joint return with a partner will be permitted to participate in administrative and judicial proceedings.

(2) *Counting rules*. A spouse who files a joint return with an individual holding a separate interest in the partnership shall not be counted as a partner for purposes of applying section 6223(b)

(relating to special rules for partnerships with more than 100 partners) and section 6231(a)(1)(B) (relating to the exception for small partnerships).

(3) *Notice rules*—(i) *In general.* Except as provided in paragraph (a)(3)(ii) of this section, for purposes of subchapter C of chapter 63 of the Internal Revenue Code, a spouse who files a joint return with an individual holding a separate interest in the partnership shall be treated as receiving any notice received by the individual holding the separate interest.

(ii) *Spouse identified on partnership return or by statement.* Paragraph (a)(3)(i) of this section shall not apply to a spouse who files a joint return with an individual holding a separate interest in the partnership if that spouse—

(A) Is identified on the partnership return; or

(B) Is identified as a partner entitled to notice as provided in § 301.6223(c)–1(b).

(4) *Conversion of partnership items*—(i) *Individual holding a separate interest.* A spouse who files a joint return with an individual holding a separate interest in the partnership shall cease to be treated as a partner in the partnership under paragraph (a)(1) of this section upon the conversion of the partnership items of the individual holding the separate interest in the partnership to nonpartnership items pursuant to section 6231(b). If each spouse holds a separate interest in the partnership, the previous sentence shall be applied separately with respect to each partnership interest.

(ii) *Spouse who files a joint return with an individual holding a separate interest in the partnership.* A spouse who files a joint return with an individual holding a separate interest in the partnership shall cease to be treated as a partner in the partnership under paragraph (a)(1) of this section upon the occurrence of an event that would convert the partnership items of the spouse to nonpartnership items if the spouse were the owner of a separate interest.

(iii) *Examples.* The following examples illustrate the application of paragraph (a)(4) of this section:

Example 1. Husband owns a separate interest in ABC partnership and files a joint return with Wife. Husband files for bankruptcy. Pursuant to § 301.6231(c)–7, upon filing for bankruptcy, the partnership items of the debtor convert to nonpartnership items. Thus, Husband's partnership items converted to nonpartnership items upon the filing of Husband's bankruptcy petition. Pursuant to paragraph (a)(4)(i) of this section, Wife is no longer treated as a partner of ABC partnership as of the date the partnership items of Husband converted to nonpartnership items.

Example 2. Wife owns a separate interest in XYZ partnership and files a joint return with Husband. Husband files for bankruptcy. Because the filing of the bankruptcy petition by Husband is an event that would convert Husband's partnership items to nonpartnership items if Husband were the owner of a separate interest, Husband shall no longer be treated as a partner as of the filing of the bankruptcy petition. Pursuant to paragraph (a)(4)(ii) of this section, the partnership items of Wife are not affected by Husband's bankruptcy.

(5) *Cross-reference.* See § 301.6231(a)(12)–1 for special rules relating to spouses holding a joint interest in a partnership.

(b) *Shareholder of C corporation.* A shareholder of a C corporation (as defined in section 1361(a)(2)) is not a partner in a partnership merely because the C corporation is a partner in that partnership.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(a)(2)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50557, Oct. 4, 2001]

§ 301.6231(a)(3)–1 Partnership items.

(a) *In general.* For purposes of subtitle F of the Internal Revenue Code of 1954, the following items which are required to be taken into account for the taxable year of a partnership under subtitle A of the Code are more appropriately determined at the partnership level than at the partner level and, therefore, are partnership items:

(1) The partnership aggregate and each partner's share of each of the following:

(i) Items of income, gain loss, deduction, or credit of the partnership;

(ii) Expenditures by the partnership not deductible in computing its taxable income (for example, charitable contributions);

(iii) Items of the partnership which may be tax preference items under section 57(a) for any partner;

(iv) Income of the partnership exempt from tax;

(v) Partnership liabilities (including determinations with respect to the amount of the liabilities, whether the liabilities are nonrecourse, and changes from the preceding taxable year); and

(vi) Other amounts determinable at the partnership level with respect to partnership assets, investments, transactions and operations necessary to enable the partnership or the partners to determine—

(A) The investment credit determined under section 46(a);

(B) Recapture under section 47 of the investment credit;

(C) Amounts at risk in any activity to which section 465 applies;

(D) The depletion allowance under section 613A with respect to oil and gas wells; and

(E) The application of section 751 (a) and (b);

(2) Guaranteed payments;

(3) Optional adjustments to the basis of partnership property pursuant to an election under section 754 (including necessary preliminary determinations, such as the determination of a transferee partner's basis in a partnership interest); and

(4) Items relating to the following transactions, to the extent that a determination of such items can be made from determinations that the partnership is required to make with respect to an amount, the character of an amount, or the percentage interest of a partner in the partnership, for purposes of the partnership books and records or for purposes of furnishing information to a partner:

(i) Contributions to the partnership;

(ii) Distributions from the partnership; and

(iii) Transactions to which section 707(a) applies (including the application of section 707(b)).

(b) *Factors that affect the determination of partnership items.* The term ''partnership item'' includes the accounting practices and the legal and factual determinations that underlie the determination of the amount, timing, and characterization of items of income, credit, gain, loss, deduction, etc. Examples of these determinations are: The partnership's method of accounting, taxable year, and inventory method; whether an election was made by the partnership; whether partnership property is a capital asset, section 1231 property, or inventory; whether an item is currently deductible or must be capitalized; whether partnership activities have been engaged in with the intent to make a profit for purposes of section 183; and whether the partnership qualifies for the research and development credit under section 30.

(c) *Illustrations*—(1) *In general.* This paragraph (c) illustrates the provisions of paragraph (a)(4) of this section. The determinations illustrated in this paragraph (c) that the partnership is required to make are not exhaustive; there may be additional determinations that the partnership is required to make which relate to a transaction listed in paragraph (a)(4) of this section. The critical element is that the partnership needs to make a determination with respect to a matter for the purposes stated; failure by the partnership actually to make a determination (for example, because it does not maintain proper books and records) does not prevent an item from being a partnership item.

(2) *Contributions.* For purposes of its books and records, or for purposes of furnishing information to a partner, the partnership needs to determine:

(i) The character of the amount received from a partner (for example, whether it is a contribution, a loan, or a repayment of a loan);

(ii) The amount of money contributed by a partner;

(iii) The applicability of the investment company rules of section 721(b) with respect to a contribution; and

(iv) The basis to the partnership of contributed property (including necessary preliminary determinations, such as the partner's basis in the contributed property).

To the extent that a determination of an item relating to a contribution can be made from these and similar determinations that the partnership is required to make, therefore, that item is a partnership item. To the extent that

that determination requires other information, however, that item is not a partnership item. For example, it may be necessary to determine whether contribution of the property causes recapture by the contributing partner of the investment credit under section 47 in certain circumstances in which that determination is irrelevant to the partnership.

(3) *Distributions*. For purposes of its books and records, or for purposes of furnishing information to a partner, the partnership needs to determine:

(i) The character of the amount transferred to a partner (for example, whether it is a distribution, a loan, or a repayment of a loan);

(ii) The amount of money distributed to a partner;

(iii) The adjusted basis to the partnership of distributed property; and

(iv) The character of partnership property (for example, whether an item is inventory or a capital asset).

To the extent that a determination of an item relating to a distribution can be made from these and similar determinations that the partnership is required to make, therefore, that item is a partnership item. To the extent that that determination requires other information, however, that item is not a partnership item. Such other information would include those factors used in determining the partner's basis for the partnership interest that are not themselves partnership items, such as the amount that the partner paid to acquire the partnership interest from a transferor partner if that transfer was not covered by an election under section 754.

(4) *Transactions to which section 707 (a) applies*. For purposes of its books and records, the partnership needs to determine:

(i) The amount transferred from the partnership to a partner or from a partner to the partnership in any transaction to which section 707(a) applies;

(ii) The character of such an amount (for example, whether or not it is a loan; in the case of amounts paid over time for the purchase of an asset, what portion is interest); and

(iii) The percentage of the capital interests and profits interests in the partnership owned by each partner.

To the extent that a determination of an item relating to a transaction to which section 707(a) applies can be made from these and similar determinations that the partnership is required to make, therefore, that item is a partnership item. To the extent that that determination requires other information, however, that item is not a partnership item. An example of such other information is the cost to the partner of goods sold to the partnership.

(d) *Effective date*. This section shall apply with respect to partnership taxable years beginning after September 3, 1982. This section shall also apply with respect to any partnership taxable year ending after September 3, 1982, if with respect to that year there is an agreement entered into pursuant to section 407(a)(3) of the Tax Equity and Fiscal Responsibility Act of 1982.

[T.D. 8082, 51 FR 13214, Apr. 18, 1986; 51 FR 19062, May 27, 1986]

§ 301.6231(a)(5)–1 Definition of affected item.

(a) *In general*. The term *affected item* means any item to the extent such item is affected by a partnership item. It includes items unrelated to the items reflected on the partnership return (for example, an item, such as the threshold for the medical expense deduction under section 213, that varies if there is a change in an individual partner's adjusted gross income).

(b) *Basis in a partner's partnership interest*. The basis of a partner's partnership interest is an affected item to the extent it is not a partnership item.

(c) *At-risk limitation*. The application of the at-risk limitation under section 465 to a partner with respect to a loss incurred by a partnership is an affected item to the extent it is not a partnership item.

(d) *Passive losses*. The application of the passive loss rules under section 469 to a partner with respect to a loss incurred by a partnership is an affected item to the extent it is not a partnership item.

(e) *Penalty, addition to tax, or additional amount*—(1) *In general*. The term

affected item includes any penalty, addition to tax, or additional amount provided by subchapter A of chapter 68 of the Internal Revenue Code of 1986 to the extent provided in this paragraph (e).

(2) *Penalty, addition to tax, or additional amount without floor.* If a penalty, addition to tax, or additional amount that does not contain a floor (that is, a threshold amount of underpayment or understatement necessary before the imposition of the penalty, addition to tax, or additional amount) is imposed on a partner as the result of an adjustment to a partnership item, the term *affected item* shall include the penalty, addition to tax, or additional amount computed with reference to the portion of the underpayment that is attributable to the partnership item adjustment(s) to which the penalty, addition to tax, or additional amount applies.

(3) *Penalty, addition to tax, or additional amount containing floor*—(i) *Floor exceeded prior to adjustment.* If a partner would have been subject to a penalty, addition to tax, or additional amount that contains a floor in the absence of an adjustment to a partnership item (that is, the partner's understatement or underpayment exceeded the floor even without an adjustment to a partnership item) the term *affected item* shall include only the portion of the penalty, addition to tax, or additional amount computed with reference to the partnership item (or affected item) adjustments.

(ii) *Floor not exceeded prior to adjustment.* In the case of a penalty, addition to tax, or additional amount that contains a floor, if the taxpayer's understatement or underpayment does not exceed the floor prior to an adjustment to a partnership item but does so after such adjustment, the term *affected item* shall include the penalty, addition to tax, or additional amount computed with reference to the entire underpayment or understatement to which the penalty, addition to tax, or additional amount applies.

(4) *Examples.* The provisions of this paragraph (e) may be illustrated by the following examples:

Example 1. A, a partner of P, had an aggregate underpayment of $1,000 of which $100 is attributable to an adjustment to partnership items. A is negligent in reporting the partnership items. The accuracy-related penalty under section 6662 for negligence computed with reference to the $100 underpayment attributable to the partnership item adjustments is an affected item.

Example 2. B, a partner of P, understated B's income tax liability attributable to nonpartnership items by $6,000. An adjustment to a partnership item resulting from a partnership proceeding increased B's income tax by an additional $2,000. Prior to the adjustment, B would have been subject to the accuracy-related penalty under section 6662 for a substantial understatement of income tax with respect to the $6,000 understatement attributable to nonpartnership items. The portion of the accuracy-related penalty under section 6662 computed with reference to the $2,000 understatement attributable to partnership items to which the accuracy-related penalty applies is an affected item. The portion of the accuracy-related penalty under section 6662 computed with reference to the $6,000 pre-existing understatement is not an affected item.

Example 3. C, a partner in partnership P, understated C's income tax liability attributable to nonpartnership items by $4,000. As a result of an adjustment to partnership items, that understatement is increased to $10,000. Prior to the adjustment, C would not have been subject to the accuracy-related penalty under section 6662 for a substantial understatement of income tax. The accuracy-related penalty under section 6662 computed with reference to the entire $10,000 understatement to which the accuracy-related penalty applies is an affected item.

(f) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(a)(5)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50557, Oct. 4, 2001]

§ 301.6231(a)(6)–1 Computational adjustments.

(a) *Changes in a partner's tax liability*—(1) *In general.* A change in the tax liability of a partner to properly reflect the treatment of a partnership item under subchapter C of chapter 63 of the Internal Revenue Code is made through a computational adjustment. A computational adjustment includes a change in tax liability that reflects a change in an affected item where that change is necessary to properly reflect the treatment of a partnership item, or

any penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item. However, if a change in a partner's tax liability cannot be made without making one or more partner-level determinations, that portion of the change in tax liability attributable to the partner-level determinations shall be made under the deficiency procedures (as described in subchapter B of chapter 63 of the Internal Revenue Code), except for any penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item.

(2) *Affected items that do not require partner-level determinations.* Changes in a partner's tax liability with respect to affected items that do not require partner-level determinations (such as the threshold amount of medical deductions under section 213 that changes as the result of determinations made at the partnership level) are computational adjustments that are directly assessed. When making computational adjustments, the Internal Revenue Service may assume that amounts the partner reported on the partner's individual return include all amounts reported to the partner by the partnership (on the Schedule K–1s attached to the partnership's original return), absent contrary notice to the Internal Revenue Service (for example, a ''Notice of Inconsistent Treatment'' pursuant to § 301.6222(a)–2(c)). Such an assumption by the Internal Revenue Service does not constitute a partner-level determination. Moreover, substituting redetermined partnership items for the partner's previously reported partnership items (including partnership items included in carryover amounts) does not constitute a partner-level determination where the Internal Revenue Service otherwise accepts, for the sole purpose of determining the computational adjustment, all nonpartnership items (including, for example, nonpartnership item components of carryover amounts) as reported.

(3) *Affected items that require partner-level determinations.* Changes in a partner's tax liability with respect to affected items that require partner-level determinations (such as a partner's at-risk amount to the extent it depends upon the source from which the partner obtained the funds that the partner contributed to the partnership) are computational adjustments that are subject to the deficiency procedures. Notwithstanding the preceding sentence, any penalty, addition to tax, or additional amount that relates to an adjustment to a partnership item is not subject to the deficiency procedures, but rather may be directly assessed as part of the computational adjustment that is made following the partnership proceeding, based on determinations in that proceeding, regardless of whether any partner-level determinations may be required.

(b) *Interest.* A computational adjustment includes any interest due with respect to any underpayment or overpayment of tax attributable to adjustments to reflect properly the treatment of partnership items.

(c) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(a)(6)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50558, Oct. 4, 2001]

§ 301.6231(a)(7)–1 Designation or selection of tax matters partner.

(a) *In general.* A partnership may designate a partner as its tax matters partner for a specific taxable year only as provided in this section. Similarly, the designation of a partner as the tax matters partner for a specific taxable year may be terminated only as provided in this section. If a partnership does not designate a general partner as the tax matters partner for a specific taxable year, or if the designation is terminated without the partnership designating another general partner as the tax matters partner, the tax matters partner is the partner determined under this section.

(b) *Person who may be designated tax matters partner*—(1) *General requirement.* A person may be designated as the tax matters partner of a partnership for a taxable year only if that person—

(i) Was a general partner in the partnership at some time during the taxable year for which the designation is made; or

(ii) Is a general partner in the partnership as of the time the designation is made.

(2) *Limitation on designation of tax matters partner who is not a United States person.* If any United States person would be eligible under paragraph (a) of this section to be designated as the tax matters partner of a partnership for a taxable year, no person who is not a United States person may be designated as the tax matters partner of the partnership for that year without the consent of the Commissioner. For the definition of *United States person*, see section 7701(a)(30).

(c) *Designation of tax matters partner at time partnership return is filed.* The partnership may designate a tax matters partner for a partnership taxable year on the partnership return for that taxable year in accordance with the instructions for that form.

(d) *Certification by current tax matters partner of selection of successor.* If a partner properly designated as the tax matters partner of a partnership for a partnership taxable year under this section certifies that another partner has been selected as the tax matters partner of the partnership for that taxable year, that other partner is thereby designated as the tax matters partner for that year. The current tax matters partner shall make the certification by filing with the service center with which the partnership return is filed a statement that—

(1) Identifies the partnership, the partner filing the statement, and the successor tax matters partner by name, address, and taxpayer identification number;

(2) Specifies the partnership taxable year to which the designation relates;

(3) Declares that the partner filing the statement has been properly designated as the tax matters partner of the partnership for the partnership taxable year and that that designation is in effect immediately before the filing of the statement;

(4) Certifies that the other named partner has been selected as the tax matters partner of the partnership for that taxable year in accordance with the partnership's procedure for making that selection; and

(5) Is signed by the partner filing the statement.

(e) *Designation by general partners with majority interest.* The partnership may designate a tax matters partner for a partnership taxable year at any time after the filing of a partnership return for that taxable year by filing a statement with the service center with which the partnership return was filed. The statement shall—

(1) Identify the partnership and the designated partner by name, address, and taxpayer identification number;

(2) Specify the partnership taxable year to which the designation relates;

(3) Declare that it is a designation of a tax matters partner for the taxable year specified; and

(4) Be signed by persons who were general partners at the close of the year and were shown on the return for that year to hold more than 50 percent of the aggregate interest in partnership profits held by all general partners as of the close of that taxable year. For purposes of this paragraph (e)(4), all limited partnership interests held by general partners shall be included in determining the aggregate interest in partnership profits held by such general partners.

(f) *Designation by partners with majority interest under certain circumstances*—(1) *In general.* A tax matters partner may be designated for a partnership taxable year under this paragraph (f) only if, at the time the designation is made, each partner who was a general partner at the close of such partnership taxable year is described in one or more of paragraphs (f)(1)(i) through (iv) of this section as follows:

(i) The general partner is dead, or, if the general partner is an entity, has been liquidated or dissolved;

(ii) The general partner has been adjudicated by a court of competent jurisdiction to be no longer capable of managing his or her person or estate;

(iii) The general partner's partnership items have become nonpartnership items under section 6231(b); or

(iv) The general partner is no longer a partner in the partnership.

(2) *Method of making designation.* A tax matters partner for a partnership taxable year may be designated under this paragraph (f) at any time after the

filing of the partnership return for such taxable year by filing a written statement with the service center with which the partnership return was filed. The statement shall—

(i) Identify the partnership and the designated tax matters partner by name, address, and taxpayer identification number;

(ii) Specify the partnership taxable year to which the designation relates;

(iii) Declare that it is a designation of a tax matters partner for the partnership taxable year specified; and

(iv) Be signed by persons who were partners at the close of such taxable year and were shown on the return for that year to hold more than 50 percent of the aggregate interest in partnership profits held by all partners as of the close of such taxable year.

(g) *Designation of alternate tax matters partner*. If an individual is designated as the tax matters partner of a partnership under paragraph (c), (d), (e), or (f) of this section, the document by which that individual is designated may also designate an alternate tax matters partner who will become tax matters partner upon the occurrence of one or more of the events described in paragraph (l)(1) (i) or (ii) of this section. The person designated as the alternate tax matters partner becomes the tax matters partner as of the time the designation of the tax matters partner is terminated under paragraph (l)(1) (i) or (ii) of this section. The designation of a person as the alternate tax matters partner shall have no effect in any other case.

(h) *Prior designations superseded*. A designation of a tax matters partner for a partnership taxable year under paragraphs (d), (e), or (f) of this section shall supersede all prior designations of a tax matters partner for that year, including a prior designation of an alternate tax matters partner under paragraph (g) of this section.

(i) *Resignation of designated tax matters partner*. A person designated as the tax matters partner of a partnership under this section may resign at any time by a written statement to that effect. The statement shall specify the partnership taxable year to which the resignation relates and shall identify the partnership and the tax matters partner by name, address, and taxpayer identification number. The statement shall also be signed by the resigning tax matters partner and shall be filed with the service center with which the partnership return was filed.

(j) *Revocation of designation*. The partnership may revoke the designation of the tax matters partner for a partnership taxable year at any time after the filing of a partnership return for that taxable year by filing a statement with the service center with which the partnership return was filed. The statement shall—

(1) Identify by name, address, and taxpayer identification number the partnership and the general partner whose designation as tax matters partner is being revoked;

(2) Specify the partnership taxable year to which the revocation relates;

(3) Declare that it is a revocation of a designation of the tax matters partner for the taxable year specified; and

(4) Be signed by the persons described in paragraph (e)(4) of this section, or, if at the time that the revocation is made, each partner who was a general partner at the close of the partnership taxable year to which the revocation relates is described in one or more of paragraphs (f)(1) (i) through (iv) of this section, by the persons described in paragraph (f)(2)(iv) of this section.

(k) *When designation, etc., becomes effective*—(1) *In general*. Except as otherwise provided in paragraph (k)(2) of this section, a designation, resignation, or revocation provided for in this section becomes effective on the day that the statement required by the applicable paragraph of this section is filed.

(2) *Notice of proceeding mailed*. If a notice of beginning of an administrative proceeding with respect to a partnership taxable year is mailed before the date on which a statement of designation, resignation, or revocation provided for in this section with respect to that taxable year is filed, the Service is not required to give effect to such designation, resignation, or revocation until 30 days after the statement is filed.

(l) *Termination of designation*—(1) *In general*. A designation of a tax matters partner for a taxable year under this section shall remain in effect until—

(i) The death of the designated tax matters partner;

(ii) An adjudication by a court of competent jurisdiction that the individual designated as the tax matters partner is no longer capable of managing the individual's person or estate;

(iii) The liquidation or dissolution of the tax matters partner, if the tax matters partner is an entity;

(iv) The partnership items of the tax matters partner become nonpartnership items under section 6231(c) (relating to special enforcement areas); or

(v) The day on which—

(A) The resignation of the tax matters partner under paragraph (i) of this section;

(B) A subsequent designation under paragraph (d), (e), or (f) of this section; or

(C) A revocation of the designation under paragraph (j) of this section becomes effective.

(2) *Actions by the tax matters partner before termination of designation.* The termination of the designation of a partner as the tax matters partner under paragraph (l)(1) of this section does not affect the validity of any action taken by that partner as tax matters partner before the designation is terminated. For example, if that tax matters partner had previously consented to an extension of the period for assessments under section 6229(b)(1)(B), that extension remains valid even after termination of the designation.

(m) *Tax matters partner where no partnership designation made*—(1) *In general.* The tax matters partner for a partnership taxable year shall be determined under this paragraph (m) if—

(i) The partnership has not designated a tax matters partner under this section for that taxable year; or

(ii) The partnership has designated a tax matters partner under this section for that taxable year, that designation has been terminated under paragraph (l)(1) of this section, and the partnership has not made a subsequent designation under this section for that taxable year.

(2) *General partner having the largest profits interest is the tax matters partner.* The tax matters partner for any partnership taxable year to which this paragraph (m) applies is the general partner having the largest profits interest in the partnership at the close of that taxable year (or where there is more than one such partner, the one of such partners whose name would appear first in an alphabetical listing). For purposes of this paragraph (m)(2), all limited partnership interests held by a general partner shall be included in determining that general partner's profits interest in the partnership. For purposes of this paragraph (m)(2), the general partner with the largest profits interest is determined based on the year-end profits interests reported on the Schedules K–1 filed with the partnership income tax return for the taxable year for which the determination is being made.

(3) *Termination of designation.* A designation of a tax matters partner for a partnership taxable year under this paragraph (m) shall remain in effect until the earlier of the occurrence of one or more of the events described in paragraphs (l)(1) (i) through (iv) of this section or the day on which a designation under paragraph (d), (e), or (f) of this section becomes effective. If a designation of a tax matters partner for a partnership taxable year is terminated under this paragraph (m)(3) and the partnership has not subsequently designated a tax matters partner for that taxable year under paragraph (d), (e), or (f) of this section, the tax matters partner for that taxable year shall be determined under paragraph (m)(2) of this section, and, for purposes of applying paragraph (m)(2) of this section, the general partner whose designation was so terminated shall be treated as having no profits interest in the partnership for that taxable year.

(n) *Selection of tax matters partner by Commissioner when impracticable to apply the largest-profits-interest rule.* If the partnership has not designated a tax matters partner under this section for the taxable year and it is impracticable (as determined under paragraph (o) of this section) to apply the largest-profits-interest rule of paragraph (m)(2) of this section, the Commissioner will select a tax matters partner as described in paragraph (p) of this section.

(o) *Impracticability of largest-profits-interest rule.* It is impracticable to apply

the largest-profits-interest rule of paragraph (m)(2) of this section if, on the date the rule is applied, any one of the following three conditions is met:

(1) *General partner with the largest profits interest is not apparent.* The general partner with the largest profits interest is not apparent from the Schedules K–1 and is not otherwise readily determinable.

(2) *Each general partner is deemed to have no profits interest in the partnership.* Each general partner is deemed to have no profits interest in the partnership under paragraph (m)(3) of this section (concerning termination of a designation under the largest-profits-interest rule) because of the occurrence of one or more of the events described in paragraphs (l)(1) (i) through (iv) of this section (involving death, adjudication of incompetency, liquidation, and conversion of partnership items to nonpartnership items).

(3) *General partner with the largest profits interest is disqualified.* The general partner with the largest profits interest determined under paragraph (m)(2) of this section—

(i) Has been notified of suspension from practice before the Internal Revenue Service;

(ii) Is incarcerated;

(iii) Is residing outside the United States, its possessions, or territories; or

(iv) Cannot be located or cannot perform the functions of a tax matters partner for any reason, except that lack of cooperation with the Internal Revenue Service by the general partner with the largest profits interest is not a basis for finding that the partner cannot perform the functions of a tax matters partner.

(p) *Commissioner's selection of the tax matters partner*—(1) *When the general partner with the largest profits interest is not apparent.* If it is impracticable under paragraph (o)(1) of this section to apply the largest-profits-interest rule of paragraph (m)(2) of this section, the Commissioner will select (in accordance with the notification procedures set forth in paragraph (r) of this section) as the tax matters partner any person who was a general partner at any time during the taxable year under examination.

(2) *When each general partner is deemed to have no profits interest in the partnership.* If it is impracticable under paragraph (o)(2) of this section to apply the largest-profits-interest rule of paragraph (m)(2) of this section, the Commissioner will select a partner (including a general or limited partner) as the tax matters partner in accordance with the criteria set forth in paragraph (q) of this section. The Commissioner will notify both the partner selected and the partnership of the selection, effective as of the date specified in the notice. For regulations applicable on or after January 26, 1999 (reflecting statutory changes made effective July 22, 1998) and before January 25, 2002, see § 301.6231(a)(7)–1T(p)(2).

(2) *When each general partner is deemed to have no profits interest in the partnership.* If it is impracticable under paragraph (o)(2) of this section to apply the largest-profits-interest rule of paragraph (m)(2) of this section, the Commissioner will select a partner (including a general or limited partner) as the tax matters partner in accordance with the criteria set forth in paragraph (q) of this section. The Commissioner will notify, within 30 days of the selection, the partner selected, the partnership, and all partners required to receive notice under section 6223(a) of the selection of the tax matters partner, effective as of the date specified in the notice.

(3) *When the general partner with the largest profits interest is disqualified*—(i) *In general.* Except as otherwise provided in paragraph (p)(3)(ii) of this section, if it is impracticable under paragraph (o)(3) of this section to apply the largest-profits-interest rule of paragraph (m)(2) of this section, the Commissioner will treat each general partner who fits the criteria contained in paragraph (o)(3) of this section as having no profits interest in the partnership for the taxable year and will select (in accordance with the notification procedures set forth in paragraph (r) of this section) a tax matters partner from the remaining persons who were general partners at any time during the taxable year.

(ii) *Partner selected if no general partner may be selected.* If all general partners during the taxable year either are

treated as having no profits interest in the partnership for the taxable year under paragraph (m)(3) of this section (concerning termination of a designation under the largest-profits-interest rule) or are described in paragraph (o)(3) of this section (general partner with the largest profits interest is disqualified), the Commissioner will select a partner (including a general or limited partner) as the tax matters partner in accordance with the criteria set forth in paragraph (q) of this section. The Commissioner will notify both the partner selected and the partnership of the selection, effective as of the date specified in the notice.

(q) *Criteria for selecting a partner as tax matters partner*—(1) *In general*. The Commissioner will select a partner as the tax matters partner under paragraph (p) (2) or (3)(ii) of this section only if the partner was a partner in the partnership at the close of the taxable year under examination.

(2) *Criteria to be considered*. The Commissioner may consider the following criteria in selecting a partner as the tax matters partner:

(i) The general knowledge of the partner in tax matters and the administrative operation of the partnership.

(ii) The partner's access to the books and records of the partnership.

(iii) The profits interest held by the partner.

(iv) The views of the partners having a majority interest in the partnership regarding the selection.

(v) Whether the partner is a partner of the partnership at the time the tax-matters-partner selection is made.

(vi) Whether the partner is a United States person (within the meaning of section 7701(a)(30)).

(3) *Limited restriction on subsequent designation of a tax matters partner by the partnership*. For purposes of paragraphs (p) (2) and (3)(ii) of this section, the partnership cannot designate a partner who is not a general partner to serve as tax matters partner in lieu of a partner selected by the Commissioner.

(r) *Notification of partnership*—(1) *In general*. If the Commissioner selects a tax matters partner under the provisions of paragraph (p)(1) or (p)(3)(i) of this section, the Commissioner will notify, within 30 days of the selection, the partner selected, the partnership, and all partners required to receive notice under section 6223(a) of the selection of the tax matters partner, effective as of the date specified in the notice.

(2) *Limited opportunity for partnership to designate the tax matters partner*. (i) Before the Commissioner selects a tax matters partner under paragraphs (p) (1) and (3)(i) of this section, the Commissioner will notify the partnership by mail that, after 30 days from the date of the notice, the Commissioner will make a determination that it is impracticable to apply the largest-profits-interest rule of paragraph (m)(2) of this section and will select the tax matters partner unless a prior designation is made by the partnership. This delay in making the determination will permit the partnership to designate a tax matters partner under paragraph (e) of this section (designation by general partners with a majority interest) or paragraph (f) of this section (designation by partners with a majority interest under certain circumstances), thereby avoiding a selection made by the Commissioner.

(ii) During the 30-day period and prior to a tax-matters-partner designation by the partnership, the Commissioner will communicate with the partnership by sending all correspondence or notices to ''The Tax Matters Partner'' in care of the partnership at the partnership's address.

(iii) Any subsequent designation of a tax matters partner by the partnership after the 30-day period will become effective as provided under paragraph (k)(2) of this section (concerning designations made after a notice of beginning of administrative proceeding is mailed).

(s) *Effective date*. This section applies to all designations, selections, and terminations of a tax matters partner occurring on or after December 23, 1996, except for paragraphs (p)(2) and (r)(1), that are applicable on or after October 4, 2001.

[T.D. 8698, 61 FR 67459, Dec. 23, 1996, as amended by T.D. 8808, 64 FR 3840, Jan. 26, 1999; T.D. 8965, 66 FR 50558, Oct. 4, 2001]

§ 301.6231(a)(7)–2 Designation or selection of tax matters partner for a limited liability company (LLC).

(a) *In general.* Solely for purposes of applying section 6231(a)(7) and § 301.6231(a)(7)–1 to an LLC, only a member-manager of an LLC is treated as a general partner, and a member of an LLC who is not a member-manager is treated as a partner other than a general partner.

(b) *Definitions*—(1) *LLC.* Solely for purposes of this section, *LLC* means an organization—

(i) Formed under a law that allows the limitation of the liability of all members for the organization's debts and other obligations within the meaning of § 301.7701–3(b)(2)(ii); and

(ii) Classified as a partnership for Federal tax purposes.

(2) *Member.* Solely for purposes of this section, *member* means any person who owns an interest in an LLC.

(3) *Member-manager.* Solely for purposes of this section, *member-manager* means a member of an LLC who, alone or together with others, is vested with the continuing exclusive authority to make the management decisions necessary to conduct the business for which the organization was formed. Generally, an LLC statute may permit the LLC to choose management by one or more managers (whether or not members) or by all of the members. If there are no elected or designated member-managers (as so defined in this paragraph (b)(3)) of the LLC, each member will be treated as a member-manager for purposes of this section.

(c) *Effective date.* This section applies to all designations, selections, and terminations of a tax matters partner of an LLC occurring on or after December 23, 1996. Any other reasonable designation or selection of a tax matters partner of an LLC is binding for periods prior to December 23, 1996.

[T.D. 8698, 61 FR 67462, Dec. 23, 1996]

§ 301.6231(a)(12)–1 Special rules relating to spouses.

(a) *Spouses holding a joint interest*—(1) *In general.* Except as otherwise provided in this section, spouses holding a joint interest in a partnership shall be treated as separate partners for purposes of subchapter C of chapter 63 of the Internal Revenue Code. Thus, both spouses may participate in administrative and judicial proceedings. The term *joint interest* includes tenancies in common, joint tenancies, tenancies by the entirety, and community property.

(2) *Identification of joint interest.* For purposes of this section, an interest shall be treated as a joint interest in a partnership only if both spouses are identified on the partnership return or are identified as partners entitled to notice as provided in § 301.6223(c)–1(b).

(3) *Failure to identify both spouses as partners.* If both spouses are not identified as set forth in paragraph (a)(2) of this section, then the partnership interest shall be treated as separately owned by the identified spouse.

(4) *Example.* The following example illustrates the application of paragraph (a)(3) of this section:

Example. Wife owns an interest in ABC Partnership and is identified on the Schedule K–1 of the partnership return. Wife and Husband live in a community property state. The partnership return of ABC partnership does not identify Husband, and Husband is not identified as a partner entitled to notice as provided in § 301.6223(c)–1(b). Pursuant to paragraph (a)(3) of this section, the partnership interest of Wife shall be treated as separately owned by Wife.

(b) *Notice and counting rules*—(1) *In general.* Except as provided in paragraph (b)(2) of this section, for purposes of applying section 6223 (relating to notice to partners of proceedings) and section 6231(a)(1)(B) (relating to the exception for small partnerships), spouses holding a joint interest in a partnership shall be treated as one partner. Except as provided in paragraph (b)(2) of this section, the Internal Revenue Service or the tax matters partner may send any required notice to either spouse.

(2) *Identified spouse entitled to notice.* For purposes of applying section 6223 (relating to notice to partners of proceeding) for a partnership taxable year, an individual who holds a joint interest in a partnership with a spouse who is entitled to notice under section 6223 shall be entitled to receive separate notice under section 6223 if such individual—

(i) Is identified as a partner on the partnership return for that taxable year; or

(ii) Is identified as a partner entitled to notice as provided in § 301.6223(c)–1(b).

(c) *Conversion of partnership items*—(1) *In general*. If spouses holding a joint interest in a partnership are treated as separate partners under this section, then section 6231(b) (relating to the conversion of partnership items) shall be applied separately to each spouse.

(2) *Example*. The following example illustrates the application of paragraph (c) of this section:

Example. Husband and Wife own a joint interest in XYZ Partnership. The partnership return identifies both spouses on the Schedule K–1. Under this section, each spouse is treated as a separate partner. If Wife enters into a settlement agreement, Wife's partnership items convert to nonpartnership items pursuant to section 6231(b)(1)(C). Accordingly, Wife no longer has the right to participate in the partnership proceeding subsequent to entering into the settlement agreement. Pursuant to paragraph (c) of this section, however, the partnership items of Husband are not affected by the conversion of the partnership items of Wife, and Husband continues to have the right to participate in the partnership proceeding. This result is the same regardless of whether the partnership items are reported on a joint return or on separate returns.

(d) *Cross-reference*. See § 301.6231(a)(2)–1(a) for special rules relating to spouses who file joint returns with individuals holding a separate interest in a partnership.

(e) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(a)(12)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50559, Oct. 4, 2001]

§ 301.6231(c)–1 Special rules for certain applications for tentative carryback and refund adjustments based on partnership losses, deductions, or credits.

(a) *Application subject to this section*. This section applies in the case of an application under section 6411 (relating to tentative carryback and refund adjustments) based on losses, deductions, or credits of a partnership if the Commissioner, or the Commissioner's delegate, determines, after review of the available relevant information, that it is highly likely that a person described in section 6700(a)(1) made, with respect to the partnership—

(1) A gross valuation overstatement; or

(2) A false or fraudulent statement with respect to the tax benefits to be secured by reason of holding an interest in the partnership that would be subject to a penalty under section 6700 (relating to penalty for promoting abusive tax shelters, etc.). This section applies only with respect to an application based upon the original reporting on the partner's income tax return of partnership losses, deductions, or credits. Thus, this section does not apply to a request for administrative adjustment under section 6227 through which a partner seeks to change the partner's reporting of partnership items on the partner's income tax return (or on an earlier request for administrative adjustment).

(b) *Determination of special enforcement area*. In the case of an application under section 6411 described in paragraph (a) of this section, precluding an assessment under section 6225 that would be permitted under section 6213(b)(3) (relating to assessments arising out of tentative carryback or refund adjustments) with respect to any amount applied, credited, or refunded as a result of the application may encourage the proliferation of abusive tax shelter partnerships and make the eventual collection of taxes due more difficult. Consequently, the Secretary hereby determines that such applications present special enforcement considerations within the meaning of section 6231(c)(1)(E).

(c) *Assessment permitted under section 6213(b)(3)*. Notwithstanding section 6225 (relating to restrictions on assessment with respect to partnership items), an assessment that would be permitted under section 6213(b)(3) with respect to any amount applied, credited, or refunded as a result of an application described in paragraph (a) of this section may be made before there is a final partnership-level determination with respect to the losses, deductions, or credits on which the application is

based. As provided in section 6213(b)(1), the Internal Revenue Service shall mail notice of any such assessment to the partner filing the application. The notice shall also inform the partner of the partner's limited right to elect to treat items as nonpartnership items as provided in paragraph (d) of this section.

(d) *Limited right to elect to treat items as nonpartnership items*—(1) *In general.* A partner to whom the Internal Revenue Service mails a notice of suspension of action on a refund claim under paragraph (c) of this section may elect in accordance with this paragraph (d) to have all partnership items for the partnership taxable year in which the losses, deductions, or credits at issue arose treated as nonpartnership items.

(2) *Time and place of making election.* The election shall be made by filing a statement with the Internal Revenue Service office that mailed the notice of suspension. The statement may be filed at any time—

(i) After the date which is one year after the date on which the partnership return was filed for the partnership taxable year in which the items at issue arose; and

(ii) Before the date on which the Internal Revenue Service mails to the tax matters partner the notice of final partnership administrative adjustment for the partnership taxable year in which the items at issue arose. For purposes of this paragraph (d)(2), a partnership return filed before the last day prescribed by law for its filing (determined without regard to extensions) shall be treated as filed on the last day.

(3) *Contents of the statement.* The statement shall—

(i) Be clearly identified as an election to have partnership items treated as nonpartnership items because of notification of an assessment under section 6213(b)(3);

(ii) Identify the partnership by name, address, and taxpayer identification number;

(iii) Identify the partner making the election by name, address, and taxpayer identification number;

(iv) Specify the partnership taxable year to which the election applies; and

(v) Be signed by the partner making the election.

(e) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(c)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50559, Oct. 4, 2001]

§ 301.6231(c)–2 Special rules for certain refund claims based on losses, deductions, or credits from abusive tax shelter partnerships.

(a) *Claims subject to this section.* This section applies in the case of a claim for credit or refund based on losses, deductions or credits of a partnership if the Commissioner, or the Commissioner's delegate, determines, after review of available relevant information, that it is highly likely that a person described in section 6700(a)(1) made, with respect to the partnership—

(1) A gross valuation overstatement; or

(2) A false or fraudulent statement with respect to the tax benefits to be secured by reason of holding an interest in the partnership that would be subject to a penalty under section 6700 (relating to penalty for promoting abusive tax shelters, etc.). This section applies only with respect to a claim that is based upon the partner's original reporting on the partner's income tax return of partnership losses, deductions, or credits. Thus, this section does not apply to a request for administrative adjustment under section 6227 through which a partner seeks to change the partner's reporting of partnership items on the partner's income tax return (or on an earlier request for administrative adjustment). For purposes of this section, any income tax return requesting a credit or refund shall be treated as a claim for a credit or refund.

(b) *Determination of special enforcement area.* Granting a claim for credit or refund described in paragraph (a) of this section may encourage the proliferation of abusive tax shelter partnerships and make the eventual collection of taxes more difficult. Consequently, the Secretary hereby determines that such claims present special enforcement considerations within the meaning of section 6231(c)(1)(E).

(c) *Action on refund claims suspended.* In the case of a claim described in paragraph (a) of this section, the Internal Revenue Service may mail to the partner filing the claim a notice stating that no action will be taken on the partner's claim until the completion of the partnership-level proceedings. The notice shall also inform the partner of the partner's limited right to elect to treat items as nonpartnership items as provided in paragraph (d) of this section.

(d) *Limited right to elect to treat items as nonpartnership items*—(1) *In general.* A partner to whom the Internal Revenue Service mails a notice of suspension under paragraph (c) of this section may elect in accordance with this paragraph (d) to have all partnership items for the partnership taxable year in which the losses, deductions, or credits at issue arose treated as nonpartnership items.

(2) *Time and place of making election.* The election shall be made by filing a statement with the Internal Revenue Service office that mailed the notice of suspension. The statement may be filed at any time—

(i) After the date which is one year after the date on which the partnership return was filed for the partnership taxable year in which the items at issue arose; and

(ii) Before the date on which the Internal Revenue Service mails to the tax matters partner the notice of final partnership administrative adjustment for the partnership taxable year in which the items at issue arose. For purposes of this paragraph (d)(2), a partnership return filed before the last day prescribed by law for its filing (determined without regard to extensions) shall be treated as filed on the last day.

(3) *Contents of the statement.* The statement shall—

(i) Be clearly identified as an election to have partnership items treated as nonpartnership items because of notification of suspension of action on a refund claim;

(ii) Identify the partnership by name, address, and taxpayer identification number;

(iii) Identify the partner making the election by name, address, and taxpayer identification number;

(iv) Specify the partnership taxable year to which the election applies; and

(v) Be signed by the partner making the election.

(e) *Effective date.* This section applies with respect to any claim described in paragraph (a) of this section that is filed on or after October 4, 2001. For claims filed prior to October 4, 2001, see § 301.6231(c)–2T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50560, Oct. 4, 2001]

§ 301.6231(c)–3 Limitation on applicability of §§ 301.6231(c)–4 through 301.6231(c)–8.

(a) *In general.* A provision of §§ 301.6231(c)–4 through 301.6231(c)–8 shall not apply with respect to partnership items arising in a partnership taxable year if, as of the date on which those items would otherwise begin to be treated as nonpartnership items under that provision—

(1) A notice of final partnership administrative adjustment with respect to those items has been mailed to the tax matters partner; and

(2) Either—

(i) The period during which an action with respect to that final partnership administrative adjustment may be brought under section 6226 has expired and no such action has been brought; or

(ii) The decision of the court in an action brought under section 6226 with respect to that final partnership administrative adjustment has become final.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(c)–3T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50560, Oct. 4, 2001]

§ 301.6231(c)–4 Termination and jeopardy assessment.

(a) *In general.* The treatment of items as partnership items with respect to a partner against whom an assessment of income tax under section 6851 (termination assessment) or section 6861 (jeopardy assessment) is made will

interfere with the effective and efficient enforcement of the internal revenue laws. Accordingly, partnership items of such a partner arising in any partnership taxable year ending with or within the partner's taxable year for which an assessment of income tax under section 6851 or 6861 is made shall be treated as nonpartnership items as of the moment before such assessment is made.

(b) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(c)–4T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50561, Oct. 4, 2001]

§ 301.6231(c)–5 Criminal investigations.

(a) *In general*. The treatment of items as partnership items with respect to a partner under criminal investigation for violation of the internal revenue laws relating to income tax will interfere with the effective and efficient enforcement of the internal revenue laws. Accordingly, partnership items of such a partner arising in any partnership taxable year ending on or before the last day of the latest taxable year of the partner to which the criminal investigation relates shall be treated as nonpartnership items as of the date on which the partner is notified that the partner is the subject of a criminal investigation and written notification is sent by the Internal Revenue Service that the partner's partnership items shall be treated as nonpartnership items. The partnership items of a partner who is notified that the partner is the subject of a criminal investigation shall not be treated as nonpartnership items under this section unless and until such partner is sent written notification from the Internal Revenue Service of such treatment.

(b) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(c)–5T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50561, Oct. 4, 2001]

§ 301.6231(c)–6 Indirect method of proof of income.

(a) *In general*. The treatment of items as partnership items with respect to a partner whose taxable income is determined by use of an indirect method of proof of income will interfere with the effective and efficient enforcement of the internal revenue laws. Accordingly, partnership items of such a partner arising in any partnership taxable year ending on or before the last day of the taxable year of the partner for which a deficiency notice based upon an indirect method of proof of income is mailed to the partner shall be treated as nonpartnership items as of the date on which that deficiency notice is mailed to the partner.

(b) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(c)–6T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50561, Oct. 4, 2001]

§ 301.6231(c)–7 Bankruptcy and receivership.

(a) *Bankruptcy*. The treatment of items as partnership items with respect to a partner named as a debtor in a bankruptcy proceeding will interfere with the effective and efficient enforcement of the internal revenue laws. Accordingly, partnership items of such a partner arising in any partnership taxable year ending on or before the last day of the latest taxable year of the partner with respect to which the United States could file a claim for income tax due in the bankruptcy proceeding shall be treated as nonpartnership items as of the date the petition naming the partner as debtor is filed in bankruptcy.

(b) *Receivership*. The treatment of items as partnership items with respect to a partner for whom a receiver has been appointed in any receivership proceeding before any court of the United States or of any State or the District of Columbia will interfere with the effective and efficient enforcement of the internal revenue laws. Accordingly, partnership items of such a partner arising in any partnership taxable year ending on or before the last day of

the latest taxable year of the partner with respect to which the United States could file a claim for income tax due in the receivership proceeding shall be treated as nonpartnership items as of the date a receiver is appointed in any receivership proceeding before any court of the United States or of any State or the District of Columbia.

(c) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(c)–7T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50561, Oct. 4, 2001]

§ 301.6231(c)–8 Prompt assessment.

(a) *In general*. The treatment of items as partnership items with respect to a partner on whose behalf a request for a prompt assessment of tax under section 6501(d) is filed will interfere with the effective and efficient enforcement of the internal revenue laws. Accordingly, partnership items of such a partner arising in any partnership taxable year ending with or within any taxable year of the partner with respect to which a request for a prompt assessment of tax is filed shall be treated as nonpartnership items as of the date that the request is filed.

(b) *Effective date*. This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(c)–8T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50561, Oct. 4, 2001]

§ 301.6231(d)–1 Time for determining profits interest of partners for purposes of sections 6223(b) and 6231(a)(11).

(a) *Partner owns interest at close of year*. For purposes of section 6223(b) (relating to special rules for partnerships with more than 100 partners) and section 6231(a)(11) (relating to 5-percent groups), except as otherwise provided in this section, the profits interest held by a partner, directly or indirectly through one or more pass-thru partners, in a partnership (the source partnership) to which subchapter C of chapter 63 of the Internal Revenue Code applies shall be determined at the close of the source partnership's taxable year.

(b) *Partner does not own interest at close of year*. If the entire direct and indirect interest of a partner in a source partnership is terminated by virtue of a disposition by such partner of such interest (or by virtue of the disposition of an interest held by one or more pass-thru partners through which the partner holds an interest), then the profits interest of such partner in the source partnership shall be measured as of the moment before the disposition causing such termination. The preceding sentence shall not apply with respect to a termination if subsequent to such termination and before the close of the source partnership's taxable year the partner acquires a direct or indirect interest in the source partnership.

(c) *Disposition of last remaining portion of interest is disposition of entire interest*. If a partner (or a pass-thru partner through which a partner holds an interest) makes several partial dispositions of an interest in a source partnership during a taxable year of the source partnership, paragraph (b) of this section will apply with respect to the disposition which causes a termination of the partner's entire direct and indirect interest in the source partnership.

(d) *No profits interest in certain cases*. If—

(1) The interest of a partner in a partnership is entirely disposed of before the close of the taxable year of the partnership; and

(2) No items of the partnership for that taxable year are required to be taken into account by the partner, then that partner has no profits interest in the partnership for that taxable year.

(e) *Examples*. The provisions of this section may be illustrated by the following examples. Assume in all examples that there have been no reacquisitions prior to the close of the source partnership's taxable year. The examples are as follows:

Example 1. B holds an interest in partnership P through T, a pass-thru partner. P uses a fiscal year ending June 30 as P's taxable year; B and T use the calendar year as the taxable year. As of the close of P's taxable year ending June 30, 2002, T holds an interest

in P and B holds an interest in P through T. The profits interest held by B in P through T for that year is determined as of June 30, 2002.

Example 2. Assume the same facts as in *Example 1,* except that B sold the entire interest that B held in P through T on November 5, 2001. The profits interest held by B in P through T for P's taxable year ending June 30, 2002, is determined as of the moment before the sale on November 5, 2001.

Example 3. C holds an interest in partnership P through T, a pass-thru partner. C, P, and T all use the calendar year as the taxable year. T disposes of T's interest in P on June 5, 2002. The profits interest held by C in P through T for 2002 is determined as of the moment before the disposition on June 5, 2002.

Example 4. Assume the same facts as in *Example 3,* except that C sold C's entire interest in T (and, therefore, C's entire interest that C held in P through T) on March 15, 2002. The profits interest held by C in P through T for 2002 is determined as of the moment before the sale on March 15, 2002.

Example 5. On January 1, 2002, D held a 2 percent profits interest in partnership P. Both D and P use the calendar year as the taxable year. On August 1, 2002, D transfers three-fourths of D's profits interest in P to E. On September 1, 2002, D sells D's remaining .5 percent profits interest in P to F. For purposes of sections 6223(b) and 6231(a)(11), D had a .5 percent profits interest in P for 2002.

Example 6. Assume the same facts as in *Example 5,* except that on January 1, 2002, D also held a 1 percent profits interest in partnership P through T, a pass-thru partner which also uses the calendar year as the taxable year. In addition to the sale to E on August 1, 2002, D sold a portion of D's interest in T on December 1, 2002, such that after the sale, D held a .2 percent profits interest in P through T. D made no other transfers of interests in either P or T. For purposes of sections 6223(b) and 6231(a)(11), D had a .7 percent profits interest in P for 2002.

(f) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(d)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50562, Oct. 4, 2001]

§ 301.6231(e)–1 Effect of a determination with respect to a nonpartnership item on the determination of a partnership item.

(a) *In general.* The determination of an item after it has become a nonpartnership item with respect to a partner is not controlling in the determination of that item with respect to other partners. Thus, for example, the determination by a court in a separate proceeding relating to a partner that a certain partnership expenditure was deductible does not bind either the Internal Revenue Service or the other partners in a later partnership or other proceeding.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(e)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50562, Oct. 4, 2001]

§ 301.6231(e)–2 Judicial decision not a bar to certain adjustments.

(a) *In general.* A court decision with respect to a partner's income tax liability attributable to nonpartnership items shall not be a bar to further proceedings with respect to that partner's income tax liability if that partner's partnership items become nonpartnership items after the appropriate time to include such nonpartnership items in the earlier court proceeding has passed. Thus, the Internal Revenue Service could issue a later deficiency notice for the same taxable year with respect to that partner or that partner could bring a refund suit with respect to those items that have become nonpartnership items.

(b) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(e)–2T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50562, Oct. 4, 2001]

§ 301.6231(f)–1 Disallowance of losses and credits in certain cases.

(a) *Application of section.* This section applies if—

(1) A partnership, whether domestic or foreign, that is required to file a return under section 6031 for a taxable year fails to file the return within the time prescribed; and

(2) At any time after the close of that taxable year, either—

(i) The tax matters partner of that partnership resides outside the United States; or

(ii) The books and records of that partnership are maintained outside the United States.

(b) *Computational adjustment permitted if return is not filed after mailing of notice.* Except as otherwise provided in paragraph (c) of this section, if—

(1) This section applies with respect to a partnership for a partnership taxable year;

(2) The Internal Revenue Service mails notice to a partner that the losses and credits arising from that partnership for that year will be disallowed to that partner unless the partnership files a return for that year within 60 days after the date on which the notice is mailed; and

(3) The partnership fails to file a return for that year within that 60-day period, the Internal Revenue Service may, without conducting a partnership-level proceeding, mail a notice of computational adjustment to that partner to reflect the disallowance of any loss (including a capital loss) or credit arising from that partnership for that year.

(c) *Restriction on notices under paragraph (b) of this section.* Neither the notice referred to in paragraph (b)(2) of this section nor the notice of computational adjustment referred to in paragraph (b) of this section may be mailed on a day on which—

(1) The tax matters partner of the partnership resides within the United States; and

(2) The books and records of the partnership are maintained within the United States. Thus, if this section applies with respect to a partnership for a taxable year solely because the tax matters partner of that partnership resided outside the United States for a period after the close of that taxable year and the tax matters partner later takes up residence within the United States, no notice may be mailed under paragraph (b) of this section while the tax matters partner resides within the United States.

(d) *No disallowance in certain circumstances.* If the person to whom the notice referred to in paragraph (b)(2) of this section is mailed establishes to the satisfaction of the Internal Revenue Service—

(1) That the losses and credits arising from the partnership for the year are proper; and

(2) That the partner has made a good faith effort to have the partnership file the required return; the Internal Revenue Service may allow the losses and credits in whole or in part.

(e) *Effective date.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6231(f)–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50563, Oct. 4, 2001]

§ 301.6232–1 Assessment, collection, and payment of imputed underpayment.

(a) *In general.* An imputed underpayment determined under subchapter C of chapter 63 of the Internal Revenue Code (Code) is assessed and collected in the same manner as if the imputed underpayment were a tax imposed by subtitle A of the Code for the adjustment year (as defined in § 301.6241–1(a)(1)) except that the deficiency procedures under subchapter B of chapter 63 of the Code do not apply to an assessment of an imputed underpayment. Accordingly, no notice under section 6212 is required for, and the restrictions under section 6213 do not apply to, the assessment of any imputed underpayment. See paragraph (c) of this section for limitations on assessment and paragraph (d) of this section for exceptions to restrictions on adjustments.

(b) *Payment of the imputed underpayment.* Upon receipt of notice and demand from the Internal Revenue Service (IRS), an imputed underpayment must be paid by the partnership at the place and time stated in the notice. In the case of an adjustment requested in an administrative adjustment request (AAR) under section 6227(b)(1) that is taken into account by the partnership under § 301.6227–2(b), payment of the imputed underpayment is due on the date the AAR is filed. The IRS may assess the amount of the imputed underpayment reflected on the AAR on the date the AAR is filed. For interest with respect to an imputed underpayment, see § 301.6233(a)–1(b).

(c) *Limitation on assessment*—(1) *In general.* Except as otherwise provided

by this section or subtitle F of the Code (except for subchapter B of chapter 63), no assessment of an imputed underpayment may be made (and no levy or proceeding in any court for the collection of an imputed underpayment may be made, begun, or prosecuted) before—

(i) The close of the 90th day after the day on which a notice of a final partnership adjustment (FPA) under section 6231(a)(3) was mailed; and

(ii) If a petition for readjustment is filed under section 6234 with respect to such FPA, the decision of the court has become final.

(2) *Specified similar amount*. The limitations under paragraph (c)(1) of this section do not apply in the case of a specified similar amount as defined in section 6232(f)(2).

(d) *Exceptions to restrictions on adjustments and assessments*—(1) *Adjustments treated as mathematical or clerical errors*—(i) *In general*. A notice to a partnership that, on account of a mathematical or clerical error appearing on the partnership return or as a result of a failure by a partnership-partner (as defined in § 301.6241–1(a)(7)) to comply with section 6222(a), the IRS has adjusted or will adjust partnership-related items (as defined in § 301.6241–1(a)(6)(ii)) to correct the error or to make the items consistent under section 6222(a) and has assessed or will assess any imputed underpayment (determined in accordance with § 301.6225–1) resulting from the adjustment is not considered an FPA under section 6231(a)(3). A petition for readjustment under section 6234 may not be filed with respect to such notice. The limitations under section 6232(b) and paragraph (c) of this section do not apply to an assessment under this paragraph (d)(1)(i). For the definition of mathematical or clerical error generally, see section 6213(g)(2). For application of mathematical or clerical error in the case of inconsistent treatment by a partner that fails to give notice, see § 301.6222–1(b).

(ii) *Request for abatement*—(A) *In general*. Except as provided in paragraph (d)(1)(ii)(B) of this section, a partnership that is mailed a notice described in paragraph (d)(1)(i) of this section may file with the IRS, within 60 days after the date of such notice, a request for abatement of any assessment of an imputed underpayment specified in such notice. Upon receipt of the request, the IRS must abate the assessment. Any subsequent assessment of an imputed underpayment with respect to which abatement was made is subject to the provisions of subchapter C of chapter 63 of the Code, including the limitations under paragraph (c) of this section.

(B) *Adjustments with respect to inconsistent treatment by a partnership-partner*. If an adjustment that is the subject of a notice described in paragraph (d)(1)(i) of this section is due to the failure of a partnership-partner to comply with section 6222(a), paragraph (d)(1)(ii)(A) of this section does not apply, and abatement of any assessment specified in such notice is not available. However, prior to assessment, a partnership-partner that has failed to comply with section 6222(a) may correct the inconsistency by filing an administrative adjustment request in accordance with section 6227 or filing an amended partnership return and furnishing amended statements, as appropriate.

(iii) *Partnerships that have an election under section 6221(b) in effect*. In the case of a partnership-partner that has an election under section 6221(b) in effect for the reviewed year (as defined in § 301.6241–1(a)(8)), any tax resulting from an adjustment due to the partnership-partner's failure to comply with section 6222(a) may be assessed with respect to the reviewed year partners (as defined in § 301.6241–1(a)(9)) of the partnership-partner (or indirect partners of the partnership-partner, as defined in § 301.6241–1(a)(4)). Such tax may be assessed in the same manner as if the tax were on account of a mathematical or clerical error appearing on the reviewed year partner's or indirect partner's return, except that the procedures under section 6213(b)(2) for requesting an abatement of such assessment do not apply.

(2) *Partnership may waive limitations*. A partnership may at any time by a signed notice in writing filed with the IRS waive the limitations under paragraph (c) of this section (whether or not an FPA under section 6231(a)(3) has

been mailed by the IRS at the time of the waiver).

(e) *Limit on amount of imputed underpayment where no proceeding is begun.* If no proceeding under section 6234 is begun with respect to an FPA under section 6231(a)(3) before the close of the 90th day after the day on which such FPA was mailed, the amount for which the partnership is liable under section 6225 with respect to such FPA cannot exceed the amount determined in such FPA.

(f) *Applicability date*—(1) *In general.* Except as provided in paragraph (f)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6562, Feb. 27, 2019]

§ 301.6233–1 Extension to entities filing partnership returns.

(a) *Entities filing a partnership return.* Except as provided in paragraph (c)(1) of this section, the provisions of subchapter C of chapter 63 of the Internal Revenue Code (subchapter C) and the regulations thereunder shall apply with respect to any taxable year of an entity for which such entity files a partnership return as well as to such entity's items for that taxable year and to any person holding an interest in such entity at any time during that taxable year. Any final partnership administrative adjustment or judicial determination resulting from a proceeding under subchapter C with respect to such taxable year may include a determination that the entity is not a partnership for such taxable year as well as determinations with respect to all items of the entity that would be partnership items, as defined in section 6231(a)(3) and the regulations thereunder, if such entity had been a partnership in such taxable year (including, for example, any amounts taxable to an entity determined to be an association taxable as a corporation). For example, a final determination under subchapter C that an entity that filed a partnership return is an association taxable as a corporation will serve as a basis for a computational adjustment reflecting the disallowance of any loss or credit claimed by a purported partner with respect to that entity.

(b) *Partnership return filed but no entity found to exist.* Paragraph (a) of this section shall apply where a partnership return is filed for a taxable year but it is determined that there is no entity for such taxable year. For purposes of applying paragraph (a) of this section, the partnership return shall be treated as if it were filed by an entity. However, any final partnership administrative adjustment or judicial determination resulting from a proceeding under subchapter C with respect to such taxable year may also include a determination that there is no entity for such taxable year.

(c) *Exceptions.* Paragraph (a) of this section shall not apply to—

(1) Entities for any taxable year in which such entity would be excepted from the provisions of subchapter C of the Internal Revenue Code under section 6231(a)(1)(B) and the regulations thereunder (relating to the exception for small partnerships) if such entity were a partnership for such taxable year; and

(2) Entities for any taxable year for which a partnership return was filed for the sole purpose of making the election described in section 761(a).

(d) *Effective dates.* This section is applicable to partnership taxable years beginning on or after October 4, 2001. For years beginning prior to October 4, 2001, see § 301.6233–1T contained in 26 CFR part 1, revised April 1, 2001.

[T.D. 8965, 66 FR 50563, Oct. 4, 2001]

§ 301.6233(a)–1 Interest and penalties determined from reviewed year.

(a) *Interest and penalties with respect to the reviewed year.* Except to the extent provided in section 6226(c), in the case of a partnership adjustment (as defined in § 301.6241–1(a)(6)) for a reviewed year (as defined in § 301.6241–1(a)(8)), a partnership is liable for—

(1) Interest computed in accordance with paragraph (b) of this section; and

(2) Any penalty, addition to tax, or additional amount as provided under paragraph (c) of this section.

(b) *Computation of interest with respect to partnership adjustments for the reviewed year*—(1) *Interest on an imputed underpayment*. The interest imposed on an imputed underpayment resulting from partnership adjustments for the reviewed year is the interest that would be imposed under chapter 67 of the Internal Revenue Code (Code) if the imputed underpayment were treated as an underpayment of tax for the reviewed year. The interest imposed on an imputed underpayment under paragraph (b) of this section begins on the day after the due date of the partnership return (without regard to extension) for the reviewed year and ends on the earlier of—

(i) The date prescribed for payment (as described in § 301.6232–1(b));

(ii) The due date of the partnership return (without regard to extension) for the adjustment year (as defined in § 301.6241–1(a)(1)); or

(iii) The date the imputed underpayment is fully paid.

(2) *Interest on penalties with respect to the reviewed year*. The interest imposed on any penalties, additions to tax, and additional amounts determined under paragraph (c) of this section is the interest that would be imposed under chapter 67 of the Code treating the partnership return for the reviewed year as the return of tax with respect to which such penalty, addition to tax, or additional amount is imposed.

(c) *Penalties with respect to partnership adjustments for the reviewed year*—(1) *In general*. In accordance with section 6221(a), the applicability of any penalties, additions to tax, and additional amounts that relate to an adjustment to any partnership-related item for the reviewed year is determined at the partnership level as if the partnership had been an individual subject to tax imposed by chapter 1 of the Code for the reviewed year, and the imputed underpayment were an actual underpayment of tax or understatement for such year. Nothing in this paragraph (c)(1) affects the application of any penalty, addition to tax, or additional amount that may apply to the partnership or to any reviewed year partner (as defined in § 301.6241–1(a)(9)) or to any indirect partner (as defined in § 301.6241–1(a)(4)) that is unrelated to an adjustment to a partnership-related item under subchapter C of chapter 63 of the Code. Except as provided in § 301.6225–2(d), a partner-level defense (as described in § 301.6226–3(d)(3)) may not be raised in a proceeding of the partnership.

(2) *Determination of the amount of accuracy-related penalty and fraud penalty*—(i) *In general*. The amount of any penalty under part II of subchapter A of chapter 68 of the Code (accuracy-related or fraud penalties) that relates to any partnership adjustment for the reviewed year is determined in accordance with this paragraph (c)(2). If in determining the imputed underpayment under § 301.6225–1 (or § 301.6225–2 in the case of modification), any grouping or subgrouping contains a negative adjustment (as defined in § 301.6225–1(d)(2)(ii)) and at least one positive adjustment (as defined in § 301.6225–1(d)(2)(iii)) that is subject to penalty, first apply the rules for allocating negative adjustments in paragraph (c)(2)(iii) of this section. Then, apply the rules in paragraph (c)(2)(ii) of this section to calculate penalty amounts. If there are no negative adjustments, do not apply the rules in paragraph (c)(2)(iii) of this section and instead apply only the rules in paragraph (c)(2)(ii) of this section. For all purposes under paragraph (c)(2) of this section, adjustments that do not result in the imputed underpayment (as described in § 301.6225–1(f)) and adjustments excluded from the determination of the imputed underpayment under § 301.6225–2(b)(2) are disregarded.

(ii) *Calculating the portion of an imputed underpayment subject to penalty and penalty amounts*. To determine the portion of an imputed underpayment subject to a penalty and the amount of a particular penalty, apply the following steps to all adjustments subject to penalty remaining after application of negative adjustments (as described in paragraph (c)(2)(iii) of this section) and to all adjustments subject to penalty contained in groupings or subgroupings that do not contain a negative adjustment.

(A) For purposes of applying this paragraph (c)(2)(ii)(A), disregard adjustments to credits or adjustments treated as adjustments to credits.

Total all adjustments to which a particular penalty was imposed and to which the highest rate of tax in effect for the reviewed year under section 1 or 11 was applied when calculating the imputed underpayment. See § 301.6225–1(b)(1)(iv).

(B) Multiply the total in paragraph (c)(2)(ii)(A) of this section by the highest rate of tax in effect for the reviewed year under section 1 or 11.

(C) If the imputed underpayment was modified in accordance with § 301.6225–2(b)(3), repeat the steps in paragraphs (c)(2)(ii)(A) and (B) of this section for every tax rate applied in calculating the imputed underpayment by substituting the applicable tax rate determined under § 301.6225–2(b)(3) for the highest rate of tax in effect for the reviewed year under section 1 or 11.

(D) Total all amounts determined after completing the steps in paragraphs (c)(2)(ii)(A) through (C) of this section.

(E) Adjust the amount calculated in paragraph (c)(2)(ii)(D) of this section by:

(*1*) Increasing by the net adjustments subject to the penalty in the credit grouping (as described in paragraph (c)(2)(iii)(C)(*1*) of this section) after application of paragraph (c)(2)(iii)(A) of this section; or

(*2*) Decreasing in accordance with the rules in paragraph (c)(2)(iii)(C)(*2*) of this section by the amount of negative adjustments in the credit grouping if, after application of paragraph (c)(2)(iii)(A) of this section, only negative adjustments in the credit grouping remain.

(*3*) The result after completing the calculation in paragraphs (c)(2)(ii)(E)(*1*) and (*2*) of this section is the portion of the imputed underpayment to which the particular penalty was imposed.

(F) Multiply the total calculated in paragraph (c)(2)(ii)(E) of this section by the penalty rate applicable to the particular penalty. This is the total penalty amount for adjustments to which the particular penalty was imposed.

(iii) *Allocating negative adjustments*—(A) *In general.* Negative adjustments offset positive adjustments within the same grouping or, if the negative adjustment is in a subgrouping, within that same subgrouping. For purposes of applying this paragraph (c)(2)(iii), all adjustments to credits and adjustments treated as adjustments to credits are treated as grouped in the credit grouping without regard to whether the adjustments were subgrouped for purposes of § 301.6225–1 (or § 301.6225–2 in the case of modification). Adjustments that do not result in the imputed underpayment are disregarded as provided in paragraph (c)(2) of this section. Negative adjustments are allocated in accordance with the following rules:

(*1*) Negative adjustments are first applied to offset positive adjustments to which no penalties have been imposed.

(*2*) Any amount of negative adjustments remaining after application of paragraph (c)(2)(iii)(A)(*1*) of this section are applied to offset adjustments to which a penalty has been imposed at the lowest penalty rate.

(*3*) Any amount of negative adjustments remaining after application of paragraph (c)(2)(iii)(A)(*2*) of this section are applied to offset adjustments to which a penalty has been imposed at the next highest rate in ascending order of rate until no amount of negative adjustments remain or no positive adjustments to which a penalty has been imposed remain.

(B) *Allocation of negative adjustment within a penalty rate.* The Internal Revenue Service (IRS) may provide additional guidance regarding the ordering or allocation of negative adjustments for purposes of paragraph (c)(2)(iii)(A) of this section where more than one penalty is imposed at the same penalty rate.

(C) *Adjustments remaining after allocation of negative adjustments*—(*1*) *In general.* For purposes of paragraph (c)(2)(ii) of this section, any positive adjustment to which a penalty has been imposed that has not been fully offset by a negative adjustment after application of paragraph (c)(2)(iii)(A) of this section is a *net adjustment subject to penalty* remaining after allocation of negative adjustments.

(*2*) *Additional rules regarding allocation of negative credit amounts.* If, after application of paragraph (c)(2)(iii)(A) of this section, an amount of negative adjustments remain in the credit grouping, the amount of remaining negative

adjustments may reduce the portion of the imputed underpayment that is subject to a penalty, but not below zero, in accordance with the following rules:

(*i*) The amount of remaining negative adjustments in the credit grouping are first applied to the portion of the imputed underpayment to which no penalty has been imposed, as calculated in accordance with paragraph (c)(2)(iii)(C)(*3*) of this section.

(*ii*) Any amount of negative adjustment in the credit grouping remaining after application of paragraph (c)(2)(iii)(C)(*2*)(*i*) of this section is applied to the portion of the imputed underpayment to which a penalty has been imposed at the lowest penalty rate as calculated in accordance with paragraph (c)(2)(ii) of this section.

(*iii*) Any amount of negative adjustments in the credit grouping remaining after application of paragraph (c)(2)(iii)(C)(*1*)(*ii*) of this section is applied to the portion of the imputed underpayment to which a penalty has been imposed at the next highest rate in ascending order of rate in accordance with paragraph (c)(2)(iii) of this section until no negative amount remains.

(*3*) *Calculating the portion of the imputed underpayment to which no penalty was imposed before the application of negative adjustments to credits.* To determine the portion of the imputed underpayment that is not subject to penalty for purposes of paragraph (c)(2)(iii)(C)(*2*)(*i*) of this section, apply the rules in paragraphs (c)(2)(ii)(A) through (E) of this section of this section but substitute adjustment to which no penalty was imposed for adjustments to which a particular penalty was imposed.

(iv) *Special rules*—(A) *Fraud penalties under section 6663.* If any portion of an imputed underpayment is determined by the IRS to be attributable to fraud, the entire imputed underpayment is treated as attributable to fraud. This paragraph (c)(2)(iv)(A) does not apply to any portion of the imputed underpayment the partnership establishes by a preponderance of the evidence is not attributable to fraud.

(B) *Substantial understatement penalty under section 6662(d)*—(*1*) *In general.* For purposes of application of the penalty under section 6662(d) (substantial understatement of income tax), the imputed underpayment is treated as an understatement under section 6662(d)(2). To determine whether an imputed underpayment treated as an understatement under this paragraph (c)(2)(iv)(B)(*1*) is a substantial understatement under section 6662(d)(1), the rules of section 6662(d)(1)(A) apply by treating the amount described in paragraph (c)(2)(iv)(B)(*2*) of this section as the tax required to be shown on the return for the taxable year under section 6662(d)(1)(A)(i).

(*2*) *Amount of tax required to be shown on the return.* The amount described in this paragraph (c)(2)(iv)(B)(*2*) is the tax that would result by treating the net income or loss of the partnership for the reviewed year, reflecting any partnership adjustments as finally determined, as taxable income described in section 1(c) (determined without regard to section 1(h)).

(C) *Reportable transaction understatement under section 6662A.* For purposes of application of the penalty under section 6662A (reportable transaction understatement penalty), the portion of an imputed underpayment attributable to an item described under section 6662A(b)(2) is treated as a reportable transaction understatement under section 6662A(b).

(D) *Reasonable cause and good faith.* For purposes of determining whether a partnership satisfies the reasonable cause and good faith exception under section 6664(c) or (d) with respect to a penalty under section 6662, section 6662A, or section 6663, the partnership is treated as the taxpayer. See § 1.6664–4 of this chapter. Accordingly, the facts and circumstances taken into account to determine whether the partnership has established reasonable cause and good faith are the facts and circumstances applicable to the partnership.

(v) *Examples.* The following examples illustrate the rules of paragraph (c) of this section. For purposes of these examples, each partnership has a calendar taxable year, and the highest tax rate in effect for all taxpayers is 40 percent for all relevant periods.

(A) *Example 1*. In an administrative proceeding with respect to Partnership's 2018 partnership return, the IRS makes a positive adjustment to ordinary income of $100. The $100 adjustment is due to negligence or disregard of rules or regulations under section 6662(c), and a 20-percent accuracy-related penalty applies under section 6662(a). The IRS also makes a positive adjustment to long-term capital gain of $300, but no penalty applies with respect to that adjustment. These are the only adjustments. The portion of the imputed underpayment to which the 20-percent penalty applies is $40 ($100 × 40 percent), and the penalty is $8 ($40 × 20 percent).

(B) *Example 2*. The facts are the same as in *Example 1* in paragraph (c)(2)(v)(A) of this section, except that the IRS makes a positive adjustment to credits of $10. The adjustment to credits is due to negligence or disregard of rules or regulations under section 6662(c), and a 20-percent accuracy-related penalty applies under section 6662(a). The portion of the imputed underpayment to which the 20-percent accuracy-related penalty applies is $50 (($100 × 40 percent) + $10), and the penalty is $10 ($50 × 20 percent).

(C) *Example 3*. The facts are the same as in *Example 2* in paragraph (c)(2)(v)(B) of this section, except that there is also a negative adjustment to ordinary income of $50 that was subgrouped under § 301.6225–1 with the $100 positive adjustment to ordinary. Because the $50 negative adjustment to ordinary income was subgrouped under § 301.6225–1 with the $100 positive adjustment to ordinary income, in determining the portion of the imputed underpayment subject to penalty, the $50 negative adjustment is applied to offset part of the $100 positive adjustment to ordinary income ($100 − $50 = $50). Accordingly, the portion of the imputed underpayment to which the 20-percent accuracy-related penalty applies is $30 (($50 × 40 percent) + $10), and the penalty is $6 ($30 × 20 percent).

(D) *Example 4*. The facts are the same as in *Example 3* in paragraph (c)(2)(v)(C) of this section, except that the $300 adjustment to long-term capital gain is due to a gross valuation misstatement. A 40-percent accuracy-related penalty under section 6662(a) and (h) applies to the portion of the imputed underpayment attributable to the gross valuation misstatement. The portion of the imputed underpayment to which the 20 percent accuracy-related penalty applies remains $30, and the 20-percent accuracy-related penalty remains $6. The portion of the imputed underpayment to which the 40-percent gross valuation misstatement penalty applies is $120 ($300 × 40 percent), and the gross valuation misstatement penalty is $48 ($120 × 40 percent). The total accuracy-related penalty under section 6662(a) is $54.

(E) *Example 5*. Partnership has four equal partners during its 2019 taxable year: Two partners are partnerships, A and B; one partner is a tax-exempt entity, C; and the fourth partner is an individual, D. In an administrative proceeding with respect to Partnership's 2019 taxable year, the IRS timely mails a notice of proposed partnership adjustment (NOPPA) to Partnership for its 2019 taxable year proposing a single partnership positive adjustment to Partnership's ordinary income by $400,000. The $400,000 positive adjustment is due to negligence or disregard of rules or regulations under section 6662(c). A 20-percent accuracy-related penalty under section 6662(a) and (c) applies to the portion of the imputed underpayment attributable to the negligence or disregard of the rules or regulations. In the NOPPA, the IRS determines an imputed underpayment of $160,000 ($400,000 × 40 percent) and that the 20-percent penalty applies to the entire imputed underpayment. The penalty is $32,000 ($160,000 × 20 percent). Partnership requests modification under § 301.6225–2(d)(3) (regarding tax-exempt partners) with respect to the amount of additional income allocated to C, and the IRS approves the modification request. As a result, Partnership's total netted partnership adjustment under § 301.6225–1(b)(2) is $300,000 ($400,000 less $100,000 allocable to C). The imputed underpayment is $120,000 (($300,000) × 40 percent), and the penalty is $24,000 ($120,000 × 20 percent).

(F) *Example 6*. The facts are the same as in *Example 5* in paragraph (c)(2)(v)(E) of this section, except in addition to the modification with respect to C's

tax-exempt status, Partnership requests a modification under § 301.6225–2(d)(2) (regarding amended returns) with respect to the $100,000 of additional income allocated to D. In accordance with the rules under § 301.6225–2(d)(2), D files an amended return for D's 2019 taxable year taking into account $100,000 of additional ordinary income. In addition, in accordance with § 301.6225–2(d)(2)(viii), D takes into account on D's return the 20-percent accuracy-related penalty for negligence or disregard of rules or regulations that relates to the ordinary income adjustment. D's tax attributes for other taxable years are not affected. The IRS approves the modification request. As a result, Partnership's total netted partnership adjustment under § 301.6225–1(b)(2) is $200,000 ($400,000 less $100,000 allocable to C and $100,000 taken into account by D). The imputed underpayment, after modification, is $80,000 ($200,000 × 40 percent), and the penalty is $16,000 ($80,000 × 20 percent).

(d) *Applicability date*—(1) *In general*. Except as provided in paragraph (d)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect*. This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6563, Feb. 27, 2019]

§ 301.6233(b)–1 Interest and penalties with respect to the adjustment year return.

(a) *Interest and penalties with respect to failure to pay imputed underpayment on the date prescribed*. In the case of any failure to pay an imputed underpayment on the date prescribed for such payment (as described in § 301.6232–1(b)), a partnership is liable for—

(1) Interest as determined under paragraph (c) of this section; and

(2) Any penalty, addition to tax, or additional amount as determined under paragraph (d) of this section.

(b) *Imputed underpayments to which this section applies*. This section applies to the portion of an imputed underpayment determined by the Internal Revenue Service (IRS) under section 6225(a)(1), or an imputed underpayment resulting from adjustments requested by a partnership in an administrative adjustment request under section 6227, that is not paid by the date prescribed for payment under § 301.6232–1(b).

(c) *Interest*. Interest determined under this paragraph (c) is the interest that would be imposed under chapter 67 of the Internal Revenue Code (Code) by treating any unpaid amount of the imputed underpayment as an underpayment of tax imposed for the adjustment year (as defined in § 301.6241–1(a)(1)). The interest under this paragraph (c) begins on the date prescribed for payment (as described in § 301.6232–1(b)) and ends on the date payment of the imputed underpayment is made.

(d) *Penalties*. If a partnership fails to pay an imputed underpayment by the date prescribed for payment (as described in § 301.6232–1(b)), section 6651(a)(2) applies to such failure, and any unpaid amount of the imputed underpayment is treated as if it were an underpayment of tax for purposes of part II of subchapter A of chapter 68 of the Code. For purposes of this section, the penalty under 6651(a)(2) is applied by treating the unpaid amount of the imputed underpayment as the unpaid amount shown as tax on a return required under subchapter A of chapter 61 of the Code.

(e) *Applicability date*—(1) *In general*. Except as provided in paragraph (e)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect*. This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6565, Feb. 27, 2019]

§ 301.6234–1 Judicial review of partnership adjustment.

(a) *In general*. Within 90 days after the date on which a notice of a final partnership adjustment (FPA) under

section 6231(a)(3) with respect to any partnership taxable year is mailed, a partnership may file a petition for a readjustment of any partnership adjustment (as defined in § 301.6241–1(a)(6)) reflected in the FPA for such taxable year (without regard to whether an election under section 6226 has been made with respect to any imputed underpayment (as defined in § 301.6241–1(a)(3)) reflected in such FPA) with—

(1) The Tax Court;

(2) The district court of the United States for the district in which the partnership's principal place of business is located; or

(3) The Court of Federal Claims.

(b) *Jurisdictional requirement for bringing action in district court or Court of Federal Claims.* A petition for readjustment under this section with respect to any partnership adjustment may be filed in a district court of the United States or the Court of Federal Claims only if the partnership filing the petition deposits with the Internal Revenue Service (IRS), on or before the date the petition is filed, the amount of (as of the date of the filing of the petition) any imputed underpayment (as shown on the FPA) and any penalties, additions to tax, and additional amounts with respect to such imputed underpayment. If there is more than one imputed underpayment reflected in the FPA, the partnership must deposit the amount of each imputed underpayment to which the petition for readjustment relates and the amount of any penalties, additions to tax, and additional amounts with respect to each such imputed underpayment.

(c) *Treatment of deposit as payment of tax.* Any amount deposited in accordance with paragraph (b) of this section, while deposited, will not be treated as a payment of tax for purposes of the Internal Revenue Code (Code). Notwithstanding the preceding sentence, an amount deposited in accordance with paragraph (b) of this section will be treated as a payment of tax for purposes of chapter 67 of the Code (relating to interest). Interest will be allowed and paid in accordance with section 6611.

(d) *Effect of decision dismissing action.* If an action brought under this section is dismissed other than by reason of a rescission of the FPA under section 6231(d) and § 301.6231–1(g), the decision of the court dismissing the action is considered as its decision that the FPA is correct.

(e) *Amount deposited may be applied against assessment.* If the limitations on assessment under section 6232(b) and § 301.6232–1(c) no longer apply with respect to an imputed underpayment for which a deposit under paragraph (b) of this section was made, the IRS may apply the amount deposited against any such imputed underpayment that is assessed. In the case of a deposit made under this section that is in an amount in excess of the amount assessed against the partnership (excess deposit), a partnership may obtain a return of the excess deposit by making a request in writing in accordance with forms, instructions, or other guidance prescribed by the IRS.

(f) *Applicability date*—(1) *In general.* Except as provided in paragraph (f)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6566, Feb. 27, 2019]

§ 301.6235–1 Period of limitations on making adjustments.

(a) *In general.* Except as provided in section 6235(c), section 905(c), or paragraph (d) of this section (regarding extensions), no partnership adjustment (as defined in § 301.6241–1(a)(6)) for any partnership taxable year may be made after the later of the date that is—

(1) 3 years after the latest of—

(i) The date on which the partnership return for such taxable year was filed;

(ii) The return due date (as defined in section 6241(3)) for the taxable year; or

(iii) The date on which the partnership filed an administrative adjustment request with respect to such taxable year under section 6227;

(2) The date described in paragraph (b) of this section with respect to a request for modification; or

(3) The date described in paragraph (c) of this section with respect to a notice of proposed partnership adjustment.

(b) *Modification requested under section 6225(c)*—(1) *In general.* For purposes of paragraph (a)(2) of this section, in the case of any request for modification of any imputed underpayment under section 6225(c), the date by which the Internal Revenue Service (IRS) may make a partnership adjustment is the date that is 270 days (plus the number of days of an extension of the period for requesting modification (as described in § 301.6225–2(c)(3)(i)) agreed to by the IRS under section 6225(c)(7) and § 301.6225–2(c)(3)(ii)) after the date on which everything required to be submitted to the IRS pursuant to section 6225(c) is so submitted.

(2) *Date on which everything is required to be submitted*—(i) *In general.* For purposes of paragraph (b)(1) of this section, the date on which everything required to be submitted to the IRS pursuant to section 6225(c) is so submitted is the earlier of—

(A) The date the period for requesting modification ends (including extensions) as described in § 301.6225–2(c)(3)(i) and (ii); or

(B) The date the period for requesting modification expires as a result of a waiver of the prohibition on mailing a notice of final partnership adjustment (FPA) under § 301.6231–1(b)(2). See § 301.6225–2(c)(3)(iii).

(ii) *Incomplete submission has no effect.* A determination by the IRS that the information submitted as part of a request for modification is incomplete has no effect on the applicability of paragraph (b)(2) of this section.

(c) *Notice of proposed partnership adjustment.* For purposes of paragraph (a)(3) of this section, the date by which the IRS may make a partnership adjustment is the date that is 330 days (plus the number of days of an extension of the modification period (as described in § 301.6225–2(c)(3)(i)) agreed to by the IRS under section 6225(c)(7) and § 301.6225–2(c)(3)(ii)) after the date the last notice of proposed partnership adjustment (NOPPA) under section 6231(a)(2) is mailed, regardless of whether modification is requested by the partnership under section 6225(c).

(d) *Extension by agreement.* The periods described in paragraphs (a), (b), and (c) of this section (including any extension of those periods pursuant to this paragraph (d)) may be extended by an agreement, in writing, entered into by the partnership and the IRS before the expiration of such period.

(e) *Examples.* The following examples illustrate the rules of this section. For purposes of these examples, each partnership has a calendar taxable year.

(1) *Example 1.* Partnership timely files its partnership return for the 2020 taxable year on March 1, 2021. On September 1, 2023, Partnership files an administrative adjustment request (AAR) under section 6227 with respect to its 2020 taxable year. As of September 1, 2023, the IRS has not initiated an administrative proceeding under subchapter C of chapter 63 of the Internal Revenue Code with respect to Partnership's 2020 taxable year. Therefore, as of September 1, 2023, under paragraph (a)(1) of this section, the period for making partnership adjustments with respect to Partnership's 2020 taxable year expires on September 1, 2026.

(2) *Example 2.* Partnership timely files its partnership return for the 2020 taxable year on the due date, March 15, 2021. On February 1, 2023, the IRS mails to Partnership and the partnership representative of Partnership (PR) a notice of administrative proceeding under section 6231(a)(1) with respect to Partnership's 2020 taxable year. Assuming no AAR has been filed with respect to Partnership's 2020 taxable year and the IRS has not yet mailed a NOPPA under section 6231(a)(2) with respect to Partnership's 2020 taxable year, the period for making partnership adjustments for Partnership's 2020 taxable year expires on the date determined under paragraph (a)(1) of this section, March 15, 2024.

(3) *Example 3.* The facts are the same as in *Example 2* in paragraph (e)(2) of this section, except that on June 1, 2023, pursuant to paragraph (d) of this section, PR signs an agreement extending the period for making partnership adjustments under section 6235(a) for Partnership's 2020 taxable year to December 31, 2025. In addition, on June 2, 2025, the IRS mails to Partnership and PR a timely NOPPA under section

6231(a)(2). Pursuant to § 301.6225–2(c)(3)(i), the period for requesting modification expires on February 27, 2026 (270 days after June 2, 2025, the date the NOPPA is mailed), but PR does not submit a request for modification on or before this date. Under paragraph (c) of this section, the date for purposes of paragraph (a)(3) of this section is April 28, 2026, the date that is 330 days from the mailing of the NOPPA. Because April 28, 2026 is later than the date under paragraph (a)(1) of this section (December 31, 2025, as extended under paragraph (d) of this section), and because no modification was requested, paragraph (a)(2) of this section is not applicable, April 28, 2026 is the date on which the period for making partnership adjustments expires under section 6235.

(4) *Example 4*. The facts are the same as in *Example 3* in paragraph (e)(3) of this section, except that PR notifies the IRS that Partnership will be requesting modification. On January 5, 2026, PR and the IRS agree to extend the period for requesting modification pursuant to section 6225(c)(7) and § 301.6225–2(c)(3)(ii) for 45 days—from February 27, 2026 to April 13, 2026. PR submits the request for modification to the IRS on April 13, 2026. Therefore, the date determined under paragraph (b) of this section is February 22, 2027, which is 270 days after the date everything required to be submitted was so submitted pursuant to paragraph (b)(2) of this section plus the additional 45-day extension of the period for requesting modification agreed to by PR and the IRS. Because February 22, 2027 is later than the date under paragraph (a)(1) of this section (December 31, 2025, as extended under paragraph (d) of this section) and the date under paragraph (a)(3) of this section (June 12, 2026, which is 330 days from the date the NOPPA was mailed plus the 45-day extension under section 6225(c)(7)), February 22, 2027 is the date on which the period for making partnership adjustments expires under section 6235.

(5) *Example 5*. The facts are the same as in *Example 4* in paragraph (e)(4) of this section, except that PR does not request an extension of the period for requesting modification. On February 1, 2026, PR submits a request for modification and PR, and the IRS agree in writing to waive the prohibition on mailing an FPA pursuant to § 301.6231–1(b)(2). Pursuant to § 301.6225–2(c)(3)(iii), the period for requesting modification expires as of February 1, 2026, rather than February 27, 2026. Accordingly, under paragraph (b)(2) of this section, the date on which everything required to be submitted pursuant to section 6225(c) is so submitted is February 1, 2026, and the 270-day period described in paragraph (b)(1) of this section begins to run on that date. Therefore, the date for purposes of paragraph (a)(2) of this section is October 29, 2026, which is 270 days after February 1, 2026, the date on which everything required to be submitted under section 6225(c) is so submitted. Because October 29, 2026 is later than the date under paragraph (a)(1) of this section (December 31, 2025, as extended under paragraph (d) of this section) and the date under paragraph (a)(3) of this section (April 28, 2026), October 29, 2026 is the date on which the period for making partnership adjustments expires under section 6235.

(6) *Example 6*. The facts are the same as in *Example 5* in paragraph (e)(5) of this section, except PR completes its submission of information to support a request for modification on July 1, 2025, but does not execute a waiver pursuant to § 301.6231–1(b)(2). Therefore, pursuant to paragraph (b)(2) of this section, February 27, 2026, the date the period requesting modification expires, is the date on which everything required to be submitted pursuant to section 6225(c) is so submitted. As a result, the 270-day period described in paragraph (b)(1) of this section expires on November 24, 2026. Because November 24, 2026 is later than the date under paragraph (a)(1) of this section (December 31, 2025, as extended under paragraph (d) of this section) and the date under paragraph (a)(3) of this section (April 28, 2026), November 24, 2026 is the date on which the period for making partnership adjustments expires under section 6235.

(f) *Applicability date*—(1) *In general*. Except as provided in paragraph (f)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6566, Feb. 27, 2019]

§ 301.6241–1 Definitions.

(a) *Definitions.* For purposes of subchapter C of chapter 63 of the Internal Revenue Code (Code) and the regulations in this part under sections 6221 through 6241 of the Code—

(1) *Adjustment year.* The term *adjustment year* means the partnership taxable year in which—

(i) In the case of an adjustment pursuant to the decision of a court in a proceeding brought under section 6234, such decision becomes final;

(ii) In the case of an administrative adjustment request (AAR) under section 6227, such AAR is filed; or

(iii) In any other case, a notice of final partnership adjustment is mailed under section 6231 or, if the partnership waives the restrictions under section 6232(b) (regarding limitations on assessment), the waiver is executed by the IRS.

(2) *Adjustment year partner.* The term *adjustment year partner* means any person who held an interest in a partnership at any time during the adjustment year.

(3) *Imputed underpayment.* Except as otherwise provided in this paragraph (a)(3), the term *imputed underpayment* means the amount determined in accordance with section 6225 of the Code, § 301.6225–1, and, if applicable, § 301.6225–2. In the case of an election under section 6226, the term *imputed underpayment* means the amount determined in accordance with § 301.6226–3(e)(4). In the case of an administrative adjustment request, the term *imputed underpayment* means the amount determined in accordance with § 301.6227–2 or § 301.6227–3(c).

(4) *Indirect partner.* The term *indirect partner* means any person who has an interest in a partnership through their interest in one or more pass-through partners (as defined in paragraph (a)(5) of this section) or through a wholly-owned entity disregarded as separate from its owner for Federal income tax purposes.

(5) *Pass-through partner.* The term *pass-through partner* means a pass-through entity that holds an interest in a partnership. A pass-through entity is a partnership required to file a return under section 6031(a), an S corporation, a trust (other than a wholly-owned trust disregarded as separate from its owner for Federal income tax purposes), and a decedent's estate. For purposes of this paragraph (a)(5), a pass-through entity is not a wholly-owned entity disregarded as separate from its owner for Federal income tax purposes.

(6) *Partnership adjustment*—(i) *In general.* The term *partnership adjustment* means any adjustment to a partnership-related item and includes any portion of an adjustment to a partnership-related item.

(ii) *Partnership-related item.* The term *partnership-related item* means—

(A) Any item or amount with respect to the partnership (as defined in paragraph (a)(6)(iii) of this section) which is relevant in determining the tax liability of any person under chapter 1 of the Code (chapter 1) (as defined in paragraph (a)(6)(iv) of this section);

(B) Any partner's distributive share of any such item or amount; and

(C) Any imputed underpayment determined under subchapter C of chapter 63 of the Code (subchapter C of chapter 63).

(iii) *Item or amount with respect to the partnership.* For purposes of paragraph (a)(6)(ii) of this section, an item or amount is with respect to the partnership if the item or amount is shown or reflected, or required to be shown or reflected, on a return of the partnership under section 6031 or the forms and instructions prescribed by the Internal Revenue Service (IRS) for the partnership's taxable year or is required to be maintained in the partnership's books or records. Items or amounts relating to any transaction with, liability of, or basis in the partnership are with respect to the partnership only if those items or amounts are described in the preceding sentence. An item or amount shown or required to be shown on a return of a person other than the partnership (or in that person's books and

records) that results after application of the Code to a partnership-related item based upon the person's specific facts and circumstances, including an incorrect application of the Code or taking into account erroneous facts and circumstances of the partner, is not an item or amount with respect to the partnership. For instance, a deduction shown on the return of a partner that results after applying a limitation under the Code (such as section 170(b)) at the partner level to a partnership-related item based on the partner's facts and circumstances is not an item or amount with respect to the partnership, even though the corresponding expense on the return of the partnership is an item or amount with respect to the partnership. Likewise, an amount on the return of a partner that is after either an incorrect application of a limitation under the Code or based on facts and circumstances of the partner that are erroneous, or both (such as an incorrect application of section 170(b)) at the partner level to a partnership-related item is not an item or amount with respect to the partnership. Similarly, a partner's adjusted basis is not with respect to the partnership because it is an item or amount shown in the partner's books or records that results after application of the Code to partnership-related items taking into account the facts and circumstances specific to that partner.

(iv) *Relevant in determining the tax liability of any person under chapter 1.* For purposes of this section, an item or amount with respect to the partnership is relevant in determining the tax liability of any person under chapter 1 without regard to the application of subchapter C of chapter 63 and without regard to whether such item or amount, or an adjustment to such item or amount, has an effect on the tax liability of any particular person under chapter 1.

(v) *Examples of partnership-related items.* The term partnership-related item includes—

(A) The character, timing, source, and amount of the partnership's income, gain, loss, deductions, and credits;

(B) The character, timing, and source of the partnership's activities;

(C) The character, timing, source, value, and amount of any contributions to, and distributions from, the partnership;

(D) The partnership's basis in its assets, the character and type of the assets, and the value (or revaluation such as under §1.704–1(b)(2)(iv)(*f*) or (*s*) of this chapter) of the assets;

(E) The amount and character of partnership liabilities and any changes to those liabilities from the preceding tax year;

(F) The category, timing, and amount of the partnership's creditable expenditures;

(G) Any item or amount resulting from a partnership termination;

(H) Any item or amount of the partnership resulting from an election under section 754;

(I) Partnership allocations and any special allocations; and

(J) The identity of a person as a partner in the partnership.

(vi) *Examples.* The following examples illustrate the provisions of this section. For purposes of these examples, Partnership is subject to the provisions of subchapter C of chapter 63 and all taxpayers are calendar year taxpayers.

(A) *Example 1.* Partnership enters into a transaction with A to purchase widgets for $100 in taxable year 2020. Partnership pays A $100 for the widgets. Any deduction or expense of the Partnership for the purchase of the widgets is an item or amount with respect to Partnership because it is shown on Partnership's return and is relevant to determining the liability of any person under chapter 1 pursuant to paragraphs (a)(6)(iii) and (iv) of this section. Therefore, the deduction or expense is a partnership-related item. However, the income to A resulting from the transaction with Partnership is not an item or amount with respect to Partnership under paragraph (a)(6)(iii) of this section because although the amount of income relates to a transaction with Partnership and Partnership is required to show a deduction or expense related to the payment to A, the amount of income to A is not shown or required to be shown on

Partnership's return. It is only required to be shown of the return of A, a person other than Partnership and requires determinations about A's reporting of the item. Accordingly, the amount of income shown, or required to be shown, by A on his return is not a partnership-related item.

(B) *Example 2.* B loans Partnership $100 in Partnership's 2020 taxable year. Partnership makes an interest payment to B in 2020 of $5. Partnership's liability relating to the loan by B to Partnership and the $5 of interest expense paid by the Partnership are items or amounts that are with respect to Partnership because they were shown on Partnership's return and are relevant in determining the liability of any person under chapter 1 pursuant to paragraphs (a)(6)(iii) and (iv) of this section. However, the treatment of the loan by B and the amount of interest income received by B are not items or amounts with respect to Partnership under paragraph (a)(6)(iii) of this section because although they relate to a transaction with or liability of Partnership and Partnership's treatment of the loan is shown on Partnership's return, B's treatment of the loan and the amount of interest income to B are shown, or required to be shown, on the return of B, a person other than Partnership and require determinations about B's reporting of the items. Accordingly, the loan as treated by B and the amount of interest income to B is not a partnership-related item.

(C) *Example 3.* On its partnership return for the 2020 tax year, Partnership reported $200 of non-cash charitable contributions related to its contribution of merchandise. Partnership has two equal partners for the 2020 tax year: C and D, both individuals. Partnership correctly reports $100 in non-cash charitable contributions to both C and D for the 2020 taxable year. On her return for the 2020 taxable year, C erroneously deducts the entire $100 of non-cash charitable contributions, even though C's deduction for charitable contributions would be limited by section 170(b)(1)(A) to $50 because of C's income. The $100 of non-cash charitable contribution reported by Partnership to C is a partnership-related item. However, the amount of the deduction taken by C on her return for 2020 and the amount of that deduction allowed after application of the limitation contained in section 170(b)(1)(A) to the $100 in non-cash charitable contributions reported by Partnership to C is not a partnership-related item under paragraph (a)(6)(ii) of this section because it is not with respect to the partnership.

(D) *Example 4.* The facts are the same as in *Example 3* in paragraph (a)(6)(vi)(C) of this section. On his return for the 2020 taxable year, D also deducts the entire $100 in charitable contributions but treats the charitable contributions as if they were cash contributions, instead of non-cash contributions. D does not file a notice of inconsistent treatment under section 6222. If D had treated the $100 in charitable contributions as non-cash contributions, D's deduction for the charitable contributions from Partnership would have be limited by section 170(b)(1)(A) due to D's income. D's deduction of the $100 in charitable contributions is an item or amount shown on D's return, derives from the charitable contributions reported by the partnership, and is subject to the application of the limitation under section 170(b)(1)(A). Therefore, D's deduction is not an item or amount with respect to the partnership. The charitable contribution reported by the partnership and its character are items or amounts with respect to the partnership pursuant to paragraph (a)(6)(iii) of this section. An adjustment to the character of the contributions is a partnership adjustment. Because D's treatment of the charitable contributions is inconsistent with the treatment of that item by Partnership on its partnership return, the IRS may make that partnership adjustment in a proceeding with respect to D and determine and assess any underpayment that results from conforming D's treatment to the treatment of the contributions by Partnership and applying the limit in section 170(b)(1)(A). See § 301.6222–1(b).

(7) *Partnership-partner.* The term *partnership-partner* means a partnership that holds an interest in another partnership.

(8) *Reviewed year.* The term *reviewed year* means the partnership taxable

year to which a partnership adjustment relates.

(9) *Reviewed year partner*. The term *reviewed year partner* means any person who held an interest in a partnership at any time during the reviewed year.

(10) *Tax attribute*. A tax attribute is anything that can affect the amount or timing of a partnership-related item (as defined in paragraph (a)(6)(ii) of this section) or that can affect the amount of tax due in any taxable year. Examples of tax attributes include, but are not limited to, basis and holding period, as well as the character of items of income, gain, loss, deduction, or credit and carryovers and carrybacks of such items.

(b) *Applicability date*—(1) *In general*. Except as provided in paragraph (b)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect*. This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6567, Feb. 27, 2019]

§ 301.6241–2 Bankruptcy of the partnership.

(a) *Coordination between Title 11 and proceedings under subchapter C of chapter 63*—(1) *In general*. If a partnership is a debtor in a case under Title 11 of the United States Code (Title 11 case), the running of any period of limitations under section 6235 with respect to the time for making a partnership adjustment (as defined in § 301.6241–1(a)(6)) and under sections 6501 and 6502 with respect to the assessment or collection of any imputed underpayment (as defined in § 301.6241–1(a)(3)) determined under subchapter C of chapter 63 of the Internal Revenue Code (subchapter C of chapter 63) is suspended during the period the Internal Revenue Service (IRS) is prohibited by reason of the Title 11 case from making the adjustment, assessment, or collection until—

(i) 60 days after the suspension ends, for adjustments or assessments; and

(ii) 6 months after the suspension ends, for collection.

(2) *Interaction with section 6232(b)*. The filing of a proof of claim or request for payment (or the taking of any other action) in a Title 11 case is not be treated as an action prohibited by section 6232(b) (regarding limitations on assessment).

(3) *Suspension of the time for judicial review*. In a Title 11 case, the running of the period specified in section 6234 (regarding judicial review of partnership adjustments) is suspended during the period during which the partnership is prohibited by reason of the Title 11 case from filing a petition under section 6234, and for 60 days thereafter.

(4) *Actions not prohibited*. The filing of a petition under Title 11 does not prohibit the following actions:

(i) An administrative proceeding with respect to a partnership under subchapter C of chapter 63;

(ii) The mailing of any notice with respect to a proceeding with respect to a partnership under subchapter C of chapter 63, including:

(A) A notice of administrative proceeding;

(B) A notice of proposed partnership adjustment; and

(C) A notice of final partnership adjustment;

(iii) A demand for tax returns;

(iv) The assessment of any tax, including the assessment of any imputed underpayment with respect to a partnership; and

(v) The issuance of notice and demand for payment of an assessment under subchapter C of chapter 63 (but see section 362(b)(9)(D) of Title 11 of the United States Code regarding the timing of when a tax lien takes effect by reason of such assessment).

(b) *Applicability date*—(1) *In general*. Except as provided in paragraph (b)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect*. This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6569, Feb. 27, 2019]

§ 301.6241–3 Treatment where a partnership ceases to exist.

(a) *Former partners take adjustments into account*—(1) *In general.* If the Internal Revenue Service (IRS) determines that any partnership (including a partnership-partner as defined in § 301.6241–1(a)(7)) ceases to exist (as defined in paragraph (b) of this section) before any partnership adjustment (as defined in § 301.6241–1(a)(6)) under subchapter C of chapter 63 of the Internal Revenue Code (subchapter C of chapter 63) takes effect (as described in paragraph (c) of this section), the partnership adjustment is taken into account by the former partners (as described in paragraph (d) of this section) of the partnership in accordance with paragraph (e) of this section.

(2) *Partnership no longer liable for any unpaid amounts resulting from a partnership adjustment.* A partnership that ceases to exist is no longer liable for any unpaid amounts resulting from a partnership adjustment required to be taken into account by a former partner under this section.

(3) *Application of this section to partnership-partners.* This section applies to a partnership-partner and its former partners, regardless of whether the partnership-partner has an election under section 6221(b) in effect for any relevant partnership taxable year.

(b) *Cease to exist defined*—(1) *In general.* If a partnership ceases to exist, the IRS will notify the partnership and the former partners (as defined in paragraph (d) of this section), in writing, within 30 days of such determination using the last known address of the partnership and the former partners. A failure by the IRS to send a notification under this paragraph (b)(1) to a former partner of the partnership does not invalidate the determination by the IRS that the partnership ceases to exist. If an audited partnership (as defined in § 301.6226–3(e)(1)) ceases to exist, the IRS will also notify the partnership representative for the reviewed year. For purposes of this section, a partnership ceases to exist if the IRS makes a determination that a partnership ceases to exist because:

(i) The partnership terminates within the meaning of section 708(b)(1); or

(ii) The partnership does not have the ability to pay, in full, any amount due under the provisions of subchapter C of chapter 63 for which the partnership is or becomes liable. For purposes of this section, a partnership does not have the ability to pay if the IRS determines that the amount due with respect to the partnership is not collectible based on the information the IRS has at the time of such determination.

(2) *Exceptions.* For purposes of this section, the IRS will not determine that a partnership ceases to exist solely because the partnership has—

(i) A valid election under section 6226 in effect with respect to any imputed underpayment (as defined in § 301.6241–1(a)(3));

(ii) Received a statement under section 6226(a)(2) (or § 301.6226–3(e)) and has furnished statements to its partners in accordance with § 301.6226–3(e)(3); or

(iii) Not paid any amount required to be paid under subchapter C of chapter 63.

(3) *Year in which a partnership ceases to exist.* If a partnership terminates under section 708(b)(1), the partnership ceases to exist on the last day of the partnership's final taxable year. If a partnership does not have the ability to pay, the partnership ceases to exist on the date that the IRS makes a determination under paragraph (b)(1) of this section that the partnership ceases to exist.

(4) *Limitation on IRS determination that partnership ceases to exist.* In no event may the IRS determine that a partnership ceases to exist with respect to a partnership adjustment after the expiration of the period of limitations on collection applicable to the assessment made against the partnership for the amount due resulting from such adjustment.

(c) *Partnership adjustment takes effect*—(1) *Full payment of amounts resulting from a partnership adjustment.* For purposes of this section, a partnership adjustment under subchapter C of chapter 63 takes effect when there is full payment of amounts resulting from a partnership adjustment. For purposes of this section, *full payment of amounts resulting from a partnership adjustment* means all amounts due under subchapter C of chapter 63 resulting

from the partnership adjustment are fully paid by the partnership.

(2) *Partial payment of amount due by the partnership.* If a partnership pays part, but not all, of any amount due resulting from a partnership adjustment before the partnership ceases to exist, the former partners (as defined in paragraph (d) of this section) of the partnership that has ceased to exist are not required to take into account any partnership adjustment to the extent amounts have been paid by the partnership with respect to such adjustment. The notification that the IRS has determined that the partnership has ceased to exist will include information regarding the portion of the partnership adjustments with respect to which appropriate amounts have not already been paid by the partnership and therefore must be taken into account by the former partners (described in paragraph (d) of this section) in accordance with paragraph (e) of this section.

(d) *Former partners*—(1) *Adjustment year partners*—(i) *In general.* Except as described in paragraphs (d)(1)(ii) and (d)(2) of this section, the term *former partners* means, for a partnership that has ceased to exist, the partners of the partnership during the adjustment year (as defined in § 301.6241–1(a)(1)) that corresponds to the reviewed year for which the adjustments were made.

(ii) *Partnership-partner ceases to exist.* If the adjustment year partner is a partnership-partner that the IRS has determined ceased to exist, the partners of such partnership-partner during the partnership-partner's taxable year that includes the end of the adjustment year of the partnership that is subject to a proceeding under subchapter C of chapter 63 are the former partners for purposes of this section. If the partnership-partner ceased to exist before the partnership-partner's taxable year that includes the end of the adjustment year of the partnership that is subject to a proceeding under subchapter C of chapter 63, the former partners for purposes of this section are the partners of such partnership-partner during the last partnership taxable year for which the a partnership return of the partnership-partner under section 6031 is filed.

(2) *No adjustment year partners.* If there are no adjustment year partners of a partnership that ceases to exist, the term *former partners* means the partners of the partnership during the last taxable year for which a partnership return under section 6031 was filed with respect to such partnership. For instance, if a partnership terminates under section 708(b)(1) before the adjustment year and files a final partnership return for the partnership taxable year of such partnership, the former partners for purposes of this section are the partners of the partnership during the partnership taxable year for which a final partnership return is filed.

(e) *Taking adjustments into account*—(1) *In general.* For purposes of paragraph (a) of this section, a former partner of a partnership that ceases to exist takes a partnership adjustment into account as if the partnership had made an election under section 6226 (regarding the alternative to payment of the imputed underpayment). A former partner must take into account the former partner's share of a partnership adjustment as set forth in the statement described in paragraph (e)(2) of this section in accordance with § 301.6226–3.

(2) *Statements furnished to former partners.* If a partnership is notified by the IRS that the partnership has ceased to exist as described in paragraph (b)(1) of this section, the partnership must furnish to each former partner a statement reflecting such former partner's share of the partnership adjustment required to be taken into account under this section and file a copy of such statement with the IRS in accordance with the rules under § 301.6226–2, except that—

(i) The adjustments are taken into account by the applicable former partner (as described in paragraph (d) of this section), rather than the reviewed year partners (as defined in § 301.6241–1(a)(9)); and

(ii) The partnership must furnish statements to the former partners and file the statements with the IRS no later than 30 days after the date of the notification to the partnership that the IRS has determined that the partnership has ceased to exist.

(3) *Authority to issue statements.* If any statements required by paragraph (e) of this section are not timely furnished to a former partner and filed with the IRS in accordance with paragraph (e)(2)(ii) of this section, the IRS may notify the former partner in writing of such partner's share of the partnership adjustments based on the information reasonably available to the IRS at the time such notification is provided. For purposes of paragraph (e) of this section, a notification to a former partner under this paragraph (e)(3) is treated the same as a statement required to be furnished and filed under paragraph (e)(2) of this section.

(f) *Examples.* The following examples illustrate the provisions of this section. For purposes of the examples, all partnerships and partners are calendar year taxpayers and each partnership is subject to the provisions of subchapter C of chapter 63 of the Code (unless otherwise stated).

(1) *Example 1.* The IRS initiates a proceeding under subchapter C of chapter 63 with respect to the 2020 partnership taxable year of Partnership. During 2023, in accordance with section 6235(b), Partnership extends the period of limitations on adjustments under section 6235(a) until December 31, 2025. On February 1, 2025, the IRS mails Partnership a notice of final partnership adjustment (FPA) that determines partnership adjustments that result in a single imputed underpayment. Partnership does not timely file a petition under section 6234 and does not make a valid election under section 6226. On June 2, 2025, the IRS mails Partnership notice and demand for payment of the amount due resulting from the adjustments determined in the FPA. Partnership fails to make a payment. On September 1, 2029, the IRS determines Partnership ceases to exist for purposes of this section because the Partnership does not have the ability to pay under paragraph (b)(1)(ii) of this section. Under § 301.6241–1(a)(1), the adjustment year is 2025 and A and B, both individuals, are the only adjustment year partners of Partnership during 2025. Accordingly, under paragraph (d)(1) of this section, A and B are former partners. Therefore, A and B are required to take their share of the partnership adjustments determined in the FPA into account under paragraph (e) of this section.

(2) *Example 2.* The IRS initiates a proceeding under subchapter C of chapter 63 with respect to the 2020 partnership taxable year of P, a partnership. G, a partnership that has an election under section 6221(b) in effect for the 2020 taxable year, is a partner of P during 2020 and for every year thereafter. On February 3, 2025, the IRS mails P an FPA that determines partnership adjustments that result in a single imputed underpayment. P does not timely file a petition under section 6234 and does not make a timely election under section 6226. On May 6, 2025, the IRS mails P notice and demand for payment of the amount due resulting from the adjustments determined in the FPA. P does not make a payment. On September 1, 2025, the IRS determines P ceases to exist for purposes of this section because P does not have the ability to pay under paragraph (b)(1)(ii) of this section. G terminated under section 708(b)(1) on December 31, 2024. On September 1, 2025, the IRS determines that G ceased to exist in 2024 for purposes of this section in accordance with paragraph (b)(1)(i) of this section. J and K, individuals, were the only partners of G during 2024. Therefore, under paragraph (d)(1)(ii) of this section, J and K, the partners of G during G's 2024 partnership taxable year, are the former partners of G for purposes of this section. Therefore, J and K are required to take into account their share of the adjustments contained in the statement furnished by P to G in accordance with paragraph (e) of this section.

(g) *Applicability date*—(1) *In general.* Except as provided in paragraph (g)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6569, Feb. 27, 2019]

§ 301.6241–4 Payments nondeductible.

(a) *Payments nondeductible.* No deduction is allowed under subtitle A of the Internal Revenue Code (Code) for any payment required to be made by a partnership under subchapter C of chapter 63 of the Code (subchapter C of chapter 63). Payment by a partnership of any amount required to be paid under subchapter C of chapter 63, including any imputed underpayment (as defined in § 301.6241–1(a)(3)), or interest, penalties, additions to tax, or additional amounts with respect to an imputed underpayment, is treated as an expenditure described in section 705(a)(2)(B).

(b) *Applicability date*—(1) *In general.* Except as provided in paragraph (b)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6571, Feb. 27, 2019]

§ 301.6241–5 Extension to entities filing partnership returns.

(a) *Entities filing a partnership return.* Except as described in paragraph (c) of this section, an entity that files a partnership return for any taxable year is subject to the provisions of subchapter C of chapter 63 of the Internal Revenue Code (subchapter C of chapter 63) with respect to such taxable year even if it is determined that the entity filing the partnership return was not a partnership for such taxable year. Accordingly, any partnership-related item (as defined in § 301.6241–1(a)(6)(ii)) and any person holding an interest in the entity, either directly or indirectly, at any time during that taxable year are subject to the provisions of subchapter C of chapter 63 for such taxable year.

(b) *Partnership return filed but no entity found to exist.* Paragraph (a) of this section also applies where a partnership return is filed for a taxable year, but the IRS determines that no entity existed at all for such taxable year. For purposes of applying paragraph (a) of this section, the partnership return is treated as if it were filed by an entity.

(c) *Exceptions.* Paragraph (a) of this section does not apply to—

(1) Any taxable year for which an election under section 6221(b) is in effect, treating the return as if it were filed by a partnership for the taxable year to which the election relates; and

(2) Any taxable year for which a valid section 761(a) election is made (regarding election out of subchapter K of chapter 1 of the Internal Revenue Code for certain unincorporated organizations).

(d) *Applicability date*—(1) *In general.* Except as provided in paragraph (d)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6571, Feb. 27, 2019]

§ 301.6241–6 Coordination with other chapters of the Internal Revenue Code.

(a) *Coordination with other chapters*—(1) *In general.* Subchapter C of chapter 63 of the Internal Revenue Code (subchapter C of chapter 63) only applies to tax imposed by chapter 1 of the Internal Revenue Code (Code) and not to any tax imposed (including any amount required to be deducted or withheld) under any chapter of the Code other than chapter 1 of the Code (chapter 1), including chapter 2, 2A, 3, or 4 of the Code. Accordingly, for purposes of determining taxes imposed under chapters of the Code other than chapter 1, the Internal Revenue Service (IRS) may make an adjustment to any partnership-related item (as defined in § 301.6241–1(a)(6)(ii)) in a proceeding that is not under subchapter C of chapter 63. To the extent an adjustment or determination is made under subchapter C of chapter 63 for purposes of chapter 1 and is relevant in determining tax imposed under a chapter of the Code other than chapter 1, such adjustment or determination must be

taken into account for purposes of determining such tax.

(2) *Examples*. The following examples illustrate the rules of paragraph (a) of this section as applied to cases in which a partnership has a withholding obligation under chapter 3 or chapter 4 with respect to income that the partnership earns. For purposes of these examples, each partnership is subject to the provisions of subchapter C of chapter 63 of the Code, and the partnership and its partners are calendar year taxpayers.

(i) *Example 1*. Partnership, a partnership created or organized in the United States, has two equal partners, A and B. A is a nonresident alien who is a resident of Country A, and B is a U.S. citizen. In 2018, Partnership earned $200 of U.S. source royalty income. Partnership was required to withhold 30 percent of the gross amount of the royalty income allocable to A unless Partnership had documentation that it could rely on to establish that A was entitled to a reduced rate of withholding. See §§ 1.1441–1(b)(1) and 1.1441–5(b)(2)(i)(A) of this chapter. Partnership withheld $15 from the $100 of royalty income allocable to A based on its incorrect belief that A is entitled to a reduced rate of withholding under the U.S.-Country A Income Tax Treaty. In 2020, the IRS determines in an examination of Partnership's Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, that Partnership should have withheld $30 instead of $15 on the $100 of royalty income allocable to A because Partnership failed to obtain documentation from A establishing a valid treaty claim for a reduced rate of withholding. The tax imposed on Partnership for its failure to withhold on that income, however, is not a tax imposed by chapter 1. Rather, it is a tax imposed by chapter 3, which is not a partnership-related item under § 301.6241–1(a)(6)(ii). Therefore, in accordance with section 6221(a), the adjustment to increase Partnership's withholding tax liability by $15 is not determined under subchapter C of chapter 63, and instead must be determined as part of the Form 1042 examination.

(ii) *Example 2*. Partnership, a partnership created or organized in the United States, has two equal partners, A and B. A is a nonresident alien who is a resident of Country A, and B is a U.S. citizen. In 2018, Partnership earned $100 of U.S. source dividend income. Partnership was required to report the dividend income on its 2018 Form 1065, U.S. Return of Partnership Income, and withhold 30 percent of the gross amount of the dividend income allocable to A unless Partnership had documentation that it could rely on to establish that A was entitled to a reduced rate of withholding. See §§ 1.1441–1(b)(1) and 1.1441–5(b)(2)(i)(A) of this chapter. In 2020, in an examination of Partnership's Form 1042, the IRS determines that Partnership earned but failed to report the $100 of U.S. source dividend income in 2018. The adjustment to increase Partnership's dividend income by $100 is an adjustment to a partnership-related item. The tax imposed on Partnership for its failure to withhold on that income, however, is not a tax imposed by chapter 1; rather, it is a tax imposed by chapter 3. Pursuant to § 301.6221(a)–1(a), only chapter 1 tax attributable to adjustments to partnership-related items is assessed under subchapter C of chapter 63. Therefore, because the tax imposed with respect to the adjustment is a chapter 3 tax, under paragraph (a)(1) of this section, the IRS may determine, assess, and collect chapter 3 tax attributable to an adjustment to a partnership-related item without conducting a proceeding under subchapter C of chapter 63. Accordingly, the IRS may determine the chapter 3 tax in the examination of Partnership's Form 1042 by adjusting Partnership's withholding tax liability by an additional $15 for failing to withhold on the $50 of dividend income allocable to A. However, the IRS must initiate an administrative proceeding under subchapter C of chapter 63 to make any adjustments for purposes of chapter 1 attributable to the income. If the IRS subsequently initiates an administrative proceeding under subchapter C of chapter 63 and makes an adjustment to the same item of income, the portion of the dividend income allocable to A will be disregarded in the calculation of the total netted partnership adjustment to the extent that the chapter 3 tax has been

collected with respect to such income. See § 301.6225–1(b)(3).

(b) *Coordination with chapters 3 and 4*—(1) *In general.* In the case of any tax imposed under chapter 3 or chapter 4 that is determined with respect to a partnership adjustment determined under subchapter C of chapter 63 for purposes of chapter 1, such tax is determined with respect to the reviewed year (as defined in § 301.6241–1(a)(8)) and is imposed (or required to be deducted and withheld) with respect to the adjustment year (as defined in § 301.6241–1(a)(1)).

(2) *Definitions.* The following definitions apply for purposes of this paragraph (b) and the regulations under subchapter C of chapter 63.

(i) *Amount subject to withholding.* The term *amount subject to withholding* means an amount subject to withholding (as defined in § 1.1441–2(a) of this chapter), a withholdable payment (as defined in § 1.1473–1(a) of this chapter), or the allocable share of effectively connected taxable income (as computed under § 1.1446–2(b) of this chapter).

(ii) *Chapter 3.* The term *chapter 3* means sections 1441 through 1464 of the Code, but does not include section 1443(b) of the Code.

(iii) *Chapter 4.* The term *chapter 4* means sections 1471 through 1474 of the Code.

(3) *Partnership pays an imputed underpayment.* If a partnership pays an imputed underpayment (as determined under § 301.6225–1(b)) and the total netted partnership adjustment (as calculated under § 301.6225–1(b)(2)) includes a partnership adjustment to an amount subject to withholding, the partnership is treated as having paid (at the time that the imputed underpayment is paid) the amount required to be withheld with respect to that partnership adjustment under chapter 3 or chapter 4 for purposes of applying §§ 1.1463–1 and 1.1474–4 of this chapter. See § 301.6225–1(b)(3) for the coordination rule that applies for calculating an imputed underpayment when an adjustment is made to an amount subject to withholding for which tax has been collected under chapter 3 or chapter 4.

(4) *Partnership makes an election under section 6226 with respect to an imputed underpayment*—(i) *In general.* A partnership that makes an election under § 301.6226–1 with respect to an imputed underpayment must pay the amount of tax required to be withheld under chapter 3 or chapter 4 on the amount of any adjustment set forth in the statement described in § 301.6226–2(a) to the extent that it is an adjustment to an amount subject to withholding, and the IRS has not already collected tax attributable to the adjustment under chapter 3 or chapter 4. The partnership must pay the amount due under this paragraph (b)(4)(i) on or before the due date of the partnership return for the adjustment year (without regard to extension), and must make the payment in the manner prescribed by the IRS in forms, instructions, and other guidance. For the rules governing partners subject to the taxes imposed by chapters 3 and 4 when the partner receives a statement under § 301.6226–2, see § 301.6226–3(f). See § 301.6226–3(e)(3)(v) for the application of the rules of this paragraph (b)(4) to pass-through partners (as defined in § 301.6241–1(a)(5)).

(ii) *Reduced rate of tax.* A partnership may reduce the amount of tax it is required to pay under paragraph (b)(4)(i) of this section to the extent that it can associate valid documentation from a reviewed year partner pursuant to the regulations under chapter 3 or chapter 4 (other than pursuant to § 1.1446–6 of this chapter) with the portion of the adjustment that would have been subject to a reduced rate of tax in the reviewed year. For this purpose, the partnership may rely on documentation that the partnership possesses that is valid with respect to the reviewed year (determined without regard to the expiration after the reviewed year of any validity period prescribed in § 1.1441–1(e)(4)(ii), § 1.1446–1(c)(2)(iv)(A), or § 1.1471–3(c)(6)(ii) of this chapter), or new documentation that the partnership obtains from the reviewed year partner that includes a signed affidavit stating that the information and representations associated with the documentation are accurate with respect to the reviewed year.

(iii) *Reporting requirements.* A partnership required to pay tax under paragraph (b)(4)(i) of this section must file

the appropriate return and issue information returns as required by regulations under chapter 3 or chapter 4. For return and information return requirements, see §§ 1.1446–3(d)(1)(iii); 1.1461–1(b), (c); and 1.1474–1(c), (d) of this chapter. The partnership must file the return and issue information returns for the year that includes the date on which the partnership pays the tax required to be withheld under paragraph (b)(4)(i) of this section. The partnership must report the information on the return and information returns in the manner prescribed by the IRS in forms, instructions, and other guidance.

(iv) *Partners subject to withholding.* A reviewed year partner that is subject to withholding under paragraph (b)(4)(i) of this section must follow the rules under § 301.6226–3(f).

(c) *Applicability date*—(1) *In general.* Except as provided in paragraph (c)(2) of this section, this section applies to partnership taxable years beginning after December 31, 2017, and ending after August 12, 2018.

(2) *Election under § 301.9100–22 in effect.* This section applies to any partnership taxable year beginning after November 2, 2015, and before January 1, 2018, for which a valid election under § 301.9100–22 is in effect.

[T.D. 9844, 84 FR 6572, Feb. 27, 2019]

Collection

GENERAL PROVISIONS

§ 301.6301–1 Collection authority.

The taxes imposed by the internal revenue laws shall be collected by district directors of internal revenue. See, however, section 6304, relating to the collection of certain taxes under the provisions of the Tariff Act of 1930 (19 U.S.C. ch. 4).

§ 301.6302–1 Manner or time of collection of taxes.

(a) *Employment and excise taxes.* For provisions relating to the manner or time of collection of certain employment and excise taxes and deposits in connection with the payment thereof, see the regulations relating to the particular tax.

(b) *Income taxes.* (1) For provisions relating to the deposits of income and estimated income taxes of certain corporations, see § 1.6302–1 of this chapter (Income Tax Regulations).

(2) For provisions relating to the deposits of tax required to be withheld under chapter 3 of the Code on nonresident aliens and foreign corporations and tax-free covenant bonds, see § 1.6302–2 of this chapter.

(c) *Effective/applicability date.* This section applies to deposits and payments made after December 31, 2010.

[75 FR 75904, Dec. 7, 2010]

§ 301.6303–1 Notice and demand for tax.

(a) *General rule.* Where it is not otherwise provided by the Code, the district director or the director of the regional service center shall, after the making of an assessment of a tax pursuant to section 6203, give notice to each person liable for the unpaid tax, stating the amount and demanding payment thereof. Such notice shall be given as soon as possible and within 60 days. However, the failure to give notice within 60 days does not invalidate the notice. Such notice shall be left at the dwelling or usual place of business of such person, or shall be sent by mail to such person's last known address. For further guidance regarding the definition of last known address, see § 301.6212–2.

(b) *Assessment prior to last date for payment.* If any tax is assessed prior to the last date prescribed for payment of such tax, demand that such tax be paid will not be made before such last date, except where it is believed collection would be jeopardized by delay.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 8939, 66 FR 2820, Jan. 12, 2001]

§ 301.6305–1 Assessment and collection of certain liability.

(a) *Scope.* Section 6305(a) requires the Secretary of the Treasury or his delegate to assess and collect amounts which have been certified by the Secretary of Health and Human Services as the amount of a delinquency determined under a court order, or an order of an administrative process established under State law, for support and maintenance of a child or of a child and the parent with whom the child is living. These amounts, referred to as

''child and spousal support'', are to be collected in the same manner and with the same powers exercised by the Secretary of the Treasury or his delegate in the collection of an employment tax which would be jeopardized by delay. However, where the assessment is the first assessment against an individual for a delinquency described in this paragraph for a particular individual or individuals, the collection is to be stayed for a period of 60 days following notice and demand. In addition, no interest or penalties (with the exception of the penalties imposed by sections 6332(c)(2) and 6657) shall be assessed or collected on the amounts, paragraphs (4), (6) and (8) of section 6334(a) (relating to property exempt from levy) shall not apply; and, there shall be exempt from levy so much of the salary, wages, or other income of the individual which is subject to garnishment pursuant to a judgment entered by a court for the support of his or her minor children. Section 6305(b) provides that sole jurisdiction for any action brought to restrain or review assessment and collection of the certified amounts shall be in a State court or a State administrative agency.

(b) *Assessment and collection*—(1) *General rule.* Upon receipt of a certification or recertification from the Secretary of Health and Human Services or his delegate under section 452(b) of title IV of the Social Security Act as amended (relating to collection of child and spousal support obligations with respect to an individual), the district director or his delegate shall assess and collect the certified amount (or recertified amount). Except as provided in paragraph (c) of this section, the amount so certified shall be assessed and collected in the same manner, with the same powers, and subject to the same limitations as if the amount were an employment tax the collection of which would be jeopardized by delay. However, the provisions of subtitle F with respect to assessment and collection of taxes shall not apply with respect to assessment and collection of a certified amount where such provisions are clearly inappropriate to, and incompatible with, the collection of certified amounts generally. For example, section 6861(g) which allows the Secretary or his delegate to abate a jeopardy assessment if he finds a jeopardy does not exist will not apply.

(2) *Method of assessment.* An assessment officer appointed by the district director pursuant to § 301.6203–1 to make assessments of tax shall also make assessments of certified amounts. The assessment of a certified amount shall be made by the assessment officer signing the summary record of assessment. The date of assessment is the date the summary record is signed by the assessment officer. The summary record, through supporting records as necessary, shall provide—

(i) The assessed amount;

(ii) The name, social security number, and last known address of the individual owing the assessed amount. For further guidance regarding the definition of last known address, see § 301.6212–2;

(iii) A designation of the assessed amount as a certified amount, together with the date on which the amount was certified and the name, position, and governmental address of the officer of the Department of Health and Human Services who certified the amount;

(iv) The period to which the child and spousal support obligation represented by the certified amount relates;

(v) The State in which was entered the court or administrative order giving rise to the child and spousal support obligation represented by the certified amount;

(vi) The name of the person or persons to whom the child and spousal support obligation represented by the certified amount is owed; and

(vii) The name of the child or children or the parent of the child or children for whose benefit the child and spousal support obligation exists.

Upon request, the individual assessed shall be furnished a copy of pertinent parts of this assessment which set forth the information listed in subdivision (i) through (vii) of this paragraph (b)(2).

(3) *Supplemental assessments and abatements.* If any assessment is incomplete or incorrect in any material respect, the district director or his delegate may make a supplemental assessment or abatement but only for the

purpose of completing or correcting the original assessment. A supplemental assessment will not be used as a substitute for an additional assessment against an individual.

(4) *Method of collection*. (i) The district director or his delegate shall make notice and demand for immediate payment of certified amounts. Upon failure or refusal to pay such amounts, collection by levy shall be lawful without regard to the 10-day waiting period provided in section 6331(a). However, in the case of certain first assessments, paragraph (c)(4) of this section provides a rule for a stay of collection for 60 days. For purposes of collection, refunds of any internal revenue tax owed to the individual may be offset against a certified amount.

(ii) The district director or his delegate shall make diligent and reasonable efforts to collect certified amounts as if such amounts were taxes. He shall have no authority to compromise a proceeding by collection of only part of a certified amount in satisfaction of the full certified amount owing. However, he may arrange for payment of a certified amount by installments where advisable.

(iii) The district director or his delegate may offset the amount of any overpayment of any internal revenue tax (as described in section 301.6401–1) to be refunded to the person making the overpayment by the amount of any past-due support (as defined in the regulations under section 6402) owed by the person making the overpayment. The amounts offset under section 6402(c) may be amounts of child and spousal support certified (or recertified) for collection under section 6305 and this section or they may be amounts of past-due support of which the Secretary of the Treasury has been notified under section 6402(c) and the regulations under that section.

(5) *Credits or refunds*. In the case of any overpayment of a certified amount, the Secretary of the Treasury or his delegate, within the period of limitations for credit or refund of employment taxes, may credit the amount of the overpayment against any liability in respect of an internal revenue tax on the part of the individual who made the overpayment and shall refund any balance to the individual. However, the full amount of any overpayment collected by levy upon property described in paragraph (c)(2) (i), (ii), or (iii) of this section shall be refunded to the individual. For purposes of applying this subparagraph, the rules of § 301.6402–2 apply where appropriate.

(6) *Disposition of certified amounts collected*. Any certified amount collected shall be deposited in the general fund of the United States, and the officer of the Department of Health and Human Services who certified the amount shall be promptly notified of its collection. There shall be established in the Treasury, pursuant to section 452 of title IV of the Social Security Act as amended, a revolving fund which shall be available to the Secretary of Health and Human Services or his delegate, without fiscal year limitation, for distribution to the States in accordance with the provisions of section 457 of the Act. Section 452(c)(2) of the Act appropriates to this revolving fund out of any monies not otherwise appropriated, amounts equal to the certified amounts collected under this paragraph reduced by the amounts credited or refunded as overpayments of the certified amounts so collected. The certified amounts deposited shall be transferred at least quarterly from the general fund of the Treasury to the revolving fund on the basis of estimates made by the Secretary of the Treasury or his delegate. Proper adjustments shall be made in the amounts subsequently transferred to the extent prior estimates were in excess of or less than the amounts required to be transferred. See, however, paragraph (c)(1) of this section for the special rule requiring retention in the general fund of certain penalties which may be collected.

(c) *Additional limitations and conditions*—(1) *Interest and penalties*. No interest, penalties or additional amounts, other than normal and reasonable collection costs, may be assessed or collected in addition to the certified amount, other than the penalty imposed by section 6332(c)(2) for failure to surrender property subject to levy and the penalty imposed by section 6657 for the tender of bad checks.

Any such penalties and collection costs, if collected, will not be treated as part of the certified amount and will be retained by the United States as a part of its general fund. No interest shall be allowed or paid on any overpayment of a certified amount.

(2) *Property not exempt from levy*. In addition to property not exempt from levy under section 6334(c) and the regulations thereunder, the following property shall not be exempt from a levy to collect a certified amount:

(i) Unemployment benefits described in section 6334(a)(4);

(ii) Certain annuities and pension payments described in section 6334(a)(6); or

(iii) Salary, wages, or other income described in section 6334(a)(8).

(3) *Property exempt from levy*. In addition to property exempt from levy under section 6334(a) and the regulations thereunder, other than property described in paragraph (c)(2) (i), (ii), or (iii) of this section, there shall be exempt from levy to collect a certified amount so much of the salary, wages, or other income of an individual as is withheld therefrom in garnishment pursuant to judgment entered by a court of competent jurisdiction for the support of minor children of the individual.

(4) *First assessment*. In the case of a first assessment against an individual for a certified amount in whole or part for the benefit of a particular child or children or the child or children and their parent, the collection of the certified amount shall be stayed for the period of 60 days immediately following notice and demand as described in section 6303. However, no other stay of the collection of a certified amount may be granted. Thus, the provisions of section 6863(a), relating to bonds to stay collection of jeopardy assessments, shall not apply to the collection of certified amounts.

(5) *Priority of liens*. A lien for a certified amount shall be valid as against a lien for taxes imposed by section 6321 only if the date of assessment of the certified amount precedes the date of assessment of the taxes. However, no amount collected by levy upon property described in paragraph (c)(2) (i), (ii), or (iii) of this section may be applied other than in whole or partial satisfaction of certified amounts. In the case of two liens for certified amounts, the lien for the certified amount which is first assessed shall be valid as against the lien for the certified amount which is later assessed.

(6) *Statute of limitations on collections*. The periods of limitation on collection of taxes after assessment prescribed by section 6502 shall apply to the collection of certified (or recertified) amounts. Such periods of limitation with respect to a certified amount shall terminate upon recertification of the amount, and the period of limitation prescribed by section 6502 shall then apply and commence to run with respect to the recertified amount.

(d) *Review of assessments and collections*—(1) *Federal courts*. No court of the United States established under article I or article III of the Constitution has jurisdiction of any legal or equitable action to restrain or review the assessment or collection of certified amounts by the district director or his delegate. See, however, paragraph (d)(3) of this section for the rule that the prohibition of this paragraph (d)(1) does not preclude courts established for the District of Columbia from exercising jurisdiction over certain actions.

(2) *Secretary of the Treasury*. Neither the Secretary of the Treasury nor his delegate may subject to review the assessment or collection of certified amounts in any legal, equitable, or administrative proceeding.

(3) *State courts*. This paragraph (d) does not preclude a State court or appropriate State agency, as the case may be, from exercising jurisdiction over a legal, equitable, or administrative action against the State by an individual to determine his liability for any certified amount assessed against him and collected, or to recover any such certified amount collected, under section 6305 and this section. For purposes of the preceding sentence, the term ''State'' includes the District of Columbia.

(e) *Internal Revenue regional service centers*. For purposes of this section, the terms ''district director or his delegate'' and ''district director'' include the director of the Internal Revenue

service center or his delegate, as the case may be.

(Sec. 7805, Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805); sec. 2332(a) of the Omnibus Budget Reconciliation Act of 1981 (95 Stat. 357), amending sec. 464(a) of the Social Security Act (88 Stat. 2351))

[T.D. 7576, 43 FR 59376, Dec. 20, 1978, as amended by T.D. 7808, 47 FR 5713, Feb. 8, 1982; T.D. 8939, 66 FR 2820, Jan. 12, 2001]

RECEIPT OF PAYMENT

§ 301.6311–1 Payment by check or money order.

(a) *Authority to receive*—(1) *In general.* (i) District directors, Service Center directors, and Compliance Center directors (director) may accept checks or drafts drawn on any financial institution incorporated under the laws of the United States or under the laws of any State, the District of Columbia, or any possession of the United States, or money orders in payment for internal revenue taxes, provided the checks, drafts, or money orders are collectible in United States currency at par, and subject to the further provisions contained in this section. The director may accept the checks, drafts, or money orders in payment for internal revenue stamps to the extent and under the conditions prescribed in paragraph (a)(2) of this section. A check or money order in payment for internal revenue taxes or internal revenue stamps should be made payable to the United States Treasury. A check or money order is payable at par only if the full amount thereof is payable without any deduction for exchange or other charges. As used in this section, the term ''money order'' means: (*a*) U.S. postal, bank, express, or telegraph money order; (*b*) money order issued by a domestic building and loan association (as defined in section 7701(a)(19)) or by a similar association incorporated under the laws of a possession of the United States; (*c*) a money order issued by such other organization as the Commissioner may designate; and (*d*) a money order described in subdivision (ii) of this subparagraph in cases therein described. However, the director may refuse to accept any personal check whenever he or she has good reason to believe that such check will not be honored upon presentment.

(ii) An American citizen residing in a country with which the United States maintains direct exchange of money orders on a domestic basis may pay his tax by postal money order of such country. For a list of such countries, see section 171.27 of the Postal Manual of the United States.

(iii) If one check or money order is remitted to cover two or more persons' taxes, the remittance should be accompanied by a letter of transmittal clearly identifying—

(*a*) Each person whose tax is to be paid by the remittance;

(*b*) The amount of the payment on account of each such person; and

(*c*) The kind of tax paid.

(2) *Payment for internal revenue stamps.* The director may accept checks, drafts, and money orders described in paragraph (a)(1) of this section in payment for internal revenue stamps. However, the director may refuse to accept any personal check whenever he or she has good reason to believe that such check will not be honored upon presentment.

(b) *Checks or money orders not paid*—(1) *Ultimate liability.* The person who tenders any check (whether certified or uncertified, cashier's, treasurer's, or other form of check or draft) or money order in payment for taxes or stamps is not released from his or her liability until the check, draft, or money order is paid; and, if the check, draft, or money order is not duly paid, the person shall also be liable for all legal penalties and additions, to the same extent as if such check, draft, or money order had not been tendered.

(2) *Liability of financial institutions and others.* If any certified, treasurer's, or cashier's check, or other guaranteed draft, or money order, is not duly paid, the United States shall have a lien for the amount of such check or draft upon all assets of the financial institution on which drawn, or for the amount of such money order upon the assets of the issuer thereof. The unpaid amount shall be paid out of such assets in preference to any other claims against such financial institution or issuer except the necessary costs and expenses

of administration and the reimbursement of the United States for the amount expended in the redemption of the circulating notes of such financial institution. In addition, the Government has the right to exact payment from the person required to make the payment.

(c) *Payment in nonconvertible foreign currency*. For rules relating to payment of income taxes and taxes under the Federal Insurance Contributions Act in nonconvertible foreign currency, see section 6316 and the regulations thereunder.

(d) *Financial institution*. For purposes of section 6311 and this section, *financial institution* includes but is not limited to—

(1) A bank or trust company (as defined in section 581);

(2) A domestic building and loan association (as defined in section 7701(a)(19));

(3) A mutual savings bank (including but not limited to a mutual savings bank as defined in section 591(b));

(4) A credit union (including both state and federal credit unions, and including but not limited to a credit union as defined in section 501(c)(14)); and

(5) A regulated investment company (as defined in section 851(a)).

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7188, 37 FR 12795, June 29, 1972; T.D. ATF–33, 41 FR 44038, Oct. 6, 1976; T.D. 8595, 60 FR 20899, Apr. 28, 1995; T.D. 8969, 66 FR 64743, Dec. 14, 2001]

§ 301.6311–2 Payment by credit card and debit card.

(a) *Authority to receive*—(1) *Payments by credit card and debit card*. Internal revenue taxes may be paid by credit card or debit card as authorized by this section. Payment of taxes by credit card or debit card is voluntary on the part of the taxpayer. Only credit cards or debit cards approved by the Commissioner may be used for this purpose, only the types of tax liabilities specified by the Commissioner may be paid by credit card or debit card, and all such payments must be made in the manner and in accordance with the forms, instructions and procedures prescribed by the Commissioner. All references in this section to *tax* also include interest, penalties, additional amounts, and additions to tax.

(2) *Payments by electronic funds transfer other than payments by credit card and debit card*. Provisions relating to payments by electronic funds transfer other than payments by credit card and debit card are contained in section 6302 and the Treasury Regulations promulgated pursuant to section 6302.

(3) *Definitions*—(i) *Credit card* means any credit card as defined in section 103(k) of the Truth in Lending Act (15 U.S.C. 1602(k)), including any credit card, charge card, or other credit device issued for the purpose of obtaining money, property, labor, or services on credit.

(ii) *Debit card* means any accepted card or other means of access as defined in section 903(1) of the Electronic Fund Transfer Act (15 U.S.C. 1693a(1)), including any debit card or similar device or means of access to an account issued for the purpose of initiating electronic fund transfers to obtain money, property, labor, or services.

(b) *When payment is deemed made*. A payment of tax by credit card or debit card shall be deemed made when the issuer of the credit card or debit card properly authorizes the transaction, provided that the payment is actually received by the United States in the ordinary course of business and is not returned pursuant to paragraph (d)(3) of this section.

(c) *Payment not made*—(1) *Continuing liability of taxpayer*. A taxpayer who tenders payment of taxes by credit card or debit card is not relieved of liability for such taxes until the payment is actually received by the United States and is not required to be returned pursuant to paragraph (d)(3) of this section. This continuing liability of the taxpayer is in addition to, and not in lieu of, any liability of the issuer of the credit card or debit card or financial institution pursuant to paragraph (c)(2) of this section.

(2) *Liability of financial institutions*. If a taxpayer has tendered a payment of internal revenue taxes by credit card or debit card, the credit card or debit card transaction has been guaranteed expressly by a financial institution, and the United States is not duly paid, then the United States shall have a

lien for the guaranteed amount of the transaction upon all the assets of the institution making such guarantee. The unpaid amount shall be paid out of such assets in preference to any other claims whatsoever against such guaranteeing institution, except the necessary costs and expenses of administration and the reimbursement of the United States for the amount expended in the redemption of the circulating notes of such institution.

(d) *Resolution of errors relating to the credit card or debit card account*—(1) *In general*. Payments of taxes by credit card or debit card shall be subject to the applicable error resolution procedures of section 161 of the Truth in Lending Act (15 U.S.C. 1666), section 908 of the Electronic Fund Transfer Act (15 U.S.C. 1693f), or any similar provisions of state or local law, for the purpose of resolving errors relating to the credit card or debit card account, but not for the purpose of resolving any errors, disputes or adjustments relating to the underlying tax liability.

(2) *Matters covered by error resolution procedures*. (i) The error resolution procedures of paragraph (d)(1) of this section apply to the following types of errors—

(A) An incorrect amount posted to the taxpayer's account as a result of a computational error, numerical transposition, or similar mistake;

(B) An amount posted to the wrong taxpayer's account;

(C) A transaction posted to the taxpayer's account without the taxpayer's authorization; and

(D) Other similar types of errors that would be subject to resolution under section 161 of the Truth in Lending Act (15 U.S.C. 1666), section 908 of the Electronic Fund Transfer Act (15 U.S.C. 1693f), or similar provisions of state or local law.

(ii) An error described in paragraph (d)(2)(i) of this section may be resolved only through the procedures referred to in paragraph (d)(1) of this section and cannot be a basis for any claim or defense in any administrative or court proceeding involving the Commissioner or the United States.

(3) *Return of funds pursuant to error resolution procedures*. Notwithstanding section 6402, if a taxpayer is entitled to a return of funds pursuant to the error resolution procedures of paragraph (d)(1) of this section, the Commissioner may, in the Commissioner's sole discretion, effect such return by arranging for a credit to the taxpayer's account with the issuer of the credit card or debit card or any other financial institution or person that participated in the transaction in which the error occurred.

(4) *Matters not subject to error resolution procedures*. The error resolution procedures of paragraph (d)(1) of this section do not apply to any error, question, or dispute concerning the amount of tax owed by any person for any year. For example, these error resolution procedures do not apply to determine a taxpayer's entitlement to a refund of tax for any year for any reason, nor may they be used to pay a refund. All such matters shall be resolved through administrative and judicial procedures established pursuant to the Internal Revenue Code and the rules and regulations thereunder.

(5) *Section 170 of the Truth in Lending Act not applicable*. Payments of taxes by credit card or debit card are not subject to section 170 of the Truth in Lending Act (15 U.S.C. 1666i) or to any similar provision of state or local law.

(e) *Fees or charges*. The Internal Revenue Service may not impose any fee or charge on persons making payment of taxes by credit card or debit card. This section does not prohibit the imposition of fees or charges by issuers of credit cards or debit cards or by any other financial institution or person participating in the credit card or debit card transaction. The Internal Revenue Service may not receive any part of any fees that may be charged.

(f) *Authority to enter into contracts*. The Commissioner may enter into contracts related to receiving payments of tax by credit card or debit card if such contracts are cost beneficial to the Government. The determination of whether the contract is cost beneficial shall be based on an analysis appropriate for the contract at issue and at a level of detail appropriate to the size of the Government's investment or interest. The Commissioner may not pay any fee or charge or provide any other

monetary consideration under such contracts for such payments.

(g) *Use and disclosure of information relating to payment of taxes by credit card and debit card.* Any information or data obtained directly or indirectly by any person other than the taxpayer in connection with payment of taxes by a credit card or debit card shall be treated as confidential, whether such information is received from the Internal Revenue Service or from any other person (including the taxpayer).

(1) No person other than the taxpayer shall use or disclose such information except as follows—

(i) Card issuers, financial institutions, or other persons participating in the credit card or debit card transaction may use or disclose such information for the purpose and in direct furtherance of servicing cardholder accounts, including the resolution of errors in accordance with paragraph (d) of this section. This authority includes the following—

(A) Processing the credit card or debit card transaction, in all of its stages through and including the crediting of the amount charged on account of tax to the United States Treasury;

(B) Billing the taxpayer for the amount charged or debited with respect to payment of the tax liability;

(C) Collecting the amount charged or debited with respect to payment of the tax liability;

(D) Returning funds to the taxpayer in accordance with paragraph (d)(3) of this section;

(E) Sending receipts or confirmation of a transaction to the taxpayer, including secured electronic transmissions and facsimiles; and

(F) Providing information necessary to make a payment to state or local government agencies, as explicitly authorized by the taxpayer (e.g., name, address, taxpayer identification number).

(ii) Card issuers, financial institutions or other persons participating in the credit card or debit card transaction may use and disclose such information for the purpose and in direct furtherance of any of the following activities—

(A) Assessment of statistical risk and profitability;

(B) Transfer of receivables or accounts or any interest therein;

(C) Audit of account information;

(D) Compliance with federal, state, or local law; and

(E) Cooperation in properly authorized civil, criminal, or regulatory investigations by federal, state, or local authorities.

(2) Notwithstanding the provisions of paragraph (g)(1) of this section, use or disclosure of information relating to credit card and debit card transactions for purposes related to any of the following is not authorized—

(i) Sale of such information (or transfer of such information for consideration) separate from a sale of the underlying account or receivable (or transfer of the underlying account or receivable for consideration);

(ii) Marketing for any purpose, such as, marketing tax-related products or services, or marketing any product or service that targets those who have used a credit card or debit card to pay taxes; and

(iii) Furnishing such information to any credit reporting agency or credit bureau, except with respect to the aggregate amount of a cardholder's account, with the amount attributable to payment of taxes not separately identified.

(3) Use and disclosure of information other than as authorized by this paragraph (g) may result in civil liability under sections 7431(a)(2) and (h).

(h) *Effective date.* This section applies to payments of taxes made on and after December 14, 2001.

[T.D. 8969, 66 FR 64743, Dec. 14, 2001; 67 FR 1416, Jan. 11, 2001]

§ 301.6312–1 Treasury certificates of indebtedness, Treasury notes, and Treasury bills acceptable in payment of internal revenue taxes or stamps.

(a) Treasury certificates of indebtedness, Treasury notes, or Treasury bills of any series (not including interim receipts issued by Federal reserve banks in lieu of definitive certificates, notes, or bills) may be tendered at or before maturity in payment of internal revenue taxes due on the date (or in payment for stamps purchased on the date), on which the certificates, notes,

or bills mature, or in payment of internal revenue taxes due on a specified prior date, but only if such certificates, notes, or bills, according to the express terms of their issue, are made acceptable in payment of such taxes or for the purchase of stamps. If the taxes for which the certificates, notes, or bills are tendered in payment become due, or the stamps are purchased, on the same date as that on which such certificates, notes, or bills mature, they will be accepted at par plus accrued interest, if any, payable with the principal (not represented by coupons attached) in payment of such taxes or stamps. If the taxes for which the certificates, notes, or bills are tendered in payment become due, or the stamps are purchased, on a date prior to that on which the certificates, notes, or bills mature, they will be accepted at the value specified in the terms under which such certificates, notes, or bills were issued. All interest coupons attached to Treasury certificates of indebtedness or Treasury notes shall be detached by the taxpayer before such certificates or notes are tendered in payment of taxes or stamps.

(b) Receipts given by a district director for Treasury certificates of indebtedness, Treasury notes, or Treasury bills received in payment of internal revenue taxes or for stamps as provided in this section shall contain an adequate description of such certificates, notes, or bills, and a statement of the value, including accrued interest, if any, payable with the principal (not represented by coupons attached), at which accepted, and shall show that the certificates, notes, or bills are tendered by the taxpayer and received by the district director, subject to no conditions, qualification, or reservation whatsoever, in payment of an amount of taxes or for stamps no greater than such value. Any certificate, note, or bill offered in payment of internal revenue taxes or for stamps subject to any condition, qualification, or reservation, or for any greater amount than the value at which acceptable in payment of taxes or stamps, as specified in the terms under which such certificate, note, or bill was issued, shall not be deemed to be duly tendered and shall be returned to the taxpayer.

(c) For the purpose of saving taxpayers the expense of transmitting Treasury certificates of indebtedness, Treasury notes, or Treasury bills to the office of the district director in whose district the taxes are payable, or stamps are to be purchased, taxpayers desiring to pay taxes, or purchase stamps, with such certificates, notes, or bills acceptable in payment of taxes or for the purchase of stamps may deposit such certificates, notes, or bills with a Federal reserve bank or branch, or with the Office of the Treasurer of the United States, Treasury Building, Washington, D.C. In such cases, the Federal reserve bank or branch, or the Office of the Treasurer of the United States, shall issue a receipt in the name of the district director, describing the certificates, notes, or bills by par or dollar face amount and stating on the face of the receipt that the certificates, notes, or bills represented thereby are held by the bank or branch, or the Office of the Treasurer of the United States, for redemption at the value specified in the terms under which the certificates, notes, or bills were issued, and for application of the proceeds in payment of taxes due or for the purchase of stamps on a specified date by the taxpayer named therein.

(d) In the case of payments of tax required to be deposited with Government depositaries by regulations under section 6302 of the Code, certificates, notes, or bills referred to in paragraph (a) of this section may be deposited with a Federal Reserve bank or branch, or with the Office of the Treasurer of the United States, in part or full satisfaction of such tax liability. As in the case of all remittances of amounts so required to be deposited, each such deposit of certificates, notes, or bills shall be accompanied by the appropriate deposit form in accordance with the regulations under section 6302. In such cases, notwithstanding paragraphs (b) and (c) of this section, receipts for such certificates, notes or bills shall no longer be issued in the name of the district director.

§ 301.6312–2 Certain Treasury savings notes acceptable in payment of certain internal revenue taxes.

According to the express terms of their issue, the following series of Treasury savings notes are presently acceptable in payment of income taxes (current and back, personal and corporation taxes, and excess profits taxes) and estate and gift taxes (current and back):

(a) Treasury Savings Notes, Series A,
(b) Treasury Savings Notes, Series B,
(c) Treasury Savings Notes, Series C.

§ 301.6313–1 Fractional parts of a cent.

In the payment of any tax not payable by stamp, a fractional part of a cent shall be disregarded unless it amounts to one-half cent or more, in which case it shall be increased to one cent. Fractional parts of a cent shall not be disregarded in the computation of taxes.

§ 301.6314–1 Receipt for taxes.

(a) *In general.* The district director or the director of a service center shall upon request, issue a receipt for each tax payment made (other than a payment for stamps sold and delivered). In addition, the district director or the director of a service center shall issue a receipt for each payment of 1 dollar or more made in cash, whether or not requested. In the case of payments made by check, the canceled check is usually a sufficient receipt. No receipt shall be issued in lieu of a stamp representing a tax, whether the payment is in cash or otherwise.

(b) *Duplicate receipt for payment of estate taxes.* Upon request, the district director or the director of a service center will issue duplicate receipts to the person paying the estate tax, either of which will be sufficient evidence of such payment and entitle the executor to be credited with the amount by any court having jurisdiction to audit or settle his accounts. For definition of the term ''executor'', see section 2203.

[T.D. 7214, 37 FR 23176, Oct. 31, 1972]

§ 301.6315–1 Payments of estimated income tax.

The payment of any installment of the estimated income tax (see sections 6015 and 6016) shall be considered payment on account of the income tax for the taxable year for which the estimate is made. The aggregate amount of the payments of estimated tax should be entered upon the income tax return for such taxable year as payments to be applied against the tax shown on such return.

§ 301.6316–1 Payment of income tax in foreign currency.

Subject to the provisions of §§ 301.6316–3 to 301.6316–5, inclusive, that portion of the income tax which is attributable to amounts received by a citizen of the United States in nonconvertible foreign currency may be paid in such currency—

(a) For any taxable year beginning on or after January 1, 1955, and before January 1, 1964, if such amounts—

(1) Are disbursed from funds made available to a foundation or commission established in a foreign country pursuant to an agreement made under the authority of section 32(b) of the Surplus Property Act of 1944, as amended (50 U.S.C. App. 1641(b)(2)), or reestablished under the authority of the Mutual Educational and Cultural Exchange Act of 1961, as amended (22 U.S.C. 2451);

(2) Constitute either a grant made for authorized purposes of the agreement or compensation for personal services performed in the employ of the foundation or commission;

(3) Are at least 75 percent of the entire amount of the grant or compensation; and

(4) Are treated as income from sources without the United States under the provisions of sections 861 to 864, inclusive, and §§ 1.861–1 to 1.864, inclusive, of this chapter (Income Tax Regulations); and

(b) For any taxable year beginning on or after January 1, 1964, if such amounts—

(1) Are disbursed from funds made available either to a foundation or commission, established pursuant to an agreement made under the authority of section 32(b) of the Surplus Property Act of 1944, as amended, or to a foundation or commission established or continued pursuant to an agreement made

under the authority of the Mutual Educational and Cultural Exchange Act of 1961, as amended; or are paid from grants made to such citizen, or to a foundation or an educational or other institution, under the authority of the Mutual Educational and Cultural Exchange Act of 1961, as amended, or section 104 (h), (j), (k), (o), or (p) of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1704 (h), (j), (k), (o), (p));

(2) Constitute either a grant made for a purpose authorized under any such agreement or law, or compensation for personal services performed in the employ of any organization engaged in administering any program or activity pursuant to any such agreement or law;

(3) Are at least 70 percent of the entire amount of the grant or compensation; and

(4) Are treated as income from sources without the United States under the provisions of sections 861 to 864, inclusive, and §§ 1.861–1 to 1.864, inclusive, of this chapter (Income Tax Regulations).

§ 301.6316–2 Definitions.

For purposes of §§ 301.6316–1 to 301.6316–9, inclusive:

(a) The term *tax*, as used in §§ 301.6316–1, 301.6316–3, 301.6316–4, 301.6316–5, and 301.6316–6 means the income tax imposed for the taxable year by chapter 1 of the Internal Revenue Code of 1954, and as used in § 301.6316–7 means the Federal Insurance Contributions Act taxes imposed by chapter 21 of the Code (or by the corresponding provisions of the Internal Revenue Code of 1939). The term ''tax'', as used in §§ 301.6316–3 and 301.6316–9 shall relate to either of such taxes, whichever is appropriate.

(b) The term *nonconvertible foreign currency* means currency of the government of a foreign country which, owing to (1) monetary, exchange, or other restrictions imposed by the foreign country, (2) an agreement entered into with the United States of America, or (3) the terms and conditions of the U.S. Government grant, is not convertible into U.S. dollars or into other money which is convertible into U.S. dollars. The term shall not, however, include currency which, notwithstanding such restrictions, agreement, terms, or conditions, is in fact converted into U.S. dollars or into property which is readily disposable for U.S. dollars.

(c) If the taxpayer computes taxable income under the accrual method, then the term *received* shall be construed to mean ''accrued.''

§ 301.6316–3 Allocation of tax attributable to foreign currency.

(a) *Adjusted gross income ratio*. The portion of the tax which is attributable to amounts received in nonconvertible foreign currency shall, for purposes of applying § 301.6316–1 to the currency of each foreign country, be the amount by which:

(1) The amount which bears the same ratio to the entire tax for the taxable year as (i) the taxpayer's adjusted gross income received in that currency bears to (ii) the adjusted gross income determined under section 62 by taking into account the entire gross income and all deductions allowable under that section without distinction as to amounts received in foreign currency, exceeds

(2) The total of the allowable credits against tax, and payments on account of tax, which are properly allocable to the amount of that currency included in gross income.

(b) *Example*. (1) For the calendar year 1955 Mr. Jones and his wife filed a joint return on which the adjusted gross income is as follows, after amounts received in foreign currency had been properly translated into United States dollars for tax computation purposes:

Fulbright grant received by Mr. Jones in nonconvertible foreign currency	$8,000
Dividends received by Mr. Jones entitled to dividends-received credit	500
Compensation for personal services of Mrs. Jones	3,000
Net profit from business carried on by Mrs. Jones	2,500
Total adjusted gross income	14,000

(2) The following amounts are allowable as properly deductible from adjusted gross income, no determination being made as to whether or not any part of them is properly allocable to the Fulbright grant:

Deduction for personal exemptions	$3,000
Charitable contributions	500
Interest expense	400
Taxes	300
Total allowable deductions	4,200

(3) For the taxable year the following amounts are allowable as credits against the tax, or as payments on account of the tax:

Foreign tax credit for foreign taxes paid on Fulbright grant		$300.00
Dividends-received credit		20.00
Credit for income tax withheld upon compensation of Mrs. Jones		304.80
Payments of estimated tax (see § 301.6316–6(b)(2) for determination of amounts):		
U.S. dollars	$426.32	
Foreign currency	893.88	1,320.20
Total allowable credits and payments		1,945.00

(4) The portion of the tax which is attributable to amounts received in nonconvertible foreign currency is $33.49, determined as follows:

Adjusted gross income		$14,000.00
Less: Allowable deductions		4,200.00
Taxable income		9,800.00
Tax computed under section 2		2,148.00
Ratio of adjusted gross income received in nonconvertible foreign currency to entire adjusted gross income ($8,000 ÷ $14,000) (percent)		57.14
Portion of tax attributable to nonconvertible foreign currency ($2,148 × 57.14 percent)		$1,227.37
Less:		
Credit for foreign taxes paid on Fulbright grant	$300.00	
Payment in foreign currency of estimated tax	893.88	1,193.88
Portion of tax attributable to amounts received in nonconvertible foreign currency		83.49

§ 301.6316–4 Return requirements.

(a) *Place for filing*. A return of income which includes amounts received in foreign currency on which the tax is paid in accordance with § 301.6316–1 shall be filed with the Director of International Operations, Internal Revenue Service, Washington, D.C. 20225. For the time for filing income tax returns, see sections 6072 and 6081 and §§ 1.6072–1, 1.6081–1, and 1.6081–2 of this chapter (Income Tax Regulations).

(b) *Statements required*. (1) A statement, prepared by the taxpayer, and certified by the foundation, commission, or other person having control of the payments made to the taxpayer in nonconvertible foreign currency, shall be attached to the return showing that for the taxable year involved the taxpayer is entitled to pay tax in foreign currency in accordance with section 6316 and the regulations thereunder. This statement shall disclose the total amount of grants or compensation received by the taxpayer during the taxable year under the authority of section 32(b) of the Surplus Property Act of 1944, as amended (50 U.S.C. App. 1641(b)(2)), or of the Mutual Educational and Cultural Exchange Act of 1961, as amended (22 U.S.C. 2451), or section 104 (h), (j), (k), (o), or (p) of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1704 (h), (j), (k), (o), (p)), and the amount thereof paid in nonconvertible foreign currency. It shall also state that with respect to the grant or compensation the applicable percentage requirement of § 301.6316–1 is satisfied.

(2) The taxpayer shall also attach to the return a detailed statement showing (i) the computation, in the manner prescribed by § 301.6316–3, of the portion of the tax attributable to amounts received in nonconvertible foreign currency and (ii) the rates of exchange used in determining the tax liability in U.S. dollars. See paragraph (c) of § 301.6316–5.

§ 301.6316–5 Manner of paying tax by foreign currency.

(a) *Time and place to pay*. The unpaid tax required to be shown on a return filed in accordance with § 301.6316–4, whether payable in whole or in part in foreign currency, is due and payable to the Director of International Operations, Internal Revenue Service, Washington, D.C. 20225, at the time the return is filed. However, see paragraph (d) of this section with respect to the depositing of the foreign currency with the disbursing officer of the Department of State.

(b) *Certified statement*. Every taxpayer who desires to pay tax in foreign currency under the provisions of § 301.6316–1 shall first obtain the certified statement referred to in paragraph (b)(1) of § 301.6316–4.

(c) *Determination of the tax*. In determining the tax payable for the taxable year in U.S. dollars, the taxpayer, with respect to amounts described in paragraph (a) of § 301.6316–1, or amounts described in paragraph (b) of § 301.6316–1 received before November 1, 1965, shall use the rates of exchange which most clearly reflect the correct tax liability in dollars, whether it be the official rate, the open market rate, or any

other appropriate rate. With respect to amounts described in paragraph (b) of § 301.6316–1 received on or after November 1, 1965, the taxpayer shall use the official rate of exchange in determining the tax payable for the taxable year in U.S. dollars. After determining the correct tax liability in U.S. dollars the taxpayer shall then ascertain, in accordance with the principles of § 301.6316–3, the portion of the tax which is attributable to amounts received in nonconvertible foreign currency.

(d) *Deposit of foreign currency with disbursing officer.* (1) After the portion of the tax which is attributable to amounts received in nonconvertible foreign currency is determined in U.S. dollars, the amount so determined shall be deposited in the same nonconvertible foreign currency with the disbursing officer of the Department of State for the foreign country where the fund is located from which the payments in nonconvertible foreign currency are made to the taxpayer. The amount of foreign currency to be deposited shall be that amount which, when converted at the rate of exchange used on the date of deposit by that disbursing officer for the acquisition of such currency for his official disbursements, equals the portion of the tax so determined in U.S. dollars.

(2) The disbursing officer may rely upon the taxpayer for the determination of the amount of tax payable in foreign currency but may not accept any such currency for deposit until the taxpayer has presented for inspection the certified statement referred to in paragraph (b)(1) of § 301.6316–4. Upon acceptance of foreign currency for deposit the disbursing officer shall give the taxpayer a receipt in duplicate showing the name and address of the depositor, the date of the deposit, the amount of foreign currency deposited, and its equivalent in U.S. dollars on the date of deposit.

(3) Every taxpayer making a deposit of foreign currency in accordance with this paragraph shall attach to the return required to be filed in accordance with § 301.6316–4, in part or full payment of the taxes shown thereon, the original of the receipt given by the disbursing officer and shall pay to the Director of International Operations in U.S. dollars the balance, if any, of the tax shown to be due. Tender of such receipt to the Director of International Operations shall be considered as payment of tax in an amount equal to the U.S. dollars represented by the receipt.

(4) A taxpayer shall make the deposit required by this paragraph in ample time to permit him to attach the receipt to his return for filing within the time prescribed by section 6072 or 6081 and §§ 1.6072–1, 1.6081–1, and 1.6081–2 of this chapter (Income Tax Regulations).

§ 301.6316–6 Declarations of estimated tax.

(a) *Filing of declaration.* A declaration of estimated tax in respect of amounts on which the tax is to be paid in foreign currency under the provisions of § 301.6316–1 shall be filed with the Director of International Operations, Internal Revenue Service, Washington, D.C. 20225, and shall have attached thereto the statements required by paragraph (b) (1) and (2)(i) of § 301.6316–4 in respect of the tax return except that the statement certified by the foundation, commission, or other person having control of the payments to the taxpayer in nonconvertible foreign currency may be based upon amounts expected to be received by the taxpayer during the taxable year if they are not in fact known at the time of certification. A copy of this certified statement shall be retained by the taxpayer for the purpose of exhibiting it to the disbursing officer when making installment deposits of foreign currency under the provisions of paragraph (c) of this section. For the time for filing declarations of estimated tax, see sections 6073 and 6081 and §§ 1.6073–1 to 1.6073–4, inclusive, and §§ 1.6081–1 and 1.6081–2 of this chapter (Income Tax Regulations).

(b) *Determination of estimated tax*—(1) *Allocation of tax attributable to foreign currency.* In determining the amount of estimated tax for purposes of this section, all items of income, deduction, and credit, whether or not attributable to amounts received in nonconvertible foreign currency, shall be taken into account. The portion of the estimated tax which is attributable to amounts to be received during the taxable year in nonconvertible foreign currency

shall be determined consistently with the manner prescribed by § 301.6316–3.

(2) *Example.* (i) For the calendar year 1955 Mr. Jones and his wife filed a joint declaration of estimated tax in the determination of which the adjusted gross income was estimated to be as follows, after amounts to be received in foreign currency had been properly translated into U.S. dollars for tax computation purposes:

Fulbright grant to be received by Mr. Jones in nonconvertible foreign currency	$8,000
Dividends to be received by Mr. Jones entitled to dividends-received credit	875
Compensation to be received by Mrs. Jones for personal services	3,000
Net profit to be derived from business carried on by Mrs. Jones	1,625
Total estimated adjusted gross income	13,000

(ii) The following amounts were determined to be allowable as properly deductible from estimated adjusted gross income, no determination being made as to whether or not any part of them was properly allocable to the Fulbright grant:

Deduction for personal exemptions	$3,000
Charitable contributions	300
Interest expense	400
Taxes	300
Total allowable deductions	4,000

(iii) The following estimated amounts were determined to be allowable as credits against the tax for the taxable year:

Foreign tax credit for foreign taxes to be paid on Fulbright grant	$300.00
Credit for income tax expected to be withheld upon compensation of Mrs. Jones	304.80
Dividends-received credit	15.00
Total allowable estimated credits	619.80

(iv) The portion of the estimated tax which is attributable to amounts to be received during the taxable year in nonconvertible foreign currency is $893.88, determined as follows:

Estimated adjusted gross income	$13,000.00
Less: Allowable deductions	4,000.00
Estimated taxable income	9,000.00
Tax computed under section 2	1,940.00
Ratio of estimated adjusted gross income to be received in nonconvertible foreign currency to entire estimated adjusted gross income ($8,000 ÷ $13,000) (percent)	61.54
Portion of above tax attributable to nonconvertible foreign currency ($1,940 × 61.54 percent)	1,193.88
Less: Credit for foreign taxes expected to be paid on Fulbright grant	300.00
Portion of estimated tax which is attributable to amounts to be received during the taxable year in nonconvertible foreign currency	893.88

(v) The portion of the estimated tax which is payable in U.S. dollars is $426.32, determined as follows:

Tax computed under section 2	$1,940.00
Less: Total allowable estimated credits	619.80
Total estimated tax	1,320.20
Less: Portion of estimated tax payable in foreign currency	893.88
Portion of estimated tax payable in U.S. dollars	426.32

(c) *Payment of estimated tax.* (1) The provisions of § 301.6316–5 relating to the certified statement, determination of the tax, and the depositing of the foreign currency shall apply for purposes of this section. The full amount of estimated tax payable in foreign currency, as determined under paragraph (b) of this section, may be deposited before the date prescribed for the payment thereof.

(2) Every taxpayer making a deposit of foreign currency in accordance with this paragraph shall tender to the Director of International Operations, Internal Revenue Service, Washington, D.C. 20225, the original of the receipt from the disbursing officer as payment, to the extent of the amount represented thereby in U.S. dollars, of the estimated tax. For the dates prescribed for the payment of estimated tax, see sections 6153 and 6161 and §§ 1.6153–1 to 1.6153–4, inclusive, and § 1.6161–1 of this chapter (Income Tax Regulations). A taxpayer should make the deposit required by this paragraph in ample time to permit him to tender such receipt by the date prescribed for payment of the estimated tax.

(d) *Credit on return for the taxable year.* The receipt given by the disbursing officer of the Department of State and tendered in payment of estimated tax under this section shall, for purposes of paragraph (a)(2) of § 301.6316–3, be considered as payment on account of the tax for the taxable year. The amount so considered to be paid shall be the amount in U.S. dollars represented by the receipt.

§ 301.6316–7 Payment of Federal Insurance Contributions Act taxes in foreign currency.

(a) *In general*. The taxes imposed on employees and employers by sections 3101 and 3111, respectively, of chapter 21 of the Code (Federal Insurance Contributions Act) or the corresponding sections of the Internal Revenue Code of 1939 may, with respect to wages (as defined in section 3121(a) of chapter 21 of the Code or the corresponding section of the Internal Revenue Code of 1939) paid in nonconvertible foreign currency (as defined in paragraph (b) of § 301.6316–2) for services performed on or after January 1, 1951, be paid in that currency if all such wages—

(1) Are paid from funds made available to a foundation or commission established in a foreign country pursuant to an agreement made under the authority of section 32(b) of the Surplus Property Act of 1944, as amended (50 U.S.C. App. 1641(b)(2)), or established or continued pursuant to an agreement made under authority of the Mutual Educational and Cultural Exchange Act of 1961, as amended (22 U.S.C. 2451); and

(2) Are paid to a U.S. citizen for services performed in the employ of such foundation or commission.

(b) *Return requirements*—(1) *Statements required*. (i) A return on which payment of Federal Insurance Contributions Act taxes is made in accordance with this section shall have attached thereto a statement, certified by the foundation or commission filing the return, stating that the foundation or commission is an organization established pursuant to an agreement made under authority of section 32(b) of the Surplus Property Act of 1944, as amended, or established or continued pursuant to an agreement made under authority of the Mutual Educational and Cultural Exchange Act of 1961, as amended.

(ii) The taxpayer shall also attach to the return a statement showing the rates of exchange used in determining in United States dollars the wages reported on the return and the taxes due with respect thereto. See paragraph (c)(1) of this section.

(2) *Cross references*. For the place for filing returns of the Federal Insurance Contributions Act taxes, see § 31.6091–1(c) of this chapter (Employment Tax Regulations). For the time for filing returns of the Federal Insurance Contributions Act taxes, see § 31.6071(a)–1 of this chapter (Employment Tax Regulations).

(c) *Payment of tax*—(1) *Determination of the tax*. In determining in U.S. dollars the wages required to be reported on the return and the taxes due with respect thereto, the taxpayer shall use the rate of exchange which most clearly reflects the correct equivalent in dollars, whether it be the official rate, the open market rate, or any other appropriate rate.

(2) *Deposit of foreign currency with disbursing officer*. (i) After determination is made in U.S. dollars of the Federal Insurance Contributions Act taxes with respect to wages paid in nonconvertible foreign currency, the amount so determined shall be deposited in the same nonconvertible foreign currency with the disbursing officer of the Department of State for the foreign country where the fund is located from which such wages were paid. The amount of the foreign currency to be deposited shall be that amount which, when converted at the rate of exchange used on the date of deposit by the disbursing officer for the acquisition of such currency for his official disbursements, equals the taxes determined in U.S. dollars.

(ii) The disbursing officer may rely upon the taxpayer for the determination of the amount of tax payable in foreign currency but may not accept any such currency for deposit until the taxpayer has presented for inspection the certified statement referred to in paragraph (b)(1) of this section. Upon acceptance of foreign currency for deposit the disbursing officer shall give the taxpayer a receipt in duplicate showing the name and address of the depositor, the date of the deposit, the amount of foreign currency deposited and its equivalent in U.S. dollars on the date of deposit, and the kind of tax for which the deposit is made.

(iii) Every taxpayer making a deposit of foreign currency in accordance with this paragraph shall attach to the return required to be filed in accordance with paragraph (b) of this section the

original of the receipt given by the disbursing officer. Tender of such receipt to the Director of International Operations shall be considered as payment of tax in an amount equal to the U.S. dollars represented by the receipt.

(iv) A taxpayer shall make the deposit required by this paragraph in ample time to permit it to attach the receipt to its return for filing within the time prescribed by § 31.6071(a)–1 of this chapter (Employment Tax Regulations).

§ 301.6316–8 Refunds and credits in foreign currency.

(a) *Refunds*. The refund of any overpayment of tax which has been paid under section 6316 in foreign currency may, in the discretion of the Commissioner, be made in the same foreign currency by which the tax was paid. The amount of any such refund made in foreign currency shall be the amount of the overpayment in U.S. dollars converted, on the date of the refund check, at the rate of exchange then used for his official disbursements by the disbursing officer of the Department of State in the country where the foreign currency was originally deposited.

(b) *Credits*. Unless otherwise in the best interest of the Internal Revenue Service, no credit of any overpayment of tax which has been paid under section 6316 in foreign currency shall be allowed against any outstanding liability of the person making the overpayment except in respect of that portion or the liability which, in accordance with § 301.6316–1 or § 301.6316–7, would otherwise be permitted to be paid in the same foreign currency.

§ 301.6316–9 Interest, additions to tax, etc.

Any reference in §§ 301.6316–1 to 301.6316–8, inclusive, to ''tax'' shall be deemed also to refer to the interest, additions to the tax, additional amounts, and penalties attributable to the tax.

LIEN FOR TAXES

§ 301.6320–1 Notice and opportunity for hearing upon filing of notice of Federal tax lien.

(a) *Notification*—(1) *In general*. For a notice of Federal tax lien (NFTL) filed on or after January 19, 1999, the Commissioner, or his or her delegate (the Commissioner), will prescribe procedures to notify the person described in section 6321 of the filing of a NFTL not more than five business days after the date of any such filing. The Collection Due Process Hearing Notice (CDP Notice) and other notices given under section 6320 must be given in person, left at the dwelling or usual place of business of such person, or sent by certified or registered mail to such person's last known address, not more than five business days after the day the NFTL was filed. For further guidance regarding the definition of last known address, see Sec. 301.6212–2.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (a) as follows:

Q-A1. Who is the person entitled to notice under section 6320?

A-A1. Under section 6320(a)(1), notification of the filing of a NFTL on or after January 19, 1999, is required to be given only to the person described in section 6321 who is named on the NFTL that is filed. The person described in section 6321 is the person liable to pay the tax due after notice and demand who refuses or neglects to pay the tax due (hereinafter, referred to as the taxpayer).

Q-A2. When will the Internal Revenue Service (IRS) provide the notice required under section 6320?

A-A2. The IRS will provide this notice within five business days after the filing of the NFTL.

Q-A3. Will the IRS give notification to the taxpayer for each tax period listed in a NFTL filed on or after January 19, 1999?

A-A3. Yes. A NFTL can be filed for more than one tax period. The notification of the filing of a NFTL will specify each unpaid tax and tax period listed in the NFTL.

Q-A4. Will the IRS give notification to the taxpayer of any filing of a NFTL for the same tax period or periods at another place of filing?

A-A4. Yes. The IRS will notify a taxpayer when a NFTL is filed on or after January 19, 1999, for a tax period or periods at any recording office.

Q-A5. Will the IRS give notification to the taxpayer if a NFTL is filed on or

after January 19, 1999, for a tax period or periods for which a NFTL was filed in another recording office prior to that date?

A-A5. Yes. The IRS will notify a taxpayer when each NFTL is filed on or after January 19, 1999, for a tax period or periods at any recording office.

Q-A6. Will the IRS give notification to the taxpayer when a NFTL is refiled on or after January 19, 1999?

A-A6. No. Section 6320(a)(1) does not require the IRS to notify the taxpayer of the refiling of a NFTL. A taxpayer may, however, seek reconsideration by the IRS office that is collecting the tax or refiling the NFTL, an administrative hearing before the IRS Office of Appeals (Appeals), or assistance from the National Taxpayer Advocate.

Q-A7. Will the IRS give notification to a known nominee of, or a person holding property of, the taxpayer of the filing of the NFTL?

A-A7. No. Such person is not the person described in section 6321 and, therefore, is not entitled to notice, but such persons have other remedies. See A-B5 of paragraph (b)(2) of this section.

Q-A8. Will the IRS give notification to the taxpayer when a subsequent NFTL is filed for the same period or periods?

A-A8. Yes. If the IRS files an additional NFTL with respect to the same tax period or periods for which an original NFTL was filed, the IRS will notify the taxpayer when the subsequent NFTL is filed. Not all such notices will, however, give rise to a right to a CDP hearing (see paragraph (b) of this section).

Q-A9. How will notification under section 6320 be accomplished?

A-A9. The IRS will notify the taxpayer by letter. Included with this letter will be the additional information the IRS is required to provide taxpayers as well as, when appropriate, a Form 12153, Request for a Due Process Hearing. The IRS may effect delivery of the letter (and accompanying materials) in one of three ways: by delivering the notice personally to the taxpayer; by leaving the notice at the taxpayer's dwelling or usual place of business; or by mailing the notice to the taxpayer at his last known address by certified or registered mail.

Q-A10. What must a CDP Notice given under section 6320 include?

A-A10. These notices must include, in simple and nontechnical terms:

(i) The amount of the unpaid tax.

(ii) A statement concerning the taxpayer's right to request a CDP hearing during the 30-day period that commences the day after the end of the five business day period within which the IRS is required to provide the taxpayer with notice of the filing of the NFTL.

(iii) The administrative appeals available to the taxpayer with respect to the NFTL and the procedures relating to such appeals.

(iv) The statutory provisions and the procedures relating to the release of liens on property.

Q-A11. What are the consequences if the taxpayer does not receive or accept a CDP Notice that is properly left at the taxpayer's dwelling or usual place of business, or sent by certified or registered mail to the taxpayer's last known address?

A-A11. A CDP Notice properly sent by certified or registered mail to the taxpayer's last known address or left at the taxpayer's dwelling or usual place of business is sufficient to start the 30-day period, commencing the day after the end of the five business day notification period, within which the taxpayer may request a CDP hearing. Actual receipt is not a prerequisite to the validity of the CDP Notice.

Q-A12. What if the taxpayer does not receive the CDP Notice because the IRS did not send that notice by certified or registered mail to the taxpayer's last known address, or failed to leave it at the dwelling or usual place of business of the taxpayer, and the taxpayer fails to request a CDP hearing with Appeals within the 30-day period commencing the day after the end of the five business day notification period?

A-A12. A NFTL becomes effective upon filing. The validity and priority of a NFTL is not conditioned on notification to the taxpayer pursuant to section 6320. Therefore, the failure to notify the taxpayer concerning the filing of a NFTL does not affect the validity or priority of the NFTL. When the IRS determines that it failed properly to provide a taxpayer with a CDP Notice,

it will promptly provide the taxpayer with a substitute CDP Notice and provide the taxpayer with an opportunity to request a CDP hearing. Substitute CDP Notices are discussed in Q&A-B3 of paragraph (b)(2) and Q&A-C8 of paragraph (c)(2) of this section.

(3) *Examples*. The following examples illustrate the principles of this paragraph (a):

Example 1. H and W are jointly and severally liable with respect to a jointly filed income tax return for 1996. IRS files a NFTL with respect to H and W in County X on January 26, 1999. This is the first NFTL filed on or after January 19, 1999, for their 1996 liability. H and W will each be notified of the filing of the NFTL.

Example 2. Employment taxes for 1997 are assessed against ABC Corporation. A NFTL is filed against ABC Corporation for the 1997 liability in County X on June 5, 1998. A NFTL is filed against ABC Corporation for the 1997 liability in County Y on June 17, 1999. The IRS will notify the ABC Corporation with respect to the filing of the NFTL in County Y.

Example 3. Federal income tax liability for 1997 is assessed against individual D. D buys an asset and puts it in individual E's name. A NFTL is filed against D in County X on June 5, 1999, for D's federal income tax liability for 1997. On June 17, 1999, a NFTL for the same tax liability is filed in County Y against E, as nominee of D. The IRS will notify D of the filing of the NFTL in both County X and County Y. The IRS will not notify E of the NFTL filed in County X. The IRS is not required to notify E of the NFTL filed in County Y. Although E is named on the NFTL filed in County Y, E is not the person described in section 6321 (the taxpayer) who is named on the NFTL.

(b) *Entitlement to a CDP hearing*—(1) *In general*. A taxpayer is entitled to one CDP hearing with respect to the first filing of a NFTL (on or after January 19, 1999) for a given tax period or periods with respect to the unpaid tax shown on the NFTL if the taxpayer timely requests such a hearing. The taxpayer must request such a hearing during the 30-day period that commences the day after the end of the five business day period within which the IRS is required to provide the taxpayer with notice of the filing of the NFTL.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (b) as follows:

Q-B1. Is a taxpayer entitled to a CDP hearing with respect to the filing of a NFTL for a type of tax and tax periods previously subject to a CDP Notice with respect to a NFTL filed in a different location on or after January 19, 1999?

A-B1. No. Although the taxpayer will receive notice of each filing of a NFTL, under section 6320(b)(2), the taxpayer is entitled to only one CDP hearing under section 6320 for the type of tax and tax periods with respect to the first filing of a NFTL that occurs on or after January 19, 1999, with respect to that unpaid tax. Accordingly, if the taxpayer does not timely request a CDP hearing with respect to the first filing of a NFTL on or after January 19, 1999, for a given tax period or periods with respect to an unpaid tax, the taxpayer forgoes the right to a CDP hearing with Appeals and judicial review of the Appeals determination with respect to the NFTL. Under such circumstances, the taxpayer may request an equivalent hearing as described in paragraph (i) of this section.

Q-B2. Is the taxpayer entitled to a CDP hearing when a NFTL for an unpaid tax is filed on or after January 19, 1999, in one recording office and a NFTL was previously filed for the same unpaid tax in another recording office prior to that date?

A-B2. Yes. Under section 6320(b)(2), the taxpayer is entitled to a CDP hearing under section 6320 for each tax period with respect to the first filing of a NFTL on or after January 19, 1999, with respect to an unpaid tax, whether or not a NFTL was filed prior to January 19, 1999, for the same unpaid tax and tax period or periods.

Q-B3. When the IRS provides the taxpayer with a substitute CDP Notice and the taxpayer timely requests a CDP hearing, is the taxpayer entitled to a CDP hearing before Appeals?

A-B3. Yes. Unless the taxpayer provides the IRS a written withdrawal of the request that Appeals conduct a CDP hearing, the taxpayer is entitled to a CDP hearing before Appeals. Following the hearing, Appeals will issue a Notice of Determination, and the taxpayer is entitled to seek judicial review of that Notice of Determination.

Q-B4. If the IRS sends a second CDP Notice under section 6320 (other than a substitute CDP Notice) for a tax period

and with respect to an unpaid tax for which a section 6320 CDP Notice was previously sent, is the taxpayer entitled to a section 6320 CDP hearing based on the second CDP Notice?

A-B4. No. The taxpayer is entitled to a CDP hearing under section 6320 for each tax period only with respect to the first filing of a NFTL on or after January 19, 1999, with respect to an unpaid tax.

Q-B5. Is a nominee of, or a person holding property of, the taxpayer entitled to a CDP hearing or an equivalent hearing?

A-B5. No. Such person is not the person described in section 6321 and is, therefore, not entitled to a CDP hearing or an equivalent hearing (as discussed in paragraph (i) of this section). Such person, however, may seek reconsideration by the IRS office collecting the tax or filing the NFTL, an administrative hearing before Appeals under its Collection Appeals Program, or assistance from the National Taxpayer Advocate. However, any such administrative hearing would not be a CDP hearing under section 6320 and any determination or decision resulting from the hearing would not be subject to judicial review under section 6320. Such person also may avail himself of the administrative procedure included in section 6325(b)(4) or of any other procedures to which he is entitled.

(3) *Examples*. The following examples illustrate the principles of this paragraph (b):

Example 1. H and W are jointly and severally liable with respect to a jointly filed income tax return for 1996. The IRS files a NFTL with respect to H and W in County X on January 26, 1999. This is the first NFTL filed on or after January 19, 1999, for their 1996 liability. H and W are each entitled to a CDP hearing with respect to the NFTL filed in County X. On June 17, 1999, a NFTL for the same tax liability is filed against H and W in County Y. The IRS will give H and W notification of the NFTL filed in County Y. H and W, however, are not entitled to a CDP hearing or an equivalent hearing with respect to the NFTL filed in County Y.

Example 2. Federal income tax liability for 1997 is assessed against individual D. D buys an asset and puts it in individual E's name. A NFTL is filed against E, as nominee of D in County X on June 5, 1999, for D's federal income tax liability for 1997. The IRS will give D a CDP Notice with respect to the NFTL filed in County X. The IRS will not notify E of the NFTL filed in County X. The IRS is not required to notify E of the filing of the NFTL in County X. Although E is named on the NFTL filed in County X, E is not the person described in section 6321 (the taxpayer) who is named on the NFTL.

(c) *Requesting a CDP hearing*—(1) *In general*. When a taxpayer is entitled to a CDP hearing under section 6320, the CDP hearing must be requested during the 30-day period that commences the day after the end of the five business day period within which the IRS is required to provide the taxpayer with a CDP Notice with respect to the filing of the NFTL.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (c) as follows:

Q-C1. What must a taxpayer do to obtain a CDP hearing?

A-C1. (i) The taxpayer must make a request in writing for a CDP hearing. The request for a CDP hearing shall include the information and signature specified in A–C1(ii) of this paragraph (c)(2). See A–D7 and A–D8 of paragraph (d)(2).

(ii) The written request for a CDP hearing must be dated and must include the following:

(A) The taxpayer's name, address, daytime telephone number (if any), and taxpayer identification number (e.g., SSN, ITIN or EIN).

(B) The type of tax involved.

(C) The tax period at issue.

(D) A statement that the taxpayer requests a hearing with Appeals concerning the filing of the NFTL.

(E) The reason or reasons why the taxpayer disagrees with the filing of the NFTL.

(F) The signature of the taxpayer or the taxpayer's authorized representative.

(iii) If the IRS receives a timely written request for CDP hearing that does not satisfy the requirements set forth in A–C1(ii) of this paragraph (c)(2), the IRS will make a reasonable attempt to contact the taxpayer and request that the taxpayer comply with the unsatisfied requirements. The taxpayer must perfect any timely written request for a CDP hearing that does not satisfy the requirements set forth in A–C1(ii) of this paragraph (c)(2) within a

reasonable period of time after a request from the IRS.

(iv) Taxpayers are encouraged to use Form 12153, ''Request for a Collection Due Process Hearing,'' in requesting a CDP hearing so that the request can be readily identified and forwarded to Appeals. Taxpayers may obtain a copy of Form 12153 by contacting the IRS office that issued the CDP Notice, by downloading a copy from the IRS Internet site, *http://www.irs.gov/pub/irs-pdf/f12153.pdf*, or by calling, toll-free, 1–800–829–3676.

(v) The taxpayer must affirm any timely written request for a CDP hearing which is signed or alleged to have been signed on the taxpayer's behalf by the taxpayer's spouse or other unauthorized representative by filing, within a reasonable period of time after a request from the IRS, a signed, written affirmation that the request was originally submitted on the taxpayer's behalf. If the affirmation is filed within a reasonable period of time after a request, the timely CDP hearing request will be considered timely with respect to the non-signing taxpayer. If the affirmation is not filed within a reasonable period of time after a request, the CDP hearing request will be denied with respect to the non-signing taxpayer.

Q-C2. Must the request for the CDP hearing be in writing?

A-C2. Yes. There are several reasons why the request for a CDP hearing must be in writing. The filing of a timely request for a CDP hearing is the first step in what may result in a court proceeding. A written request will provide proof that the CDP hearing was requested and thus permit the court to verify that it has jurisdiction over any subsequent appeal of the Notice of Determination issued by Appeals. In addition, the receipt of the written request will establish the date on which the periods of limitation under section 6502 (relating to collection after assessment), section 6531 (relating to criminal prosecutions), and section 6532 (relating to suits) are suspended as a result of the CDP hearing and any judicial appeal. Moreover, because the IRS anticipates that taxpayers will contact the IRS office that issued the CDP Notice for further information or assistance in filling out Form 12153, or to attempt to resolve their liabilities prior to going through the CDP hearing process, the requirement of a written request should help prevent any misunderstanding as to whether a CDP hearing has been requested. If the information requested on Form 12153 is furnished by the taxpayer, the written request also will help to establish the issues for which the taxpayer seeks a determination by Appeals.

Q-C3. When must a taxpayer request a CDP hearing with respect to a CDP Notice issued under section 6320?

A-C3. A taxpayer must submit a written request for a CDP hearing within the 30-day period that commences the day after the end of the five business day period following the filing of the NFTL. Any request filed during the five business day period (before the beginning of the 30-day period) will be deemed to be filed on the first day of the 30-day period. The period for submitting a written request for a CDP hearing with respect to a CDP Notice issued under section 6320 is slightly different from the period for submitting a written request for a CDP hearing with respect to a CDP Notice issued under section 6330. For a CDP Notice issued under section 6330, the taxpayer must submit a written request for a CDP hearing within the 30-day period commencing the day after the date of the CDP Notice.

Q-C4. How will the timeliness of a taxpayer's written request for a CDP hearing be determined?

A-C4. The rules and regulations under section 7502 and section 7503 will apply to determine the timeliness of the taxpayer's request for a CDP hearing, if properly transmitted and addressed as provided in A-C6 of this paragraph (c)(2).

Q-C5. Is the 30-day period within which a taxpayer must make a request for a CDP hearing extended because the taxpayer resides outside the United States?

A-C5. No. Section 6320 does not make provision for such a circumstance. Accordingly, all taxpayers who want a CDP hearing under section 6320 must request such a hearing within the 30-day period that commences the day

after the end of the five business day notification period.

Q-C6. Where must the written request for a CDP hearing be sent?

A-C6. The written request for a CDP hearing must be sent, or hand delivered (if permitted), to the IRS office and address as directed on the CDP Notice. If the address of that office does not appear on the CDP Notice, the taxpayer should obtain the address of the office to which the written request should be sent or hand delivered by calling, toll-free, 1–800–829–1040 and providing the taxpayer's identification number (e.g., SSN, ITIN or EIN).

Q-C7. What will happen if the taxpayer does not request a CDP hearing in writing within the 30-day period that commences the day after the end of the five business day notification period?

A-C7. If the taxpayer does not request a CDP hearing in writing within the 30-day period that commences on the day after the end of the five-business-day notification period, the taxpayer foregoes the right to a CDP hearing under section 6320 with respect to the unpaid tax and tax periods shown on the CDP Notice. A written request submitted within the 30-day period that does not satisfy the requirements set forth in A–C1(ii)(A), (B), (C), (D) or (F) of this paragraph (c)(2) is considered timely if the request is perfected within a reasonable period of time pursuant to A–C1(iii) of this paragraph (c)(2). If the request for CDP hearing is untimely, either because the request was not submitted within the 30-day period or not perfected within the reasonable period provided, the taxpayer will be notified of the untimeliness of the request and offered an equivalent hearing. In such cases, the taxpayer may obtain an equivalent hearing without submitting an additional request. See paragraph (i) of this section.

Q-C8. When must a taxpayer request a CDP hearing with respect to a substitute CDP Notice?

A-C8. A CDP hearing with respect to a substitute CDP Notice must be requested in writing by the taxpayer prior to the end of the 30-day period commencing the day after the date of the substitute CDP Notice.

Q-C9. Can taxpayers attempt to resolve the matter of the NFTL with an officer or employee of the IRS office collecting the tax or filing the NFTL either before or after requesting a CDP hearing?

A-C9. Yes. Taxpayers are encouraged to discuss their concerns with the IRS office collecting the tax or filing the NFTL, either before or after they request a CDP hearing. If such a discussion occurs before a request is made for a CDP hearing, the matter may be resolved without the need for Appeals consideration. However, these discussions do not suspend the running of the 30-day period, commencing the day after the end of the five business day notification period, within which the taxpayer is required to request a CDP hearing, nor do they extend that 30-day period. If discussions occur after the request for a CDP hearing is filed and the taxpayer resolves the matter with the IRS office collecting the tax or filing the NFTL, the taxpayer may withdraw in writing the request that a CDP hearing be conducted by Appeals. The taxpayer can also waive in writing some or all of the requirements regarding the contents of the Notice of Determination.

(3) *Examples*. The following examples illustrate the principles of this paragraph (c):

Example 1. A NFTL for a 1997 income tax liability assessed against individual A is filed in County X on June 17, 1999. The IRS mails a CDP Notice to individual A's last known address on June 18, 1999. Individual A has until July 26, 1999, a Monday, to request a CDP hearing. The five business day period within which the IRS is required to notify individual A of the filing of the NFTL in County X expires on June 24, 1999. The 30-day period within which individual A may request a CDP hearing begins on June 25, 1999. Because the 30-day period expires on July 24, 1999, a Saturday, individual A's written request for a CDP hearing will be considered timely if it is properly transmitted and addressed to the IRS in accordance with section 7502 and the regulations thereunder no later than July 26, 1999.

Example 2. Same facts as in *Example 1*, except that individual A is on vacation, outside the United States, or otherwise does not receive or read the CDP Notice until July 19, 1999. As in *Example 1*, individual A has until July 26, 1999, to request a CDP hearing. If individual A does not request a CDP hearing,

individual A may request an equivalent hearing as to the NFTL at a later time. The taxpayer should make a request for an equivalent hearing at the earliest possible time.

Example 3. Same facts as in *Example 2*, except that individual A does not receive or read the CDP Notice until after July 26, 1999, and does not request a hearing by July 26, 1999. Individual A is not entitled to a CDP hearing. Individual A may request an equivalent hearing as to the NFTL at a later time. The taxpayer should make a request for an equivalent hearing at the earliest possible time.

Example 4. Same facts as in *Example 1*, except the IRS determines that the CDP Notice mailed on June 18, 1999, was not mailed to individual A's last known address. As soon as practicable after making this determination, the IRS will mail a substitute CDP Notice to individual A at individual A's last known address, hand deliver the substitute CDP Notice to individual A, or leave the substitute CDP Notice at individual A's dwelling or usual place of business. Individual A will have 30 days commencing on the day after the date of the substitute CDP Notice within which to request a CDP hearing.

(d) *Conduct of CDP hearing*—(1) *In general.* If a taxpayer requests a CDP hearing under section 6320(a)(3)(B) (and does not withdraw that request), the CDP hearing will be held with Appeals. The taxpayer is entitled under section 6320 to a CDP hearing for the unpaid tax and tax periods set forth in a NFTL only with respect to the first filing of a NFTL on or after January 19, 1999. To the extent practicable, the CDP hearing requested under section 6320 will be held in conjunction with any CDP hearing the taxpayer requests under section 6330. A CDP hearing will be conducted by an employee or officer of Appeals who, prior to the first CDP hearing under section 6320 or section 6330, has had no involvement with respect to the unpaid tax for the tax periods to be covered by the hearing, unless the taxpayer waives this requirement.

(2) *Questions and answers.* The questions and answers illustrate the provisions of this paragraph (d) as follows:

Q-D1. Under what circumstances can a taxpayer receive more than one CDP hearing under section 6320 with respect to a tax period?

A-D1. The taxpayer may receive more than one CDP hearing under section 6320 with respect to a tax period where the tax involved is a different type of tax (for example, an employment tax liability, where the original CDP hearing for the tax period involved an income tax liability), or where the same type of tax for the same period is involved, but where the amount of the unpaid tax has changed as a result of an additional assessment of tax (not including interest or penalties) for that period or an additional accuracy-related or filing-delinquency penalty has been assessed. The taxpayer is not entitled to another CDP hearing under section 6320 if the additional assessment represents accruals of interest, accruals of penalties, or both.

Q-D2. Will a CDP hearing with respect to one tax period be combined with a CDP hearing with respect to another tax period?

A-D2. To the extent practicable, a CDP hearing with respect to one tax period shown on the NFTL will be combined with any and all other CDP hearings which the taxpayer has requested.

Q-D3. Will a CDP hearing under section 6320 be combined with a CDP hearing under section 6330?

A-D3. To the extent practicable, a CDP hearing under section 6320 will be held in conjunction with a CDP hearing under section 6330.

Q-D4. What is considered to be prior involvement by an employee or officer of Appeals with respect to the unpaid tax and tax period involved in the hearing?

A-D4. Prior involvement by an Appeals officer or employee includes participation or involvement in a matter (other than a CDP hearing held under either section 6320 or section 6330) that the taxpayer may have had with respect to the tax and tax period shown on the CDP Notice. Prior involvement exists only when the taxpayer, the tax and the tax period at issue in the CDP hearing also were at issue in the prior non-CDP matter, and the Appeals officer or employee actually participated in the prior matter.

Q-D5. How can a taxpayer waive the requirement that the officer or employee of Appeals have no prior involvement with respect to the tax and tax periods involved in the CDP hearing?

A-D5. The taxpayer must sign a written waiver.

Q-D6. How are CDP hearings conducted?

A-D6. The formal hearing procedures required under the Administrative Procedure Act, 5 U.S.C. 551 *et seq.*, do not apply to CDP hearings. CDP hearings are much like Collection Appeal Program (CAP) hearings in that they are informal in nature and do not require the Appeals officer or employee and the taxpayer, or the taxpayer's representative, to hold a face-to-face meeting. A CDP hearing may, but is not required to, consist of a face-to-face meeting, one or more written or oral communications between an Appeals officer or employee and the taxpayer or the taxpayer's representative, or some combination thereof. A transcript or recording of any face-to-face meeting or conversation between an Appeals officer or employee and the taxpayer or the taxpayer's representative is not required. The taxpayer or the taxpayer's representative does not have the right to subpoena and examine witnesses at a CDP hearing.

Q-D7. If a taxpayer wants a face-to-face CDP hearing, where will it be held?

A-D7. Except as provided in A–D8 of this paragraph (d)(2), a taxpayer who presents in the CDP hearing request relevant, non-frivolous reasons for disagreement with the NFTL filing will ordinarily be offered an opportunity for a face-to-face conference at the Appeals office closest to taxpayer's residence. A business taxpayer will ordinarily be offered an opportunity for a face-to-face conference at the Appeals office closest to the taxpayer's principal place of business. If that is not satisfactory to the taxpayer, the taxpayer will be given an opportunity for a hearing by telephone or by correspondence. In all cases, the Appeals officer or employee will review the case file, as described in A–F4 of paragraph (f)(2). If no face-to-face or telephonic conference is held, or other oral communication takes place, review of the documents in the case file, as described in A–F4 of paragraph (f)(2), will constitute the CDP hearing for purposes of section 6320(b).

Q-D8. In what circumstances will a face-to-face CDP conference not be granted?

A-D8. A taxpayer is not entitled to a face-to-face CDP conference at a location other than as provided in A–D7 of this paragraph (d)(2) and this A–D8. If all Appeals officers or employees at the location provided for in A–D7 of this paragraph (d)(2) have had prior involvement with the taxpayer as provided in A–D4 of this paragraph (d)(2), the taxpayer will not be offered a face-to-face conference at that location, unless the taxpayer elects to waive the requirement of section 6320(b)(3). The taxpayer will be offered a face-to-face conference at another Appeals office if Appeals would have offered the taxpayer a face-to-face conference at the location provided in A–D7 of this paragraph (d)(2), but for the disqualification of all Appeals officers or employees at that location. A face-to-face CDP conference concerning a taxpayer's underlying liability will not be granted if the request for a hearing or other taxpayer communication indicates that the taxpayer wishes only to raise irrelevant or frivolous issues concerning that liability. A face-to-face CDP conference concerning a collection alternative, such as an installment agreement or an offer to compromise liability, will not be granted unless other taxpayers would be eligible for the alternative in similar circumstances. For example, because the IRS does not consider offers to compromise from taxpayers who have not filed required returns or have not made certain required deposits of tax, as set forth in Form 656, ''Offer in Compromise,'' no face-to-face conference will be granted to a taxpayer who wishes to make an offer to compromise but has not fulfilled those obligations. Appeals in its discretion, however, may grant a face-to-face conference if Appeals determines that a face-to-face conference is appropriate to explain to the taxpayer the requirements for becoming eligible for a collection alternative. In all cases, a taxpayer will be given an opportunity to demonstrate eligibility for a collection alternative and to become eligible for a collection alternative, in order to obtain a face-to-face conference. For purposes of determining whether a face-to-face conference will be granted, the determination of a taxpayer's eligibility for a collection alternative is made

without regard to the taxpayer's ability to pay the unpaid tax. A face-to-face conference need not be granted if the taxpayer does not provide the required information set forth in A–C1(ii)(E) of paragraph (c)(2). See also A–C1(iii) of paragraph (c)(2).

(3) *Examples.* The following examples illustrate the principles of this paragraph (d):

Example 1. Individual A timely requests a CDP hearing concerning a NFTL filed with respect to the 1998 income tax liability assessed against individual A. Appeals employee B previously conducted a CDP hearing regarding a proposed levy for individual A's 1998 income tax liability. Because employee B's only prior involvement with individual A's 1998 income tax liability was in connection with a section 6330 CDP hearing, employee B may conduct the CDP hearing under section 6320 involving the NFTL filed for the 1998 income tax liability.

Example 2. Individual C timely requests a CDP hearing concerning a NFTL filed with respect to the 1998 income tax liability assessed against individual C. Appeals employee D previously conducted a Collection Appeals Program (CAP) hearing regarding a NFTL filed with respect to individual C's 1998 income tax liability. Because employee D's prior involvement with individual C's 1998 income tax liability was in connection with a non-CDP hearing, employee D may not conduct the CDP hearing under section 6320 unless individual C waives the requirement that the hearing will be conducted by an Appeals officer or employee who has had no prior involvement with respect to individual C's 1998 income tax liability.

Example 3. Same facts as in *Example 2*, except that the prior CAP hearing only involved individual C's 1997 income tax liability and employment tax liabilities for 1998 reported on Form 941, ''Employer's Quarterly Federal Tax Return.'' Employee D would not be considered to have prior involvement because the prior CAP hearing in which she participated did not involve individual C's 1998 income tax liability.

Example 4. Appeals employee F is assigned to a CDP hearing concerning a NFTL filed with respect to a trust fund recovery penalty (TFRP) assessed pursuant to section 6672 against individual E. Appeals employee F participated in a prior CAP hearing involving individual E's 1999 income tax liability, and participated in a CAP hearing involving the employment taxes of business entity X, which incurred the employment tax liability to which the TFRP assessed against individual E relates. Appeals employee F would not be considered to have prior involvement because the prior CAP hearings in which he participated did not directly involve the TFRP assessed against individual E.

Example 5. Appeals employee G is assigned to a CDP hearing concerning a NFTL filed with respect to a TFRP assessed pursuant to section 6672 against individual H. In preparing for the CDP hearing, Appeals employee G reviews the Appeals case file concerning the prior CAP hearing involving the TFRP assessed pursuant to section 6672 against individual H. Appeals employee G is not deemed to have participated in the previous CAP hearing involving the TFRP assessed against individual H by such review.

(e) *Matters considered at CDP hearing*—(1) *In general.* Appeals will determine the timeliness of any request for a CDP hearing that is made by a taxpayer. Appeals has the authority to determine the validity, sufficiency, and timeliness of any CDP Notice given by the IRS and of any request for a CDP hearing that is made by a taxpayer. Prior to issuance of a determination, Appeals is required to obtain verification from the IRS office collecting the tax that the requirements of any applicable law or administrative procedure with respect to the filing of the NFTL have been met. The taxpayer may raise any relevant issue relating to the unpaid tax at the hearing, including appropriate spousal defenses, challenges to the appropriateness of the NFTL filing, and offers of collection alternatives. The taxpayer also may raise challenges to the existence or amount of the underlying liability, including a liability reported on a self-filed return, for any tax period specified on the CDP Notice if the taxpayer did not receive a statutory notice of deficiency for that tax liability or did not otherwise have an opportunity to dispute the tax liability. Finally, the taxpayer may not raise an issue that was raised and considered at a previous CDP hearing under section 6330 or in any other previous administrative or judicial proceeding if the taxpayer participated meaningfully in such hearing or proceeding. Taxpayers will be expected to provide all relevant information requested by Appeals, including financial statements, for its consideration of the facts and issues involved in the hearing.

(2) *Spousal defenses.* A taxpayer may raise any appropriate spousal defenses

at a CDP hearing unless the Commissioner has already made a final determination as to spousal defenses in a statutory notice of deficiency or final determination letter. To claim a spousal defense under section 66 or section 6015, the taxpayer must do so in writing according to rules prescribed by the Commissioner or the Secretary. Spousal defenses raised under sections 66 and 6015 in a CDP hearing are governed in all respects by the provisions of sections 66 and section 6015 and the regulations and procedures thereunder.

(3) *Questions and answers.* The questions and answers illustrate the provisions of this paragraph (e) as follows:

Q-E1. What factors will Appeals consider in making its determination?

A-E1. Appeals will consider the following matters in making its determination:

(i) Whether the IRS met the requirements of any applicable law or administrative procedure.

(ii) Any issues appropriately raised by the taxpayer relating to the unpaid tax.

(iii) Any appropriate spousal defenses raised by the taxpayer.

(iv) Any challenges made by the taxpayer to the appropriateness of the NFTL filing.

(v) Any offers by the taxpayer for collection alternatives.

(vi) Whether the continued existence of the filed NFTL represents a balance between the need for the efficient collection of taxes and the legitimate concern of the taxpayer that any collection action be no more intrusive than necessary.

Q-E2. When is a taxpayer entitled to challenge the existence or amount of the tax liability specified in the CDP Notice?

A-E2. A taxpayer is entitled to challenge the existence or amount of the underlying liability for any tax period specified on the CDP Notice if the taxpayer did not receive a statutory notice of deficiency for such liability or did not otherwise have an opportunity to dispute such liability. Receipt of a statutory notice of deficiency for this purpose means receipt in time to petition the Tax Court for a redetermination of the deficiency determined in the notice of deficiency. An opportunity to dispute the underlying liability includes a prior opportunity for a conference with Appeals that was offered either before or after the assessment of the liability. An opportunity for a conference with Appeals prior to the assessment of a tax subject to deficiency procedures is not a prior opportunity for this purpose.

Q-E3. Are spousal defenses subject to the limitations imposed under section 6330(c)(2)(B) on a taxpayer's right to challenge the tax liability specified in the CDP Notice at a CDP hearing?

A-E3. The limitations imposed under section 6330(c)(2)(B) do not apply to spousal defenses. When a taxpayer asserts a spousal defense, the taxpayer is not disputing the amount or existence of the liability itself, but asserting a defense to the liability which may or may not be disputed. A spousal defense raised under section 66 or section 6015 is governed by section 66 or section 6015 and the regulations and procedures thereunder. Any limitation under those sections, regulations, and procedures therefore will apply.

Q-E4. May a taxpayer raise at a CDP hearing a spousal defense under section 66 or section 6015 if that defense was raised and considered administratively and the Commissioner has issued a statutory notice of deficiency or final determination letter addressing the spousal defense?

A-E4. No. A taxpayer is precluded from raising a spousal defense at a CDP hearing when the Commissioner has made a final determination under section 66 or section 6015 in a final determination letter or statutory notice of deficiency. However, a taxpayer may raise spousal defenses in a CDP hearing when the taxpayer has previously raised spousal defenses, but the Commissioner has not yet made a final determination regarding this issue.

Q-E5. May a taxpayer raise at a CDP hearing a spousal defense under section 66 or section 6015 if that defense was raised and considered in a prior judicial proceeding that has become final?

A-E5. No. A taxpayer is precluded by the doctrine of res judicata and by the specific limitations under section 66 or section 6015 from raising a spousal defense in a CDP hearing under these circumstances.

Q-E6. What collection alternatives are available to the taxpayer?

A-E6. Collection alternatives include, for example, a proposal to withdraw the NFTL in circumstances that will facilitate the collection of the tax liability, subordination of the NFTL, discharge of the NFTL from specific property, an installment agreement, an offer to compromise, the posting of a bond, or the substitution of other assets. A collection alternative is not available unless the alternative would be available to other taxpayers in similar circumstances. See A–D8 of paragraph (d)(2).

Q-E7. What issues may a taxpayer raise in a CDP hearing under section 6320 if the taxpayer previously received a notice under section 6330 with respect to the same tax and tax period and did not request a CDP hearing with respect to that notice?

A–E7. The taxpayer may raise appropriate spousal defenses, challenges to the appropriateness of the NFTL filing, and offers of collection alternatives. The existence or amount of the underlying liability for any tax period specified in the CDP Notice may be challenged only if the taxpayer did not have a prior opportunity to dispute the tax liability. If the taxpayer previously received a CDP Notice under section 6330 with respect to the same tax and tax period and did not request a CDP hearing with respect to that earlier CDP Notice, the taxpayer had a prior opportunity to dispute the existence or amount of the underlying tax liability.

Q-E8. How will Appeals issue its determination?

A-E8. (i) Taxpayers will be sent a dated Notice of Determination by certified or registered mail. The Notice of Determination will set forth Appeals' findings and decisions. It will state whether the IRS met the requirements of any applicable law or administrative procedure; it will resolve any issues appropriately raised by the taxpayer relating to the unpaid tax; it will include a decision on any appropriate spousal defenses raised by the taxpayer; it will include a decision on any challenges made by the taxpayer to the appropriateness of the NFTL filing; it will respond to any offers by the taxpayer for collection alternatives; and it will address whether the continued existence of the filed NFTL represents a balance between the need for the efficient collection of taxes and the legitimate concern of the taxpayer that any collection action be no more intrusive than necessary. The Notice of Determination will also set forth any agreements that Appeals reached with the taxpayer, any relief given the taxpayer, and any actions the taxpayer or the IRS are required to take. Lastly, the Notice of Determination will advise the taxpayer of the taxpayer's right to seek judicial review within 30 days of the date of the Notice of Determination.

(ii) Because taxpayers are encouraged to discuss their concerns with the IRS office collecting the tax or filing the NFTL, certain matters that might have been raised at a CDP hearing may be resolved without the need for Appeals consideration. Unless, as a result of these discussions, the taxpayer agrees in writing to withdraw the request that Appeals conduct a CDP hearing, Appeals will still issue a Notice of Determination. The taxpayer can, however, waive in writing Appeals' consideration of some or all of the matters it would otherwise consider in making its determination.

Q-E9. Is there a period of time within which Appeals must conduct a CDP hearing or issue a Notice of Determination?

A-E9. No. Appeals will, however, attempt to conduct a CDP hearing and issue a Notice of Determination as expeditiously as possible under the circumstances.

Q-E10. Why is the Notice of Determination and its date important?

A-E10. The Notice of Determination will set forth Appeals' findings and decisions with respect to the matters set forth in A-E1 of this paragraph (e)(3). The 30-day period within which the taxpayer is permitted to seek judicial review of Appeals' determination commences the day after the date of the Notice of Determination.

Q-E11. If an Appeals officer considers the merits of a taxpayer's liability in a CDP hearing when the taxpayer had previously received a statutory notice of deficiency or otherwise had an opportunity to dispute the liability prior

to the NFTL, will the Appeals officer's determination regarding those liability issues be considered part of the Notice of Determination?

A-E11. No. An Appeals officer may consider the existence and amount of the underlying tax liability as a part of the CDP hearing only if the taxpayer did not receive a statutory notice of deficiency for the tax liability in question or otherwise have a prior opportunity to dispute the tax liability. Similarly, an Appeals officer may not consider any other issue if the issue was raised and considered at a previous hearing under section 6330 or in any other previous administrative or judicial proceeding in which the person seeking to raise the issue meaningfully participated. In the Appeals officer's sole discretion, however, the Appeals officer may consider the existence or amount of the underlying tax liability, or such other precluded issues, at the same time as the CDP hearing. Any determination, however, made by the Appeals officer with respect to such a precluded issue shall not be treated as part of the Notice of Determination issued by the Appeals officer and will not be subject to any judicial review. Because any decisions made by the Appeals officer on such precluded issues are not properly a part of the CDP hearing, such decisions are not required to appear in the Notice of Determination issued following the hearing. Even if a decision concerning such precluded issues is referred to in the Notice of Determination, it is not reviewable by the Tax Court because the precluded issue is not properly part of the CDP hearing.

(4) *Examples*. The following examples illustrate the principles of this paragraph (e):

Example 1. The IRS sends a statutory notice of deficiency to the taxpayer at his last known address asserting a deficiency for the tax year 1995. The taxpayer receives the notice of deficiency in time to petition the Tax Court for a redetermination of the asserted deficiency. The taxpayer does not timely file a petition with the Tax Court. The taxpayer is precluded from challenging the existence or amount of the tax liability in a subsequent CDP hearing.

Example 2. Same facts as in *Example 1*, except the taxpayer does not receive the notice of deficiency in time to petition the Tax Court and did not have another prior opportunity to dispute the tax liability. The taxpayer is not precluded from challenging the existence or amount of the tax liability in a subsequent CDP hearing.

Example 3. The IRS properly assesses a trust fund recovery penalty against the taxpayer. The IRS offers the taxpayer the opportunity for a conference with Appeals at which the taxpayer would have the opportunity to dispute the assessed liability. The taxpayer declines the opportunity to participate in such a conference. The taxpayer is precluded from challenging the existence or amount of the tax liability in a subsequent CDP hearing.

(f) *Judicial review of Notice of Determination*—(1) *In general*. Unless the taxpayer provides the IRS a written withdrawal of the request that Appeals conduct a CDP hearing, Appeals is required to issue a Notice of Determination in all cases where a taxpayer has timely requested a CDP hearing. The taxpayer may appeal such determinations made by Appeals within the 30-day period commencing the day after the date of the Notice of Determination to the Tax Court.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (f) as follows:

Q-F1. What must a taxpayer do to obtain judicial review of a Notice of Determination?

A-F1. Subject to the jurisdictional limitations described in A–F2 of this paragraph (f)(2), the taxpayer must, within the 30-day period commencing the day after the date of the Notice of Determination, appeal the determination by Appeals to the Tax Court.

Q-F2. With respect to the relief available to the taxpayer under section 6015, what is the time frame within which a taxpayer may seek Tax Court review of Appeals' determination following a CDP hearing?

A-F2. If the taxpayer seeks Tax Court review not only of Appeals' denial of relief under section 6015, but also of relief requested with respect to other issues raised in the CDP hearing, the taxpayer should request Tax Court review within the 30-day period commencing the day after the date of the Notice of Determination. If the taxpayer only seeks Tax Court review of Appeals' denial of relief under section 6015, then the taxpayer should request

Tax Court review, as provided by section 6015(e), within 90 days of Appeals' determination. If a request for Tax Court review is filed after the 30-day period for seeking judicial review under section 6320, then only the taxpayer's section 6015 claims may be reviewable by the Tax Court.

Q-F3. What issue or issues may the taxpayer raise before the Tax Court if the taxpayer disagrees with the Notice of Determination?

A-F3. In seeking Tax Court review of a Notice of Determination, the taxpayer can only ask the court to consider an issue, including a challenge to the underlying tax liability, that was properly raised in the taxpayer's CDP hearing. An issue is not properly raised if the taxpayer fails to request consideration of the issue by Appeals, or if consideration is requested but the taxpayer fails to present to Appeals any evidence with respect to that issue after being given a reasonable opportunity to present such evidence.

Q-F4. What is the administrative record for purposes of Tax Court review?

A-F4. The case file, including the taxpayer's request for hearing, any other written communications and information from the taxpayer or the taxpayer's authorized representative submitted in connection with the CDP hearing, notes made by an Appeals officer or employee of any oral communications with the taxpayer or the taxpayer's authorized representative, memoranda created by the Appeals officer or employee in connection with the CDP hearing, and any other documents or materials relied upon by the Appeals officer or employee in making the determination under section 6330(c)(3), will constitute the record in the Tax Court review of the Notice of Determination issued by Appeals.

(g) *Effect of request for CDP hearing and judicial review on periods of limitation and collection activity*—(1) *In general*. The periods of limitation under section 6502 (relating to collection after assessment), section 6531 (relating to criminal prosecutions), and section 6532 (relating to suits) are suspended until the date the IRS receives the taxpayer's written withdrawal of the request for a CDP hearing by Appeals or the determination resulting from the CDP hearing becomes final by expiration of the time for seeking judicial review or the exhaustion of any rights to appeals following judicial review. In no event shall any of these periods of limitation expire before the 90th day after the date on which the IRS receives the taxpayer's written withdrawal of the request that Appeals conduct a CDP hearing or the determination with respect to such hearing becomes final upon either the expiration of the time for seeking judicial review or upon exhaustion of any rights to appeals following judicial review.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (g) as follows:

Q-G1. For what period of time will the periods of limitation under sections 6502, 6531, and 6532 remain suspended if the taxpayer timely requests a CDP hearing concerning the filing of a NFTL?

A-G1. The suspension period commences on the date the IRS receives the taxpayer's written request for a CDP hearing. The suspension period continues until the IRS receives a written withdrawal by the taxpayer of the request for a CDP hearing or the Notice of Determination resulting from the CDP hearing becomes final. In no event shall any of these periods of limitation expire before the 90th day after the day on which the IRS receives the taxpayer's written withdrawal of the request that Appeals conduct a CDP hearing or there is a final determination with respect to such hearing. The periods of limitation that are suspended under section 6320 are those which apply to the taxes and the tax period or periods to which the CDP Notice relates.

Q-G2. For what period of time will the periods of limitation under sections 6502, 6531, and 6532 be suspended if the taxpayer does not request a CDP hearing concerning the filing of a NFTL, or the taxpayer requests a CDP hearing, but his request is not timely?

A-G2. Under either of these circumstances, section 6320 does not provide for a suspension of the periods of limitation.

Q-G3. What, if any, enforcement actions can the IRS take during the suspension period?

A-G3. Section 6330(e), made applicable to section 6320 CDP hearings by section 6320(c), provides for the suspension of the periods of limitation discussed in paragraph (g)(1) of these regulations. Section 6330(e) also provides that levy actions that are the subject of the requested CDP hearing under that section shall be suspended during the same period. Levy actions, however, are not the subject of a CDP hearing under section 6320. The IRS may levy for tax periods and taxes covered by the CDP Notice under section 6320 and for other taxes and periods if the CDP requirements under section 6330 for those taxes and periods have been satisfied. The IRS also may file NFTLs for tax periods or taxes not covered by the CDP Notice, may file a NFTL for the same tax and tax period stated on the CDP Notice at another recording office, and may take other non-levy collection actions such as initiating judicial proceedings to collect the tax shown on the CDP Notice or offsetting overpayments from other periods, or of other taxes, against the tax shown on the CDP Notice. Moreover, the provisions in section 6330 do not apply when the IRS levies for the tax and tax period shown on the CDP Notice to collect a state tax refund due the taxpayer, or determines that collection of the tax is in jeopardy. Finally, section 6330 does not prohibit the IRS from accepting any voluntary payments made for the tax and tax period stated on the CDP Notice.

(3) *Examples*. The following examples illustrate the principles of this paragraph (g):

Example 1. The period of limitation under section 6502 with respect to the taxpayer's tax period listed in the NFTL will expire on August 1, 1999. The IRS sent a CDP Notice to the taxpayer on April 30, 1999. The taxpayer timely requested a CDP hearing. The IRS received this request on May 15, 1999. Appeals sends the taxpayer its determination on June 15, 1999. The taxpayer timely seeks judicial review of that determination. The period of limitation under section 6502 would be suspended from May 15, 1999, until the determination resulting from that hearing becomes final by expiration of the time for seeking review or reconsideration before the Tax Court, plus 90 days.

(h) *Retained jurisdiction of Appeals*—(1) *In general*. The Appeals office that makes a determination under section 6320 retains jurisdiction over that determination, including any subsequent administrative hearings that may be requested by the taxpayer regarding the NFTL and any collection actions taken or proposed with respect to Appeals' determination. Once a taxpayer has exhausted his other remedies, Appeals' retained jurisdiction permits it to consider whether a change in the taxpayer's circumstances affects its original determination. Where a taxpayer alleges a change in circumstances that affects Appeals' original determination, Appeals may consider whether changed circumstances warrant a change in its earlier determination.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (h) as follows:

Q-H1. Are the periods of limitation suspended during the course of any subsequent Appeals consideration of the matters raised by a taxpayer when the taxpayer invokes the retained jurisdiction of Appeals under section 6330(d)(2)(A) or (d)(2)(B)?

A-H1. No. Under section 6320(b)(2), a taxpayer is entitled to only one CDP hearing under section 6320 with respect to the tax and tax period or periods specified in the CDP Notice. Any subsequent consideration by Appeals pursuant to its retained jurisdiction is not a continuation of the original CDP hearing and does not suspend the periods of limitation.

Q-H2. Is a decision of Appeals resulting from a retained jurisdiction hearing appealable to the Tax Court?

A-H2. No. As discussed in A–H1, a taxpayer is entitled to only one CDP hearing under section 6320 with respect to the tax and tax period or periods specified in the CDP Notice. Only determinations resulting from CDP hearings are appealable to the Tax Court.

(i) *Equivalent hearing*—(1) *In general*. A taxpayer who fails to make a timely request for a CDP hearing is not entitled to a CDP hearing. Such a taxpayer may nevertheless request an administrative hearing with Appeals, which is

referred to herein as an ''equivalent hearing.'' The equivalent hearing will be held by Appeals and generally will follow Appeals' procedures for a CDP hearing. Appeals will not, however, issue a Notice of Determination. Under such circumstances, Appeals will issue a Decision Letter.

(2) *Questions and answers.* The questions and answers illustrate the provisions of this paragraph (i) as follows:

Q-I1. What must a taxpayer do to obtain an equivalent hearing?

A-I1. (i) A request for an equivalent hearing must be made in writing. A written request in any form that requests an equivalent hearing will be acceptable if it includes the information and signature required in A-I1(ii) of this paragraph (i)(2).

(ii) The request must be dated and must include the following:

(A) The taxpayer's name, address, daytime telephone number (if any), and taxpayer identification number (e.g., SSN, ITIN or EIN).

(B) The type of tax involved.

(C) The tax period at issue.

(D) A statement that the taxpayer is requesting an equivalent hearing with Appeals concerning the filing of the NFTL.

(E) The reason or reasons why the taxpayer disagrees with the filing of the NFTL.

(F) The signature of the taxpayer or the taxpayer's authorized representative.

(iii) The taxpayer must perfect any timely written request for an equivalent hearing that does not satisfy the requirements set forth in A–I1(ii) of this paragraph (i)(2) within a reasonable period of time after a request from the IRS. If the requirements are not satisfied within a reasonable period of time, the taxpayer's equivalent hearing request will be denied.

(iv) The taxpayer must affirm any timely written request for an equivalent hearing that is signed or alleged to have been signed on the taxpayer's behalf by the taxpayer's spouse or other unauthorized representative, and that otherwise meets the requirements set forth in A–I1(ii) of this paragraph (i)(2), by filing, within a reasonable period of time after a request from the IRS, a signed written affirmation that the request was originally submitted on the taxpayer's behalf. If the affirmation is filed within a reasonable period of time after a request, the timely equivalent hearing request will be considered timely with respect to the non-signing taxpayer. If the affirmation is not filed within a reasonable period of time, the equivalent hearing request will be denied with respect to the non-signing taxpayer.

Q-I2. What issues will Appeals consider at an equivalent hearing?

A-I2. In an equivalent hearing, Appeals will consider the same issues that it would have considered at a CDP hearing on the same matter.

Q-I3. Are the periods of limitation under sections 6502, 6531, and 6532 suspended if the taxpayer does not timely request a CDP hearing and is subsequently given an equivalent hearing?

A-I3. No. The suspension period provided for in section 6330(e) relates only to hearings requested within the 30-day period that commences on the day after the end of the five business day period following the filing of the NFTL, that is, CDP hearings.

Q-I4. Will collection action, including the filing of additional NFTLs, be suspended if a taxpayer requests and receives an equivalent hearing?

A-I4. Collection action is not required to be suspended. Accordingly, the decision to take collection action during the pendency of an equivalent hearing will be determined on a case-by-case basis. Appeals may request the IRS office with responsibility for collecting the taxes to suspend all or some collection action or to take other appropriate action if it determines that such action is appropriate or necessary under the circumstances.

Q-I5. What will the Decision Letter state?

A-I5. The Decision Letter will generally contain the same information as a Notice of Determination.

Q-I6. Will a taxpayer be able to obtain Tax Court review of a decision made by Appeals with respect to an equivalent hearing?

A-I6. Section 6320 does not authorize a taxpayer to appeal the decision of Appeals with respect to an equivalent hearing. A taxpayer may under certain circumstances be able to seek Tax

Court review of Appeals' denial of relief under section 6015. Such review must be sought within 90 days of the issuance of Appeals' determination on those issues, as provided by section 6015(e).

Q-I7. When must a taxpayer request an equivalent hearing with respect to a CDP Notice issued under section 6320?

A-I7. A taxpayer must submit a written request for an equivalent hearing within the one-year period commencing the day after the end of the five-business-day period following the filing of the NFTL. This period is slightly different from the period for submitting a written request for an equivalent hearing with respect to a CDP Notice issued under section 6330. For a CDP Notice issued under section 6330, a taxpayer must submit a written request for an equivalent hearing within the one-year period commencing the day after the date of the CDP Notice issued under section 6330.

Q-I8. How will the timeliness of a taxpayer's written request for an equivalent hearing be determined?

A-I8. The rules and regulations under section 7502 and section 7503 will apply to determine the timeliness of the taxpayer's request for an equivalent hearing, if properly transmitted and addressed as provided in A–I10 of this paragraph (i)(2).

Q-I9. Is the one-year period within which a taxpayer must make a request for an equivalent hearing extended because the taxpayer resides outside the United States?

A-I9. No. All taxpayers who want an equivalent hearing concerning the filing of the NFTL must request the hearing within the one-year period commencing the day after the end of the five-business-day period following the filing of the NFTL.

Q-I10. Where must the written request for an equivalent hearing be sent?

A-I10. The written request for an equivalent hearing must be sent, or hand delivered (if permitted), to the IRS office and address as directed on the CDP Notice. If the address of the issuing office does not appear on the CDP Notice, the taxpayer should obtain the address of the office to which the written request should be sent or hand delivered by calling, toll-free, 1–800–829–1040 and providing the taxpayer's identification number (e.g., SSN, ITIN or EIN).

QI11. What will happen if the taxpayer does not request an equivalent hearing in writing within the one-year period commencing the day after the end of the five-business-day period following the filing of the NFTL?

AI11. If the taxpayer does not request an equivalent hearing with Appeals within the one-year period commencing the day after the end of the five-business-day period following the filing of the NFTL, the taxpayer foregoes the right to an equivalent hearing with respect to the unpaid tax and tax periods shown on the CDP Notice. A written request submitted within the one-year period that does not satisfy the requirements set forth in A–I1(ii) of this paragraph (i)(2) is considered timely if the request is perfected within a reasonable period of time pursuant to A–I1(iii) of this paragraph (i)(2). If a request for equivalent hearing is untimely, either because the request was not submitted within the one-year period or not perfected within the reasonable period provided, the equivalent hearing request will be denied. The taxpayer, however, may seek reconsideration by the IRS office collecting the tax, assistance from the National Taxpayer Advocate, or an administrative hearing before Appeals under its Collection Appeals Program or any successor program.

(j) *Effective date*. This section is applicable on or after November 16, 2006, with respect to requests made for CDP hearings or equivalent hearings on or after November 16, 2006.

[T.D. 8979, 67 FR 2561, Jan. 18, 2002, as amended by T.D. 9290, 71 FR 60839, Oct. 17, 2006]

§ 301.6321–1 Lien for taxes.

If any person liable to pay any tax neglects or refuses to pay the same after demand, the amount (including any interest, additional amount, addition to tax, or assessable penalty, together with any costs that may accrue in addition thereto) shall be a lien in favor of the United States upon all property and rights to property, whether real or personal, tangible or intangible, belonging to such person. For

purposes of section 6321 and this section, the term ''any tax'' shall include a State individual income tax which is a ''qualified tax'', as defined in paragraph (b) of § 301.6361–4. The lien attaches to all property and rights to property belonging to such person at any time during the period of the lien, including any property or rights to property acquired by such person after the lien arises. Solely for purposes of sections 6321 and 6331, any interest in restricted land held in trust by the United States for an individual noncompetent Indian (and not for a tribe) shall not be deemed to be property, or a right to property, belonging to such Indian. For the method of allocating amounts collected pursuant to a lien between the Federal Government and a State or States imposing a qualified tax with respect to which the lien attached, see paragraph (f) of § 301.6361–1. For the special lien for estate and gift taxes, see section 6324 and § 301.6324–1

[T.D. 7577, 43 FR 59361, Dec. 20, 1978]

§ 301.6323(a)–1 Purchasers, holders of security interests, mechanic's lienors, and judgment lien creditors.

(a) *Invalidity of lien without notice.* The lien imposed by section 6321 is not valid against any purchaser (as defined in paragraph (f) of § 301.6323(h)—1), holder of a security interest (as defined in paragraph (a) of § 301.6323(h)—1), mechanic's lienor (as defined in paragraph (b) of § 301.6323(h)–1), or judgment lien creditor (as defined in paragraph (g) of § 301.6323(h)–1) until a notice of lien is filed in accordance with § 301.6323(f)–1). Except as provided by section 6323, if a person becomes a purchaser, holder of a security interest, mechanic's lienor, or judgment lien creditor after a notice of lien is filed in accordance with § 301.6323(f)–1, the interest acquired by such person is subject to the lien imposed by section 6321.

(b) *Cross references.* For provisions relating to the protection afforded a security interest arising after tax lien filing, which interest is covered by a commercial transactions financing agreement, real property construction or improvement financing agreement, or an obligatory disbursement agreement, see §§ 301.6323(c)–1, 301.6323(c)–2, and 301.6323(c)–3, respectively. For provisions relating to the protection afforded to a security interest coming into existence by virtue of disbursements, made before the 46th day after the date of tax lien filing, see § 301.6323(d)–1. For provisions relating to priority afforded to interest and certain other expenses with respect to a lien or security interest having priority over the lien imposed by section 6321, see § 301.6323(e)–1. For provisions relating to certain other interests arising after tax lien filing, see § 301.6323(b)–1.

[T.D. 7429, 41 FR 35498, Aug. 23, 1976]

§ 301.6323(b)–1 Protection for certain interests even though notice filed.

(a) *Securities—*(1) *In general.* Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid with respect to a security (as defined in paragraph (d) of § 301.6323(h)–1) against—

(i) A purchaser (as defined in paragraph (f) of § 301.6323(h)–1) of the security who at the time of purchase did not have actual notice or knowledge (as defined in paragraph (a) of § 301.6323(i)–1) of the existence of the lien;

(ii) A holder of a security interest (as defined in paragraph (a) of § 301.6323(h)–1) in the security who did not have actual notice or knowledge (as defined in paragraph (a) of § 301.6323(i)–1) of the existence of the lien at the time the security interest came into existence or at the time such security interest was acquired from a previous holder for a consideration in money or money's worth; or

(iii) A transferee of an interest protected under subdivision (i) or (ii) of this subparagraph to the same extent the lien is invalid against his transferor.

For purposes of subdivision (iii) of this subparagraph, no person can improve his position with respect to the lien by reacquiring the interest from an intervening purchaser or holder of a security interest against whom the lien is invalid.

(2) *Examples.* The application of this paragraph may be illustrated by the following examples:

Example 1. On May 1, 1969, in accordance with § 301.6323(f)–1, a notice of lien is filed with respect to A's delinquent tax liability. On May 20, 1969. A sells 100 shares of common stock in X corporation to B, who, on the date of the sale, does not have actual notice or knowledge of the existence of the lien. Because B purchased the stock without actual notice or knowledge of the lien, under subdivision (i) of subparagraph (1) of this paragraph, the stock purchased by B is not subject to the lien.

Example 2. Assume the same facts as in example 1 except that on May 30, 1969, B sells the 100 shares of common stock in X corporation to C who on May 5, 1969, had actual notice of the existence of the tax lien against A. Because the X stock when purchased by B was not subject to the lien, under subdivision (iii) of subparagraph (1) of this paragraph, the stock purchased by C is not subject to the lien. C succeeds to B's rights, even though C had actual notice of the lien before B's purchase.

Example 3. On June 1, 1970, in accordance with § 301.6323(f)–1, a notice of lien is filed with respect to D's delinquent tax liability. D owns 20 $1,000 bonds issued by the Y company. On June 10, 1970, D obtains a loan from M bank for $5,000 using the Y company bonds as collateral. At the time the loan is made M bank does not have actual notice or knowledge of the existence of the tax lien. Because M bank did not have actual notice or knowledge of the lien when the security interest came into existence, under subdivision (ii) of subparagraph (1) of this paragraph, the tax lien is not valid against M bank to the extent of its security interest.

Example 4. Assume the same facts as in example 3 except that on June 19, 1970, M bank assigns the chose in action and its security interest to N, who had actual notice or knowledge of the existence of the lien on June 1, 1970. Because the security interest was not subject to the lien to the extent of M bank's security interest, the security interest held by N is to the same extent entitled to priority over the tax lien because N succeeds to M bank's rights. See subdivision (iii) of subparagraph (1) of this paragraph.

Example 5. On July 1, 1970, in accordance with § 301.6323(f)–1, a notice of lien is filed with respect to E's delinquent tax liability. E owns ten $1,000 bonds issued by the Y company. On July 5, 1970, E borrows $4,000 from F and delivers the bonds to F as collateral for the loan. At the time the loan is made, F has actual knowledge of the existence of the tax lien and, therefore, holds the security interest subject to the lien on the bonds. On July 10, 1970, F sells the security interest to G for $4,000 and delivers the Y company bonds pledged as collateral. G does not have actual notice or knowledge of the existence of the lien on July 10, 1970. Because G did not have actual notice or knowledge of the lien at the time he purchased the security interest, under subdivision (ii) of subparagraph (1) of this paragraph, the tax lien is not valid against G to the extent of his security interest.

Example 6. Assume the same facts as in example 5 except that, instead of purchasing the security interest from F on July 10, 1970, G lends $4,000 to F and takes a security interest in F's security interest in the bonds on that date. Because G became the holder of a security interest in a security interest after notice of lien was filed and does not directly have a security interest in a security, the security interest held by G is not entitled to a priority over the tax lien under the provisions of subparagraph (1) of this paragraph.

(b) *Motor vehicles*—(1) *In general.* Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid against a purchaser (as defined in paragraph (f) of § 301.6323(h)–1) of a motor vehicle (as defined in paragraph (c) of § 301.6323(h)–1) if—

(i) At the time of the purchase, the purchaser did not have actual notice or knowledge (as defined in paragraph (a) of § 301.6323(i)–1) of the existence of the lien, and

(ii) Before the purchaser obtains such notice or knowledge, he has acquired actual possession of the motor vehicle and has not thereafter relinquished actual possession to the seller or his agent.

(2) *Examples.* The application of this paragraph may be illustrated by the following examples:

Example 1. A, a delinquent taxpayer against whom a notice of tax lien has been filed in accordance with § 301.6323(f)–1, sells his automobile (which qualifies as a motor vehicle under paragraph (c) of § 301.6323(h)–1) to B, an automobile dealer. B takes actual possession of the automobile and does not thereafter relinquish actual possession to the seller or his agent. Subsequent to his purchase, B learns of the existence of the tax lien against A. Even though notice of lien was filed before the purchase, the lien is not valid against B, because B did not know of the existence of the lien before the purchase and before acquiring actual possession of the vehicle.

Example 2. C is a wholesaler of used automobiles. A notice of lien has been filed with respect to C's delinquent tax liability in accordance with § 301.6323(f)–1. Subsequent to such filing, D, a used automobile dealer, purchases and takes actual possession of 20

automobiles (which qualify as motor vehicles under the provisions of paragraph (c) of § 301.6323(h)–1) from C at an auction and places them on his lot for sale. C does not reacquire possession of any of the automobiles. At the time of his purchase, D does not have actual notice or knowledge of the existence of the lien against C. Even though notice of lien was filed before D's purchase, the lien was not valid against D because D did not know of the existence of the lien before the purchase and before acquiring actual possession of the vehicles.

(3) *Cross reference.* For provisions relating to additional circumstances in which the lien imposed by section 6321 may not be valid against the purchaser of tangible personal property (including a motor vehicle) purchased at retail, see paragraph (c) of this section.

(c) *Personal property purchased at retail*—(1) *In general.* Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid against a purchaser (as defined in paragraph (f) of § 301.6323(h)–1) of tangible personal property purchased at a retail sale (as defined in subparagraph (2) of this paragraph (c)) unless at the time of purchase the purchaser intends the purchase to (or knows that the purchase will) hinder, evade, or defeat the collection of any tax imposed by the Internal Revenue Code of 1954.

(2) *Definition of retail sale.* For purposes of this paragraph, the term ''retail sale'' means a sale, made in the ordinary course of the seller's trade or business, of tangible personal property of which the seller is the owner. Such term includes a sale in customary retail quantities by a seller who is going out of business, but does not include a bulk sale or an auction sale in which goods are offered in quantities substantially greater than are customary in the ordinary course of the seller's trade or business or an auction sale of goods the owner of which is not in the business of selling such goods.

(3) *Example.* The application of this paragraph may be illustrated by the following example:

Example. A purchases a refrigerator from the M company, a retail appliance dealer. Prior to such purchase, a notice of lien was filed with respect to M's delinquent tax liability in accordance with § 301.6323(f)–1. At the time of the purchase A knows of the existence of the lien. However, A does not intend the purchase to hinder, evade, or defeat the collection of any internal revenue tax, and A does not have any reason to believe that the purchase will affect the collection of any internal revenue tax. Even though notice of lien was filed before the purchase, the lien is not valid against A because A in good faith purchased the refrigerator at retail in the ordinary course of the M company's business.

(d) *Personal property purchased in casual sale*—(1) *In general.* Even though a notice of lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid against a purchaser (as defined in § 301.6323(h)–1(f)) of household goods, personal effects, or other tangible personal property of a type described in § 301.6334–1 (which includes wearing apparel, school books, fuel, provisions, furniture, arms for personal use, livestock, and poultry (whether or not the seller is the head of a family); and books and tools of a trade, business, or profession (whether or not the trade, business, or profession of the seller)), purchased, other than for resale, in a casual sale for less than $1,380, effective for 2010 and adjusted each year based on the rate of inflation (excluding interest and expenses described in § 301.6323(e)–1).

(2) *Limitation.* This paragraph applies only if the purchaser does not have actual notice or knowledge (as defined in paragraph (a) of § 301.6323(i)–1)—

(i) Of the existence of the tax lien, or

(ii) That the sale is one of a series of sales.

For purposes of subdivision (ii) of this subparagraph, a sale is one of a series of sales if the seller plans to dispose of, in separate transactions, substantially all of his household goods, personal effects, and other tangible personal property described in § 301.6334–1.

(3) *Examples.* The application of this paragraph may be illustrated by the following examples:

Example 1. A, an attorney's widow, sells a set of law books for $200 to B, for B's own use. Prior to the sale a notice of lien was filed with respect to A's delinquent tax liability in accordance with § 301.6323(f)–1. B has no actual notice or knowledge of the tax lien. In addition, B does not know that the sale is one of a series of sales. Because the sale is a casual sale for less than $1,380 and

involves books of a profession (tangible personal property of a type described in § 301.6334–1, irrespective of the fact that A has never engaged in the legal profession), the tax lien is not valid against B even though a notice of lien was filed prior to the time of B's purchase.

Example 2. Assume the same facts as in example 1 except that B purchases the books for resale in his second-hand bookstore. Because B purchased the books for resale, he purchased the books subject to the lien.

Example 3. In an advertisement appearing in a local newspaper, G indicates that he is offering for sale a lawn mower, a used television set, a desk, a refrigerator, and certain used dining room furniture. In response to the advertisement, H purchases the dining room furniture for $200. H does not receive any information which would impart notice of a lien, or that the sale is one of a series of sales, beyond the information contained in the advertisement. Prior to the sale a notice of lien was filed with respect to G's delinquent tax liability in accordance with § 301.6323(f)–1. Because H had no actual notice or knowledge that substantially all of G's household goods were being sold or that the sale is one of a series of sales, and because the sale is a casual sale for less than $1,380, H does not purchase the dining room furniture subject to the lien. The household goods are of a type described in § 301.6334–1(a)(2) irrespective of whether G is the head of a family or whether all such household goods offered for sale exceed $8,250 in value.

(e) *Personal property subject to possessory liens.* Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid against a holder of a lien on tangible personal property which under local law secures the reasonable price of the repair or improvement of the property if the property is, and has been, continuously in the possession of the holder of the lien from the time the possessory lien arose. For example, if local law gives an automobile repairman the right to retain possession of an automobile he has repaired as security for payment of the repair bill and the repairman retains continuous possession of the automobile until his lien is satisfied, a tax lien filed in accordance with section 6323(f)(1) which has attached to the automobile will not be valid to the extent of the reasonable price of the repairs. It is immaterial that the notice of tax lien was filed before the repairman undertook his work or that he knew of the lien before undertaking the work.

(f) *Real property tax and special assessment liens*—(1) *In general.* Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid against the holder of another lien upon the real property (regardless of when such other lien arises), if such other lien is entitled under local law to priority over security interests in real property which are prior in time and if such other lien on real property secures payment of—

(i) A tax of general application levied by any taxing authority based upon the value of the property;

(ii) A special assessment imposed directly upon the property by any taxing authority, if the assessment is imposed for the purpose of defraying the cost of any public improvement; or

(iii) Charges for utilities or public services furnished to the property by the United States, a State or political subdivision thereof, or an instrumentality of any one or more of the foregoing.

(2) *Examples.* The application of this paragraph may be illustrated by the following examples:

Example 1. A owns Blackacre in the city of M. A notice of lien affecting Blackacre is filed in accordance with § 301.6323(f)–1. Subsequent to the filing of the notice of lien, the city of M acquires a lien against Blackacre to secure payment of real estate taxes. Such taxes are levied against all property in the city in proportion to the value of the property. Under local law, the holder of a lien for real property taxes is entitled to priority over a security interest in real property even though the security interest is prior in time. Because the real property tax lien held by the city of M secures payment of a tax of general application and is entitled to priority over security interests which are prior in time, the lien held by the city of M is entitled to priority over the Federal tax lien with respect to Blackacre.

Example 2. B owns Whiteacre in N county. A notice of lien affecting Whiteacre is filed in accordance with § 301.6323(f)–1. Subsequent to the filing of the notice of lien, N county constructs a sidewalk, paves the street, and installs water and sewer lines adjacent to Whiteacre. In order to defray the cost of these improvements, N county imposes upon Whiteacre a special assessment which under local law results in a lien upon Whiteacre that is entitled to priority over security interests that are prior in time. Because the special assessment lien is (i) entitled under local law to priority over security interests

which are prior in time, and (ii) imposed directly upon real property to defray the cost of a public improvement, the special assessment lien has priority over the Federal tax lien with respect to Whiteacre.

Example 3. C owns Greenacre in town O. A notice of lien affecting Greenacre is filed in accordance with § 301.6323(f)–1. Town O furnishes water and electricity to Greenacre and periodically collects a fee for these services. Subsequent to the filing of the notice of lien, town O supplies water and electricity to Greenacre, and C fails to pay the charges for these services. Under local law, town O acquires a lien to secure charges for the services, and this lien has priority over security interests which are prior in time. Because the lien of town O (i) is for services furnished to the real property and (ii) has priority over earlier security interests, town O's lien has priority over the Federal tax lien with respect to Greenacre.

(g) *Residential property subject to a mechanic's lien for certain repairs and improvements*—(1) *In general.* Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid against a mechanic's lienor (as defined in § 301.6323(h)–1(b)) who holds a lien for the repair or improvement of a personal residence if—

(i) The residence is occupied by the owner and contains no more than four dwelling units; and

(ii) The contract price on the prime contract with the owner for the repair or improvement (excluding interest and expenses described in § 301.6323(e)–1) is not more than $6,890, effective for 2010 and adjusted each year based on the rate of inflation.

(iii) For purposes of paragraph (g)(1)(ii) of this section, the amounts of subcontracts under the prime contract with the owner are not to be taken into consideration for purposes of computing the $6,890 prime contract price. It is immaterial that the notice of tax lien was filed before the contractor undertakes his work or that he knew of the lien before undertaking his work.

(2) *Examples.* The application of this paragraph may be illustrated by the following examples:

Example 1. A owns a building containing four apartments, one of which he occupies as his personal residence. A notice of lien which affects the building is filed in accordance with § 301.6323(f)–1. Thereafter, A enters into a contract with B in the amount of $800, which includes labor and materials, to repair the roof of the building. B purchases roofing shingles from C for $300. B completes the work and A fails to pay B the agreed amount. In turn, B fails to pay C for the shingles. Under local law, B and C acquire mechanic's liens on A's building. Because the contract price on the prime contract with A is not more than $6,890 and under local law B and C acquire mechanic's liens on A's building, the liens of B and C have priority over the Federal tax lien.

Example 2. Assume the same facts as in *Example 1,* except that the amount of the prime contract between A and B is $7,100. Because the amount of the prime contract with the owner, A, is in excess of $6,890, the tax lien has priority over the entire amount of each of the mechanic's liens of B and C, even though the amount of the contract between B and C is $300.

Example 3. Assume the same facts as in *Example 1,* except that A and B do not agree in advance upon the amount due under the prime contract but agree that B will perform the work for the cost of materials and labor plus 10 percent of such cost. When the work is completed, it is determined that the total amount due is $850. Because the prime contract price is not more than $6,890 and under local law B and C acquire mechanic's liens on A's residence, the liens of B and C have priority over the Federal tax lien.

(h) *Attorney's liens*—(1) *In general.* Even though notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid against an attorney who, under local law, holds a lien upon, or a contract enforceable against, a judgment or other amount in settlement of a claim or of a cause of action. The priority afforded an attorney's lien under this paragraph shall not exceed the amount of the attorney's reasonable compensation for obtaining the judgment or procuring the settlement. For purposes of this paragraph, reasonable compensation means the amount customarily allowed under local law for an attorney's services for litigating or settling a similar case or administrative claim. However, reasonable compensation shall be determined on the basis of the facts and circumstances of each individual case. It is immaterial that the notice of tax lien is filed before the attorney undertakes his work or that the attorney knows of the tax lien before undertaking his work. This paragraph does not apply to an attorney's lien which may arise from the defense of a

claim or cause of action against a taxpayer except to the extent such lien is held upon a judgment or other amount arising from the adjudication or settlement of a counterclaim in favor of the taxpayer. In the case of suits against the taxpayer, see § 301.6325–1(d)(2) for rules relating to the subordination of the tax lien to facilitate tax collection.

(2) *Claim or cause of action against the United States*. Paragraph (h)(1) of this section does not apply to an attorney's lien with respect to—

(i) Any judgment or other fund resulting from the successful litigation or settlement of an administrative claim or cause of action against the United States to the extent that the United States, under any legal or equitable right, offsets its liability under the judgment or settlement against any liability of the taxpayer to the United States, or

(ii) Any amount credited against any liability of the taxpayer in accordance with section 6402.

(3) *Examples*. The provisions of this paragraph may be illustrated by the following examples:

Example 1. A notice of lien is filed against A in accordance with § 301.6323(f)–1. Subsequently, A is struck by an automobile and retains B, an attorney to institute suit on A's behalf against the operator of the automobile. B knows of the tax lien before he begins his work. Under local law, B is entitled to a lien upon any recovery in order to secure payment of his fee. A is awarded damages of $10,000. B charges a fee of $3,000 which is the fee customarly allowed under local law in similar cases and which is found to be reasonable under the circumstances of this particular case. Because, under local law, B holds a lien for the amount of his reasonable compensation for obtaining the judgment, B's lien has priority over the Federal tax lien.

Example 2. Assume the same facts as in example 1, except that before suit is instituted A and the owner of the automobile settle out of court for $7,500. B charges a reasonable and customary fee of $1,800 for procuring the settlement and under local law holds a lien upon the settlement in order to secure payment of the fee. Because, under local law, B holds a lien for the amount of his reasonable compensation for obtaining the settlement, B has priority over the Federal tax lien.

Example 3. In accordance with § 301.6323(f)–1, a notice of lien in the amount of $8,000 is filed against C, a contractor. Subsequently C retains D, an attorney, to initiate legal proceedings to recover the amount allegedly due him for construction work he has performed for the United States. C and D enter into an agreement which provides that D will receive a reasonable and customary fee of $2,500 as compensation for his services. Under local law, the agreement will give rise to a lien which is enforceable by D against any amount recovered in the suit. C is successful in the suit and is awarded $10,000. D claims $2,500 of the proceeds as his fee. The United States, however, exercises its right of set-off and applies $8,000 of the $10,000 award to satisfy C's tax liability. Because the $10,000 award resulted from the successful litigation of a cause of action against the United States, B's contract for attorney's fees is not enforceable against the amount recovered to the extent the United States offsets its liability under the judgment against C's tax liability. It is immaterial that D had no notice or knowledge of the tax lien at the time he began work on the case.

(i) *Certain insurance contracts*—(1) *In general*. Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid with respect to a life insurance, endowment, or annuity contract, against an organization which is the insurer under the contract, at any time—

(i) Before the insuring organization has actual notice or knowledge (as defined in paragraph (a) of § 301.6323(i)–1) of the existence of the tax lien,

(ii) After the insuring organization has actual notice or knowledge of the lien (as defined in paragraph (a) of § 301.6323(i)–1), with respect to advances (including contractual interest thereon as provided in paragraph (a) of § 301.6323(e)–1) required to be made automatically to maintain the contract in force under an agreement entered into before the insuring organization had such actual notice or knowledge, or

(iii) After the satisfaction of a levy pursuant to section 6332(b), unless and until the Internal Revenue Service delivers to the insuring organization a notice (for example, another notice of levy, a letter, etc.) executed after the date of such satisfaction, that the lien exists.

Delivery of the notice described in subdivision (iii) of this subparagraph may be made by any means, including regular mail, and delivery of the notice shall be effective only from the time of

actual receipt of the notification by the insuring organization. The provisions of this paragraph are applicable to matured as well as unmatured insurance contracts.

(2) *Examples*. The provisions of this paragraph may be illustrated by the following examples:

Example 1. On May 1, 1964, the X insurance company issues a life insurance policy to A. On June 1, 1970, a tax assessment is made against A, and on June 2, 1970, a notice of lien with respect to the assessment is filed in accordance with § 301.6323(f)–1. On July 1, 1970, without actual notice or knowledge of the tax lien, the X company makes a ''policy loan'' to A. Under subparagraph (1)(i) of this paragraph, the loan, including interest (in accordance with the provisions of paragraph (a) of § 301.6323(e)–1), will have priority over the tax lien because X company did not have actual notice or knowledge of the tax lien at the time the policy loan was made.

Example 2. On May 1, 1964, B enters into a life insurance contract with the Y insurance company. Under one of the provisions of the contract, in the event a premium is not paid, Y is to advance out of the cash loan value of the policy the amount of an unpaid premium in order to maintain the contract in force. The contract also provides for interest on any advances so made. On June 1, 1971, a tax assessment is made against B, and on June 2, 1971, in accordance with section 6323(f)–1, a notice of lien is filed. On July 1, 1971, B fails to pay the premium due on that date, and Y makes an automatic premium loan to keep the policy in force. At the time the automatic premium loan is made, Y had actual knowledge of the tax lien. Under subparagraph (1)(ii) of this paragraph, the lien is not valid against Y with respect to the advance (and the contractual interest thereon), because the advance was required to be made automatically under an agreement entered into before Y had actual notice or knowledge of the tax lien.

Example 3. On May 1, 1964, C enters into a life insurance contract with the Z insurance company. On January 4, 1971, an assessment is made against C for $5,000 unpaid income taxes, and on January 11, 1971, in accordance with § 301.6323(f)–1, a notice of lien is filed. On January 29, 1971, a notice of levy with respect to C's delinquent tax is served on Z company. The amount which C could have had advanced to him from Z company under the contract on the 90th day after service of the notice of levy on Z company is $2,000. The Z company pays $2,000 pursuant to the notice of levy, thereby satisfying the levy upon the contract in accordance with § 6332(b). On February 1, 1973, Z company advances $500 to C, which is the increment in policy loan value since satisfaction of the levy of January 29, 1971. On February 5, 1973, a new notice of levy for the unpaid balance of the delinquent taxes, executed after the first levy was satisfied, is served upon Z company. Because the new notification was not received by Z company until after the policy loan was made, under paragraph (1)(iii) of this paragraph, the tax lien is not valid against Z company with respect to the policy loan (including interest thereon in accordance with paragraph (a) of § 301.6323(e)–1).

Example 4. On June 1, 1973, a tax assessment is made against D and on June 2, 1973, in accordance with § 301.6323(f)–1, a notice of lien with respect to the assessment is filed. On July 2, 1973, D executes an assignment of his rights, as the insured, under an insurance contract to M bank as security for a loan. M bank holds its security interest subject to the lien because it is not an insurer entitled to protection under section 6323(b)(9) and did not become a holder of the security interest prior to the filing of the notice of lien for purposes of section 6323(a). It is immaterial that a notice of levy had not been served upon the insurer before the assignment to M bank was made.

(j) *Effective/applicability date*. This section applies to any notice of Federal tax lien filed on or after April 4, 2011.

[T.D. 7429, 41 FR 35501, Aug. 23, 1976, as amended by T.D. 9520, 76 FR 18385, Apr. 4, 2011; 76 FR 24813, May 3, 2011]

§ 301.6323(c)–1 Protection for commercial transactions financing agreements.

(a) *In general*. Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid with respect to a security interest which:

(1) Comes into existence after the tax lien filing,

(2) Is in qualified property covered by the terms of a commercial transactions financing agreement entered into before the tax lien filing, and

(3) Is protected under local law against a judgment lien arising, as of the time of the tax lien filing, out of an unsecured obligation.

See paragraphs (a) and (e) of § 301.6323(h)–1 for definitions of the terms ''security interest'' and ''tax lien filing,'' respectively. For purposes of this section, a judgment lien is a lien held by a judgment lien creditor as defined in paragraph (g) of § 301.6323(h)–1.

(b) *Commercial transactions financing agreement*. For purposes of this section,

the term ''commercial transactions financing agreement'' means a written agreement entered into by a person in the course of his trade or business—

(1) To make loans to the taxpayer (whether or not at the option of the person agreeing to make such loans) to be secured by commercial financing security acquired by the taxpayer in the ordinary course of his trade or business, or

(2) To purchase commercial financing security, other than inventory, acquired by the taxpayer in the ordinary course of his trade or business.

Such an agreement qualifies as a commercial transactions financing agreement only with respect to loans or purchases made under the agreement before (i) the 46th day after the date of tax lien filing or, (ii) the time when the lender or purchaser has actual notice or knowledge (as defined in paragraph (a) of § 301.6323(i)–1) of the tax lien filing, if earlier. For purposes of this paragraph, a loan or purchase is considered to have been made in the course of the lender's or purchaser's trade or business if such person is in the business of financing commercial transactions (such as a bank or commercial factor) of if the agreement is incidental to the conduct of such person's trade or business. For example, if a manufacturer finances the accounts receivable of one of his customers, he is considered to engage in such financing in the course of his trade or business. The extent of the priority of the lender or purchaser over the tax lien is the amount of his disbursements made before the 46th day after the date the notice of tax lien is filed, or made before the day (before such 46th day) on which the lender or purchaser has actual notice or knowledge of the filing of the notice of the tax lien.

(c) *Commercial financing security*—(1) *In general*. The term ''commercial financing security'' means—

(i) Paper of a kind ordinarily arising in commercial transactions.

(ii) Accounts receivable (as defined in subparagraph (2) of this paragraph (c)),

(iii) Mortgages on real property, and

(iv) Inventory.

For purposes of this subparagraph, the term ''paper of a kind ordinarily arising in commercial transactions'' in general includes any written document customarily used in commercial transactions. For example, such written documents include paper giving contract rights (as defined in subparagraph (2) of this paragraph (c)), chattel paper, documents of title to personal property, and negotiable instruments or securities. The term ''commercial financing security'' does not include general intangibles such as patents or copyrights. A mortgage on real estate (including a deed of trust, contract for sale, and similar instrument) may be commercial financing security if the taxpayer has an interest in the mortgage as a mortgagee or assignee. The term ''commercial financing security'' does not include a mortgage where the taxpayer is the mortgagor or realty owned by him. For purposes of this subparagraph, the term ''inventory'' includes raw materials and goods in process as well as property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business.

(2) *Definitions*. For purposes of §§ 301.6323(d)–1, 301.6323(h)–1 and this section—

(i) A contract right is any right to payment under a contract not yet earned by performance and not evidenced by an instrument or chattel paper, and

(ii) An account receivable is any right to payment for goods sold or leased or for services rendered which is not evidenced by an instrument or chattel paper.

(d) *Qualified property*. For purposes of paragraph (a) of this section, qualified property consists solely of commercial financing security acquired by the taxpayer-debtor before the 46th day after the date of tax lien filing: Commercial financing security acquired before such day may be qualified property even though it is acquired by the taxpayer after the lender received actual notice or knowledge of the filing of the tax lien. For example, although the receipt of actual notice or knowledge of the filing of the notice of the tax lien has the effect of ending the period within which protected disbursements may be made to the taxpayer, property which is acquired by the taxpayer after the

lender receives actual notice or knowledge of such filing and before such 46th day, which otherwise qualifies as commercial financing security, becomes commercial financing security to which the priority of the lender extends for loans made before he received the actual notice or knowledge. An account receivable (as defined in paragraph (c)(2)(ii) of this section) is acquired by a taxpayer at the time, and to the extent, a right to payment is earned by performance. Chattel paper, documents of title, negotiable instruments, securities, and mortgages on real estate are acquired by a taxpayer when he obtains rights in the paper or mortgage. Inventory is acquired by the taxpayer when title passes to him. A contract right (as defined in paragraph (c)(2)(i) of this section) is acquired by a taxpayer when the contract is made. Identifiable proceeds, which arise from the collection or disposition of qualified property by the taxpayer, are considered to be acquired at the time such qualified property is acquired if the secured party has a continuously perfected security interest in the proceeds under local law. The term ''proceeds'' includes whatever is received when collateral is sold, exchanged, or collected. For purposes of this paragraph, the term ''identifiable proceeds'' does not include money, checks and the like which have been commingled with other cash proceeds. Property acquired by the taxpayer after the 45th day following tax lien filing, by the expenditure of proceeds, is not qualified property.

(e) *Purchaser treated as acquiring security interest.* A person who purchases commercial financing security, other than inventory, pursuant to a commercial transactions financing agreement is treated, for purposes of this section, as having acquired a security interest in the commercial financing security. In the case of a bona fide purchase at a discount, a purchaser of commercial financing security who satisfies the requirements of this section has priority over the tax lien to the full extent of the security.

(f) *Examples.* The provisions of this section may be illustrated by the following examples:

Example 1. (i) On June 1, 1970, a tax is assessed against M, a tool manufacturer, with respect to his delinquent tax liability. On June 15, 1970, M enters into a written financing agreement with X, a bank. The agreement provides that, in consideration of such sums as X may advance to M, X is to have a security interest in all of M's presently owned and subsequently acquired commercial paper, accounts receivable, and inventory (including inventory in the manufacturing stages and raw materials). On July 6, 1970, notice of the tax lien is filed in accordance with § 301.6323(f)–1. On August 3, 1970, without actual notice or knowledge of the tax lien filing, X advances $10,000 to M. On August 5, 1970, M acquires additional inventory through the purchase of raw materials. On August 20, 1970, M has accounts receivable, arising from the sale of tools, amounting to $5,000. Under local law, X's security interest arising by reason of the $10,000 advance on August 3, 1970, has priority, with respect to the raw materials and accounts receivable, over a judgment lien against M arising July 6, 1970 (the date of tax lien filing) out of an unsecured obligation.

(ii) Because the $10,000 advance was made before the 46th day after the tax lien filing, and the accounts receivable in the amount of $5,000 and the raw materials were acquired by M before such 46th day, X's $10,000 security interest in the accounts receivable and the inventory has priority over the tax lien. The priority of X's security interest also extends to the proceeds, received on or after the 46th day after the tax lien filing, from the liquidation of the accounts receivable and inventory held by M on August 20, 1970, if X has a continuously perfected security interest in identifiable proceeds under local law. However, the priority of X's security interest will not extend to other property acquired with such proceeds.

Example 2. Assume the same facts as in example 1 except that on July 15, 1970, X has actual knowledge of the tax lien filing. Because an agreement does not qualify as a commercial transactions financing agreement when a disbursement is made after tax lien filing with actual knowledge of the filing, X's security interest will not have priority over the tax lien with respect to the $10,000 advance made on August 3, 1970.

Example 3. Assume the same facts as in example 1 except that, instead of additional inventory, on August 5, 1970, M acquires an account receivable as the result of the sale of machinery which M no longer needs in his business. Even though the account receivable was acquired by taxpayer M before the 46th day after tax lien filing, the tax lien will have priority over X's security interest arising in the account receivable pursuant to the earlier written agreement because the account receivable was not acquired by the

taxpayer in the ordinary course of his trade or business.

Example 4. Pursuant to a written agreement with the N Manufacturing Company entered into on January 4, 1971, Y a commercial factor, purchases the accounts receivable arising out of N's regular sales to its customers. On November 1, 1971, in accordance with § 301.6323(f)–1, a notice of lien is filed with respect to N's delinquent tax liability. On December 6, 1971, Y, without actual notice or knowledge of the tax lien filing, purchases all of the accounts receivable resulting from N's November 1971 sales. Y has taken appropriate steps under local law so that the December 6, 1971, purchase is protected against a judgment lien arising November 1, 1971 (the date of tax lien filing) out of an unsecured obligation. Because the purchaser of commercial financing security, other than inventory, is treated as having acquired a security interest in commercial financing security, and because Y otherwise meets the requirements of this section, the tax lien is not valid with respect to Y's December 6, 1971, purchase of N's accounts receivable.

[T.D. 7429, 41 FR 35503, Aug. 23, 1976]

§ 301.6323(c)–2 Protection for real property construction or improvement financing agreements.

(a) *In general.* Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid with respect to a security interest which:

(1) Comes into existence after the tax lien filing,

(2) Is in qualified property covered by the terms of a real property construction or improvement financing agreement entered into before the tax lien filing, and

(3) Is protected under local law against a judgment lien arising, as of the time of tax lien filing, out of an unsecured obligation.

For purposes of this section, it is immaterial that the holder of the security interest had actual notice or knowledge of the lien at the time disbursements are made pursuant to such an agreement. See paragraphs (a) and (e) of § 301.6323(h)–1 for general definitions of the terms ''security interest'' and ''tax lien filing.'' For purposes of this section, a judgment lien is a lien held by a judgment lien creditor as defined in paragraph (g) of § 301.6323(h)–1.

(b) *Real property construction or improvement financing agreement.* For purposes of this section, the term ''real property construction or improvement financing agreement'' means any written agreement to make cash disbursements (whether or not at the option of the party agreeing to make such disbursements):

(1) To finance the construction, improvement, or demolition of real property if the agreement provides for a security interest in the real property with respect to which the construction, improvement, or demolition has been or is to be made;

(2) To finance a contract to construct or improve, or demolish real property if the agreement provides for a security interest in the proceeds of the contract; or

(3) To finance the raising or harvesting of a farm crop or the raising of livestock or other animals if the agreement provides for a security interest in any property subject to the lien imposed by section 6321 at the time of tax lien filing, in the crop raised or harvested, or in the livestock or other animals raised.

For purposes of subparagraphs (1) and (2) of this paragraph (b), construction or improvement may include demolition. For purposes of any agreement described in subparagraph (3) of this paragraph (b), the furnishing of goods and services is treated as the disbursement of cash.

(c) *Qualified property.* For purposes of this section, the term ''qualified property'' includes only—

(1) In the case of an agreement described in paragraph (b)(1) of this section, the real property with respect to which the construction or improvement has been or is to be made;

(2) In the case of an agreement described in paragraph (b)(2) of this section, the proceeds of the contract to construct or improve real property; or

(3) In the case of an agreement described in paragraph (b)(3) of this section, property subject to the lien imposed by section 6321 at the time of tax lien filing, the farm crop raised or harvested, or the livestock or other animals raised.

(d) *Examples.* The provisions of this paragraph may be illustrated by the following examples:

Example 1. A, in order to finance the construction of a dwelling on a lot owned by him, mortgages the property to B. The mortgage, executed January 4, 2006, includes an agreement that B will make cash disbursements to A as the construction progresses. On February 1, 2006, in accordance with § 301.6323(f)–1, a notice of lien is filed and recorded in the public index with respect to A's delinquent tax liability. A continues the construction, and B makes cash disbursements on June 15, 2006, and December 15, 2006. Under local law B's security interest arising by virtue of the disbursements is protected against a judgment lien arising February 1, 2006 (the date of tax lien filing) out of an unsecured obligation. Because B is the holder of a security interest coming into existence by reason of cash disbursements made pursuant to a written agreement, entered into before tax lien filing, to make cash disbursements to finance the construction of real property, and because B's security interest is protected, under local law, against a judgment lien arising as of the time of tax lien filing out of an unsecured obligation, B's security interest has priority over the tax lien.

Example 2. (i) C is awarded a contract for the demolition of several buildings. On March 3, 2004, C enters into a written agreement with D which provides that D will make cash disbursements to finance the demolition and also provides that repayment of the disbursements is secured by any sums due C under the contract. On April 1, 2004, in accordance with § 301.6323(f)–1, a notice of lien is filed with respect to C's delinquent tax liability. With actual notice of the tax lien, D makes cash disbursements to C on August 13, September 13, and October 13, 2004. Under local law D's security interest in the proceeds of the contract with respect to the disbursements is entitled to priority over a judgment lien arising on April 1, 2004 (the date of tax lien filing) out of an unsecured obligation.

(ii) Because D's security interest arose by reason of disbursements made pursuant to a written agreement, entered into before tax lien filing, to make cash disbursements to finance a contract to demolish real property, and because D's security interest is valid under local law against a judgment lien arising as of the time of tax lien filed out of an unsecured obligation, the tax lien is not valid with respect to D's security interest in the proceeds of the demolition contract.

Example 3. Assume the same facts as in *Example 2* and, in addition, assume that, as further security for the cash disbursements, the March 3, 2004, agreement also provides for a security interest in all of C's demolition equipment. Because the protection of the security interest arising from the disbursements made after tax lien filing under the agreement is limited under section 6323(c)(3) to the proceeds of the demolition contract and because, under the circumstances, the security interest in the equipment is not otherwise protected under section 6323, the tax lien will have priority over D's security interest in the equipment.

Example 4. (i) On January 3, 2006, F and G enter into a written agreement, whereby F agrees to provide G with cash disbursements, seed, fertilizer, and insecticides as needed by G, in order to finance the raising and harvesting of a crop on a farm owned by G. Under the terms of the agreement F is to have a security interest in the crop, the farm, and all other property then owned or thereafter acquired by G. In accordance with § 301.6323(f)–1, on January 10, 2006, a notice of lien is filed and recorded in the public index with respect to G's delinquent tax liability. On March 3, 2006, with actual notice of the tax lien, F makes a cash disbursement of $5,000 to G and furnishes him seed, fertilizer, and insecticides having a value of $10,000. Under local law F's security interest, coming into existence by reason of the cash disbursement and the furnishing of goods, has priority over a judgment lien arising January 10, 2006 (the date of tax lien filing and recording in the public index) out of an unsecured obligation.

(ii) Because F's security interest arose by reason of a disbursement (including the furnishing of goods) made under a written agreement which was entered into before tax lien filing and which constitutes an agreement to finance the raising or harvesting of a farm crop, and because F's security interest is valid under local law against a judgment lien arising as of the time of tax lien filing out of an unsecured obligation, the tax lien is not valid with respect to F's security interest in the crop even though a notice of lien was filed before the security interest arose. Furthermore, because the farm is property subject to the tax lien at the time of tax lien filing, F's security interest with respect to the farm also has priority over the tax lien.

Example 5. Assume the same facts as in *Example 4* and in addition that on October 2, 2006, G acquires several tractors to which F's security interest attaches under the terms of the agreement. Because the tractors are not property subject to the tax lien at the time of tax lien filing, the tax lien has priority over F's security interest in the tractors.

(e) *Effective/applicability date.* This section applies with respect to any notice of Federal tax lien filed on or after April 4, 2011.

[T.D. 7429, 41 FR 35503, Aug. 23, 1976, as amended by T.D. 9520, 76 FR 18386, Apr. 4, 2011]

§ 301.6323(c)–3 Protection for obligatory disbursement agreements.

(a) *In general.* Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid with respect to a security interest which:

(1) Comes into existence after the tax lien filing,

(2) Is in qualified property covered by the terms of an obligatory disbursement agreement entered into before the tax lien filing, and

(3) Is protected under local law against a judgment lien arising, as of the time of tax lien filing, out of an unsecured obligation.

See paragraphs (a) and (e) of § 301.6323(h)–1 for definitions of the terms ''security interest'' and ''tax lien filing.'' For purposes of this section, a judgment lien is a lien held by a judgment lien creditor as defined in paragraph (g) of § 301.6323(h)–1.

(b) *Obligatory disbursement agreement.* For purposes of this section the term ''obligatory disbursement agreement'' means a written agreement, entered into by a person in the course of his trade or business, to make disbursements. An agreement is treated as an obligatory disbursement agreement only with respect to disbursements which are required to be made by reason of the intervention of the rights of a person other than the taxpayer. The obligation to pay must be conditioned upon an event beyond the control of the obligor. For example, the provisions of this section are applicable where an issuing bank obligates itself to honor drafts or other demands for payment on a letter of credit and a bank, in good faith, relies upon that letter of credit in making advances. The provisions of this section are also applicable, for example, where a bonding company obligates itself to make payments to indemnify against loss or liability and, under the terms of the bond, makes a payment with respect to a loss. The priority described in this section is not applicable, for example, in the case of an accommodation endorsement by an endorser who assumes his obligation other than in the course of his trade or business.

(c) *Qualified property.* Except as provided under paragraph (d) of this section, the term ''qualified property,'' for purposes of this section, means property subject to the lien imposed by section 6321 at the time of tax lien filing and, to the extent that the acquisition is directly traceable to the obligatory disbursement, property acquired by the taxpayer after tax lien filing.

(d) *Special rule for surety agreements.* Where the obligatory disbursement agreement is an agreement insuring the performance of a contract of the taxpayer and another person, the term ''qualified property'' shall be treated as also including—

(1) The proceeds of the contract the performance of which was insured, and

(2) If the contract the performance of which was insured is a contract to construct or improve real property, to produce goods, or to furnish services, any tangible personal property used by the taxpayer in the performance of the insured contract.

For example, a surety company which holds a security interest, arising from cash disbursements made after tax lien filing under a payment or performance bond on a real estate construction project, has priority over the tax lien with respect to the proceeds of the construction contract and, in addition, with respect to any tangible personal property used by the taxpayer in the construction project if its security interest in the tangible personal property is protected under local law against a judgment lien arising, as of the time the tax lien was filed, out of an unsecured obligation.

(3) *Examples.* This section may be illustrated by the following examples:

Example 1. (i) On January 2, 1969, H, an appliance dealer, in order to finance the acquisition from O of a large inventory of appliances, enters into a written agreement with Z, a bank. Under the terms of the agreement, in return for a security interest in all of H's inventory, presently owned and subsequently acquired, Z issues an irrevocable letter of credit to allow H to make the purchase. On December 31, 1968 and January 10, 1969, in accordance with § 301.6323(f)–1, separate notices of lien are filed with respect to H's delinquent tax liabilities. On March 31, 1969, Z honors the letter of credit. Under local law, Z's security interest in both existing and after-acquired inventory is protected against a judgment lien arising on or after January 10, 1969, out of an unsecured obligation. Under local law, Z's security interest in the

inventory purchased under the letter of credit qualifies as a purchase money security interest and is valid against persons acquiring security interests in or liens upon such inventory at any time.

(ii) Because Z's security interest in H's inventory did not arise under a written agreement entered into before the filing of notice of the first tax lien on December 31, 1968, that lien is superior to Z's security interest except to the extent of Z's purchase money security interest. Because Z's interest qualifies as a purchase money security interest with respect to the inventory purchased under the letter of credit, the tax liens attach under section 6321 only to the equity acquired by H, and the rights of Z in the inventory so purchased as superior even to the lien filed on December 31, 1968, without regard to this section.

(iii) Because Z's security interest arose by reason of disbursements made under a written agreement which was entered into before the filing of notice of the second tax lien on January 10, 1969, and which constitutes an agreement to make disbursements required to be made by reason of the intervention of the rights of O, a person other than the taxpayer, and because Z's security interest is valid under local law against a judgment lien arising as of the time of such tax lien filing on January 10, 1969, out of an unsecured obligation, the second tax lien is, under this section, not valid with respect to Z's security interest in inventory owned by H on January 10, 1969, as well as any after-acquired inventory directly traceable to Z's disbursements (apart from such greater protection as Z enjoys, with respect to the latter, under its purchase money security interest). No protection against the second tax lien is provided under this section with respect to a security interest in any other inventory acquired by H after January 10, 1969, because such other inventory is neither subject to the tax lien at the time of tax lien filing nor directly traceable to Z's disbursements.

Example 2. On June 1, 1971, K is awarded a contract to construct an office building. At the same time, S, a surety company, agrees in writing to insure the performance of the contract. The agreement provides that in the event S must complete the job as the result of a default by K, S will be entitled to the proceeds of the contract. In addition, the agreement provides that S is to have a security interest in all property belonging to K. On December 1, 1971, prior to the completion of the building, K defaults. On the same date, under § 301.6323(f)–1, a notice of lien is filed with respect to K's delinquent tax liability. S completes the building on June 1, 1972. Under local law S's security interest in the proceeds of the contract and S's security interest in the property of K are entitled to priority over a judgment lien arising December 1, 1971 (the date of tax lien filing) out of an unsecured obligation. Because, for purposes of an obligatory disbursement agreement which is a surety agreement, the security interest may be in the proceeds of the insured contract, S's security interest in the proceeds of the contract has priority over the tax lien even though a notice of lien was filed before S's security interest arose. Furthermore, because the insured contract was a contract to construct real property, S's security interest in any of K's tangible personal property used in the performance of the contract also has priority over the tax lien.

Example 3. (i) On February 2, 1970, L enters into an agreement with M, a contractor, to construct an apartment building on land owned by L. Under a separate agreement, N bank agrees to furnish funds on a short-term basis to L for the payment of amounts due to M during the course of construction. Simultaneously, X, a financial institution, makes a binding commitment to N bank and L to provide long-term financing for the project after its completion. Under its commitment, X is obligated to pay off the balance of the construction loan held by N bank upon the execution by L of a new promissory note secured by a mortgage deed of trust upon the improved property. On September 4, 1970, in accordance with § 301.6323(f)–1, notice of lien is properly filed with respect to L's delinquent tax liability. On September 8, 1970. X obtains actual notice of the tax lien filing. On September 14, 1970, the documents creating X's security interest are executed and recorded, N bank's lien for its construction loan is released, and X makes the required disbursements to N bank. Under local law, X's security interest is protected against a judgment lien arising on September 4, 1970 (the time of tax lien filing) out of an unsecured obligation.

(ii) Because X's security interest arose by reason of a disbursement made under a written agreement entered into before tax lien filing, which constitutes an agreement to make disbursements required to be made by reason of the intervention of the rights of N bank, a person other than the taxpayer, and because X's security interest is valid under local law against a judgment lien arising as of the time of the tax lien filing out of an unsecured obligation, the tax lien is not valid with respect to X's security interest to the extent of the disbursement to N bank. The obligatory disbursement is protected under section 6323(c)(4) even if X is not subrogated to N bank's rights or X's agreement is not itself a real property construction financing agreement.

[T.D. 7429, 41 FR 35504, Aug. 23, 1976]

§ 301.6323(d)–1 45-day period for making disbursements.

(a) *In general.* Even though a notice of a lien imposed by section 6321 is filed in accordance with § 301.6323(f)–1, the lien is not valid with respect to a security interest which comes into existence, after tax lien filing, by reason of disbursements made before the 46th day after the date of tax lien filing, or if earlier, before the person making the disbursements has actual notice or knowledge of the tax lien filing, but only if the security interest is—

(1) In property which is subject, at the time of tax lien filing, to the lien imposed by section 6321 and which is covered by the terms of a written agreement entered into before tax lien filing, and

(2) Protected under local law against a judgment lien arising, as of the time of tax lien filing, out of an unsecured obligation.

For purposes of subparagraph (1) of this paragraph (a), a contract right (as defined in paragraph (c)(2)(i) of § 301.6323(c)–1) is subject, at the time of tax lien filing, to the lien imposed by section 6321 if the contract has been made by such time. An account receivable (as defined in paragraph (c)(2)(ii) of § 301.6323(c)–1) is subject, at the time of tax lien filing, to the lien imposed by section 6321 if, and to the extent, a right to payment has been earned by performance at such time. For purposes of subparagraph (2) of this paragraph (a), a judgment lien is a lien held by a judgment lien creditor as defined in paragraph (g) of § 301.6323(h)–1. For purposes of this section, it is immaterial that the written agreement provides that the disbursements are to be made at the option of the person making the disbursements. See paragraphs (a) and (e) of § 301.6323(h)–1 for definitions of the terms ''security interest'' and ''tax lien filing,'' respectively. See paragraph (a) of § 301.6323(i)–1 for certain circumstances under which a person is deemed to have actual notice or knowledge of a fact.

(b) *Examples.* The application of this section may be illustrated by the following examples:

Example 1. On December 1, 1967, an assessment is made against A with respect to his delinquent tax liability. On January 2, 1968, A enters into a written agreement with B whereby B agrees to lend A $10,000 in return for a security interest in certain property owned by A. On January 10, 1968, in accordance with § 301.6323(f)–1 notice of the tax lien affecting the property is filed. On February 1, 1968, B, without actual notice or knowledge of the tax lien filing, disburses the loan to A. Under local law, the security interest arising by reason of the disbursement is entitled to priority over a judgment lien arising January 10, 1968 (the date of tax lien filing) out of an unsecured obligation. Because the disbursement was made before the 46th day after tax lien filing, because the disbursement was made pursuant to a written agreement entered into before tax lien filing, and because the resulting security interest is protected under local law against a judgment lien arising as of the date of tax lien filing out of an unsecured obligation, B's $10,000 security interest has priority over the tax lien.

Example 2. Assume the same facts as in example 1 except that when B disburses the $10,000 to A on February 10, 1968, B has actual knowledge of the tax lien filing. Because the disbursement was made with actual knowledge of tax lien filing, B's security interest does not have priority over the tax lien even though the disbursement was made before the 46th day after the tax lien filing. Furthermore, B is not protected under § 301.6323(a)–1(a) as a holder of a security interest because he had not parted with money or money's worth prior to the time the notice of tax lien was filed (January 10, 1968) even though he had made a firm commitment to A before that time.

[T.D. 7429, 41 FR 35505, Aug. 23, 1976]

§ 301.6323(e)–1 Priority of interest and expenses.

(a) *In general.* If the lien imposed by section 6321 is not valid as against another lien or security interest, the priority of the other lien or security interest also extends to each of the following items to the extent that under local law the item has the same priority as the lien or security interest to which it relates:

(1) Any interest or carrying charges (including finance, service, and similar charges) upon the obligation secured,

(2) The reasonable charges and expenses of an indenture trustee (including, for example, the trustee under a deed of trust) or agent holding the security interest for the benefit of the holder of the security interest,

(3) The reasonable expenses, including reasonable compensation for attorneys, actually incurred in collecting or enforcing the obligation secured,

(4) The reasonable costs of insuring, preserving, or repairing the property to which the lien or security interest relates,

(5) The reasonable costs of insuring payment of the obligation secured (including amounts paid by the holder of the security interest for mortgage insurance, such as that issued by the Federal Housing Administration), and

(6) Amounts paid to satisfy any lien on the property to which the lien or security interest relates, but only if the lien so satisfied is entitled to priority over the lien imposed by section 6321.

(b) *Collection expenses*. The reasonable expenses described in paragraph (a)(3) of this section include expenditures incurred by the protected holder of the lien or security interest to establish the priority of his interest or to collect, by foreclosure or otherwise, the amount due him from the property subject to his lien. Accordingly, the amount of the encumbrance which is protected is increased by the amounts so expended by the holder of the security interest.

(c) *Costs of insuring, preserving, etc.* The reasonable costs of insuring, preserving, or repairing described in paragraph (a)(4) of this section include expenditures by the holder of a security interest for fire and casualty insurance on the property subject to the security interest and amounts paid by the holder of the lien or security interest to repair the property. Such reasonable costs also include the amounts paid by the holder of the lien or security interest in a leasehold to the lessor of the leasehold to preseve the leasehold subject to the lien or security interest. Accordingly, the amount of the lien or security interest which is protected is increased by the amounts so expended by the holder of the lien or security interest.

(d) *Satisfaction of liens*. The amounts described in paragraph (a)(6) of this section include expenditures incurred by the protected holder of a lien or security interest to discharge a statutory lien for State sales taxes on the property subject to his lien or security interest if both his lien or security interest and the sales tax lien have priority over a Federal tax lien. Accordingly, the amount of the lien or security interest is increased by the amounts so expended by the holder of the lien or security interest even though under local law the holder of the lien or security interest is not subrogated to the rights of the holder of the State sales tax lien. However, if the holder of the lien or security interest is subrogated, within the meaning of paragraph (b) of § 301.6323(i)–1, to the rights of the holder of the sales tax lien, he will also be entitled to any additional protection afforded by section 6323(i)(2).

[T.D. 7429, 41 FR 35506, Aug. 23, 1976]

§ 301.6323(f)–1 Place for filing notice; form.

(a) *Place for filing*. The notice of lien referred to in § 301.6323(a)–1 shall be filed as follows:

(1) *Under State laws*—(i) *Real property*. In the case of real property, notice shall be filed in one office within the State (or the county or other governmental subdivision), as designated by the laws of the State, in which the property subject to the lien is deemed situated under the provisions of paragraph (b)(1) of this section.

(ii) *Personal property*. In the case of personal property, whether tangible or intangible, the notice shall be filed in one office within the State (or the county or other governmental subdivision), as designated by the laws of the State, in which the property subject to the lien is deemed situated under the provisions of paragraph (b)(2) of this section.

(2) *With the clerk of the United States district court*. Whenever a State has not by law designated one office which meets the requirements of subparagraph (1)(i) or (1)(ii) of this paragraph (a), the notice shall be filed in the office of the clerk of the U.S. district court for the judicial district in which the property subject to the lien is deemed situated under the provisions of paragraph (b) of this section. For example, a State has not by law designated one office meeting the requirements of subparagraph (1)(i) of this paragraph (a), if more than one office is designated within the State, county, or

other governmental subdivision for filing notices with respect to all real property located in such State, county, or other governmental subdivision. A State has not by law designated one office meeting the requirements of subparagraph (1)(ii) of this paragraph (a), if more than one office is designated in the State, county, or other governmental subdivision for filing notices with respect to all of the personal property of a particular taxpayer. A state law that conforms to or reenacts a federal law establishing a national filing system does not constitute a designation by state law of an office for filing liens against personal property. Thus, if state law provides that a notice of lien affecting personal property must be filed in the office of the county clerk for the county in which the taxpayer resides and also adopts a federal law that requires a notice of lien to be filed in another location in order to attach to a specific type of property, the state is considered to have designated only one office for the filing of the notice of lien, and to protect its lien the Internal Revenue Service need only file its notice in the office of the county clerk for the county in which the taxpayer resides.

(3) *With the Recorder of Deeds of the District of Columbia.* If the property subject to the lien imposed by section 5321 is deemed situated, under the provisions of paragraph (b) of this section, in the District of Columbia, the notice shall be filed in the office of the Recorder of Deeds of the District of Columbia.

(b) *Situs of property subject to lien.* For purposes of paragraph (a) of this section, property is deemed situated as follows:

(1) *Real property.* Real property is deemed situated at its physical location.

(2) *Personal property.* Personal property, whether tangible or intangible, is deemed situated at the residence of the taxpayer at the time the notice of lien is filed.

For purposes of subparagraph (2) of this paragraph (b), the residence of a corporation or partnership is deemed to be the place at which the principal executive office of the business is located, and the residence of a taxpayer whose residence is not within the United States is deemed to be in the District of Columbia.

(c) *National filing system.* The filing of federal tax liens is to be governed solely by the Internal Revenue Code and is not subject to any other federal law that may establish a national system for filing liens and encumbrances against a particular type of personal property. Thus, for example, the Service is not subject to the requirements established by the Federal Aviation Agency for filing liens against civil aircraft in Oklahoma City, Oklahoma.

(d) *Form*—(1) *In general.* The notice referred to in § 301.6323(a)–1 shall be filed on Form 668, ''Notice of Federal Tax Lien Under Internal Revenue Laws''. Such notice is valid notwithstanding any other provision of law regarding the form or content of a notice of lien. For example, omission from the notice of lien of a description of the property subject to the lien does not affect the validity thereof even though State law may require that the notice contain a description of the property subject to the lien.

(2) *Form 668 defined.* The term *Form 668* means either a paper form or a form transmitted electronically, including a form transmitted by facsimile (fax) or electronic mail (e-mail). A Form 668 must identify the taxpayer, the tax liability giving rise to the lien, and the date the assessment arose regardless of the method used to file the notice of Federal tax lien.

(e) *Examples.* The provisions of this section may be illustrated by the following examples:

Example 1. The law of State X provides that notices of Federal tax lien affecting personal property are to be filed in the Office of the Recorder of Deeds of the county where the taxpayer resides. The laws of State X also provide that notices of lien affecting real property are to be filed with the recorder of deeds of the county where the real property is located. On June 1, 1970, in accordance with § 301.6323(f)–1, a notice of lien is filed in county M with respect to the delinquent tax liability of A. At the time the notice is filed, A is a resident of county M and owns real property in that county. One year later A moves to county N and one year after that A moves to county O. Because the situs of personal property is deemed to be at the residence of the taxpayer at the time the notice

of lien is filed, the notice continues to be effectively filed with respect to A's personal property even though A no longer resides in county M. Furthermore, because the situs of real property is deemed to be at its physical location, the notice of lien also continues to be effectively filed with respect to A's real property.

Example 2. B is a resident of Canada but owns personal property in the United States. On January 4, 1971, in accordance with § 301.6323(f)–1, a notice of lien is filed with the Office of the Recorder of Deeds of the District of Columbia. On January 2, 1973, B changes his residence to State Y in the United States. Because the residence of a taxpayer who is not a resident of the United States is deemed to be in the District of Columbia and the situs of personal property is deemed to be at the residence of the taxpayer at the time of filing, the lien continues to be effectively filed with respect to the personal property of B located in the United States even though B has returned to the United States and taken up residence in State Y and even though B has at no time been in the District of Columbia.

Example 3. The law of State Z in effect before July 1, 1967, provides that notices of lien affecting real property are to be filed in the office of the recorder of deeds of the county in which the real property is located, but that if the real property is registered under the Torrens system of title registration the notice is to be filed with the registrar of titles rather than the recorder of deeds. The law of State Z in effect after June 30, 1967, provides that all notices of lien affecting real property are to be filed with the recorder of deeds of the county in which the real property is located. Accordingly, where the Torrens system is adopted by a county in State Z, there were before July 1, 1967, two offices designated for filing notices of Federal tax lien affecting real property in the county because one office was designated for Torrens real property and another office was designated for non-Torrens real property. Because State Z had not designated one office within the State, county, or other governmental subdivision for filing notices before July 1, 1967, with respect to all real property located in the State, county, or governmental subdivision, before July 1, 1967, the place for filing notices of lien under this section, affecting property located in counties adopting the Torrens system, was with the clerk of the U.S. district court for the judicial district in which the real property is located. However, after June 30, 1967, the place for filing notices of lien under this section, affecting both Torrens and non-Torrens real property in counties adopting the Torrens system is with the recorder of deeds for each such county. Notices of lien filed under this section with the clerk of the U.S. district court before July 1, 1967, remain validly filed whether or not refiled with the recorder of deeds after the change in State law or upon refiling during the required refiling period.

Example 4. The law of State W provides that notices of lien affecting personal property of corporations and partnerships are to be filed in the office of the Secretary of State. Notices of lien affecting personal property of any other person are to be filed in the office of the clerk of court for the county where the person resides. Because the State law designates only one filing office within State W with respect to personal property of any particular taxpayer, notices of lien filed under this section, affecting personal property, shall be filed in the office designated under State law.

Example 5. The law of State F provides that notices of lien affecting personal property are to be filed with the clerk of the circuit court in the county in which the personal property is located. State F has conformed state law to federal law to provide that all instruments affecting title to an interest in any civil aircraft of the United States must be recorded in the Office of the Federal Aviation Administrator (FAA) in Oklahoma City, Oklahoma. On July 1, 1990, a tax lien arises against ABC airline, which owns aircraft situated in State F. The Internal Revenue Service files a Notice of Federal Tax Lien with the clerk of the circuit court in the county in which the aircraft is located but does not file the notice with the FAA in Oklahoma City, Oklahoma. Because the FAA system adopted by State F does not constitute a second place of filing pursuant to section 6323(f), the federal tax lien is validly filed.

Example 6. Assume the same facts as *Example 5* except that State F did not reenact or conform state law to the FAA requirements. The result is the same because the filing of federal tax liens is governed solely by the Internal Revenue Code, and is not subject to any other national filing system.

(f) *Effective/applicability date.* This section applies with respect to any notice of Federal tax lien filed on or after April 4, 2011.

[T.D. 7429, 41 FR 35507, Aug. 23, 1976; 41 FR 41690, Sept. 23, 1976, as amended by T.D. 8234, 53 FR 47676, Nov. 25, 1988; T.D. 8557, 59 FR 38120, July 27, 1994; T.D. 9520, 76 FR 18386, Apr. 4, 2011]

§ 301.6323(g)–1 Refiling of notice of tax lien.

(a) *In general*—(1) *Requirement to refile.* In order to continue the effect of a notice of lien, the notice must be refiled in the place described in paragraph (b) of this section during the required refiling period (described in paragraph (c) of this section). If two or

more notices of lien are filed with respect to a particular tax assessment, and each notice of lien contains a certificate of release that releases the lien when the required refiling period ends, the failure to comply with the provisions of paragraphs (b)(1)(i) and (c) of this section in respect to one of the notices of lien releases the lien and renders ineffective the refiling of any other notice of lien.

(2) *Effect of refiling*. A timely refiled notice of lien is effective as of the date on which the notice of lien to which it relates was effective.

(3) *Effect of failure to refile*—If the Internal Revenue Service fails to refile a notice of lien in the manner described in paragraphs (b) and (c) of this section, the notice is not effective, after the expiration of the required refiling period, as against any person described in section 6323(a), without regard to when the interest of the person in the property subject to the lien was acquired. If a notice of lien contains a certificate of release that provides that the lien is released at the end of the required refiling period unless the notice of lien is refiled, and the notice of lien is not refiled, then the lien is extinguished and the notice of lien is ineffective.

(i) However, neither the failure to refile before the expiration of the refiling period, nor the release of the lien, shall alter or impair any right of the United States to property or its proceeds that is the subject of a levy or judicial proceeding commenced prior to the end of the refiling period or the release of the lien, except to the extent that a person acquires an interest in the property for adequate consideration after the commencement of the proceeding and does not have notice of, and is not bound by, the outcome of the proceeding.

(ii) If a suit or levy referred to in the preceding sentence is dismissed or released and the property is subject to the lien at such time, a notice of lien with respect to the property is not effective after the suit or levy is dismissed or released unless refiled during the required refiling period.

(4) *Filing of new notice*. If a notice of lien is not refiled, and the notice of lien contains a certificate of release that automatically releases the lien when the required refiling period ends, the lien is released as of that date and is no longer in existence. The Internal Revenue Service must revoke the release before it can file a new notice of lien. This new filing must meet the requirements of section 6323(f) and § 301.6323(f)–1 and is effective from the date on which such filing is made.

(b) *Place for refiling notice of lien*—(1) *In general*. A notice of lien refiled during the required refiling period (described in paragraph (c) of this section) shall be effective only—

(i) If the notice of lien is refiled in the office in which the prior notice of lien (including a refiled notice) was filed under the provisions of section 6323; and

(ii) In any case in which 90 days or more prior to the date the refiling of the notice of lien under subdivision (i) is completed, the Internal Revenue Service receives written information (in the manner described in subparagraph (2) of this paragraph (b)) concerning a change in the taxpayer's residence, if a notice of such lien is also filed in accordance with section 6323(f)(1)(A)(ii) in the State in which such new residence is located (or, if such new residence is located without the United States, in the District of Columbia).

A notice of lien is considered as refiled in the office in which the prior notice or refiled notice was filed under the provisions of section 6323 if it is refiled in the office which, pursuant to a change in the applicable local law, assumed the functions of the office in which the prior notice or refiled notice was filed. If on or before the 90th day referred to in subdivision (ii) more than one written notice is received concerning a change in the taxpayer's residence, a notice of lien is required by this subdivision to be filed only with respect to the residence shown on the written notice received on the most recent date. Subdivision (ii) is applicable regardless of whether the taxpayer resides at the new residence on the date the refiling of notice of lien under subdivision (i) of this subparagraph is completed.

(2) *Notice of change of taxpayer's residence*—(i) *In general*. Except as provided

in subdivision (ii) or (iii) of this subparagraph, for purposes of this section, a notice of change of a taxpayer's residence will be effective only if it (A) is received, in writing, from the taxpayer or his representative by the district director or the service center director having jurisdiction where the original notice of lien was filed, (B) relates to an unpaid tax liability of the taxpayer, and (C) states the taxpayer's name and the address of his new residence. Although it is not necessary that a written notice contain the taxpayer's identifying number authorized by section 6109, it is preferable that it include such number. For purposes of this subdivision, a notice of change of a taxpayer's residence shown on a return or an amended return (including a return of the same tax) will not be effective to notify the Internal Revenue Service.

(ii) *Notice received before August 23, 1976*. For purposes of this section, a notice of a change of a taxpayer's residence will also be effective if it (A) is received, in writing, by any office of the Internal Revenue Service before August 23, 1976, from the taxpayer or his representative, (B) relates to an unpaid tax liability of the taxpayer, and (C) states the taxpayer's name and the address of his new residence.

(iii) *By return or amended return*. For purposes of this section, in the case of a notice of lien which relates to an assessment of tax made after December 31, 1966, a notice of change of a taxpayer's residence will also be effective if it is contained in a return or amended return of the same type of tax filed with the Internal Revenue Service by the taxpayer or his representative which on its face indicates that there is a change in the taxpayer's address and correctly states the taxpayer's name, the address of his new residence, and his identifying number required by section 6109.

(iv) *Other rules applicable*. Except as provided in subdivisions (i), (ii), and (iii) of this subparagraph, no communication (either written or oral) to the Internal Revenue Service will be considered effective as notice of a change of a taxpayer's residence under this section, whether or not the Service has actual notice or knowledge of the taxpayer's new residence. For the purpose of determining the date on which a notice of change of a taxpayer's residence is received under this section, the notice shall be treated as received on the date it is actually received by the Internal Revenue Service without reference to the provisions of section 7502.

(3) *Examples*. The following examples illustrate the provisions of this section:

Example 1. A, a delinquent taxpayer, is a resident of State M and owns real property in State N. In accordance with § 301.6323(f)–1, notices of lien are filed in States M and N. The notices of lien contain certificates of release that release the lien at the end of the required refiling period. In order to continue the effect of the notice of lien filed in either M or N, the Internal Revenue Service must refile, during the required refiling period, the notice of lien with the appropriate office in M as well as with the appropriate office in N.

Example 2. B, a delinquent taxpayer, is a resident of State M. In accordance with § 301.6323(f)–1, notice of lien is properly filed in that State. One year before the beginning of the required refiling period, B establishes his residence in State N, and B immediately notifies the Internal Revenue Service of his change in residence in accordance with the provisions of paragraph (b)(2) of this section. In order to continue the effect of the notice of lien filed in M, the Internal Revenue Service must refile, during the required refiling period, notices of lien with (i) the appropriate office in M, and (ii) the appropriate office in N, because B properly notified the Internal Revenue Service of his change in residence to N more than 89 days prior to the date refiling of the notice of lien in M is completed. Even if the Internal Revenue Service had acquired actual notice or knowledge of B's change in residence by other means, if B had not properly notified the Internal Revenue Service of his change in residence, the effect of the notice of lien in State M could have been continued without any refiling in State N.

Example 3. C, a delinquent taxpayer, is a resident of State O. In accordance with § 301.6323(f)–1, notice of lien is properly filed in that State. Four years before the required refiling period, C establishes his residence in State P, and C immediately notifies the Internal Revenue Service of his change in residence in accordance with the provisions of paragraph (b)(2) of this section. Three years before the required refiling period, C establishes his residence in State R, and again C immediately notifies the Internal Revenue Service of his change in residence in accordance with the provisions of paragraph (2) of this section. In order to continue the effect of the notice of lien filed in O, the Internal

Revenue Service must refile, during the required refiling period, notices of lien with (i) the appropriate office in O, and (ii) the appropriate office in R. Refiling in R is required because the notice received by the Service of C's change in residence to R was the most recent notice received more than 89 days prior to the date refiling in O is completed. The notice of lien is not required to be filed in P, even though C properly notified the Internal Revenue Service of his change in residence to P, because such notice is not the most recent one received.

Example 4. Assume the same facts as in example 3, except that C does not notify the Internal Revenue Service of his change in residence to R in accordance with the provisions of paragraph (b)(2) of this section. In order to continue the effect of the notice of lien filed in O, the Internal Revenue Service must refile, during the required refiling period, the notice of lien with (i) the appropriate office in O, and (ii) the appropriate office in P. Refiling in P is required because C properly notified the Internal Revenue Service of his change in residence to P, even though C is not a resident of P on the date refiling of the notice of lien in O is completed. The Internal Revenue Service is not required to file a notice of lien in R because C did not properly notify the Service of his change in residence to R.

Example 5. D, a delinquent taxpayer, is a resident of State M and owns real property in States N and O. In accordance with § 301.6323(f)–1, the Internal Revenue Service files notices of lien in M, N, and O States. Nine years and 6 months after the date of the assessment shown on the notice of lien, D establishes his residence in P, and at that time the Internal Revenue Service receives from D a notification of his change in residence in accordance with the provisions of paragraph (b)(2) of this section. On a date which is 9 years and 7 months after the date of the assessment shown on the notice of lien, the Internal Revenue Service properly refiles notices of lien in M, N, and O which refilings are sufficient to continue the effect of each of the notices of lien. The Internal Revenue Service is not required to file a notice of lien in P because D did not notify the Internal Revenue Service of his change of residence to P more than 89 days prior to the date each of the refilings in M, N, and O was completed.

Example 6. Assume the same facts as in example 5 except that the refiling of the notice of lien in O occurs 100 days after D notifies the Internal Revenue Service of hischange in residence to P in accordance with the provisions of paragraph (b)(2) of this section. In order to continue the effect of the notice of lien filed in O, in addition to refiling the notice of lien in O, the Internal Revenue Service must also refile, during the required refiling period, a notice of lien in P because D properly notified the Internal Revenue Service of his change of residence to P more than 89 days prior to the date the refiling in O was completed. However, the Internal Revenue Service is not required to refile the notice of lien in P to maintain the effect of the notices of lien in M and N because D did not notify the Internal Revenue Service of his change in residence to P more than 89 days prior to the date the refilings in M and N were completed.

Example 7. E, a delinquent taxpayer, is a resident of State T. Because T has not designated one office in the case of personal property for filing notices of lien in accordance with the provisions of section 6323(f)(1)(A)(ii), the Internal Revenue Service properly files a notice of lien with the clerk of the appropriate United States district court. However, solely as a matter of convenience for those who may have occasion to search for notices of lien, and not as a matter of legal effectiveness, the Internal Revenue Service also files notice of lien with the recorder of deeds of the county in T where E resides. In addition, the Internal Revenue Service sends a copy of the notice of lien to the X life insurance company to give the company actual notice of the notice of lien. In order to continue the effect of the notice of lien, the Internal Revenue Service must refile the notice of lien with the clerk of the appropriate United States district court during the required refiling period. In order to continue the effect of the notice of the lien, it is not necessary to refile the notice of lien with the Recorder of Deeds of the county where E resides, because the refiling of the notice of lien with the recorder of deeds does not constitute a proper filing for the purposes of section 6323(f). In addition, to continue the effect of the notice of lien under this section it is not necessary to send a copy of the notice of lien to the X life insurance company, because the sending of a notice of lien to an insurance company does not constitute a proper filing for the purposes of section 6323(f).

(c) *Required refiling period*—(1) *In general.* For the purpose of this section, except as provided in paragraph (c)(2) of this section, the term *required refiling period* means—

(i) The 1-year period ending 30 days after the expiration of 10 years after the date of the assessment of the tax; and

(ii) The 1-year period ending with the expiration of 10 years after the close of the preceding required refiling period for such notice of lien.

(2) *Examples.* The following examples illustrate the provisions of this paragraph:

Example 1. On March 10, 1998, an assessment of tax is made against B, a delinquent taxpayer, and a lien for the amount of the assessment arises on that date. On July 10, 1998, in accordance with § 301.6323(f)–1, a notice of lien is filed. The notice of lien filed on July 10, 1998, is effective through April 9, 2008. The first required refiling period for the notice of lien begins on April 10, 2007, and ends on April 9, 2008. A refiling of the notice of lien during that period will extend the effectiveness of the notice of lien filed on July 10, 1998, through April 9, 2018. The second required refiling period for the notice of lien begins on April 10, 2017, and ends on April 9, 2018.

Example 2. Assume the same facts as in *Example 1*, except that the Internal Revenue Service fails to refile a notice of lien during the first required refiling period (April 10, 2007, through April 9, 2008). A notice of lien is filed on June 9, 2009, in accordance with § 301.6323(f)–1. This notice is ineffective if the original notice contained a certificate of release, as the certificate of release would have had the effect of extinguishing the lien as of April 10, 2008. The Internal Revenue Service could revoke the release and file a new notice of lien, which would be effective as of the date it was filed.

(d) *Effective/applicability date.* This section applies with respect to any notice of Federal tax lien filed on or after April 4, 2011.

[T.D. 7429, 41 FR 35509, Aug. 23, 1976, as amended by T.D. 9520, 76 FR 18386, Apr. 4, 2011]

§ 301.6323(h)–0 Scope of definitions.

Except as otherwise provided by § 301.6323(h)–1 the definitions provided by § 301.6323(h)–1 apply for purposes of §§ 301.6323(a)–1 through 301.6324–1.

[T.D. 7429, 41 FR 35509, Aug. 23, 1976]

§ 301.6323(h)–1 Definitions.

(a) *Security interest*—(1) *In general.* The term ''security interest'' means any interest in property acquired by contract for the purpose of securing payment or performance of an obligation or indemnifying against loss or liability. A security interest exists at any time—

(i) If, at such time, the property is in existence and the interest has become protected under local law against a subsequent judgment lien (as provided in subparagraph (2) of this paragraph (a)) arising out of an unsecured obligation; and

(ii) To the extent that, at such time, the holder has parted with money or money's worth (as defined in subparagraph (3) of this paragraph (a)).

For purposes of this subparagraph, a contract right (as defined in paragraph (c)(2)(i) of § 301.6323(c)–1) is in existence when the contract is made. An account receivable (as defined in paragraph (c)(2)(ii) of § 301.6323(c)–1) is in existence when, and to the extent, a right to payment is earned by performance.

A security interest must be in existence, within the meaning of this paragraph, at the time as of which its priority against a tax lien is determined. For example, to be afforded priority under the provisions of paragraph (a) of § 301.6323(a)–1 a security interest must be in existence within the meaning of this paragraph before a notice of lien is filed.

(2) *Protection against a subsequent judgment lien.* (i) For purposes of this paragraph, a security interest is deemed to be protected against a subsequent judgment lien on—

(A) The date on which all actions required under local law to establish the priority of a security interest against a judgment lien have been taken, or

(B) If later, the date on which all required actions are deemed effective, under local law, to establish the priority of the security interest against a judgment lien.

For purposes of this subdivision, the dates described in (A) and (B) of this subdivision (i) shall be determined without regard to any rule or principle of local law which permits the relation back of any requisite action to a date earlier than the date on which the action is actually performed. For purposes of this paragraph, a judgment lien is a lien held by a judgment lien creditor as defined in paragraph (g) of this section.

(ii) The following example illustrates the application of paragraph (a)(2):

Example. (i) Under the law of State X, a security interest in certificated securities, negotiable documents, or instruments may be perfected, and hence protected against a judgment lien, by filing or by the secured party taking possession of the collateral. However, a security interest in such intangible personal property is considered to be temporarily perfected for a period of 20 days

from the time the security interest attaches, to the extent that it arises for new value given under an authenticated security agreement. Under the law of X, a security interest attaches to such collateral when there is an agreement between the creditor and debtor that the interest attaches, the debtor has rights in the property, and consideration is given by the creditor. Under the law of X, in the case of temporary perfection, the security interest in such property is protected during the 20-day period against a judgment lien arising, after the security interest attaches, out of an unsecured obligation. Upon expiration of the 20-day period, the holder of the security interest must perfect its security interest under local law.

(ii) Because the security interest is perfected during the 20-day period against a subsequent judgment lien arising out of an unsecured obligation, and because filing or the taking of possession before the conclusion of the period of temporary perfection is not considered, for purposes of paragraph (a)(2)(i) of this section, to be a requisite action which relates back to the beginning of such period, the requirements of this paragraph are satisfied. Because filing or taking possession is a condition precedent to continued perfection, filing or taking possession of the collateral is a requisite action to establish such priority after expiration of the period of temporary perfection. If there is a lapse of perfection for failure to file or take possession, the determination of when the security interest exists (for purposes of protection against the tax lien) is made without regard to the period of temporary perfection.

(3) *Money or money's worth.* For purposes of this paragraph, the term *money or money's worth* includes money, a security (as defined in paragraph (d) of this section), tangible or intangible property, services, and other consideration reducible to a money value. Money or money's worth also includes any consideration which otherwise would constitute money or money's worth under the preceding sentence which was parted with before the security interest would otherwise exist if, under local law, past consideration is sufficient to support an agreement giving rise to a security interest, and provided that the grant of the security interest is not a fraudulent transfer under local law or 28 U.S.C. § 3304(a)(2). A firm commitment to part with money, a security, tangible or intangible property, services, or other consideration reducible to a money value does not, in itself, constitute a consideration in money or money's worth. A relinquishing or promised relinquishment of dower, curtesy, or of a statutory estate created in lieu of dower or curtesy, or of other marital rights is not a consideration in money or money's worth. Nor is love and affection, promise of marriage, or any other consideration not reducible to a money value a consideration in money or money's worth.

(4) *Holder of a security interest.* For purposes of this paragraph, the holder of a security interest is the person in whose favor there is a security interest. For provisions relating to the treatment of a purchaser of commercial financing security as a holder of a security interest, see § 301.6323(c)–1(e).

(b) *Mechanic's lienor*—(1) *In general.* The term ''mechanic's lienor'' means any person who under local law has a lien on real property (or on the proceeds of a contract relating to real property) for services, labor, or materials furnished in connection with the construction or improvement (including demolition) of the property. A mechanic's lienor is treated as having a lien on the later of—

(i) The date on which the mechanic's lien first becomes valid under local law against subsequent purchasers of the real property without actual notice, or

(ii) The date on which the mechanic's lienor begins to furnish the services, labor, or materials.

(2) *Example.* The provisions of this paragraph may be illustrated by the following example:

Example. On February 1, 1968, A lets a contract for the construction of an office building on property owned by him. On March 1, 1968, in accordance with § 301.6323(f)–1, a notice of lien for delinquent Federal taxes owed by A is filed. On April 1, 1968, B, a lumber dealer, delivers lumber to A's property. On May 1, 1968, B records a mechanic's lien against the property to secure payment of the price of the lumber. Under local law, B's mechanic's lien is valid against subsequent purchasers of real property without notice from February 1, 1968, which is the date the construction contract was entered into. Because the date on which B's mechanic's lien is valid under local law against subsequent purchasers is February 1, and the date on which B begins to furnish the materials is April 1, the date on which B becomes a mechanic's lienor within the meaning of this paragraph is April 1, the later of these two dates. Under paragraph (a) of § 301.6323(a)–1,

B's mechanic's lien will not have priority over the Federal tax lien, even though under local law the mechanic's lien relates back to the date of the contract.

(c) *Motor vehicle.* (1) The term ''motor vehicle'' means a self-propelled vehicle which is registered for highway use under the laws of any State, the District of Columbia, or a foreign country.

(2) A motor vehicle is ''registered for highway use'' at the time of a sale if immediately prior to the sale it is so registered under the laws of any State, the District of Columbia, or a foreign country. Where immediately prior to the sale of a motor vehicle by a dealer, the dealer is permitted under local law to operate it under a dealer's tag, license, or permit issued to him, the motor vehicle is considered to be registered for highway use in the name of the dealer at the time of the sale.

(d) *Security.* The term ''security'' means any bond, debenture, note, or certificate or other evidence of indebtedness, issued by a corporation or a government or political subdivision thereof, with interest coupons or in registered form, share of stock, voting trust certificate, or any certificate of interest or participation in, certificate of deposit or receipt for, temporary or interim certificate for, or warrant or right to subscribe to or purchase, any of the foregoing; negotiable instrument; or money.

(e) *Tax lien filing.* The term ''tax lien filing'' means the filing of notice of the lien imposed by section 6321 in accordance with § 301.6323(f)–1.

(f) *Purchaser*—(1) *In general.* The term ''purchaser'' means a person who, for adequate and full consideration in money or money's worth (as defined in subparagraph (3) of this paragraph (f)), acquires an interest (other than a lien or security interest) in property which is valid under local law against subsequent purchasers without actual notice.

(2) *Interest in property.* For purposes of this paragraph, each of the following interest is treated as an interest in property, if it is not a lien or security interest:

(i) A lease of property,

(ii) A written executory contract to purchase or lease property,

(iii) An option to purchase or lease property and any interest therein, or

(iv) An option to renew or extend a lease of property.

(3) *Adequate and full consideration in money or money's worth.* For purposes of this paragraph, the term ''adequate and full consideration in money or money's worth'' means a consideration in money or money's worth having a reasonable relationship to the true value of the interest in property acquired. See paragraph (a)(3) of this section for definition of the term ''money or money's worth.'' Adequate and full consideration in money or money's worth may include the consideration in a bona fide bargain purchase. The term also includes the consideration in a transaction in which the purchaser has not completed performance of his obligation, such as the consideration in an installment purchase contract, even though the purchaser has not completed the installment payments.

(4) *Examples.* The provisions of this paragraph may be illustrated by the following examples:

Example 1. A enters into a contract for the purchase of a house and lot from B. Under the terms of the contract A makes a down payment and is to pay the balance of the purchase price in 120 monthly installments. After payment of the last installment, A is to receive a deed to the property. A enters into possession, which under local law protects his interest in the property against subsequent purchasers without actual notice. After A has paid five monthly installments, a notice of lien for Federal taxes is filed against B in accordance with § 301.6323(f)–1. Because the contract is an executory contract to purchase property and is valid under local law against subsequent purchasers without actual notice, A qualifies as a purchaser under this paragraph.

Example 2. C owns a residence which he leases to his son-in-law, D, for a period of 5 years commencing January 1, 1968. The lease provides for payment of $100 a year, although the fair rental value of the residence is $2,500 a year. The lease is recorded on December 31, 1967. On March 1, 1968, a notice of tax lien for unpaid Federal taxes of C is filed in accordance with § 301.6323(f)–1. Under local law, D's interest is protected against subsequent purchasers without actual notice. However, because the rental paid by D has no reasonable relationship to the value of the interest in property acquired, D does not qualify as a purchaser under this paragraph.

(g) *Judgment lien creditor*. The term ''judgment lien creditor'' means a person who has obtained a valid judgment, in a court of record and of competent jurisdiction, for the recovery of specifically designated property or for a certain sum of money. In the case of a judgment for the recovery of a certain sum of money, a judgment lien creditor is a person who has perfected a lien under the judgment on the property involved. A judgment lien is not perfected until the identity of the lienor, the property subject to the lien, and the amount of the lien are established. Accordingly, a judgment lien does not include an attachment or garnishment lien until the lien has ripened into judgment, even though under local law the lien of the judgment relates back to an earlier date. If recording or docketing is necessary under local law before a judgment becomes effective against third parties acquiring liens on real property, a judgment lien under such local law is not perfected with respect to real property until the time of such recordation or docketing. If under local law levy or seizure is necessary before a judgment lien becomes effective against third parties acquiring liens on personal property, then a judgment lien under such local law is not perfected until levy or seizure of the personal property involved. The term ''judgment'' does not include the determination of a quasi-judicial body or of an individual acting in a quasi-judicial capacity such as the action of State taxing authorities.

(h) *Effective/applicability date*. This section applies as of April 4, 2011.

[T.D. 7429, 41 FR 35511, Aug. 23, 1976, as amended by T.D. 9520, 76 FR 18387, Apr. 4, 2011]

§ 301.6323(i)–1 Special rules.

(a) *Actual notice or knowledge*. For purposes of subchapter C (section 6321 and following), chapter 64 of the Code, an organization is deemed, in any transaction, to have actual notice or knowledge of any fact from the time the fact is brought to the attention of the individual conducting the transaction, and in any event from the time the fact would have been brought to the individual's attention if the organization had exercised due diligence. An organization exercises due diligence if it maintains reasonable routines for communicating significant information to the person conducting the transaction and there is reasonable compliance with the routines. Due diligence does not require an individual acting for the organization to communicate information unless such communication is part of his regular duties or unless he has reason to know of the transaction and that the transaction would be materially affected by the information.

(b) *Subrogation*—(1) *In general*. Where, under local law, one person is subrogated to the rights of another with respect to a lien or interest, such person shall be subrogated to such rights for purposes of any lien imposed by section 6321 or 6324. Thus, if a tax lien imposed by section 6321 or 6324 is not valid with respect to a particular interest as against the holder of that interest, then the tax lien also is not valid with respect to that interest as against any person who, under local law, is a successor in interest to the holder of that interest.

(2) *Example*. The application of this paragraph may be illustrated by the following example:

Example. On February 1, 1968, an assessment is made and a tax lien arises with respect to A's delinquent tax liability. On February 25, 1968, in accordance with § 301.6323(f)–1, a notice of lien is properly filed. On March 1, 1968, A negotiates a loan from B, the security for which is a second mortgage on property owned by A. The first mortgage on the property is held by C and has priority over the tax lien. Upon default by A, C begins proceedings to foreclose upon the first mortgage. On September 1, 1968, B pays the amount of principal and interest in default to C in order to protect the second mortgage against the pending foreclosure of C's senior mortgage. Under local law, B is subrogated to C's rights to the extent of the payment to C. Therefore, the tax lien is invalid against B to the extent he became subrogated to C's rights even though the tax lien is valid against B's second mortgage on the property.

(c) *Disclosure of amount of outstanding lien*. If a notice of lien has been filed (see § 301.6323(f)–1), the amount of the outstanding obligation secured by the lien is authorized to be disclosed as a matter of public record on Form 668

''Notice of Federal Tax Lien Under Internal Revenue Laws.'' The amount of the outstanding obligation secured by the lien remaining unpaid at the time of an inquiry is authorized to be disclosed to any person who has a proper interest in determining this amount. Any person who has a right in the property or intends to obtain a right in the property by purchase or otherwise will, upon presentation by him of satisfactory evidence be considered to have a proper interest. Any person desiring this information may make his request to the office of the Internal Revenue Service named on the notice of lien with respect to which the request is made. The request should clearly describe the property subject to the lien, identify the applicable lien, and give the reasons for requesting the information.

[T.D. 7429, 41 FR 35511, Aug. 23, 1976]

§ 301.6323(j)–1 Withdrawal of notice of federal tax lien in certain circumstances.

(a) *In general.* The Commissioner or his delegate (Commissioner) may withdraw a notice of federal tax lien filed under this section, if the Commissioner determines that any of the conditions in paragraph (b) of this section exist. A notice of federal tax lien is withdrawn by the filing by the Commissioner of a notice of withdrawal in the office in which the notice of federal tax lien is filed. If a notice of withdrawal is filed, chapter 64 of subtitle F, relating to collection, will be applied as if the withdrawn notice had never been filed. A copy of the notice of withdrawal will be provided to the taxpayer. Upon written request by a taxpayer with respect to whom a notice of federal tax lien has been or will be withdrawn, the Commissioner will promptly make reasonable efforts to notify any credit reporting agency and any financial institution or creditor identified by the taxpayer of the withdrawal of such notice. The withdrawal of a notice of federal tax lien will not affect the underlying federal tax lien.

(b) *Conditions authorizing withdrawal.* The Commissioner may authorize the withdrawal of a notice of federal tax lien upon determining that one of the following conditions exists:

(1) *Premature or not in accordance with administrative procedures.* The filing of the notice of federal tax lien was premature or otherwise not in accordance with the administrative procedures of the Secretary.

(2) *Installment agreement.* The taxpayer has entered into an agreement under section 6159 to satisfy the liability for which the lien was imposed by means of installment payments. Entry into an installment agreement may not, however, be the basis for withdrawal of a notice of lien if the installment agreement specifically provides that a notice of federal tax lien will not be withdrawn.

(3) *Facilitate collection.* The withdrawal of the notice of federal tax lien will facilitate the collection of the tax liability for which the lien was imposed.

(4) *Best interests of the United States and the taxpayer*—(i) *In general.* The taxpayer or the National Taxpayer Advocate (or his delegate) has consented to the withdrawal of the notice of federal tax lien, and withdrawal of the notice would be in the best interest of the taxpayer, as determined by the taxpayer or the National Taxpayer Advocate (or his delegate), and in the best interest of the United States, as determined by the Commissioner.

(ii) *Best interest of the taxpayer.* When a taxpayer requests the withdrawal of notice of federal tax lien based on the best interests of the United States and the taxpayer, the National Taxpayer Advocate (or his delegate) generally will determine whether the withdrawal of the notice of federal tax lien is in the best interest of the taxpayer. If, however, a taxpayer requests the Commissioner to withdraw a notice and has not specifically requested the National Taxpayer Advocate (or his delegate) to determine the taxpayer's best interest, a finding by the Commissioner that the withdrawal of notice is in the best interest of the taxpayer will be sufficient to support withdrawal. If the Commissioner decides independently of a request by the taxpayer to withdraw a notice of federal tax lien, the taxpayer or the National Taxpayer Advocate (or his delegate) must consent to the withdrawal.

(5) *Examples*. The following examples illustrate the provisions of this paragraph (b):

Example 1. A owes $1,000 in Federal income taxes. The IRS files a notice of federal tax lien to secure A's tax liability. However, the IRS failed to follow procedure provided by the Internal Revenue Manual (but not required by statute) with regard to managerial approval prior to the filing of a notice of federal tax lien. The Commissioner may withdraw the notice of federal tax lien because the filing of the notice was not in accordance with the Secretary's administrative procedures.

Example 2. A owes $1,000 in federal income taxes. A enters into an agreement to pay the outstanding federal income tax liability in installments. The agreement provides that a notice of federal tax lien may be filed if the taxpayer defaults. A timely pays the installments each month and has not defaulted in any way. Eleven months after entering into the installment agreement, the Internal Revenue Service files a notice of federal tax lien. Noting that there has been no default, the taxpayer asks the Internal Revenue Service to withdraw the notice of federal tax lien. In this situation, the Commissioner may withdraw the notice of federal tax lien because the taxpayer has entered into an installment agreement.

Example 3. A is an employee of X Corporation. A notice of federal tax lien has been filed to secure an outstanding tax liability against A. A, who has no assets and no other secured creditors, has agreed to pay the balance of tax due through payroll deductions at a rate higher than the Internal Revenue Service could obtain through a wage levy in order to get the notice of federal tax lien withdrawn. X Corporation has agreed to allow A to enter into a payroll deduction agreement. In this situation, the Commissioner may withdraw the notice of federal tax lien to facilitate collection.

Example 4. A is owner of a farm machinery dealership against whom a notice of federal tax lien has been filed to secure an outstanding tax liability. A currently is paying the tax liability by an installment agreement. X Corporation has agreed to provide A with 100 tractors to increase A's inventory if the notice of federal tax lien is withdrawn. A asks the Internal Revenue Service to withdraw the notice of federal tax lien. The Commissioner determines that the larger inventory would enable A to generate additional tractor sales. Increased sales would enable A to increase the amount of installment payments and, consequently, reduce the amount of time needed to satisfy the liability. A, who has no other assets or secured creditors, has agreed to modify the installment agreement. The Commissioner may withdraw the notice of federal tax lien because the withdrawal is in the best interest of the taxpayer and the United States.

(c) *Determinations by the Commissioner*. The Commissioner must determine whether any of the conditions authorizing the withdrawal of a notice of federal tax lien exist if a taxpayer submits a request for withdrawal in accordance with paragraph (d) of this section. The Commissioner may also make this determination independent of a request from the taxpayer based on information received from a source other than the taxpayer. If the Commissioner determines that conditions authorizing the withdrawal are not present, the Commissioner may not authorize the withdrawal. If the Commissioner determines conditions for withdrawal are present, the Commissioner may (but is not required to) authorize the withdrawal.

(d) *Procedures for request for withdrawal*—(1) *Manner*. A request for the withdrawal of a notice of federal tax lien must be made in writing in accordance with procedures prescribed by the Commissioner.

(2) *Form*. The written request will include the following information and documents—

(i) Name, current address, and taxpayer identification number of the person requesting the withdrawal of notice of federal tax lien;

(ii) A copy of the notice of federal tax lien affecting the taxpayer's property, if available;

(iii) The grounds upon which the withdrawal of notice of federal tax lien is being requested;

(iv) A list of the names and addresses of any credit reporting agency and any financial institution or creditor that the taxpayer wishes the Commissioner to notify of the withdrawal of notice of federal tax lien; and

(v) A request to disclose the withdrawal of notice of federal tax lien to the persons listed in paragraph (d)(2)(iv) of this section.

(e) *Supplemental list of credit agencies, financial institutions, and creditors*—(1) *In general*. If the Commissioner grants a withdrawal of notice of federal tax lien, the taxpayer may supplement the list in paragraph (d)(2)(iv) of this section. If no list was provided in the request to withdraw the notice of federal

tax lien, the list in paragraph (d)(2)(iv) of this section and the request for notification in paragraph (d)(2)(v) of this section may be submitted after the notice is withdrawn.

(2) *Manner*. A request to supplement the list of any credit agencies and any financial institutions or creditors that the taxpayer wishes the Commissioner to notify of the withdrawal of notice of federal tax lien must be made in writing in accordance with procedures prescribed by the Commissioner.

(3) *Form*. The request must include the following information and documents—

(i) Name, current address, and taxpayer identification number of the taxpayer requesting the notification of any credit agency or any financial institution or creditor of the withdrawal of notice of federal tax lien;

(ii) A copy of the notice of withdrawal, if available;

(iii) A supplemental list, identified as such, of the names and addresses of any credit reporting agency and any financial institution or creditor that the taxpayer wishes the Commissioner to notify of the withdrawal of notice of federal tax lien; and

(iv) A request to disclose the withdrawal of notice of federal tax lien to the persons listed in paragraph (e)(3)(iii) of this section.

(f) *Effective date*. This section applies on or after June 22, 2001, with respect to a withdrawal of any notice of federal tax lien.

[T.D. 8951, 66 FR 33465, June 22, 2001]

§ 301.6324–1 Special liens for estate and gift taxes; personal liability of transferees and others.

(a) *Estate tax*. (1) A lien for estate tax attaches at the date of the decedent's death to every part of the gross estate, whether or not the property comes into possession of the duly qualified executor or administrator. The lien attaches to the extent of the tax shown to be due by the return and of any deficiency in tax found to be due upon review and audit. If the estate tax is not paid when due, then the spouse, transferee, trustee (except the trustee of an employee's trust which meets the requirements of section 401(a)), surviving tenant, person in possession of the property by reason of the exercise, nonexercise, or release of a power of appointment, or beneficiary, who receives, or has on the date of the decedent's death, property included in the gross estate under sections 2034 to 2042, inclusive, shall be personally liable for the tax to the extent of the value, at the time of the decedent's death, of the property.

(2) Unless the tax is paid in full or becomes unenforceable by reason of lapse of time, and except as otherwise provided in paragraph (c) of this section, the lien upon the entire property constituting the gross estate continues for a period of 10 years after the decedent's death, except that the lien shall be divested with respect to—

(i) The portion of the gross estate used for the payment of charges against the estate and expenses of its administration allowed by any court having jurisdiction thereof;

(ii) Property included in the gross estate under sections 2034 to 2042, inclusive, which is transferred by (or transferred by the transferee of) the spouse, transferee, trustee, surviving tenant, person in possession of the property by reason of the exercise, nonexercise, or release of a power of appointment, or beneficiary to a purchaser or holder of a security interest. In such case a like lien attaches to all the property of the spouse, transferee, trustee, surviving tenant, person in possession, beneficiary, or transferee of any such person, except the part which is transferred to a purchaser or a holder of a security interest. See section 6323(h) (1) and (6) and the regulations thereunder, respectively, for the definitions of ''security interest'' and ''purchaser'';

(iii) The portion of the gross estate (or any interest therein) which has been transferred to a purchaser or holder of a security interest if payment is made of the full amount of tax determined by the district director pursuant to a request of the fiduciary (executor, in the case of the estate of a decedent dying before January 1, 1971) for discharge from personal liability as authorized by section 2204 (relating to discharge of fiduciary from personal liability) but there is substituted a like lien upon the consideration received from the purchaser or holder of a security interest; and

(iv) Property as to which the district director has issued a certificate releasing a lien under section 6325(a) and the regulations thereunder.

(b) *Lien for gift tax*. Except as provided in paragraph (c) of this section, a lien attaches upon all gifts made during the period for which the return was filed (see § 25.6019–1 of this chapter) for the amount of tax imposed upon the gifts made during such period. The lien extends for a period of 10 years from the time the gifts are made, unless the tax is sooner paid in full or becomes unenforceable by reason of lapse of time. If the tax is not paid when due, the donee of any gift becomes personally liable for the tax to the extent of the value of his gift. Any part of the property comprised in the gift transferred by the donee (or by a transferee of the donee) to a purchaser or holder of a security interest is divested of the lien, but a like lien, to the extent of the value of the gift, attaches to all the property (including after-acquired property) of the donee (or the transferee) except any part transferred to a purchaser or holder of a security interest. See section 6323(h) (1) and (6) and the regulations thereunder, respectively, for the definitions of ''security interest'' and ''purchaser.''

(c) *Exceptions*. (1) A lien described in either paragraph (a) or paragraph (b) of this section is not valid against a mechanic's lienor (as defined in section 6323(h) (2) and the regulations thereunder) and, subject to the conditions set forth under section 6323(b) (relating to protection for certain interests even though notice filed), is not valid with respect to any lien or interest described in section 6323(b) and the regulations thereunder.

(2) If a lien described in either paragraph (a) or paragraph (b) of this section is not valid against a lien or security interest (as defined in section 6323(h) (1) and the regulations thereunder), the priority of the lien or security interest extends to any item described in section 6323(e) (relating to priority of interest and expenses) to the extent that, under local law, the item has the same priority as the lien or security interest to which it relates.

(d) *Application of lien imposed by section 6321*. The general lien under section 6321 and the special lien under subsection (a) or (b) of section 6324 for the estate or gift tax are not exclusive of each other, but are cumulative. Each lien will arise when the conditions precedent to the creation of such lien are met and will continue in accordance with the provisions applicable to the particular lien. Thus, the special lien may exist without the general lien being in force, or the general lien may exist without the special lien being in force, or the general lien and the special lien may exist simultaneously, depending upon the facts and pertinent statutory provisions applicable to the respective liens.

[T.D. 7238, 37 FR 28740, Dec. 29, 1972]

§ 301.6324A-1 Election of and agreement to special lien for estate tax deferred under section 6166 or 6166A.

(a) *Election of lien*. If payment of a portion of the estate tax is deferred under section 6166 or 6166A (as in effect prior to its repeal by Economic Recovery Tax Act of 1981), an executor of a decedent's estate who seeks to be discharged from personal liability may elect a lien in favor of the United States in lieu of the bonds required by sections 2204 and 6165. This election is made by applying to the Internal Revenue Service office where the estate tax return is filed at any time prior to payment of the full amount of estate tax and interest due. The application is to be a notice of election requesting the special lien provided by section 6324A and is to be accompanied by the agreement described in paragraph (b) (1) of this section.

(b) *Agreement to lien*—(1) *In general*. A lien under this section will not arise unless all parties having any interest in all property designated in the notice of election as property to which the lien is to attach sign an agreement in which they consent to the creation of the lien. (Property so designated need not be property included in the decedent's estate.) The agreement is to be attached to the notice in which the lien under section 6324A is elected. It must be in a form that is binding on all parties having any interest on the property and must contain the following:

(i) The decedent's name and taxpayer identification number as they appear on the estate tax return;

(ii) The amount of the lien;

(iii) The fair market value of the property to be subject to the lien as of the date of the decedent's death and the date of the election under this section;

(iv) The amount, as of the date of the decedent's death and the date of the election, of all encumbrances on the property, including mortgages and any lien under section 6324B;

(v) A clear description of the property which is to be subject to the lien, and in the case of property other than land, a statement of its estimated remaining useful life; and

(vi) Designation of an agent (including the agent's address) for the beneficiaries of the estate and the consenting parties to the lien for all dealings with the Internal Revenue Service on matters arising under section 6166 or 6166A (as in effect prior to its repeal by Economic Recovery Tax Act of 1981), or under section 6324A.

(2) *Persons having an interest in designated property.* An interest in property is any interest which as of the date of the election can be asserted under applicable local law so as to affect the disposition of any property designated in the agreement required under this section. Any person in being at the date of the election who has any such interest in the property, whether present or future, or vested or contingent, must enter into the agreement. Included among such persons are owners of remainder and executory interests, the holders of general or special powers of appointment, beneficiaries of a gift over in default of exercise of any such power, co-tenants, joint tenants, and holders of other undivided interests when the decedent held a joint or undivided interest in the property, and trustees of trusts holding any interest in the property. An heir who has the power under local law to caveat (challenge) a will and thereby affect disposition of the property is not, however, considered to be a person with an interest in property under section 6324A solely by reason of that right. Likewise, creditors of an estate are not such persons solely by reason of their status as creditors.

(3) *Consent on behalf of interested party.* If any person required to enter into the agreement provided for by this paragraph either desires that an agent act for him or her or cannot legally bind himself or herself due to infancy or other incompetency, a representative authorized under local law to bind the interested party in an agreement of this nature is permitted to sign the agreement on his or her behalf.

(4) *Duties of agent designated in agreement.* The Internal Revenue Service will contact the agent designated in the agreement under paragraph (b)(1) on all matters relating to continued qualification of the estate under section 6166 or 6166A (as in effect prior to its repeal by Economic Recovery Tax Act of 1981) and on all matters relating to the special lien arising under section 6324A. It is the duty of the agent as attorney-in-fact for the parties with interests in the property subject to the lien under section 6324A to furnish the Service with any requested information and to notify the Service of any event giving rise to acceleration of the deferred amount of tax.

(c) *Partial substitution of bond for lien.* If the amount of unpaid estate tax plus interest exceeds the value (determined for purposes of section 6324A(b)(2)) of property listed in the agreement under paragraph (b) of this section, the Internal Revenue Service may condition the release from personal liability upon the executor's submitting an agreement listing additional property or furnishing an acceptable bond in the amount of such excess.

(d) *Relation of sections 6324A and 2204.* The lien under section 6324A is deemed to be a bond under section 2204 for purposes of determining an executor's release from personal liability. If an election has been made under section 6324A, the executor may not substitute a bond pursuant to section 2204 in lieu of that lien. If a bond has been supplied under section 2204, however, the executor may, by filing a proper notice of election and agreement, substitute a lien under section 6324A for any part or all of such bond.

(e) *Relation of sections 6324A and 6324.* If there is a lien under this section on

any property with respect to an estate, that lien is in lieu of the lien provided by section 6324 on such property with respect to the same estate.

(f) *Section 6324A lien to be in lieu of bond under section 6165.* The lien under section 6324A is in lieu of any bond otherwise required under section 6165 with respect to tax to be paid in installments under section 6166 or section 6166A (as in effect prior to its repeal by Economic Recovery Tax Act of 1981).

(g) *Special rule for estates for which elections under section 6324A are made on or before August 30, 1980.* If a lien is elected under section 6324A on or before August 30, 1980, the original election may be revoked. To revoke an election, the executor must file a notice of revocation containing the decedent's name, date of death, and taxpayer identification number with the Internal Revenue Service office where the original estate tax return for the decedent was filed. The notice must be filed on or before January 31, 1981 (or if earlier, the date on which the period of limitation for assessment expires).

(Approved by the Office of Management and Budget under control number 1545–0754)

(Secs. 2032A and 7805 of the Internal Revenue Code of 1954 (90 Stat. 1856, 68A Stat. 917; 26 U.S.C. 2032A, 7805); secs. 6324A(a) and 7805 of the Internal Revenue Code of 1954 (90 Stat. 1808, 68A Stat. 917; 26 U.S.C. 6324A(a), 7805))

[T.D. 7710, 45 FR 50747, July 31, 1980, as amended by T.D. 7941, 49 FR 4469, Feb. 7, 1984]

§ 301.6325–1 Release of lien or discharge of property.

(a) *Release of lien*—(1) *Liability satisfied or unenforceable.* The appropriate official shall issue a certificate of release for a filed notice of Federal tax lien, no later than 30 days after the date on which he finds that the entire tax liability listed in such notice of Federal tax lien either has been fully satisfied (as defined in paragraph (a)(4) of this section) or has become legally unenforceable. In all cases, the liability for the payment of the tax continues until satisfaction of the tax in full or until the expiration of the statutory period for collection, including such extension of the period for collection as is agreed to.

(2) *Bond accepted.* The appropriate official shall issue a certificate of release of any tax lien if he is furnished and accepts a bond that is conditioned upon the payment of the amount assessed (together with all interest in respect thereof), within the time agreed upon in the bond, but not later than 6 months before the expiration of the statutory period for collection, including any agreed upon extensions. For provisions relating to bonds, see sections 7101 and 7102 and §§ 301.7101–1 and 301.7102–1.

(3) *Certificate of release for a lien which has become legally unenforceable.* The appropriate official shall have the authority to file a notice of Federal tax lien which also contains a certificate of release pertaining to those liens which become legally unenforceable. Such release will become effective as a release as of a date prescribed in the document containing the notice of Federal tax lien and certificate of release.

(4) *Satisfaction of tax liability.* For purposes of paragraph (a)(1) of this section, satisfaction of the tax liability occurs when—

(i) The appropriate official determines that the entire tax liability listed in a notice of Federal tax lien has been fully satisfied. Such determination will be made as soon as practicable after tender of payment; or

(ii) The taxpayer provides the appropriate official with proof of full payment (as defined in paragraph (a)(5) of this section) with respect to the entire tax liability listed in a notice of Federal tax lien together with the information and documents set forth in paragraph (a)(7) of this section. See paragraph (a)(6) of this section if more than one tax liability is listed in a notice of Federal tax lien.

(5) *Proof of full payment.* As used in paragraph (a)(4)(ii) of this section, the term *proof of full payment* means—

(i) An internal revenue cashier's receipt reflecting full payment of the tax liability in question;

(ii) A canceled check in an amount sufficient to satisfy the tax liability for which the release is being sought;

(iii) A record, made in accordance with procedures prescribed by the Commissioner, of proper payment of the tax liability by credit or debit card or by electronic funds transfer; or

(iv) Any other manner of proof acceptable to the appropriate official.

(6) *Notice of a Federal tax lien which lists multiple liabilities.* When a notice of Federal tax lien lists multiple tax liabilities, the appropriate official shall issue a certificate of release when all of the tax liabilities listed in the notice of Federal tax lien have been fully satisfied or have become legally unenforceable. In addition, if the taxpayer requests that a certificate of release be issued with respect to one or more tax liabilities listed in the notice of Federal tax lien and such liability has been fully satisfied or has become legally unenforceable, the appropriate official shall issue a certificate of release. For example, if a notice of Federal tax lien lists two separate liabilities and one of the liabilities is satisfied, the taxpayer may request the issuance of a certificate of release with respect to the satisfied tax liability and the appropriate official shall issue a release.

(7) *Taxpayer requests.* A request for a certificate of release with respect to a notice of Federal tax lien shall be submitted in writing to the appropriate official. The request shall contain the information required in the appropriate IRS Publication.

(b) *Discharge of specific property from the lien*—(1) *Property double the amount of the liability.* (i) The appropriate official may, in his discretion, issue a certificate of discharge of any part of the property subject to a Federal tax lien imposed under chapter 64 of the Internal Revenue Code if he determines that the fair market value of that part of the property remaining subject to the Federal tax lien is at least double the sum of the amount of the unsatisfied liability secured by the Federal tax lien and of the amount of all other liens upon the property which have priority over the Federal tax lien. In general, fair market value is that amount which one ready and willing but not compelled to buy would pay to another ready and willing but not compelled to sell the property.

(ii) The following example illustrates a case in which a certificate of discharge may not be given under this subparagraph:

Example. The Federal tax liability secured by a lien is $1,000. The fair market value of all property which after the discharge will continue to be subject to the Federal tax lien is $10,000. There is a prior mortgage on the property of $5,000, including interest, and the property is subject to a prior lien of $100 for real estate taxes. Accordingly, the taxpayer's equity in the property over and above the amount of the mortgage and real estate taxes is $4,900, or nearly five times the amount required to pay the assessed tax on which the Federal tax lien is based. Nevertheless, a discharge under this subparagraph is not permissible. In the illustration, the sum of the amount of the Federal tax liability ($1,000) and of the amount of the prior mortgage and the lien for real estate taxes ($5,000 + $100 = $5,100) is $6,100. Double this sum is $12,200, but the fair market value of the remaining property is only $10,000. Hence, a discharge of the property is not permissible under this subparagraph, since the Code requires that the fair market value of the remaining property be at least double the sum of two amounts, one amount being the outstanding Federal tax liability and the other amount being all prior liens upon such property. In order that the discharge may be issued, it would be necessary that the remaining property be worth not less than $12,200.

(2) *Part payment; interest of United States valueless*—(i) *Part payment.* The appropriate official may, in his discretion, issue a certificate of discharge of any part of the property subject to a Federal tax lien imposed under chapter 64 of the Internal Revenue Code if there is paid over to him in partial satisfaction of the liability secured by the Federal tax lien an amount determined by him to be not less than the value of the interest of the United States in the property to be so discharged. In determining the amount to be paid, the appropriate official will take into consideration all the facts and circumstances of the case, including the expenses to which the government has been put in the matter. In no case shall the amount to be paid be less than the value of the interest of the United States in the property with respect to which the certificate of discharge is to be issued.

(ii) *Interest of the United States valueless.* The appropriate official may, in his discretion, issue a certificate of discharge of any part of the property subject to the Federal tax lien if he determines that the interest of the United States in the property to be so discharged has no value.

(3) *Discharge of property by substitution of proceeds of sale.* The appropriate official may, in his discretion, issue a certificate of discharge of any part of the property subject to a Federal tax lien imposed under chapter 64 of the Internal Revenue Code if such part of the property is sold and, pursuant to a written agreement with the appropriate official, the proceeds of the sale are held, as a fund subject to the Federal tax liens and claims of the United States, in the same manner and with the same priority as the Federal tax liens or claims had with respect to the discharged property. This paragraph does not apply unless the sale divests the taxpayer of all right, title, and interest in the property sought to be discharged. Any reasonable and necessary expenses incurred in connection with the sale of the property and the administration of the sale proceeds shall be paid by the applicant or from the proceeds of the sale before satisfaction of any Federal tax liens or claims of the United States.

(4) *Right of substitution of value*—(i) *Issuance of certificate of discharge to property owner who is not the taxpayer.* If an owner of property subject to a Federal tax lien imposed under chapter 64 of the Internal Revenue Code submits an application for a certificate of discharge pursuant to paragraph (b)(5) of this section, the appropriate official shall issue a certificate of discharge of such property after the owner either deposits with the appropriate official an amount equal to the value of the interest of the United States in the property, as determined by the appropriate official pursuant to paragraph (b)(6) of this section, or furnishes an acceptable bond in a like amount. This paragraph does not apply if the person seeking the discharge is the person whose unsatisfied liability gave rise to the Federal tax lien. Thus, if the property is owned by both the taxpayer and another person, the other person may obtain a certificate of discharge of the property under this paragraph, but the taxpayer may not.

(ii) *Refund of deposit and release of bond.* The appropriate official may, in his discretion, determine that either the entire unsatisfied tax liability listed on the notice of Federal tax lien can be satisfied from a source other than the property sought to be discharged, or the value of the interest of the United States is less than the prior determination of such value. The appropriate official shall refund the amount deposited with interest at the overpayment rate determined under section 6621 or release the bond furnished to the extent that he makes this determination.

(iii) *Refund request.* If a property owner desires an administrative refund of his deposit or release of the bond, the owner shall file a request in writing with the appropriate official. The request shall contain such information as the appropriate IRS Publication may require. The request must be filed within 120 days after the date the certificate of discharge is issued. A refund request made under this paragraph neither is required nor is effective to extend the period for filing an action in court under section 7426(a)(4).

(iv) *Internal Revenue Service's use of deposit if court action not filed.* If no action is filed under section 7426(a)(4) for refund of the deposit or release of the bond within the 120-day period specified therein, the appropriate official shall, within 60 days after the expiration of the 120-day period, apply the amount deposited or collect on such bond to the extent necessary to satisfy the liability listed on the notice of Federal tax lien, and shall refund, with interest at the overpayment rate determined under section 6621, any portion of the amount deposited that is not used to satisfy the liability. If the appropriate official has not completed the application of the deposit to the unsatisfied liability before the end of the 60-day period, the deposit will be deemed to have been applied to the unsatisfied liability as of the 60th day.

(5) *Application for certificate of discharge.* Any person desiring a certificate of discharge under this paragraph (b) shall submit an application in writing to the appropriate official. The application shall contain the information required by the appropriate IRS Publication. For purposes of this paragraph (b), any application for certificate of discharge made by a property owner who is not the taxpayer, and any

amount submitted pursuant to the application, will be treated as an application for discharge and a deposit under section 6325(b)(4) unless the owner of the property submits a statement, in writing, that the application is being submitted under another paragraph of section 6325 and not under section 6325(b)(4), and the owner in writing waives the rights afforded under paragraph (b)(4), including the right to seek judicial review.

(6) *Valuation of interest of United States.* For purposes of paragraphs (b)(2) and (b)(4) of this section, in determining the value of the interest of the United States in the property, or any part thereof, with respect to which the certificate of discharge is to be issued, the appropriate official shall give consideration to the value of the property and the amount of all liens and encumbrances thereon having priority over the Federal tax lien. In determining the value of the property, the appropriate official may, in his discretion, give consideration to the forced sale value of the property in appropriate cases.

(c) *Estate or gift tax liability fully satisfied or provided for*—(1) *Certificate of discharge.* If the appropriate official determines that the tax liability for estate or gift tax has been fully satisfied, he may issue a certificate of discharge of any or all property from the lien imposed thereon. If the appropriate official determines that the tax liability for estate or gift tax has been adequately provided for, he may issue a certificate discharging particular items of property from the lien. If a lien has arisen under section 6324B (relating to special lien for additional estate tax attributable to farm, etc., valuation) and the appropriate official determines that the liability for additional estate tax has been fully secured in accordance with § 20.6324B–1(c) of this chapter, the appropriate official may issue a certificate of discharge of the real property from the section 6324B lien. The issuance of such a certificate is a matter resting within the discretion of the appropriate official, and a certificate will be issued only in case there is actual need therefor. The primary purpose of such discharge is not to evidence payment or satisfaction of the tax, but to permit the transfer of property free from the lien in case it is necessary to clear title. The tax will be considered fully satisfied only when investigation has been completed and payment of the tax, including any deficiency determined, has been made.

(2) *Application for certificate of discharge.* An application for a certificate of discharge of property from the lien for estate or gift tax should be filed with the appropriate official responsible for the collection of the tax. It should be made in writing under penalties of perjury and should explain the circumstances that require the discharge, and should fully describe the particular items for which the discharge is desired. Where realty is involved each parcel sought to be discharged from the lien should be described on a separate page and each such description submitted in duplicate. In the case of an estate tax lien, the application should show the applicant's relationship to the estate, such as executor, heir, devisee, legatee, beneficiary, transferee, or purchaser. If the estate or gift tax return has not been filed, a statement under penalties of perjury may be required showing (i) the value of the property to be discharged, (ii) the basis for such valuation, (iii) in the case of the estate tax, the approximate value of the gross estate and the approximate value of the total real property included in the gross estate, (iv) in the case of the gift tax, the total amount of gifts made during the calendar year and the prior calendar years subsequent to the enactment of the Revenue Act of 1932 and the approximate value of all real estate subject to the gift tax lien, and (v) if the property is to be sold or otherwise transferred, the name and address of the purchaser or transferee and the consideration, if any, paid or to be paid by him.

(3) For provisions relating to transfer certificates in the case of nonresident estates, see § 20.6325–1 of this chapter (Estate Tax Regulations).

(d) *Subordination of lien*—(1) *By payment of the amount subordinated.* The appropriate official may, in his discretion, issue a certificate of subordination of a lien imposed under chapter 64 of the Internal Revenue Code upon any

part of the property subject to the lien if there is paid over to the appropriate officialr an amount equal to the amount of the lien or interest to which the certificate subordinates the lien of the United States. For this purpose, the tax lien may be subordinated to another lien or interest on a dollar-for-dollar basis. For example, if a notice of a Federal tax lien is filed and a delinquent taxpayer secures a mortgage loan on a part of the property subject to the tax lien and pays over the proceeds of the loan to a appropriate official after an application for a certificate of subordination is approved, the appropriate official will issue a certificate of subordination. This certificate will have the effect of subordinating the tax lien to the mortgage.

(2) *To facilitate tax collection*—(i) *In general*. The appropriate official may, in his discretion, issue a certificate of subordination of a lien imposed under chapter 64 of the Internal Revenue Code upon any part of the property subject to the lien if the appropriate official believes that the subordination of the lien will ultimately result in an increase in the amount realized by the United States from the property subject to the lien and will facilitate the ultimate collection of the tax liability.

(ii) *Examples*. The provisions of this subparagraph may be illustrated by the following examples:

Example 1. A, a farmer needs money in order to harvest his crop. A Federal tax lien, notice of which has been filed, is outstanding with respect to A's property. B, a lending institution is willing to make the necessary loan if the loan is secured by a first mortgage on the farm which is prior to the Federal tax lien. Upon examination, the appropriate official believes that ultimately the amount realizable from A's property will be increased and the collection of the tax liability will be facilitated by the availability of cash when the crop is harvested and sold. In this case, the appropriate official may, in his discretion, subordinate the tax lien on the farm to the mortgage securing the crop harvesting loan.

Example 2. C owns a commercial building which is deteriorating and in unsalable condition. Because of outstanding Federal tax liens, notices of which have been filed, C is unable to finance the repair and rehabilitation of the building. D, a contractor, is willing to do the work if his mechanic's lien on the property is superior to the Federal tax liens. Upon examination, the appropriate official believes that ultimately the amount realizable from C's property will be increased and the collection of the tax liability will be facilitated by arresting deterioration of the property and restoring it to salable condition. In this case, the appropriate official may, in his discretion, subordinate the tax lien on the building to the mechanic's lien.

Example 3. E, a manufacturer of electronic equipment, obtains financing from F, a lending institution, pursuant to a security agreement, with respect to which a financing statement was duly filed under the Uniform Commercial Code on June 1, 1970. On April 15, 1971, F gains actual notice or knowledge that notice of a Federal tax lien had been filed against E on March 31, 1971, and F refuses to make further advances unless its security interest is assured of priority over the Federal tax lien. Upon examination, the appropriate official believes that ultimately the amount realizable from E's property will be increased and the collection of the tax liability will be facilitated if the work in process can be completed and the equipment sold. In this case, the appropriate official may, in his discretion, subordinate the tax lien to F's security interest for the further advances required to complete the work.

Example 4. Suit is brought against G by H, who claims ownership of property the legal title to which is held by G. A Federal tax lien against G, notice of which has previously been filed, will be enforceable against the property if G's title is confirmed. Because section 6323(b)(8) is inapplicable, J, an attorney, is unwilling to defend the case for G unless he is granted a contractual lien on the property, superior to the Federal tax lien. Upon examination, the appropriate official believes that the successful defense of the case by G will increase the amount ultimately realizable from G's property and will facilitate collection of the tax liability. In this case, the appropriate official may, in his discretion, subordinate the tax lien to J's contractual lien on the disputed property to secure J's reasonable fees and expenses.

(3) *Subordination of section 6324B lien*. The appropriate official may issue a certificate of subordination with respect to a lien imposed by section 6324B if the appropriate official determines that the interests of the United States will be adequately secured after such subordination. For example, *A*, a qualified heir of qualified real property, needs to borrow money for farming purposes. If the current fair market value of the real property is $150,000, the amount of the claim to which the special lien is to be subordinated is $40,000, the potential liability for additional tax (as defined in section

2032A(c)) is less than $55,000, and there are no other facts to indicate that the interest of the United States will not be adequately secured, the appropriate official may issue a certificate of subordination. The result would be the same if the loan were for bona fide purposes other than farming.

(4) *Application for certificate of subordination*. Any person desiring a certificate of subordination under this paragraph shall submit an application therefor in writing to the appropriate official responsible for the collection of the tax. The application shall contain such information as the appropriate official may require.

(e) *Nonattachment of lien*. If the appropriate official determines that, because of confusion of names or otherwise, any person (other than the person against whom the tax was assessed) is or may be injured by the appearance that a notice of lien filed in accordance with § 301.6323(f)–1 refers to such person, the appropriate official may issue a certificate of nonattachment. Such certificate shall state that the lien, notice of which has been filed, does not attach to the property of such person. Any person desiring a certificate of nonattachment under this paragraph shall submit an application therefor in writing to the appropriate official responsible for the collection of the tax. The application shall contain such information as the appropriate official may require.

(f) *Effect of certificate*—(1) *Conclusiveness*. Except as provided in subparagraphs (2) and (3) of this paragraph, if a certificate is issued under section 6325 by the appropriate official and the certificate is filed in the same office as the notice of lien to which it relates (if the notice of lien has been filed), the certificate shall have the following effect—

(i) In the case of a certificate of release issued under paragraph (a) of this section, the certificate shall be conclusive that the tax lien referred to in the certificate is extinguished;

(ii) In the case of a certificate of discharge issued under paragraph (b) or (c) of this section, the certificate shall be conclusive that the property covered by the certificate is discharged from the tax lien;

(iii) In the case of a certificate of subordination issued under paragraph (d) of this section, the certificate shall be conclusive that the lien or interest to which the Federal tax lien is subordinated is superior to the tax lien; and

(iv) In the case of a certificate of nonattachment issued under paragraph (e) of this section, the certificate shall be conclusive that the lien of the United States does not attach to the property of the person referred to in the certificate.

(2) *Revocation of certificate of release or nonattachment*—(i) *In general*. If the appropriate official determines that either—

(*a*) A certificate of release or a certificate of nonattachment of the general tax lien imposed by section 6321 was issued erroneously or improvidently, or

(*b*) A certificate of release of such lien was issued in connection with a compromise agreement under section 7122 which has been breached,

and if the period of limitation on collection after assessment of the tax liability has not expired, the appropriate official may revoke the certificate and reinstate the tax lien. The provisions of this subparagraph do not apply in the case of the lien imposed by section 6324 relating to estate and gift taxes.

(ii) *Method of revocation and reinstatement*. The revocation and reinstatement described in subdivision (i) of this subparagraph is accompanied by—

(*a*) Mailing notice of the revocation to the taxpayer at his last known address (see § 301.6212–2 for further guidance regarding the definition of last known address); and

(*b*) Filing notice of the revocation of the certificate in the same office in which the notice of lien to which it relates was filed (if the notice of lien has been filed).

(iii) *Effect of reinstatement*—(*a*) *Effective date*. A tax lien reinstated in accordance with the provisions of this subparagraph is effective on and after the date the notice of revocation is mailed to the taxpayer in accordance with the provisions of subdivision (ii)(*a*) of this subparagraph, but the reinstated lien is not effective before the

filing of notice of revocation, in accordance with the provisions of subdivision (ii)(*b*) of this subparagraph, if the filing is required by reason of the fact that a notice of the lien had been filed.

(*b*) *Treatment of reinstated lien.* As of the effective date of reinstatement, a reinstated lien has the same force and effect as a general tax lien imposed by section 6321 which arises upon assessment of a tax liability. The reinstated lien continues in existence until the expiration of the period of limitation on collection after assessment of the tax liability to which it relates. The reinstatement of the lien does not retroactively reinstate a previously filed notice of lien. The reinstated lien is not valid against any holder of a lien or interest described in § 301.6323(a)–1 until notice of the reinstated lien has been filed in accordance with the provisions of § 301.6323(f)–1 subsequent to or concurrent with the time the reinstated lien became effective.

(iv) *Example.* The provisions of this subparagraph may be illustrated by the following example:

Example. On March 1, 1967, an assessment of an unpaid Federal tax liability is made against A. On March 1, 1968, notice of the Federal tax lien, which arose at the time of assessment, is filed. On April 1, 1968, A executes a bona fide mortgage on property belonging to him to B. On May 1, 1968, a certificate of release of the tax lien is erroneously issued and is filed by A in the same office in which the notice of lien was filed. On June 3, 1968, the lien is reinstated in accordance with the provisions of this subparagraph. On July 1, 1968, A executes a bona fide mortgage on property belonging to him to C. On August 1, 1968, a notice of the lien which was reinstated is properly filed in accordance with the provisions of § 301.6323(f)–1. The mortgages of both B and C will have priority over the rights of the United States with respect to the tax liability in question. Because a reinstated lien continues in existence only until the expiration of the period of limitation on collection after assessment of the tax liability to which the lien relates, in the absence of any extension or suspension of the period of limitation on collection after assessment, the reinstated lien will become unenforceable by reason of lapse of time after February 28, 1973.

(3) *Certificates void under certain conditions.* Notwithstanding any other provisions of subtitle F of the Internal Revenue Code, any lien for Federal taxes attaches to any property with respect to which a certificate of discharge has been issued if the person liable for the tax reacquires the property after the certificate has been issued. Thus, if property subject to a Federal tax lien is discharged therefrom and is later reacquired by the delinquent taxpayer at a time when the lien is still in existence, the tax lien attaches to the reacquired property and is enforceable against it as in the case of after-acquired property generally.

(g) *Filing of certificates and notices.* If a certificate or notice described in this section may not be filed in the office designated by State law in which the notice of lien imposed by section 6321 (to which the certificate or notice relates) is filed, the certificate or notice is effective if filed in the office of the clerk of the United States district court for the judicial district in which the State office where the notice of lien is filed is situated.

(h) As used in this section, the term *appropriate official* means either the official or office identified in the relevant IRS Publication or, if such official or office is not so identified, the Secretary or his delegate.

(i) *Effective/applicability date.* This section applies to any release of lien or discharge of property that is requested after January 31, 2008.

(Secs. 6324B (90 Stat. 1861, 26 U.S.C. 6324B) and 7805 (68A Stat. 917, 26 U.S.C. 7805))

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7429, 41 FR 35512, Aug. 23, 1976; T.D. 7847, 47 FR 50857, Nov. 10, 1982; T.D. 8939, 66 FR 2821, Jan. 12, 2001; 73 FR 5742, T.D. 9378, Jan. 31, 2008; T.D. 9378, 73 FR 9672, Feb. 22, 2008]

§ 301.6326–1 Administrative appeal of the erroneous filing of notice of federal tax lien.

(a) *In general.* Any person may appeal to the district director of the district in which a notice of federal tax lien was filed on the property or rights to property of such person for a release of lien alleging an error in the filing of notice of lien. Such appeal may be used only for the purpose of correcting the erroneous filing of a notice of lien, not to challenge the underlying deficiency that led to the imposition of a lien. If

the district director determines that the Internal Revenue Service has erroneously filed the notice of any federal tax lien, the district director shall expeditiously, and, to the extent practicable, within 14 days after such determination, issue a certificate of release of lien. The certificate of release of such lien shall include a statement that the filing of notice of lien was erroneous.

(b) *Appeal alleging an error in the filing of notice of lien.* For purposes of paragraph (a) of this section, an appeal of the filing of notice of federal tax lien must be based on any one of the following allegations:

(1) The tax liability that gave rise to the lien, plus any interest and additions to tax associated with said liability, was satisfied prior to the filing of notice of lien;

(2) The tax liability that gave rise to the lien was assessed in violation of the deficiency procedures set forth in section 6213 of the Internal Revenue Code;

(3) The tax liability that gave rise to the lien was assessed in violation of title 11 of the United States Code (the Bankruptcy Code); or

(4) The statutory period for collection of the tax liability that gave rise to the lien expired prior to the filing of notice of federal tax lien.

(c) *Notice of federal tax lien that lists multiple liabilities.* When a notice of federal tax lien lists multiple liabilities, a person may appeal the filing of notice of lien with respect to one or more of the liabilities listed in the notice, if the notice was erroneously filed with respect to such liabilities. If a notice of federal tax lien was erroneously filed with respect to one or more liabilities listed in the notice, the district director shall issue a certificate of release with respect to such liabilities. For example, if a notice of federal tax lien lists tax liabilities for years 1980, 1981 and 1982, and the entire liabilities for 1981 and 1982 were paid prior to the filing of notice of lien, the taxpayer may appeal the filing of notice of lien with respect to the 1981 and 1982 liabilities and the district director must issue a certificate of release with respect to the 1981 and 1982 liabilities.

(d) *Procedures for appeal*—(1) *Manner.* An appeal of the filing of notice of federal tax lien shall be made in writing to the district director (marked for the attention of the Chief, Special Procedures Function) of the district in which the notice of federal tax lien was filed.

(2) *Form.* The appeal shall include the following information and documents:

(i) Name, current address, and taxpayer identification number of the person appealing the filing of notice of federal tax lien;

(ii) A copy of the notice of federal tax lien affecting the property, if available; and

(iii) The grounds upon which the filing of notice of federal tax lien is being appealed.

(A) If the ground upon which the filing of notice is being appealed is that the tax liability in question was satisfied prior to the filing, proof of full payment as defined in paragraph (e) of this section must be provided.

(B) If the ground upon which the filing of notice is being appealed is that the tax liability that gave rise to lien was assessed in violation of the deficiency procedures set forth in section 6213 of the Internal Revenue Code, the appealing party must explain how the assessment was erroneous.

(C) If the ground upon which the filing of notice is being appealed is that the tax liability that gave rise to the lien was assessed in violation of title 11 of the United States Code (the Bankruptcy Code), the appealing party must provide the following:

(*1*) The identity of the court and the district in which the bankruptcy petition was filed; and

(*2*) The docket number and the date of filing of the bankruptcy petition.

(*3*) *Time.* An administrative appeal of the erroneous filing of notice of federal tax lien shall be made within 1 year after the taxpayer becomes aware of the erroneously filed tax lien.

(e) *Proof of full payment.* As used in paragraph (d)(2)(iii) of this section, the term ''proof of full payment'' means:

(1) An internal revenue cashier's receipt reflecting full payment of the tax liability in question prior to the date the federal tax lien issue was filed;

(2) A canceled check to the Internal Revenue Service in an amount which was sufficient to satisfy the tax liability for which release is being sought; or

(3) Any other manner of proof acceptable to the district director.

(f) *Exclusive remedy*. The appeal established by section 6326 of the Internal Revenue Code and by this section shall be the exclusive administrative remedy with respect to the erroneous filing of a notice of federal tax lien.

(g) *Effective date*. The provisions of this section are effective July 7, 1989.

[T.D. 8250, 54 FR 19569, May 8, 1989. Redesignated at 56 FR 19948, May 1, 1991]

Seizure of Property for Collection of Taxes

§ 301.6330–1 Notice and opportunity for hearing prior to levy.

(a) *Notification*—(1) *In general*. Except as specified in paragraph (a)(2) of this section, the Commissioner, or his or her delegate (the Commissioner), will prescribe procedures to provide persons upon whose property or rights to property the IRS intends to levy (hereinafter referred to as the taxpayer) on or after January 19, 1999, notice of that intention and to give them the right to, and the opportunity for, a pre-levy Collection Due Process (CDP) hearing with the Internal Revenue Service (IRS) Office of Appeals (Appeals). This pre-levy Collection Due Process Hearing Notice (CDP Notice) must be given in person, left at the dwelling or usual place of business of the taxpayer, or sent by certified or registered mail, return receipt requested, to the taxpayer's last known address. For further guidance regarding the definition of last known address, see § 301.6212–2.

(2) *Exceptions*—(i) *state tax refunds*. Section 6330(f) does not require the Commissioner to provide the taxpayer with notification of the taxpayer's right to a CDP hearing prior to issuing a levy to collect state tax refunds owing to the taxpayer. However, the Commissioner will prescribe procedures to give the taxpayer notice of the right to, and the opportunity for, a CDP hearing with Appeals with respect to any such levy issued on or after January 19, 1999, within a reasonable time after the levy has occurred. The notification required to be given following a levy on a state tax refund is referred to as a post-levy CDP Notice.

(ii) *Jeopardy*. Section 6330(f) does not require the Commissioner to provide the taxpayer with notification of the taxpayer's right to a CDP hearing prior to a levy when there has been a determination that collection of the tax is in jeopardy. However, the Commissioner will prescribe procedures to provide notice of the right to, and the opportunity for, a CDP hearing with Appeals to the taxpayer with respect to any such levy issued on or after January 19, 1999, within a reasonable time after the levy has occurred. The notification required to be given following a jeopardy levy also is referred to as post-levy CDP Notice.

(3) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (a) as follows:

Q-A1. Who is the person to be notified under section 6330?

A-A1. Under section 6330(a)(1), a pre-levy or post-levy CDP Notice is required to be given only to the person whose property or right to property is intended to be levied upon, or, in the case of a levy made on a state tax refund or a jeopardy levy, the person whose property or right to property was levied upon. The person described in section 6330(a)(1) is the same person described in section 6331(a)—i.e., the person liable to pay the tax due after notice and demand who refuses or neglects to pay (referred to here as the taxpayer). A pre-levy or post-levy CDP Notice therefore will be given only to the taxpayer.

Q-A2. Will the IRS give notification to a known nominee of, a person holding property of, or a person who holds property subject to a lien with respect to, the taxpayer of the IRS' intention to issue a levy?

A-A2. No. Such a person is not the person described in section 6331(a)(1), but such persons have other remedies. See A-B5 of paragraph (b)(2) of this section.

Q-A3. Will the IRS give notification for each tax and tax period it intends to include or has included in a levy issued on or after January 19, 1999?

A-A3. Yes. The notification of an intent to levy or of the issuance of a jeopardy or state tax refund levy will specify each tax and tax period that will be or was included in the levy.

Q-A4. Will the IRS give notification to a taxpayer with respect to levies for a tax and tax period issued on or after January 19, 1999, even though the IRS had issued a levy prior to January 19, 1999, with respect to the same tax and tax period?

A-A4. Yes. The IRS will provide appropriate pre-levy or post-levy notification to a taxpayer regarding the first levy it intends to issue or has issued on or after January 19, 1999, with respect to a tax and tax period, even though it had issued a levy with respect to that same tax and tax period prior to January 19, 1999.

Q-A5. When will the IRS provide this notice?

A-A5. Beginning on January 19, 1999, the IRS will give a pre-levy CDP Notice to the taxpayer of the IRS' intent to levy on property or rights to property, other than in state tax refund and jeopardy levy situations, at least 30 days prior to the first such levy with respect to a tax and tax period. If the taxpayer has not received a pre-levy CDP Notice and the IRS levies on a state tax refund or issues a jeopardy levy on or after January 19, 1999, the IRS will provide a post-levy CDP Notice to the taxpayer within a reasonable time after that levy.

Q-A6. What must a pre-levy CDP Notice include?

A-A6. Pursuant to section 6330(a)(3), a pre-levy CDP Notice must include, in simple and nontechnical terms:

(i) The amount of the unpaid tax.

(ii) Notification of the right to request a CDP hearing.

(iii) A statement that the IRS intends to levy.

(iv) The taxpayer's rights with respect to the levy action, including a brief statement that sets forth—

(A) The statutory provisions relating to the levy and sale of property;

(B) The procedures applicable to the levy and sale of property;

(C) The administrative appeals available to the taxpayer with respect to the levy and sale and the procedures relating to those appeals;

(D) The alternatives available to taxpayers that could prevent levy on the property (including installment agreements); and

(E) The statutory provisions and the procedures relating to the redemption of property and the release of liens on property.

Q-A7. What must a post-levy CDP Notice include?

A-A7. A post-levy CDP Notice must include, in simple and nontechnical terms:

(i) The amount of the unpaid tax.

(ii) Notification of the right to request a CDP hearing.

(iii) A statement that the IRS has levied upon the taxpayer's state tax refund or has made a jeopardy levy on property or rights to property of the taxpayer, as appropriate.

(iv) The taxpayer's rights with respect to the levy action, including a brief statement that sets forth—

(A) The statutory provisions relating to the levy and sale of property;

(B) The procedures applicable to the levy and sale of property;

(C) The administrative appeals available to the taxpayer with respect to the levy and sale and the procedures relating to those appeals;

(D) The alternatives available to taxpayers that could prevent any further levies on the taxpayer's property (including installment agreements); and

(E) The statutory provisions and the procedures relating to the redemption of property and the release of liens on property.

Q-A8. How will this pre-levy or post-levy notification under section 6330 be accomplished?

A-A8. The IRS will notify the taxpayer by means of a pre-levy CDP Notice or a post-levy CDP Notice, as appropriate. The additional information the IRS is required to provide, together with Form 12153, Request for a Collection Due Process Hearing, will be included with the CDP Notice.

(i) The IRS may effect delivery of a pre-levy CDP Notice (and accompanying materials) in one of three ways:

(A) By delivering the notice personally to the taxpayer.

(B) By leaving the notice at the taxpayer's dwelling or usual place of business.

(C) By mailing the notice to the taxpayer at the taxpayer's last known address by certified or registered mail, return receipt requested.

(ii) The IRS may effect delivery of a post-levy CDP Notice (and accompanying materials) in one of three ways:

(A) By delivering the notice personally to the taxpayer.

(B) By leaving the notice at the taxpayer's dwelling or usual place of business.

(C) By mailing the notice to the taxpayer at the taxpayer's last known address by certified or registered mail.

Q-A9. What are the consequences if the taxpayer does not receive or accept the notification which was properly left at the taxpayer's dwelling or usual place of business, or properly sent by certified or registered mail, return receipt requested, to the taxpayer's last known address?

A-A9. Notification properly sent to the taxpayer's last known address or left at the taxpayer's dwelling or usual place of business is sufficient to start the 30-day period within which the taxpayer may request a CDP hearing. See paragraph (c) of this section for when a request for a CDP hearing must be filed. Actual receipt is not a prerequisite to the validity of the CDP Notice.

Q-A10. What if the taxpayer does not receive the CDP Notice because the IRS did not send that notice by certified or registered mail to the taxpayer's last known address, or failed to leave it at the dwelling or usual place of business of the taxpayer, and the taxpayer fails to request a CDP hearing with Appeals within the 30-day period commencing the day after the date of the CDP Notice?

A-A10. When the IRS determines that it failed properly to provide a taxpayer with a CDP Notice, it will promptly provide the taxpayer with a substitute CDP Notice and provide the taxpayer with an opportunity to request a CDP hearing. Substitute CDP Notices are discussed in Q&A-B3 of paragraph (b)(2) and Q&A-C8 of paragraph (c)(2) of this section.

(4) *Examples*. The following examples illustrate the principles of this paragraph (a):

Example 1. Prior to January 19, 1999, the IRS issues a continuous levy on a taxpayer's wages and a levy on that taxpayer's fixed right to future payments. The IRS is not required to release either levy on or after January 19, 1999, until the requirements of section 6343(a)(1) are met. The taxpayer is not entitled to a CDP Notice or a CDP hearing under section 6330 with respect to either levy because both levy actions were initiated prior to January 19, 1999.

Example 2. The same facts as in *Example 1*, except the IRS intends to levy upon a taxpayer's bank account on or after January 19, 1999. The taxpayer is entitled to a pre-levy CDP Notice with respect to this proposed new levy.

(b) *Entitlement to a CDP hearing*—(1) *In general*. A taxpayer is entitled to one CDP hearing with respect to the unpaid tax and tax periods covered by the pre-levy or post-levy CDP Notice provided to the taxpayer. The taxpayer must request the CDP hearing within the 30-day period commencing on the day after the date of the CDP Notice.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (b) as follows:

Q-B1. Is the taxpayer entitled to a CDP hearing where a levy for state tax refunds is issued on or after January 19, 1999, even though the IRS had previously issued other levies prior to January 19, 1999, seeking to collect the taxes owed for the same period?

A-B1. Yes. The taxpayer is entitled to a CDP hearing under section 6330 for the type of tax and tax periods set forth in the state tax refund levy issued on or after January 19, 1999.

Q-B2. Is the taxpayer entitled to a CDP hearing when the IRS, more than 30 days after issuance of a CDP Notice under section 6330 with respect to the unpaid tax and periods, provides subsequent notice to that taxpayer that the IRS intends to levy on property or rights to property of the taxpayer for the same tax and tax periods shown on the CDP Notice?

A-B2. No. Under section 6330, only the first pre-levy or post-levy CDP Notice with respect to the unpaid tax and tax periods entitles the taxpayer to request a CDP hearing. If the taxpayer does not timely request a CDP hearing with Appeals following that first notification, the taxpayer foregoes the right to a CDP hearing with Appeals and judicial review of Appeals' determination with

respect to levies relating to that tax and tax period. The IRS generally provides additional notices or reminders (reminder notifications) to the taxpayer of its intent to levy when no collection action has occurred within 180 days of a proposed levy. Under such circumstances, a taxpayer may request an equivalent hearing as described in paragraph (i) of this section.

Q-B3. When the IRS provides a taxpayer with a substitute CDP Notice and the taxpayer timely requests a CDP hearing, is the taxpayer entitled to a CDP Hearing before Appeals?

A-B3. Yes. Unless the taxpayer provides the IRS a written withdrawal of the request that Appeals conduct a CDP hearing, the taxpayer is entitled to a CDP hearing before Appeals. Following the hearing, Appeals will issue a Notice of Determination, and the taxpayer is entitled to seek judicial review of that Notice of Determination.

Q-B4. If the IRS sends a second CDP Notice under section 6330 (other than a substitute CDP Notice) for a tax period and with respect to an unpaid tax for which a CDP Notice under section 6330 was previously sent, is the taxpayer entitled to a section 6330 CDP hearing based on the second CDP Notice?

A-B4. No. The taxpayer is entitled to only one CDP hearing under section 6330 with respect to the tax and tax period. The taxpayer must request the CDP hearing within 30 days of the date of the first CDP Notice provided for that tax and tax period.

Q-B5. Will the IRS give pre-levy or post-levy CDP Notices to known nominees of, persons holding property of, or persons holding property subject to a lien with respect to the taxpayer?

A-B5. No. Such person is not the person described in section 6331(a) and is, therefore, not entitled to a CDP hearing or an equivalent hearing (as discussed in paragraph (i) of this section). Such person, however, may seek reconsideration by the IRS office collecting the tax, assistance from the National Taxpayer Advocate, or an administrative hearing before Appeals under its Collection Appeals Program. However, any such administrative hearing would not be a CDP hearing under section 6330 and any determination or decision resulting from the hearing would not be subject to judicial review.

(3) *Example*. The following example illustrates the principles of this paragraph (b):

Example. Federal income tax liability for 1997 is assessed against individual D. D buys an asset and puts it in individual E's name. The IRS gives D a CDP Notice of intent to levy with respect to the 1997 tax liability. The IRS will not notify E of its intent to levy. The IRS is not required to notify E of its intent to levy although E holds property of individual D. E is not the taxpayer.

(c) *Requesting a CDP hearing*—(1) *In general*. When a taxpayer is entitled to a CDP hearing under section 6330, the CDP hearing must be requested during the 30-day period that commences the day after the date of the CDP Notice.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (c) as follows:

Q-C1. What must a taxpayer do to obtain a CDP hearing?

A-C1. (i) The taxpayer must make a request in writing for a CDP hearing. The request for a CDP hearing shall include the information and signature specified in A–C1(ii) of this paragraph (c)(2). See A–D7 and A–D8 of paragraph (d)(2).

(ii) The written request for a CDP hearing must be dated and must include the following:

(A) The taxpayer's name, address, daytime telephone number (if any), and taxpayer identification number (e.g., SSN, ITIN or EIN).

(B) The type of tax involved.

(C) The tax period at issue.

(D) A statement that the taxpayer requests a hearing with Appeals concerning the proposed levy.

(E) The reason or reasons why the taxpayer disagrees with the proposed levy.

(F) The signature of the taxpayer or the taxpayer's authorized representative.

(iii) If the IRS receives a timely written request for CDP hearing that does not satisfy the requirements set forth in A–C1(ii) of this paragraph (c)(2), the IRS will make a reasonable attempt to contact the taxpayer and request that the taxpayer comply with the unsatisfied requirements. The taxpayer

must perfect any timely written request for a CDP hearing that does not satisfy the requirements set forth in A–C1(ii) of this paragraph (c)(2) within a reasonable period of time after a request from the IRS.

(iv) Taxpayers are encouraged to use Form 12153, ''Request for a Collection Due Process Hearing,'' in requesting a CDP hearing so that the request can be readily identified and forwarded to Appeals. Taxpayers may obtain a copy of Form 12153 by contacting the IRS office that issued the CDP Notice, by downloading a copy from the IRS Internet site, *http://www.irs.gov/pub/irs-pdf/f12153.pdf*, or by calling, toll-free, 1–800–829–3676.

(v) The taxpayer must affirm any timely written request for a CDP hearing which is signed or alleged to have been signed on the taxpayer's behalf by the taxpayer's spouse or other unauthorized representative by filing, within a reasonable period of time after a request from the IRS, a signed, written affirmation that the request was originally submitted on the taxpayer's behalf. If the affirmation is filed within a reasonable period of time after a request, the timely CDP hearing request will be considered timely with respect to the non-signing taxpayer. If the affirmation is not filed within a reasonable period of time after a request, the CDP hearing request will be denied with respect to the non-signing taxpayer.

Q-C2. Must the request for the CDP hearing be in writing?

A-C2. Yes. There are several reasons why the request for a CDP hearing must be in writing. The filing of a timely request for a CDP hearing is the first step in what may result in a court proceeding. A written request will provide proof that the CDP hearing was requested and thus permit the court to verify that it has jurisdiction over any subsequent appeal of the Notice of Determination issued by Appeals. In addition, the receipt of the written request will establish the date on which the periods of limitation under section 6502 (relating to collection after assessment), section 6531 (relating to criminal prosecutions), and section 6532 (relating to suits) are suspended as a result of the CDP hearing and any judicial appeal. Moreover, because the IRS anticipates that taxpayers will contact the IRS office that issued the CDP Notice for further information or assistance in filling out Form 12153, or to attempt to resolve their liabilities prior to going through the CDP hearing process, the requirement of a written request should help prevent any misunderstanding as to whether a CDP hearing has been requested. If the information requested on Form 12153 is furnished by the taxpayer, the written request also will help to establish the issues for which the taxpayer seeks a determination by Appeals.

Q-C3. When must a taxpayer request a CDP hearing with respect to a CDP Notice issued under section 6330?

A-C3. A taxpayer must submit a written request for a CDP hearing within the 30-day period commencing the day after the date of the CDP Notice issued under section 6330. This period is slightly different from the period for submitting a written request for a CDP hearing with respect to a CDP Notice issued under section 6320. For a CDP Notice issued under section 6320, a taxpayer must submit a written request for a CDP hearing within the 30-day period commencing the day after the end of the five business day period following the filing of the notice of federal tax lien (NFTL).

Q-C4. How will the timeliness of a taxpayer's written request for a CDP hearing be determined?

A-C4. The rules and regulations under section 7502 and section 7503 will apply to determine the timeliness of the taxpayer's request for a CDP hearing, if properly transmitted and addressed as provided in A-C6 of this paragraph (c)(2).

Q-C5. Is the 30-day period within which a taxpayer must make a request for a CDP hearing extended because the taxpayer resides outside the United States?

A-C5. No. Section 6330 does not make provision for such a circumstance. Accordingly, all taxpayers who want a CDP hearing under section 6330 must request such a hearing within the 30-day period commencing the day after the date of the CDP Notice.

Q-C6. Where must the written request for a CDP hearing be sent?

A-C6. The written request for a CDP hearing must be sent, or hand delivered (if permitted), to the IRS office and address as directed on the CDP Notice. If the address of that office does not appear on the CDP Notice, the taxpayer should obtain the address of the office to which the written request should be sent or hand delivered by calling, toll-free, 1–800–829–1040 and providing the taxpayer's identification number (e.g., SSN, ITIN or EIN).

Q-C7. What will happen if the taxpayer does not request a CDP hearing in writing within the 30-day period commencing on the day after the date of the CDP Notice issued under section 6330?

A-C7. If the taxpayer does not request a CDP hearing in writing within the 30-day period that commences on the day after the date of the CDP Notice, the taxpayer foregoes the right to a CDP hearing under section 6330 with respect to the unpaid tax and tax periods shown on the CDP Notice. A written request submitted within the 30-day period that does not satisfy the requirements set forth in A–C1(ii)(A), (B), (C), (D) or (F) of this paragraph (c)(2) is considered timely if the request is perfected within a reasonable period of time pursuant to A–C1(iii) of this paragraph (c)(2). If the request for CDP hearing is untimely, either because the request was not submitted within the 30-day period or not perfected within the reasonable period provided, the taxpayer will be notified of the untimeliness of the request and offered an equivalent hearing. In such cases, the taxpayer may obtain an equivalent hearing without submitting an additional request. See paragraph (i) of this section.

Q-C8. When must a taxpayer request a CDP hearing with respect to a substitute CDP Notice?

A-C8. A CDP hearing with respect to a substitute CDP Notice must be requested in writing by the taxpayer prior to the end of the 30-day period commencing the day after the date of the substitute CDP Notice.

Q-C9. Can taxpayers attempt to resolve the matter of the proposed levy with an officer or employee of the IRS office collecting the tax liability stated on the CDP Notice either before or after requesting a CDP hearing?

A-C9. Yes. Taxpayers are encouraged to discuss their concerns with the IRS office collecting the tax, either before or after they request a CDP hearing. If such a discussion occurs before a request is made for a CDP hearing, the matter may be resolved without the need for Appeals consideration. However, these discussions do not suspend the running of the 30-day period within which the taxpayer is required to request a CDP hearing, nor do they extend that 30-day period. If discussions occur after the request for a CDP hearing is filed and the taxpayer resolves the matter with the IRS office collecting the tax, the taxpayer may withdraw in writing the request that a CDP hearing be conducted by Appeals. The taxpayer can also waive in writing some or all of the requirements regarding the contents of the Notice of Determination.

(3) *Examples*. The following examples illustrate the principles of this paragraph (c):

Example 1. The IRS mails a CDP Notice of intent to levy to individual A's last known address on June 24, 1999. Individual A has until July 26, 1999, a Monday, to request a CDP hearing. The 30-day period within which individual A may request a CDP hearing begins on June 25, 1999. Because the 30-day period expires on July 24, 1999, a Saturday, individual A's written request for a CDP hearing will be considered timely if it is properly transmitted and addressed to the IRS in accordance with section 7502 and the regulations thereunder no later than July 26, 1999.

Example 2. Same facts as in *Example 1*, except that individual A is on vacation, outside the United States, or otherwise does not receive or read the CDP Notice until July 19, 1999. As in *Example 1*, individual A has until July 26, 1999, to request a CDP hearing. If individual A does not request a CDP hearing, individual A may request an equivalent hearing as to the levy at a later time. The taxpayer should make a request for an equivalent hearing at the earliest possible time.

Example 3. Same facts as in *Example 2*, except that individual A does not receive or read the CDP Notice until after July 26, 1999, and does not request a hearing by July 26, 1999. Individual A is not entitled to a CDP hearing. Individual A may request an equivalent hearing as to the levy at a later time. The taxpayer should make a request for an equivalent hearing at the earliest possible time.

Example 4. Same facts as in *Example 1*, except the IRS determines that the CDP Notice mailed on June 24, 1999, was not mailed to individual A's last known address. As soon as practicable after making this determination, the IRS will mail a substitute CDP Notice to individual A at individual A's last known address, hand deliver the substitute CDP Notice to individual A, or leave the substitute CDP Notice at individual A's dwelling or usual place of business. Individual A will have 30 days commencing on the day after the date of the substitute CDP Notice within which to request a CDP hearing.

(d) *Conduct of CDP hearing*—(1) *In general.* If a taxpayer requests a CDP hearing under section 6330(a)(3)(B) (and does not withdraw that request), the CDP hearing will be held with Appeals. The taxpayer is entitled to only one CDP hearing under section 6330 with respect to the unpaid tax and tax periods shown on the CDP Notice. To the extent practicable, the CDP hearing requested under section 6330 will be held in conjunction with any CDP hearing the taxpayer requests under section 6320. A CDP hearing will be conducted by an employee or officer of Appeals who, prior to the first CDP hearing under section 6320 or section 6330, has had no involvement with respect to the tax for the tax periods to be covered by the hearing, unless the taxpayer waives this requirement.

(2) *Questions and answers.* The questions and answers illustrate the provisions of this paragraph (d) as follows:

Q-D1. Under what circumstances can a taxpayer receive more than one prelevy CDP hearing under section 6330 with respect to a tax period?

A-D1. The taxpayer may receive more than one CDP pre-levy hearing under section 6330 with respect to a tax period where the tax involved is a different type of tax (for example, an employment tax liability, where the original CDP hearing for the tax period involved an income tax liability), or where the same type of tax for the same period is involved, but where the amount of the unpaid tax has changed as a result of an additional assessment of tax (not including interest or penalties) for that period or an additional accuracy-related or filing-delinquency penalty has been assessed. The taxpayer is not entitled to another CDP hearing under section 6330 if the additional assessment represents accruals of interest, accruals of penalties, or both.

Q-D2. Will a CDP hearing with respect to one tax period be combined with a CDP hearing with respect to another tax period?

A-D2. To the extent practicable, a CDP hearing with respect to one tax period shown on a CDP Notice will be combined with any and all other CDP hearings which the taxpayer has requested.

Q-D3. Will a CDP hearing under section 6330 be combined with a CDP hearing under section 6320?

A-D3. To the extent it is practicable, a CDP hearing under section 6330 will be held in conjunction with a CDP hearing under section 6320.

Q-D4. What is considered to be prior involvement by an employee or officer of Appeals with respect to the tax and tax period or periods involved in the hearing?

A-D4. Prior involvement by an Appeals officer or employee includes participation or involvement in a matter (other than a CDP hearing held under either section 6320 or section 6330) that the taxpayer may have had with respect to the tax and tax period shown on the CDP Notice. Prior involvement exists only when the taxpayer, the tax and the tax period at issue in the CDP hearing also were at issue in the prior non-CDP matter, and the Appeals officer or employee actually participated in the prior matter.

Q-D5. How can a taxpayer waive the requirement that the officer or employee of Appeals have no prior involvement with respect to the tax and tax period or periods involved in the CDP hearing?

A-D5. The taxpayer must sign a written waiver.

Q-D6. How are CDP hearings conducted?

A-D6. The formal hearing procedures required under the Administrative Procedure Act, 5 U.S.C. 551 *et seq.*, do not apply to CDP hearings. CDP hearings are much like Collection Appeal Program (CAP) hearings in that they are informal in nature and do not require the Appeals officer or employee and the taxpayer, or the taxpayer's representative, to hold a face-to-face

meeting. A CDP hearing may, but is not required to, consist of a face-to-face meeting, one or more written or oral communications between an Appeals officer or employee and the taxpayer or the taxpayer's representative, or some combination thereof. A transcript or recording of any face-to-face meeting or conversation between an Appeals officer or employee and the taxpayer or the taxpayer's representative is not required. The taxpayer or the taxpayer's representative does not have the right to subpoena and examine witnesses at a CDP hearing.

Q-D7. If a taxpayer wants a face-to-face CDP hearing, where will it be held?

A-D7. Except as provided in A–D8 of this paragraph (d)(2), a taxpayer who presents in the CDP hearing request relevant, non-frivolous reasons for disagreement with the proposed levy will ordinarily be offered an opportunity for a face-to-face conference at the Appeals office closest to taxpayer's residence. A business taxpayer will ordinarily be offered an opportunity for a face-to-face conference at the Appeals office closest to the taxpayer's principal place of business. If that is not satisfactory to the taxpayer, the taxpayer will be given an opportunity for a hearing by telephone or by correspondence. In all cases, the Appeals officer or employee will review the case file, as described in A–F4 of paragraph (f)(2). If no face-to-face or telephonic conference is held, or other oral communication takes place, review of the documents in the case file, as described in A–F4 of paragraph (f)(2), will constitute the CDP hearing for purposes of section 6330(b).

Q-D8. In what circumstances will a face-to-face CDP conference not be granted?

A-D8. A taxpayer is not entitled to a face-to-face CDP conference at a location other than as provided in A–D7 of this paragraph (d)(2) and this A–D8. If all Appeals officers or employees at the location provided for in A–D7 of this paragraph (d)(2) have had prior involvement with the taxpayer as provided in A–D4 of this paragraph (d)(2), the taxpayer will not be offered a face-to-face conference at that location, unless the taxpayer elects to waive the requirement of section 6330(b)(3). The taxpayer will be offered a face-to-face conference at another Appeals office if Appeals would have offered the taxpayer a face-to-face conference at the location provided in A–D7 of this paragraph (d)(2), but for the disqualification of all Appeals officers or employees at that location. A face-to-face CDP conference concerning a taxpayer's underlying liability will not be granted if the request for a hearing or other taxpayer communication indicates that the taxpayer wishes only to raise irrelevant or frivolous issues concerning that liability. A face-to-face CDP conference concerning a collection alternative, such as an installment agreement or an offer to compromise liability, will not be granted unless other taxpayers would be eligible for the alternative in similar circumstances. For example, because the IRS does not consider offers to compromise from taxpayers who have not filed required returns or have not made certain required deposits of tax, as set forth in Form 656, ''Offer in Compromise,'' no face-to-face conference will be granted to a taxpayer who wishes to make an offer to compromise but has not fulfilled those obligations. Appeals in its discretion, however, may grant a face-to-face conference if Appeals determines that a face-to-face conference is appropriate to explain to the taxpayer the requirements for becoming eligible for a collection alternative. In all cases, a taxpayer will be given an opportunity to demonstrate eligibility for a collection alternative and to become eligible for a collection alternative, in order to obtain a face-to-face conference. For purposes of determining whether a face-to-face conference will be granted, the determination of a taxpayer's eligibility for a collection alternative is made without regard to the taxpayer's ability to pay the unpaid tax. A face-to-face conference need not be granted if the taxpayer does not provide the required information set forth in A–C1(ii)(E) of paragraph (c)(2). See also A–C1(iii) of paragraph (c)(2).

(3) *Examples*. The following examples illustrate the principles of this paragraph (d):

Example 1. Individual A timely requests a CDP hearing concerning a proposed levy for

the 1998 income tax liability assessed against individual A. Appeals employee B previously conducted a CDP hearing regarding a NFTL filed with respect to individual A's 1998 income tax liability. Because employee B's only prior involvement with individual A's 1998 income tax liability was in connection with a section 6320 CDP hearing, employee B may conduct the CDP hearing under section 6330 involving the proposed levy for the 1998 income tax liability.

Example 2. Individual C timely requests a CDP hearing concerning a proposed levy for the 1998 income tax liability assessed against individual C. Appeals employee D previously conducted a Collection Appeals Program (CAP) hearing regarding a NFTL filed with respect to individual C's 1998 income tax liability. Because employee D's prior involvement with individual C's 1998 income tax liability was in connection with a non-CDP hearing, employee D may not conduct the CDP hearing under section 6330 unless individual C waives the requirement that the hearing will be conducted by an Appeals officer or employee who has had no prior involvement with respect to individual C's 1998 income tax liability.

Example 3. Same facts as in *Example 2*, except that the prior CAP hearing only involved individual C's 1997 income tax liability and employment tax liabilities for 1998 reported on Form 941, ''Employer's Quarterly Federal Tax Return.'' Employee D would not be considered to have prior involvement because the prior CAP hearing in which she participated did not involve individual C's 1998 income tax liability.

Example 4. Appeals employee F is assigned to a CDP hearing concerning a proposed levy for a trust fund recovery penalty (TFRP) assessed pursuant to section 6672 against individual E. Appeals employee F participated in a prior CAP hearing involving individual E's 1999 income tax liability, and participated in a CAP hearing involving the employment taxes of business entity X, which incurred the employment tax liability to which the TFRP assessed against individual E relates. Appeals employee F would not be considered to have prior involvement because the prior CAP hearings in which he participated did not directly involve the TFRP assessed against individual E.

Example 5. Appeals employee G is assigned to a CDP hearing concerning a proposed levy for a TFRP assessed pursuant to section 6672 against individual H. In preparing for the CDP hearing, Appeals employee G reviews the Appeals case file concerning the prior CAP hearing involving the TFRP assessed pursuant to section 6672 against individual H. Appeals employee G is not deemed to have participated in the previous CAP hearing involving the TFRP assessed against individual H by such review.

(e) *Matters considered at CDP hearing*—(1) *In general.* Appeals will determine the timeliness of any request for a CDP hearing that is made by a taxpayer. Appeals has the authority to determine the validity, sufficiency, and timeliness of any CDP Notice given by the IRS and of any request for a CDP hearing that is made by a taxpayer. Prior to issuance of a determination, Appeals is required to obtain verification from the IRS office collecting the tax that the requirements of any applicable law or administrative procedure with respect to the proposed levy have been met. The taxpayer may raise any relevant issue relating to the unpaid tax at the hearing, including appropriate spousal defenses, challenges to the appropriateness of the proposed levy, and offers of collection alternatives. The taxpayer also may raise challenges to the existence or amount of the underlying liability, including a liability reported on a self-filed return, for any tax period specified on the CDP Notice if the taxpayer did not receive a statutory notice of deficiency for that tax liability or did not otherwise have an opportunity to dispute the tax liability. Finally, the taxpayer may not raise an issue that was raised and considered at a previous CDP hearing under section 6320 or in any other previous administrative or judicial proceeding if the taxpayer participated meaningfully in such hearing or proceeding. Taxpayers will be expected to provide all relevant information requested by Appeals, including financial statements, for its consideration of the facts and issues involved in the hearing.

(2) *Spousal defenses.* A taxpayer may raise any appropriate spousal defenses at a CDP hearing unless the Commissioner has already made a final determination as to spousal defenses in a statutory notice of deficiency or final determination letter. To claim a spousal defense under section 66 or section 6015, the taxpayer must do so in writing according to rules prescribed by the Commissioner or the Secretary. Spousal defenses raised under sections 66 and 6015 in a CDP hearing are governed in all respects by the provisions of sections 66 and section 6015 and the regulations and procedures thereunder.

(3) *Questions and answers.* The questions and answers illustrate the provisions of this paragraph (e) as follows:

Q-E1. What factors will Appeals consider in making its determination?

A-E1. Appeals will consider the following matters in making its determination:

(i) Whether the IRS met the requirements of any applicable law or administrative procedure.

(ii) Any issues appropriately raised by the taxpayer relating to the unpaid tax.

(iii) Any appropriate spousal defenses raised by the taxpayer.

(iv) Any challenges made by the taxpayer to the appropriateness of the proposed collection action.

(v) Any offers by the taxpayer for collection alternatives.

(vi) Whether the proposed collection action balances the need for the efficient collection of taxes and the legitimate concern of the taxpayer that any collection action be no more intrusive than necessary.

Q-E2. When is a taxpayer entitled to challenge the existence or amount of the tax liability specified in the CDP Notice?

A-E2. A taxpayer is entitled to challenge the existence or amount of the underlying liability for any tax period specified on the CDP Notice if the taxpayer did not receive a statutory notice of deficiency for such liability or did not otherwise have an opportunity to dispute such liability. Receipt of a statutory notice of deficiency for this purpose means receipt in time to petition the Tax Court for a redetermination of the deficiency determined in the notice of deficiency. An opportunity to dispute the underlying liability includes a prior opportunity for a conference with Appeals that was offered either before or after the assessment of the liability. An opportunity for a conference with Appeals prior to the assessment of a tax subject to deficiency procedures is not a prior opportunity for this purpose.

Q-E3. Are spousal defenses subject to the limitations imposed under section 6330(c)(2)(B) on a taxpayer's right to challenge the tax liability specified in the CDP Notice at a CDP hearing?

A-E3. The limitations imposed under section 6330(c)(2)(B) do not apply to spousal defenses. When a taxpayer asserts a spousal defense, the taxpayer is not disputing the amount or existence of the liability itself, but asserting a defense to the liability which may or may not be disputed. A spousal defense raised under section 66 or section 6015 is governed by section 66 or section 6015 and the regulations and procedures thereunder. Any limitation under those sections, regulations, and procedures therefore will apply.

Q-E4. May a taxpayer raise at a CDP hearing a spousal defense under section 66 or section 6015 if that defense was raised and considered administratively and the Commissioner has issued a statutory notice of deficiency or final determination letter addressing the spousal defense?

A-E4. No. A taxpayer is precluded from raising a spousal defense at a CDP hearing when the Commissioner has made a final determination (under section 66 or section 6015) as to spousal defenses in a final determination letter or statutory notice of deficiency. However, a taxpayer may raise spousal defenses in a CDP hearing when the taxpayer has previously raised spousal defenses, but the Commissioner has not yet made a final determination regarding this issue.

Q-E5. May a taxpayer raise at a CDP hearing a spousal defense under section 66 or section 6015 if that defense was raised and considered in a prior judicial proceeding that has become final?

A-E5. No. A taxpayer is precluded by the doctrine of res judicata and by the specific limitations under section 66 or section 6015 from raising a spousal defense in a CDP hearing under these circumstances.

Q-E6. What collection alternatives are available to the taxpayer?

A-E6. Collection alternatives include, for example, a proposal to withhold the proposed levy or future collection action in circumstances that will facilitate the collection of the tax liability, an installment agreement, an offer to compromise, the posting of a bond, or the substitution of other assets. A collection alternative is not available unless the alternative would be available

to other taxpayers in similar circumstances. See A–D8 of paragraph (d)(2).

Q-E7. What issues may a taxpayer raise in a CDP hearing under section 6330 if the taxpayer previously received a notice under section 6320 with respect to the same tax and tax period and did not request a CDP hearing with respect to that notice?

A-E7. The taxpayer may raise appropriate spousal defenses, challenges to the appropriateness of the proposed collection action, and offers of collection alternatives. The existence or amount of the underlying liability for any tax period specified in the CDP Notice may be challenged only if the taxpayer did not have a prior opportunity to dispute the tax liability. If the taxpayer previously received a CDP Notice under section 6320 with respect to the same tax and tax period and did not request a CDP hearing with respect to that earlier CDP Notice, the taxpayer had a prior opportunity to dispute the existence or amount of the underlying tax liability.

Q-E8. How will Appeals issue its determination?

A-E8. (i) Taxpayers will be sent a dated Notice of Determination by certified or registered mail. The Notice of Determination will set forth Appeals' findings and decisions. It will state whether the IRS met the requirements of any applicable law or administrative procedure; it will resolve any issues appropriately raised by the taxpayer relating to the unpaid tax; it will include a decision on any appropriate spousal defenses raised by the taxpayer; it will include a decision on any challenges made by the taxpayer to the appropriateness of the collection action; it will respond to any offers by the taxpayer for collection alternatives; and it will address whether the proposed collection action represents a balance between the need for the efficient collection of taxes and the legitimate concern of the taxpayer that any collection action be no more intrusive than necessary. The Notice of Determination will also set forth any agreements that Appeals reached with the taxpayer, any relief given the taxpayer, and any actions the taxpayer or the IRS are required to take. Lastly, the Notice of Determination will advise the taxpayer of the taxpayer's right to seek judicial review within 30 days of the date of the Notice of Determination.

(ii) Because taxpayers are encouraged to discuss their concerns with the IRS office collecting the tax, certain matters that might have been raised at a CDP hearing may be resolved without the need for Appeals consideration. Unless, as a result of these discussions, the taxpayer agrees in writing to withdraw the request that Appeals conduct a CDP hearing, Appeals will still issue a Notice of Determination, but the taxpayer can waive in writing Appeals' consideration of some or all of the matters it would otherwise consider in making its determination.

Q-E9. Is there a period of time within which Appeals must conduct a CDP hearing or issue a Notice of Determination?

A-E9. No. Appeals will, however, attempt to conduct a CDP hearing and issue a Notice of Determination as expeditiously as possible under the circumstances.

Q-E10. Why is the Notice of Determination and its date important?

A-E10. The Notice of Determination will set forth Appeals' findings and decisions with respect to the matters set forth in A-E1 of this paragraph (e)(3). The 30-day period within which the taxpayer is permitted to seek judicial review of Appeals' determination commences the day after the date of the Notice of Determination.

Q-E11. If an Appeals officer considers the merits of a taxpayer's liability in a CDP hearing when the taxpayer had previously received a statutory notice of deficiency or otherwise had an opportunity to dispute the liability prior to the issuance of a notice of intention to levy, will the Appeals officer's determination regarding those liability issues be considered part of the Notice of Determination?

A-E11. No. An Appeals officer may consider the existence and amount of the underlying tax liability as a part of the CDP hearing only if the taxpayer did not receive a statutory notice of deficiency for the tax liability in question or otherwise have a prior opportunity to dispute the tax liability.

Similarly, an Appeals officer may not consider any other issue if the issue was raised and considered at a previous hearing under section 6320 or in any other previous administrative or judicial proceeding in which the person seeking to raise the issue meaningfully participated. In the Appeals officer's sole discretion, however, the Appeals officer may consider the existence or amount of the underlying tax liability, or such other precluded issues, at the same time as the CDP hearing. Any determination, however, made by the Appeals officer with respect to such a precluded issue shall not be treated as part of the Notice of Determination issued by the Appeals officer and will not be subject to any judicial review. Because any decisions made by the Appeals officer on such precluded issues are not properly a part of the CDP hearing, such decisions are not required to appear in the Notice of Determination issued following the hearing. Even if a decision concerning such precluded issues is referred to in the Notice of Determination, it is not reviewable by the Tax Court because the precluded issue is not properly part of the CDP hearing.

(4) *Examples*. The following examples illustrate the principles of this paragraph (e):

Example 1. The IRS sends a statutory notice of deficiency to the taxpayer at his last known address asserting a deficiency for the tax year 1995. The taxpayer receives the notice of deficiency in time to petition the Tax Court for a redetermination of the asserted deficiency. The taxpayer does not timely file a petition with the Tax Court. The taxpayer is precluded from challenging the existence or amount of the tax liability in a subsequent CDP hearing.

Example 2. Same facts as in *Example 1*, except the taxpayer does not receive the notice of deficiency in time to petition the Tax Court and did not have another prior opportunity to dispute the tax liability. The taxpayer is not precluded from challenging the existence or amount of the tax liability in a subsequent CDP hearing.

Example 3. The IRS properly assesses a trust fund recovery penalty against the taxpayer. The IRS offers the taxpayer the opportunity for a conference with Appeals at which the taxpayer would have the opportunity to dispute the assessed liability. The taxpayer declines the opportunity to participate in such a conference. The taxpayer is precluded from challenging the existence or amount of the tax liability in a subsequent CDP hearing.

(f) *Judicial review of Notice of Determination*—(1) *In general*. Unless the taxpayer provides the IRS a written withdrawal of the request that Appeals conduct a CDP hearing, Appeals is required to issue a Notice of Determination in all cases where a taxpayer has timely requested a CDP hearing. The taxpayer may appeal such determinations made by Appeals within the 30-day period commencing the day after the date of the Notice of Determination to the Tax Court.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (f) as follows:

Q-F1. What must a taxpayer do to obtain judicial review of a Notice of Determination?

A-F1. Subject to the jurisdictional limitations described in A–F2 of this paragraph (f)(2), the taxpayer must, within the 30-day period commencing the day after the date of the Notice of Determination, appeal the determination by Appeals to the Tax Court.

Q-F2. With respect to the relief available to the taxpayer under section 6015, what is the time frame within which a taxpayer may seek Tax Court review of Appeals' determination following a CDP hearing?

A-F2. If the taxpayer seeks Tax Court review not only of Appeals' denial of relief under section 6015, but also of relief with respect to other issues raised in the CDP hearing, the taxpayer should request Tax Court review within the 30-day period commencing the day after the date of the Notice of Determination. If the taxpayer only seeks Tax Court review of Appeals' denial of relief under section 6015, the taxpayer should request review by the Tax Court, as provided by section 6015(e), within 90 days of Appeals' determination. If a request for Tax Court review is filed after the 30-day period for seeking judicial review under section 6330, then only the taxpayer's section 6015 claims may be reviewable by the Tax Court.

Q-F3. What issue or issues may the taxpayer raise before the Tax Court if the taxpayer disagrees with the Notice of Determination?

A-*F3*. In seeking Tax Court review of a Notice of Determination, the taxpayer can only ask the court to consider an issue, including a challenge to the underlying tax liability, that was properly raised in the taxpayer's CDP hearing. An issue is not properly raised if the taxpayer fails to request consideration of the issue by Appeals, or if consideration is requested but the taxpayer fails to present to Appeals any evidence with respect to that issue after being given a reasonable opportunity to present such evidence.

Q-F4. What is the administrative record for purposes of Tax Court review?

A-F4. The case file, including the taxpayer's request for hearing, any other written communications and information from the taxpayer or the taxpayer's authorized representative submitted in connection with the CDP hearing, notes made by an Appeals officer or employee of any oral communications with the taxpayer or the taxpayer's authorized representative, memoranda created by the Appeals officer or employee in connection with the CDP hearing, and any other documents or materials relied upon by the Appeals officer or employee in making the determination under section 6330(c)(3), will constitute the record in the Tax Court review of the Notice of Determination issued by Appeals.

(g) *Effect of request for CDP hearing and judicial review on periods of limitation and collection activity*—(1) *In general*. The periods of limitation under section 6502 (relating to collection after assessment), section 6531 (relating to criminal prosecutions), and section 6532 (relating to suits) are suspended until the date the IRS receives the taxpayer's written withdrawal of the request for a CDP hearing by Appeals or the determination resulting from the CDP hearing becomes final by expiration of the time for seeking judicial review or the exhaustion of any rights to appeals following judicial review. In no event shall any of these periods of limitation expire before the 90th day after the date on which the IRS receives the taxpayer's written withdrawal of the request that Appeals conduct a CDP hearing or the Notice of Determination with respect to such hearing becomes final upon either the expiration of the time for seeking judicial review or upon exhaustion of any rights to appeals following judicial review.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (g) as follows:

Q-G1. For what period of time will the periods of limitation under section 6502, section 6531, and section 6532 remain suspended if the taxpayer timely requests a CDP hearing concerning a pre-levy or post-levy CDP Notice?

A-G1. The suspension period commences on the date the IRS receives the taxpayer's written request for a CDP hearing. The suspension period continues until the IRS receives a written withdrawal by the taxpayer of the request for a CDP hearing or the Notice of Determination resulting from the CDP hearing becomes final upon either the expiration of the time for seeking judicial review or upon exhaustion of any rights to appeals following judicial review. In no event shall any of these periods of limitation expire before the 90th day after the day on which there is a final determination with respect to such hearing. The periods of limitation that are suspended under section 6330 are those which apply to the taxes and the tax period or periods to which the CDP Notice relates.

Q-G2. For what period of time will the periods of limitation under section 6502, section 6531, and section 6532 be suspended if the taxpayer does not request a CDP hearing concerning the CDP Notice, or the taxpayer requests a CDP hearing, but his request is not timely?

A-G2. Under either of these circumstances, section 6330 does not provide for a suspension of the periods of limitation.

Q-G3. What, if any, enforcement actions can the IRS take during the suspension period?

A-G3. Section 6330(e) provides for the suspension of the periods of limitation discussed in paragraph (g)(1) of these regulations. Section 6330(e) also provides that levy actions that are the subject of the requested CDP hearing under that section shall be suspended

during the same period. The IRS, however, may levy for other taxes and periods not covered by the CDP Notice if the CDP requirements under section 6330 for those taxes and periods have been satisfied. The IRS also may file NFTLs for tax periods and taxes, whether or not covered by the CDP Notice issued under section 6330, and may take other non-levy collection actions such as initiating judicial proceedings to collect the tax shown on the CDP Notice or offsetting overpayments from other periods, or of other taxes, against the tax shown on the CDP Notice. Moreover, the provisions in section 6330 do not apply when the IRS levies for the tax and tax period shown on the CDP Notice to collect a state tax refund due the taxpayer, or determines that collection of the tax is in jeopardy. Finally, section 6330 does not prohibit the IRS from accepting any voluntary payments made for the tax and tax period stated on the CDP Notice.

(3) *Examples*. The following examples illustrate the principles of this paragraph (g):

Example 1. The period of limitation under section 6502 with respect to the taxpayer's tax period listed in the CDP Notice will expire on August 1, 1999. The IRS sent a CDP Notice to the taxpayer on April 30, 1999. The taxpayer timely requested a CDP hearing. The IRS received this request on May 15, 1999. Appeals sends the taxpayer its determination on June 15, 1999. The taxpayer timely seeks judicial review of that determination. The period of limitation under section 6502 would be suspended from May 15, 1999, until the determination resulting from that hearing becomes final by expiration of the time for seeking review or reconsideration before the Tax Court, plus 90 days.

Example 2. Same facts as in *Example 1*, except the taxpayer does not seek judicial review of Appeals' determination. Because the taxpayer requested the CDP hearing when fewer than 90 days remained on the period of limitation, the period of limitation will be extended to October 13, 1999 (90 days from July 15, 1999).

(h) *Retained jurisdiction of Appeals*—(1) *In general*. The Appeals office that makes a determination under section 6330 retains jurisdiction over that determination, including any subsequent administrative hearings that may be requested by the taxpayer regarding levies and any collection actions taken or proposed with respect to Appeals' determination. Once a taxpayer has exhausted his other remedies, Appeals' retained jurisdiction permits it to consider whether a change in the taxpayer's circumstances affects its original determination. Where a taxpayer alleges a change in circumstances that affects Appeals' original determination, Appeals may consider whether changed circumstances warrant a change in its earlier determination.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (h) as follows:

Q-H1. Are the periods of limitation suspended during the course of any subsequent Appeals consideration of the matters raised by a taxpayer when the taxpayer invokes the retained jurisdiction of Appeals under section 6330(d)(2)(A) or (B)?

A-H1. No. Under section 6330(b)(2), a taxpayer is entitled to only one CDP hearing under section 6330 with respect to the tax and tax periods specified in the CDP Notice. Any subsequent consideration by Appeals pursuant to its retained jurisdiction is not a continuation of the original CDP hearing and does not suspend the periods of limitation.

Q-H2. Is a decision of Appeals resulting from a retained jurisdiction hearing appealable to the Tax Court?

A-H2. No. As discussed in A–H1, a taxpayer is entitled to only one CDP hearing under section 6330 with respect to the tax and tax period or periods specified in the CDP Notice. Only determinations resulting from CDP hearings are appealable to the Tax Court.

(i) *Equivalent hearing*—(1) *In general*. A taxpayer who fails to make a timely request for a CDP hearing is not entitled to a CDP hearing. Such a taxpayer may nevertheless request an administrative hearing with Appeals, which is referred to herein as an ''equivalent hearing.'' The equivalent hearing will be held by Appeals and generally will follow Appeals procedures for a CDP hearing. Appeals will not, however, issue a Notice of Determination. Under such circumstances, Appeals will issue a Decision Letter.

(2) *Questions and answers*. The questions and answers illustrate the provisions of this paragraph (i) as follows:

Q-I1. What must a taxpayer do to obtain an equivalent hearing?

A-I1. (i) A request for an equivalent hearing must be made in writing. A written request in any form that requests an equivalent hearing will be acceptable if it includes the information and signature required in A–I1(ii) of this paragraph (i)(2).

(ii) The request must be dated and must include the following:

(A) The taxpayer's name, address, daytime telephone number (if any), and taxpayer identification number (e.g., SSN, ITIN or EIN).

(B) The type of tax involved.

(C) The tax period at issue.

(D) A statement that the taxpayer is requesting an equivalent hearing with Appeals concerning the levy.

(E) The reason or reasons why the taxpayer disagrees with the proposed levy.

(F) The signature of the taxpayer or the taxpayer's authorized representative.

(iii) The taxpayer must perfect any timely written request for an equivalent hearing that does not satisfy the requirements set forth in A–I1(ii) of this paragraph (i)(2) within a reasonable period of time after a request from the IRS. If the requirements are not satisfied within a reasonable period of time, the taxpayer's equivalent hearing request will be denied.

(iv) The taxpayer must affirm any timely written request for an equivalent hearing that is signed or alleged to have been signed on the taxpayer's behalf by the taxpayer's spouse or other unauthorized representative, and that otherwise meets the requirements set forth in A–I1(ii) of this paragraph (i)(2), by filing, within a reasonable period of time after a request from the IRS, a signed written affirmation that the request was originally submitted on the taxpayer's behalf. If the affirmation is filed within a reasonable period of time after a request, the timely equivalent hearing request will be considered timely with respect to the non-signing taxpayer. If the affirmation is not filed within a reasonable period of time, the equivalent hearing request will be denied with respect to the non-signing taxpayer.

Q-I2. What issues will Appeals consider at an equivalent hearing?

A-I2. In an equivalent hearing, Appeals will consider the same issues that it would have considered at a CDP hearing on the same matter.

Q-I3. Are the periods of limitation under sections 6502, 6531, and 6532 suspended if the taxpayer does not timely request a CDP hearing and is subsequently given an equivalent hearing?

A-I3. No. The suspension period provided for in section 6330(e) relates only to hearings requested within the 30-day period that commences the day following the date of the pre-levy or post-levy CDP Notice, that is, CDP hearings.

Q-I4. Will collection action be suspended if a taxpayer requests and receives an equivalent hearing?

A-I4. Collection action is not required to be suspended. Accordingly, the decision to take collection action during the pendency of an equivalent hearing will be determined on a case-by-case basis. Appeals may request the IRS office with responsibility for collecting the taxes to suspend all or some collection action or to take other appropriate action if it determines that such action is appropriate or necessary under the circumstances.

Q-I5. What will the Decision Letter state?

A-I5. The Decision Letter will generally contain the same information as a Notice of Determination.

Q-I6. Will a taxpayer be able to obtain Tax Court review of a decision made by Appeals with respect to an equivalent hearing?

A-I6. Section 6330 does not authorize a taxpayer to appeal the decision of Appeals with respect to an equivalent hearing. A taxpayer may under certain circumstances be able to seek Tax Court review of Appeals' denial of relief under section 6015. Such review must be sought within 90 days of the issuance of Appeals' determination on those issues, as provided by section 6015(e).

Q-I7. When must a taxpayer request an equivalent hearing with respect to a CDP Notice issued under section 6330?

A-I7. A taxpayer must submit a written request for an equivalent hearing

within the one-year period commencing the day after the date of the CDP Notice issued under section 6330. This period is slightly different from the period for submitting a written request for an equivalent hearing with respect to a CDP Notice issued under section 6320. For a CDP Notice issued under section 6320, a taxpayer must submit a written request for an equivalent hearing within the one-year period commencing the day after the end of the five-business-day period following the filing of the NFTL.

Q-I8. How will the timeliness of a taxpayer's written request for an equivalent hearing be determined?

A-I8. The rules and regulations under section 7502 and section 7503 will apply to determine the timeliness of the taxpayer's request for an equivalent hearing, if properly transmitted and addressed as provided in A–I10 of this paragraph (i)(2).

Q-I9. Is the one-year period within which a taxpayer must make a request for an equivalent hearing extended because the taxpayer resides outside the United States?

A-I9. *No*. All taxpayers who want an equivalent hearing must request the hearing within the one-year period commencing the day after the date of the CDP Notice issued under section 6330.

Q-I10. Where must the written request for an equivalent hearing be sent?

A-I10. The written request for an equivalent hearing must be sent, or hand delivered (if permitted), to the IRS office and address as directed on the CDP Notice. If the address of the issuing office does not appear on the CDP Notice, the taxpayer should obtain the address of the office to which the written request should be sent or hand delivered by calling, toll-free, 1–800–829–1040 and providing the taxpayer's identification number (e.g., SSN, ITIN or EIN).

Q-I11. What will happen if the taxpayer does not request an equivalent hearing in writing within the one-year period commencing the day after the date of the CDP Notice issued under section 6330?

A-I11. If the taxpayer does not request an equivalent hearing with Appeals within the one-year period commencing the day after the date of the CDP Notice issued under section 6330, the taxpayer foregoes the right to an equivalent hearing with respect to the unpaid tax and tax periods shown on the CDP Notice. A written request submitted within the one-year period that does not satisfy the requirements set forth in A–I1(ii) of this paragraph (i)(2) is considered timely if the request is perfected within a reasonable period of time pursuant to A–I1(iii) of this paragraph (i)(2). If a request for equivalent hearing is untimely, either because the request was not submitted within the one-year period or not perfected within the reasonable period provided, the equivalent hearing request will be denied. The taxpayer, however, may seek reconsideration by the IRS office collecting the tax, assistance from the National Taxpayer Advocate, or an administrative hearing before Appeals under its Collection Appeals Program or any successor program.

(j) *Effective date*. This section is applicable on or after November 16, 2006 with respect to requests made for CDP hearings or equivalent hearings on or after November 16, 2006.

[T.D. 8980, 67 FR 2551, Jan. 18, 2002, as amended by T.D. 9291, 71 FR 60831, Oct. 17, 2006]

§ 301.6331–1 Levy and distraint.

(a) *Authority to levy*—(1) *In general*. If any person liable to pay any tax neglects or refuses to pay the tax within 10 days after notice and demand, the district director to whom the assessment is charged (or, upon his request, any other district director) may proceed to collect the tax by levy. The district director may levy upon any property, or rights to property, whether real or personal, tangible or intangible, belonging to the taxpayer. The district director may also levy upon property with respect to which there is a lien provided by section 6321 or 6324 for the payment of the tax. For exemption of certain property from levy, see section 6334 and the regulations thereunder. As used in section 6331 and this section, the term ''tax'' includes any interest, additional amount, addition to tax, or assessable penalty, together with costs and expenses. Property subject to a Federal tax lien which has been sold or

otherwise transferred by the taxpayer may be seized while in the hands of the transferee or any subsequent transferee. However, see provisions under sections 6323 and 6324 (a)(2) and (b) for protection of certain transferees against a Federal tax lien. Levy may be made by serving a notice of levy on any person in possession of, or obligated with respect to, property or rights to property subject to levy, including receivables, bank accounts, evidences of debt, securities, and salaries, wages, commissions, or other compensation. A levy on a bank reaches any interest that accrues on the taxpayer's balance under the terms of the bank's agreement with the depositor during the 21-day holding period provided for in section 6332(c). Except as provided in § 301.6331–1(b)(1) with regard to a levy on salary or wages, a levy extends only to property possessed and obligations which exist at the time of the levy. Obligations exist when the liability of the obligor is fixed and determinable although the right to receive payment thereof may be deferred until a later date. For example, if on the first day of the month a delinquent taxpayer sold personal property subject to an agreement that the buyer remit the purchase price on the last day of the month, a levy made on the buyer on the 10th day of the month would reach the amount due on the sale, although the buyer need not satisfy the levy by paying over the amount to the district director until the last day of the month. Similarly, a levy only reaches property in the possession of the person levied upon at the time the levy is made together with interest that accrues during the 21-day holding period provided for in section 6332(c). For example, a levy made on a bank with respect to the account of a delinquent taxpayer is satisfied if the bank surrenders the amount of the taxpayer's balance at the time the levy is made. The levy has no effect upon any subsequent deposit made in the bank by the taxpayer. Subsequent deposits may be reached only by a subsequent levy on the bank.

(2) *Jeopardy cases*. If the district director finds that the collection of any tax is in jeopardy, he or she may make notice and demand for immediate payment of such tax and, upon failure or refusal to pay such tax, collection thereof by levy shall be lawful without regard to the 10-day period provided in section 6331(a), the 30-day period provided in section 6331(d), or the limitation on levy provided in section 6331(g)(1).

(3) *Bankruptcy or receivership cases*. During a bankruptcy proceeding or a receivership proceeding in either a Federal or a State court, the assets of the taxpayer are in general under the control of the court in which such proceeding is pending. Taxes cannot be collected by levy upon assets in the custody of a court, whether or not such custody is incident to a bankruptcy or receivership proceeding, except where the proceeding has progressed to such a point that the levy would not interfere with the work of the court or where the court grants permission to levy. Any assets which under applicable provisions of law are not under the control of the court may be levied upon, for example, property exempt from court custody under State law or the bankrupt's earnings and property acquired after the date of bankruptcy. However, levy upon such property is not mandatory and the Government may rely upon payment of taxes in the proceeding.

(4) *Certain types of compensation*—(i) *Federal employees*. Levy may be made upon the salary or wages of any officer or employee (including members of the Armed Forces), or elected or appointed official, of the United States, the District of Columbia, or any agency or instrumentality of either, by serving a notice of levy on the employer of the delinquent taxpayer. As used in this subdivision, the term ''employer'' means (*a*) the officer or employee of the United States, the District of Columbia, or of the agency or instrumentality of the United States or the District of Columbia, who has control of the payment of the wages, or (*b*) any other officer or employee designated by the head of the branch, department, agency, or instrumentality of the United States or of the District of Columbia as the party upon whom service of the notice of levy may be made. If the head of such branch, department, agency or instrumentality designates

an officer or employee other than one who has control of the payment of the wages, as the party upon whom service of the notice of levy may be made, such head shall promptly notify the Commissioner of the name and address of each officer or employee so designated and the scope or extent of his authority as such designee.

(ii) *State and municipal employees.* Salaries, wages, or other compensation of any officer, employee, or elected or appointed official of a State or Territory, or of any agency, instrumentality, or political subdivision thereof, are also subject to levy to enforce collection of any Federal tax.

(iii) *Seamen.* Notwithstanding the provisions of section 12 of the Seamen's Act of 1915 (46 U.S.C. 601), wages of seamen, apprentice seamen, or fishermen employed on fishing vessels are subject to levy. See section 6334(c).

(5) *Noncompetent Indians.* Solely for purposes of sections 6321 and 6331, any interest in restricted land held in trust by the United States for an individual noncompetent Indian (and not for a tribe) shall not be deemed to be property, or a right to property, belonging to such Indian.

(b) *Continuing levies and successive seizures*—(1) *Continuing effect of levy on salary and wages.* A levy on salary or wages has continuous effect from the time the levy originally is made until the levy is released pursuant to section 6343. For this purpose, the term *salary or wages* includes compensation for services paid in the form of fees, commissions, bonuses, and similar items. The levy attaches to both salary or wages earned but not yet paid at the time of the levy, advances on salary or wages made subsequent to the date of the levy, and salary or wages earned and becoming payable subsequent to the date of the levy, until the levy is released pursuant to section 6343. In general, salaries or wages that are the subject of a continuing levy and are not exempt from levy under section 6334(a)(8) or (9), are to be paid to the district director, the service center director, or the compliance center director (director) on the same date the payor would otherwise pay over the money to the taxpayer. For example, if an individual normally is paid on the Wednesday following the close of each work week, a levy made upon his or her employer on any Monday would apply to both wages due for the prior work week and wages for succeeding work weeks as such wages become payable. In such a case, the levy would be satisfied if, on the first Wednesday after the levy and on each Wednesday thereafter until the employer receives a notice of release from levy described in section 6343, the employer pays over to the director wages that would otherwise be paid to the employee on such Wednesday (less any exempt amount pursuant to section 6334).

(2) *Successive seizures.* Whenever any property or rights to property upon which a levy has been made are not sufficient to satisfy the claim of the United States for which the levy is made, the district director may thereafter, and as often as may be necessary, proceed to levy in like manner upon any other property or rights to property subject to levy of the person against whom such claim exists or on which there is a lien imposed by section 6321 or 6324 (or the corresponding provision of prior law) for the payment of such claim until the amount due from such person, together with all costs and expenses, is fully paid.

(c) *Service of notice of levy by mail.* A notice of levy may be served by mailing the notice to the person upon whom the service of a notice of levy is authorized under paragraph (a)(1) of this section. In such a case the date and time the notice is delivered to the person to be served is the date and time the levy is made. If the notice is sent by certificated mail, return receipt requested, the date of delivery on the receipt is treated as the date the levy is made. If, after receipt of a notice of levy, an officer or other person authorized to act on behalf of the person served signs and notes the date and time of receipt on the notice of levy, the date and time so the contrary, the date and time of delivery.

Any person may, upon written notice to the district director having audit jurisdiction over such person, have all notices of levy by mail sent to one designated office. After such a notice is received by the district director, notices

of levy by mail will be sent to the designated office until a written notice withdrawing the request or a written notice designating a different office is received by the district director.

(d) *Effective date.* These regulations are effective December 10, 1992.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7139, 36 FR 15041, Aug. 12, 1971; T.D. 7620, 44 FR 27987, May 14, 1979; T.D. 7874, 48 FR 10061, Mar. 10, 1983; T.D. 8558, 59 FR 38903, Aug. 1, 1994]

§ 301.6331–2 Procedures and restrictions on levies.

(a) *Notice of intent to levy*—(1) *In general.* Levy may be made upon the salary, wages, or other property of a taxpayer for any unpaid tax no less than 30 days after the district director, the service center director, or the compliance center director (director) has notified the taxpayer in writing of the intent to levy. The notice must be given in person, be left at the dwelling or usual place of business of the taxpayer, or be sent by registered or certified mail to the taxpayer's last known address. For further guidance regarding the definition of last known address, see § 301.6212–2. The notice of intent to levy is separate from, but may be given at the same time as, the notice and demand described in § 301.6331–1.

(2) *Content of Notice.* The notice of intent to levy is to contain a brief statement in nontechnical terms including the following information—

(i) The Internal Revenue Code provisions and the procedures relating to levy and sale of property;

(ii) The administrative appeals available with respect to the levy and sale of property and the procedures relating to such appeals;

(iii) The alternatives available that could prevent levy on the property (including the use of an installment agreement under section 6159); and

(iv) The Internal Revenue Code provisions and the procedures relating to redemption of property and release of liens on property.

(b) *Uneconomical levy*—(1) *In general.* No levy may be made on property if the director estimates that the anticipated expenses with respect to the levy and sale will exceed the fair market value of the property. The estimate is to be made on an aggregate basis for all of the items that are anticipated to be seized pursuant to the levy. Generally, no levy should be made on individual items of insignificant monetary value. For the definition of fair market value, see § 301.6325–1(b)(1)(i). See § 301.6341–1 concerning the expenses of levy and sale.

(2) *Time of estimate.* The estimate, which may be formal or informal, is to be made at the time of the seizure or within a reasonable period of time prior to a seizure. The estimate may be based on earlier estimates of fair market value and anticipated expenses of the same or similar property.

(3) *Examples.* The following examples illustrate the application of this paragraph (b):

Example 1. A director anticipates that the taxpayer has only one item of property that can be seized and sold. This item is estimated to have a fair market value of $250.00. The director also estimates that the costs of seizure and sale will total $300.00 if this item is seized. The director is prohibited from levying on this one item of the taxpayer's property because the costs of seizure and sale are estimated to exceed the property's fair market value.

Example 2. The facts are the same as in *Example 1* except that the director anticipates that the taxpayer has 10 items of property that can be seized and sold. Each of those items is estimated to have a fair market value of $250.00. The director also estimates that the costs of seizure and sale will total $300.00 regardless of how many of those items are seized. The director is prohibited from levying on only one item of the taxpayer's property because the costs of seizure and sale are estimated to exceed the fair market value of the single item of property. The director, however, would not be prohibited from levying on two or more items of the taxpayer's property because the aggregate fair market value of the seized property would exceed the estimated costs of seizure and sale.

Example 3. The taxpayer has three items of property, A, B, and C. The director anticipates that the value of items A, B, and C depends on their being sold as a unit. The director estimates that due to high anticipated costs of storing or maintaining item B prior to the sale, the aggregate fair market value of items A, B, and C will not exceed the anticipated expenses of seizure and sale if all three items are seized. Accordingly, the director is prohibited from levying on items A, B, and C.

Example 4. The facts are the same as in *Example 3* except that the director does not anticipate that the value of items A, B, and C depends on those items being sold as a unit. If the director estimates that the aggregate fair market value of items A and C exceeds the aggregate anticipated costs of the seizure and sale of those two items, items A and C can be seized and sold. The director is prohibited from levying on item B because the high cost of storing or maintaining item B is estimated to exceed the fair market value of item B.

(c) *Restriction on levy on date of appearance.* Except for continuing levies on salaries or wages described in § 301.6331–1(b)(1), no levy may be made on any property of a person on the day that person, or an officer or employee of that person, is required to appear in response to a summons served for the purpose of collecting any underpayment of tax from that person. For purposes of this paragraph (c), the date on which an appearance is required is the date fixed by an officer or employee of the Internal Revenue Service pursuant to section 7605 or the date (if any) fixed as the result of a judicial proceeding instituted under sections 7604 and 7402(b) seeking the enforcement of the summons.

(d) *Jeopardy.* Paragraphs (a) and (c) of this section do not apply to a levy if the director finds, for purposes of § 301.6331–1(a)(2), that the collection of tax is in jeopardy.

(e) *Effective date.* These regulations are effective December 10, 1992.

[T.D. 8558, 59 FR 38903, Aug. 1, 1994, as amended by T.D. 8939, 66 FR 2821, Jan. 12, 2001]

§ 301.6331–3 Restrictions on levy while offers to compromise are pending.

Cross-reference. For provisions relating to the making of levies while an offer to compromise is pending, *see* § 301.7122–1.

[T.D. 9027, 67 FR 77417, Dec. 18, 2002]

§ 301.6331–4 Restrictions on levy while installment agreements are pending or in effect.

(a) *Prohibition on levy*—(1) *In general.* No levy may be made to collect a tax liability that is the subject of an installment agreement during the period that a proposed installment agreement is pending with the Internal Revenue Service (IRS), for 30 days immediately following the rejection of a proposed installment agreement, during the period that an installment agreement is in effect, and for 30 days immediately following the termination of an installment agreement. If, within the 30 days following the rejection or termination of an installment agreement, the taxpayer files an appeal with the IRS Office of Appeals, no levy may be made while the rejection or termination is being considered by Appeals. This section will not prohibit levy to collect the liability of any person other than the person or persons named in the installment agreement.

(2) *When a proposed installment agreement becomes pending.* A proposed installment agreement becomes pending when it is accepted for processing. The IRS may not accept a proposed installment agreement for processing following reference of a case involving the liability that is the subject of the proposed installment agreement to the Department of Justice for prosecution or defense. The proposed installment agreement remains pending until the IRS accepts the proposal, the IRS notifies the taxpayer that the proposal has been rejected, or the proposal is withdrawn by the taxpayer. If a proposed installment agreement that has been accepted for processing does not contain sufficient information to permit the IRS to evaluate whether the proposal should be accepted, the IRS will request the taxpayer to provide the needed additional information. If the taxpayer does not submit the additional information that the IRS has requested within a reasonable time period after such a request, the IRS may reject the proposed installment agreement.

(3) *Revised proposals of installment agreements submitted following rejection.* If, following the rejection of a proposed installment agreement, the taxpayer makes a good faith revision of the proposal and submits the revision within 30 days of the date of rejection, the provisions of this section shall apply to that revised proposal.

(4) *Exceptions.* Paragraph (a)(1) of this section shall not prohibit levy if the taxpayer files a written notice with the IRS that waives the restriction on levy

imposed by this section, the IRS determines that the proposed installment agreement was submitted solely to delay collection, or the IRS determines that collection of the tax to which the installment agreement or proposed installment agreement relates is in jeopardy.

(b) *Other actions by the IRS while levy is prohibited*—(1) *In general*. The IRS may take actions other than levy to protect the interests of the Government with regard to the liability identified in an installment agreement or proposed installment agreement. Those actions include, for example—

(i) Crediting an overpayment against the liability pursuant to section 6402;

(ii) Filing or refiling notices of Federal tax lien; and

(iii) Taking action to collect from any person who is not named in the installment agreement or proposed installment agreement but who is liable for the tax to which the installment agreement relates.

(2) *Proceedings in court*. Except as otherwise provided in this paragraph (b)(2), the IRS will not refer a case to the Department of Justice for the commencement of a proceeding in court, against a person named in an installment agreement or proposed installment agreement, if levy to collect the liability is prohibited by paragraph (a)(1) of this section. Without regard to whether a person is named in an installment agreement or proposed installment agreement, however, the IRS may authorize the Department of Justice to file a counterclaim or third-party complaint in a refund action or to join that person in any other proceeding in which liability for the tax that is the subject of the installment agreement or proposed installment agreement may be established or disputed, including a suit against the United States under 28 U.S.C. 2410. In addition, the United States may file a claim in any bankruptcy proceeding or insolvency action brought by or against such person. If a person named in an installment agreement is joined in a proceeding, the United States obtains a judgment against that person, and the case is referred back to the IRS for collection, collection will continue to occur pursuant to the terms of the installment agreement.

(c) *Statute of limitations*—(1) *Suspension of the statute of limitations on collection*. The statute of limitations under section 6502 for collection of any liability shall be suspended during the period that a proposed installment agreement relating to that liability is pending with the IRS, for 30 days immediately following the rejection of a proposed installment agreement, and for 30 days immediately following the termination of an installment agreement. If, within the 30 days following the rejection or termination of an installment agreement, the taxpayer files an appeal with the IRS Office of Appeals, the statute of limitations for collection shall be suspended while the rejection or termination is being considered by Appeals. The statute of limitations for collection shall continue to run if an exception under paragraph (a)(4) of this section applies and levy is not prohibited with respect to the taxpayer.

(2) *Waivers of the statute of limitations on collection*. The IRS may continue to request, to the extent permissible under section 6502 and § 301.6159–1, that the taxpayer agree to a reasonable extension of the statute of limitations for collection.

(d) *Cross-reference*. For provisions relating to the making of levies while an installment agreement is pending or in effect, *see* § 301.6159–1.

(e) *Effective/applicability date*. Paragraphs (a), (b), and (c) are applicable beginning December 18, 2002. Paragraph (d) is applicable beginning November 25, 2009.

[T.D. 9027, 67 FR 77417, Dec. 18, 2002, as amended by T.D. 9473, 74 FR 61530, Nov. 25, 2009]

§ 301.6332–1 Surrender of property subject to levy.

(a) *Requirement*—(1) *In general*. Except as otherwise provided in § 301.6332–2, relating to levy in the case of life insurance and endowment contracts, and in § 301.6332–3, relating to property held by banks, any person in possession of (or obligated with respect to) property or rights to property subject to levy and upon which a levy has been made shall, upon demand of the district director, surrender the property or rights (or

discharge the obligation) to the district director, except that part of the property or rights (or obligation) which, at the time of the demand, is actually or constructively under the jurisdiction of a court because of an attachment or execution under any judicial process.

(2) *Levy on bank deposits held in offices outside the United States.* Notwithstanding subparagraph (1) of this paragraph (a), if a levy has been made upon property or rights to property subject to levy which a bank engaged in the banking business in the United States or a possession of the United States is in possession of (or obligated with respect to), the Commissioner shall not enforce the levy with respect to any deposits held in an office of the bank outside the United States or a possession of the United States, unless the notice of levy specifies that the district director intends to reach such deposits. The notice of levy shall not specify that the district director intends to reach such deposits unless the district director believes—

(i) That the taxpayer is within the jurisdiction of a U.S. court at the time the levy is made and that the bank is in possession of (or obligated with respect to) deposits of the taxpayer in an office of the bank outside the United States or a possession of the United States; or

(ii) That the taxpayer is not within the jurisdiction of a U.S. court at the time the levy is made, that the bank is in possession of (or obligated with respect to) deposits of the taxpayer in an office outside the United States or a possession of the United States, and that such deposits consist, in whole or in part, of funds transferred from the United States or a possession of the United States in order to hinder or delay the collection of a tax imposed by the Code. For purposes of this subparagraph, the term ''possession of the United States'' includes Guam, the Midway Islands, the Panama Canal Zone, the Commonwealth of Puerto Rico, American Samoa, the Virgin Islands, and Wake Island.

(b) *Enforcement of levy*—(1) *Extent of personal liability.* Any person who, upon demand of the district director, fails or refuses to surrender any property or right to property subject to levy is liable in his own person and estate in a sum equal to the value of the property or rights not so surrendered, together with costs and interest. The liability, however, may not exceed the amount of the taxes for the collection of which the levy was made. Interest is to be computed at the annual rate referred to in regulations under section 6621 from the date of the levy, or, in the case of a continuing levy on salary or wages (see section 6331(d)(3)), from the date the person would otherwise have been obligated to pay over the wages or salary to the taxpayer. Any amount recovered, other than cost, will be credited against the tax liability for the collection of which the levy was made.

(2) *Penalty for violation.* In addition to the personal liability described in subparagraph (1) of this paragraph (b), any person who is required to surrender property or rights to property and who fails or refuses to surrender them without reasonable cause is liable for a penalty equal to 50 percent of the amount recoverable under section 6332(d)(1). No part of the penalty described in this subparagraph shall be credited against the tax liability for the collection of which the levy was made. The penalty described in this subparagraph is not applicable in cases where bona fide dispute exists concerning the amount of the property to be surrendered pursuant to a levy or concerning the legal effectiveness of the levy. However, if a court in a later enforcement suit sustains the levy, then reasonable cause would usually not exist to refuse to honor a later levy made under similar circumstances.

(c) *Effect of honoring levy*—(1) *In general.* Any person in possession of, or obligated with respect to, property or rights to property subject to levy and upon which a levy has been made who, upon demand by the district director, surrenders the property or rights to property, or discharges the obligation, to the district director, or who pays a liability described in paragraph (b)(1) of this section, is discharged from any obligation or liability to the delinquent taxpayer and any other person with respect to the property or rights to property arising from the surrender or payment.

(2) *Exception for certain incorrectly surrendered property.* Any person who surrenders to the Internal Revenue Service property or rights to property not properly subject to levy in which the delinquent taxpayer has no apparent interest is not relieved of liability to a third party who has an interest in the property. However, if the delinquent taxpayer has an apparent interest in property or rights to property, a person who makes a good faith determination that such property or rights to property in his or her possession has been levied upon by the Internal Revenue Service and who surrenders the property to the United States in response to the levy is relived of liability to a third party who has an interest in the property or rights to property, even if it is subsequently determined that the property was not properly subject to levy.

(3) *Remedy.* In situations described in paragraphs (c)(1) and (c)(2) of this section, taxpayers and third parties who have an interest in property surrendered in response to a levy may secure from the Internal Revenue Service the administrative relief provided for in section 6343(b) or may bring suit to recover the property under section 7426.

(4) *Examples.* The provisions of this paragraph (c) may be illustrated by the following examples:

Example 1. M Bank is served with a notice of levy for an unpaid tax liability due from A in the amount of $2,000. M Bank holds $2,000 in a checking account in the names of A or B or C. Although all of the deposits into the account were made by B and C, A has an unrestricted right to withdraw the funds from the account. M Bank surrenders the entire account to the district director at the end of the holding period provided in section 6332(c). Under paragraph (c)(1) of this section, M Bank is not liable to B or C for any amount, even if B or C prove that the funds in the account did not belong to A, because A's unrestricted right to withdraw the funds is an interest which in subject to levy. B or C may, however, seek the return of the funds from the United States as provided in sections 6343(b) and 7426 of the Internal Revenue Code.

Example 2. A is indebted to B for $400. Unbeknownst to A, B has assigned his right to receive payment to C. A is served with a notice of levy for an unpaid tax liability due from B for $400. A, acting with no knowledge of the assignment to C, surrenders $400 to the district director. A is discharged from his obligation to pay B, the taxpayer. Under paragraph (c)(2) of this section, because B had an apparent interest in the funds that A owed to B, and because A determined in good faith that those funds had been levied upon, A is also discharged from any liability to C, even though the money is not properly subject to levy. C may, however, seek return of the payment from the United States as provided in sections 6343(b) and 7426 of the Internal Revenue Code.

Example 3. M Bank is served with a notice of levy for an unpaid tax liability due from ''John H. Smith, Sr.'' in the amount of $5,000. M Bank fails to read the notice of levy carefully. When searching its records, M Bank finds the name of ''John H. Smith, Jr.'' and looks no further. M Bank surrenders $5,000 from John H. Smith, Jr.'s checking account to the district director. M Bank is not discharged from liability under section 6332(e) of the Internal Revenue Code because the delinquent taxpayer (John H. Smith, Sr.) had no apparent interest in the account of John H. Smith, Jr. (Generally, John H. Smith Jr. may seek return of the payment from the United States as provided in sections 6343 and 7426 of the Internal Revenue Code.)

Example 4. M Bank is served with a notice of levy for an unpaid tax liability due from ''Robert A. Jones'' in the amount of $5,000. M Bank searches its records and identifies four separate accounts of $1,000 each in the name of ''Robert A. Jones.'' All four accounts list different addresses and social security identification numbers. M Bank surrenders all four accounts totalling $4,000 in response to the levy. M Bank could not in good faith have determined that all four accounts were levied upon. Therefore, M Bank is not discharged from liability to any person other than the taxpayer whose account was levied upon.

(5) *Effective date.* Paragraph (c) of this section is effective January 11, 1993. However, persons surrendering property to the Internal Revenue Service may rely on the regulations with respect to levies issued after November 10, 1988.

(d) *Person defined.* The term ''person,'' as used in section 6332(a) and this section, includes an officer or employee of a corporation or a member or employee of a partnership, who is under a duty to surrender the property or rights to property or to discharge the obligation. In the case of a levy upon the salary or wages of an officer, employee, or elected or appointed official of the United States, the District of Columbia, or any agency or instrumentality of either, the term ''person'' includes the officer or employee of the

United States, of the District of Columbia, or of such agency or instrumentality who is under a duty to discharge the obligation. As to the officer or employee who is under such duty, see paragraph (a)(4)(i) of § 301.6331–1.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7180, 37 FR 7317, Apr. 13, 1972; T.D. 7620, 44 FR 27988, May 14, 1979; T.D. 8466, 58 FR 17, Jan. 4, 1993; T.D.8467, 58 FR 3829, Jan. 12, 1993]

§ 301.6332–2 Surrender of property subject to levy in the case of life insurance and endowment contracts.

(a) *In general.* This section provides special rules relating to the surrender of property subject to levy in the case of life insurance and endowment contracts. The provisions of § 301.6332–1 which relate generally to the surrender of property subject to levy apply, to the extent not inconsistent with the special rules set forth in this section, to a levy in the case of life insurance and endowment contracts.

(b) *Effect of service of notice of levy*—(1) *In general.* (i) A notice of levy served by a district director on an insuring organization with respect to a life insurance or endowment contract issued by the organization shall constitute—

(A) A demand by the district director for the payment of the cash loan value of the contract adjusted in accordance with paragraph (c) of this section, and

(B) The exercise of the right of the person against whom the tax is assessed to the advance of such cash loan value.

(ii) It is unnecessary for the district director to surrender the contract document to the insuring organization upon which the levy is made. However, the notice of levy will include a certification by the district director that a copy of the notice of levy has been mailed to the person against whom the tax is assessed at his last known address. For further guidance regarding the definition of last known address, see § 301.6212–2. At the time of service of the notice of levy, the levy is effective with respect to the cash loan value of the insurance contract, subject to the condition that if the levy is not satisfied or released before the 90th day after the date of service, the levy can be satisfied only by payment of the amount described in paragraph (c) of this section. Other than satisfaction or release of the levy, no event during the 90-day period subsequent to the date of service of the notice of levy shall release the cash loan value from the effect of the levy. For example, the termination of the policy by the taxpayer or by the death of the insured during such 90-day period shall not release the levy. For the rules relating to the time when the insuring organization is to pay over the required amount, see paragraph (c) of this section.

(2) *Notification of amount subject to levy*—(i) *Full payment before the 90th day.* In the event that the unpaid liability to which the levy relates is satisfied at any time during the 90-day period subsequent to the date of service of the notice of levy, the district director will promptly give the insuring organization written notification that the levy is released.

(ii) *Notification after the 90th day.* In the event that notification is not given under subdivision (i) of this subparagraph, the district director will, promptly following the 90th day after service of the notice of levy, give the insuring organization written notification of the current status of all accounts listed on the notice of levy, and of the total payments received since service of the notice of levy. This notification will be given to the insuring organization whether or not there has been any change in the status of the accounts.

(c) *Satisfaction of levy*—(1) *In general.* The levy described in paragraph (b) of this section with respect to a life insurance or endowment contract shall be deemed to be satisfied if the insuring organization pays over to the district director the amount which the person against whom the tax is assessed could have had advanced to him by the organization on the 90th day after service of the notice of levy on the organization. However, this amount is increased by the amount of any advance (including contractual interest thereon), generally called a policy loan, made to the person on or after the date the organization has actual notice or knowledge, within the meaning of section 6323(i)(1), of the existence of the tax lien with respect to which the levy is made. The insuring organization

may, nevertheless, make an advance (including contractual interest thereon), generally called an automatic premium loan, made automatically to maintain the contract in force under an agreement entered into before the organization has such actual notice or knowledge. In any event, the amount paid to the district director by the insuring organization is not to exceed the amount of the unpaid liability shown on the notification described in paragraph (b)(2) of this section. The amount, determined in accordance with the provisions of this section, subject to the levy shall be paid to the district director by the insuring organization promptly after receipt of the notification described in paragraph (b)(2) of this section. The satisfaction of a levy with respect to a life insurance or endowment contract will not discharge the contract from the tax lien. However, see section 6323(b)(9)(C) and the regulations thereunder concerning the liability of an insurance company after satisfaction of a levy with respect to a life insurance or endowment contract. If the person against whom the tax is assessed so directs, the insuring organization, on a date before the 90th day after service of the notice of levy, may satisfy the levy by paying over an amount computed in accordance with the provisions of this subparagraph substituting such date for the 90th day. In the event of termination of the policy by the taxpayer or by the death of the insured on a date before the 90th day after service of the notice of levy, the amount to be paid over to the district director by the insuring organization in satisfaction of the levy shall be an amount computed in accordance with the provisions of this subparagraph substituting the date of termination of the policy or the date of death for the 90th day.

(2) *Examples*. The provisions of this section may be illustrated by the following examples:

Example 1. On March 5, 1968, a notice of levy for an unpaid income tax assessment due from A in the amount of $3,000 is served on the X Insurance Company with respect to A's life insurance policy. On March 5, 1968, the cash loan value of the policy is $1,500. On April 9, 1968, A does not pay a premium due on the policy in the amount of $200. Under an automatic premium advance provision contained in the policy originally issued in 1960, X advances the premium out of the cash value of the policy. As of June 3, 1968 (the 90th day after service of the notice of levy), pursuant to the provisions of the policy, the amount of accrued charges upon the automatic premium advance in the amount of $200 for the period April 9, 1968, through June 3, 1968, is $2. On June 5, 1968, the district director gives written notification to X indicating that A's unpaid tax assessment is $2,500. Under this section, X is required to pay to the district director, promptly after receipt of the June 5, 1968, notification, the sum of $1,298 ($1,500 less $200 less $2), which is the amount A could have had advanced to him by X on June 3, 1968.

Example 2. Assume the same facts as in example 1 except that on May 10, 1968, A requests and X grants an advance in the amount of $1,000. X has actual notice of the existence of the lien by reason of the service of the notice of levy on March 5, 1968. This advance is not required to be made automatically under the policy and reduces the amount of the cash value of the policy. For the use of the $1,000 advance during the period May 10, 1968, through June 3, 1968, X charges A the sum of $3. Under this section, X is required to pay to the district director, promptly after receipt of the June 5, 1968, notification, the sum of $1,298. This $1,298 amount is composed of the $295 amount ($1,500 less $200 less $2 less $1,000 less $3) A could have had advanced to him by X on June 3, 1968, plus the $1,000 advance plus the charges in the amount of $3 with respect thereto.

Example 3. Assume the same facts as in example 1 except that the insurance contract does not contain an automatic premium advance provision. The contract does provide that, upon default in the payment of premiums, the policy shall automatically be converted to paid-up term insurance with no cash or loan value. A fails to make the premium payment of $200 due on April 9, 1968. After expiration of a grace period to make the premium payment, the X Insurance Company applies the cash loan value of $1,500 to effect the conversion. Since the service of the notice of levy constitutes the exercise of A's right to receive the cash loan value and the amount applied to effect the conversion is not an automatic advance to A to maintain the policy in force, the conversion of the policy is not an event which will release the cash loan value from the effect of the levy. Therefore, X Insurance Company is required to pay to the district director, promptly after receipt of the June 5, 1968 notification, the sum of $1,500.

(d) *Other enforcement proceedings*. The satisfaction of the levy described in paragraph (b) of this section by an insuring organization shall be without

prejudice to any civil action for the enforcement of any Federal tax lien with respect to a life insurance or endowment contract. Thus, this levy procedure is not the exclusive means of subjecting the life insurance and endowment contracts of the person against whom a tax is assessed to the collection of his unpaid assessment. The United States may choose to foreclose the tax lien in any case where it is appropriate, as, for example, to reach the cash surrender value (as distinguished from cash loan value) of a life insurance or endowment contract.

(e) *Cross references.* (1) For provisions relating to priority of certain advances with respect to a life insurance or endowment contract after satisfaction of a levy pursuant to section 6332(b), see section 6323(b)(9) and the regulations thereunder.

(2) For provisions relating to the issuance of a certificate of discharge of a life insurance or endowment contract subject to a tax lien, see section 6325(b) and the regulations thereunder.

[T.D. 7180, 37 FR 7317, Apr. 13, 1972, as amended by T.D. 8939, 66 FR 2821, Jan. 12, 2001]

§ 301.6332–3 The 21-day holding period applicable to property held by banks.

(a) *In general.* This section provides special rules relating to the surrender, after 21 days, of deposits subject to levy which are held by banks. The provisions of § 301.6332–1 which relate generally to the surrender of property subject to levy apply, to the extent not inconsistent with the special rules set forth in this section, to a levy on property held by banks.

(b) *Definition of bank.* For purposes of this section, the term ''bank'' means—

(1) A bank or trust company or domestic building and loan association incorporated and doing business under the laws of the United States (including laws relating to the District of Columbia) or of any State, a substantial part of the business of which consists of receiving deposits and making loans and discounts, or of exercising fiduciary powers similar to those permitted to national banks under authority of the Comptroller of the Currency, and which is subject by law to supervision and examination by State or Federal authority having supervision over banking institutions;

(2) Any credit union the member accounts of which are insured in accordance with the provisions of title II of the Federal Credit Union Act, 12 U.S.C. 1781 *et seq.;* and

(3) A corporation which, under the laws of the State of its incorporation, is subject to supervision and examination by the Commissioner of Banking or other officer of such State in charge of the administration of the banking laws of such State.

(c) *21-day holding period*—(1) *In general.* When a levy is made on deposits held by a bank, the bank shall surrender such deposits (not otherwise subject to an attachment or execution under judicial process) only after 21 calendar days after the date the levy is made. The district director may request an extension of the 21-day holding period pursuant to paragraph (d)(2) of this section. During the prescribed holding period, or any extension thereof, the levy shall be released only upon notification to the bank by the district director of a decision by the Internal Revenue Service to release the levy. If the bank does not receive such notification from the district director within the prescribed holding period, or any extension thereof, the bank must surrender the deposits, including any interest thereon as determined in accordance with paragraph (c)(2) of this section (up to the amount of the levy), on the first business day after the holding period, or any extension thereof, expires. See § 301.6331–1(c) to determine when a levy served by mail is made.

(2) *Payment of interest on deposits.* When a bank surrenders levied deposits at the end of the 21-day holding period (or at the end of any longer period that has been requested by the district director), the bank must include any interest that has accrued on the deposits prior to and during the holding period, and any extension thereof, under the terms of the bank's agreement with its depositor, but the bank must not surrender an amount greater than the amount of the levy. If the deposits are held in a noninterest bearing account at the time the levy is made, the bank need not include any interest on the

deposits at the end of the holding period, or any extension thereof, under this paragraph. Interest that accrues on deposits and is surrendered to the district director at the end of the holding period, or any extension thereof, is treated as a payment to the bank's customer.

(3) *Transactions affecting accounts.* A levy on deposits held by a bank applies to those funds on deposit at the time the levy is made, up to the amount of the levy, and is effective as of the time the levy is made. No withdrawals may be made on levied upon deposits during the 21-day holding period, or any extension thereof.

(4) *Waiver of 21-day holding period.* A depositor may waive the 21-day holding period by notifying the bank of the depositor's intention to do so. Where more than one depositor is listed as the owner of a levied account, all depositors listed as owners of the account must agree to a waiver of the 21-day holding period. If the 21-day holding period is waived, the bank must include with the surrendered deposits a notification to the district director of the waiver.

(5) *Examples.* The provisions of this paragraph (c) may be illustrated by the following examples:

Example 1. On April 2, 1992, a notice of levy for an unpaid income tax assessment due from A in the amount of $10,000 is served on X Bank with respect to A's savings account. At the time the notice of levy is served, X Bank holds $5,000 in A's interest-bearing savings account. On April 24, 1992, (the first business day after the 21-day holding period) X Bank must surrender $5,000 plus any interest that accrued on the account under the terms of A's contract with X Bank up through April 23, 1992, (the last day of the holding period).

Example 2. The facts are the same as in *Example 1* except that on April 3, 1992, A deposits an additional $5,000 into the account. On April 24, 1992, X Bank must still surrender only $5,000 plus the interest which accrued thereon until the end of the holding period, because the notice of levy served on April 2, 1992, attached only to those funds on deposit at the time the notice was served and not to any subsequent deposits.

Example 3. The facts are the same as in *Example 1* except that at the time the notice of levy is served on X Bank, A's savings account contains $50,000. On April 24, 1992, X Bank must surrender $10,000, which is the amount of the levy. The levy will not apply to any interest that accrues on the deposit during the 21-day holding period, because the entire amount of the levy is satisfied by the deposits existing at the time the levy is served.

Example 4. The facts are the same as in *Example 1* except that the amount of the levy is $5,002. Under the terms of A's contract with the bank, the account will earn more than $2 of interest during the 21-day holding period. On April 24, 1992, X Bank must surrender $5,002 to the district director. The remaining interest which accrued during the 21-day holding period is not subject to the levy.

Example 5. On September 3, 1992, A opens a $5,000 six-month certificate of deposit account with X Bank. Under the terms of the account, the depositor must forfeit up to 30 days of interest on the account in the event of early withdrawal. On January 4, 1993, a notice of levy for an unpaid income tax assessment due from A in the amount of $10,000 is served with respect to A's certificate of deposit account. On January 26, 1993, the bank must surrender $5,000 plus the interest which accrued on the account through January 25, 1993, minus the penalty of 30 days of interest as provided in the deposit agreement.

Example 6. Same facts as in *Example 5* except that the notice of levy is served on X Bank on February 15, 1993. The certificate matures on March 2, 1993. On March 8, X Bank must surrender $5,000 plus the interest that accrued on the certificate without any reduction for penalties.

(d) *Notification to the district director of errors with respect to levied upon bank accounts*—(1) *In general.* If a depositor believes that there is an error with respect to the levied upon account which the depositor wishes to have corrected, the depositor shall notify the district director to whom the assessment is charged by telephone to the telephone number listed on the face of the notice of levy in order to enable the district director to conduct an expeditious review of the alleged error. The district director may require any supporting documentation necessary to the review of the alleged error. The notification by telephone provided for in this section does not constitute or substitute for the filing by a third party of a written request under § 301.6343–1(b)(2) for the return of property wrongfully levied upon.

(2) *Disputes regarding the merits of the underlying assessment.* This section does not constitute an additional procedure for an appeal regarding the merits of an underlying assessment. However, if in the judgment of the district director

a genuine dispute regarding the merits of an underlying assessment appears to exist, the district director may request an extension of the 21-day holding period.

(3) *Notification of errors from sources other than the depositor*. The district director may take action to release the levy on the bank account based on information obtained from a source other than the depositor, including the bank in which the account is maintained.

(e) *Effective date*. These provisions are effective with respect to levies issued on or after January 4, 1993.

[T.D. 8466, 58 FR 18, Jan. 4, 1993]

§ 301.6333–1 Production of books.

If a levy has been made or is about to be made on any property or rights to property, any person, having custody or control of any books or records containing evidence or statements relating to the property or rights to property subject to levy, shall, upon demand of the internal revenue officer who has made or is about to make the levy, exhibit such books or records to such officer.

§ 301.6334–1 Property exempt from levy.

(a) *Enumeration*. In addition to exemptions allowed as a matter of Internal Revenue Service policy, there shall be exempt from levy—

(1) *Wearing apparel and school books*. Such items of wearing apparel and such school books as are necessary for the taxpayer or for members of his family. Expensive items of wearing apparel, such as furs, which are luxuries and are not necessary for the taxpayer or for members of his family, are not exempt from levy.

(2) *Fuel, provisions, furniture, and personal effects*. So much of the fuel, provisions, furniture, and personal effects in the taxpayer's household, and of the arms for personal use, livestock, and poultry of the taxpayer, that does not exceed $6,250 in value.

(3) *Books and tools of a trade, business or profession*. So many of the books and tools necessary for the trade, business, or profession of an individual taxpayer as do not exceed in the aggregate $3,125 in value.

(4) *Unemployment benefits*. Any amount payable to an individual with respect to his unemployment (including any portion thereof payable with respect to dependents) under an unemployment compensation law of the United States, of any State, or of the District of Columbia or of the Commonwealth of Puerto Rico.

(5) *Undelivered mail*. Mail, addressed to any person, which has not been delivered to the addressee.

(6) *Certain annuity and pension payments*. Annuity or pension payments under the Railroad Retirement Act (45 U.S.C. chapter 9), benefits under the Railroad Unemployment Insurance Act (45 U.S.C. chapter 11), special pension payments received by a person whose name has been entered on the Army, Navy, Air Force, and Coast Guard Medal of Honor roll (38 U.S.C. 562), and annuities based on retired or retainer pay under chapter 73 of title 10 of the United States Code.

(7) *Workmen's compensation*. Any amount payable to an individual as workmen's compensation (including any portion thereof payable with respect to dependents) under a workmen's compensation law of the United States, any State, the District of Columbia, or the Commonwealth of Puerto Rico.

(8) *Judgments for support of minor children*. If the taxpayer is required under any type of order or decree (including an interlocutory decree or a decree of support pendente lite) of a court of competent jurisdiction, entered prior to the date of levy, to contribute to the support of that taxpayer's minor children, so much of that taxpayer's salary, wages, or other income as is necessary to comply with such order or decree. The taxpayer must establish the amount necessary to comply with the order or decree. The Service is not required to release a levy until such time as it is established that the amount to be released from levy actually will be applied in satisfaction of the support obligation. The Service may make arrangements with a delinquent taxpayer to establish a specific amount of such taxpayer's salary, wage, or other income for each pay period that shall be exempt from levy, for purposes of complying with a support obligation. If the

taxpayer has more than one source of income sufficient to satisfy the support obligation imposed by the order or decree, the amount exempt from levy, at the discretion of the Service, may be allocated entirely to one salary, wage or source of other income or be apportioned between the several salaries, wages, or other sources of income.

(9) *Minimum exemption for wages, salary, and other income.* Amounts payable to or received by the taxpayer as wages or salary for personal services, or as other income, to the extent provided in § 301.6334–2 through § 301.6334–4.

(10) *Certain service-connected disability payments.* Any amount payable to an individual as a service-connected (within the meaning of section 101(16) of title 38, United States Code (U.S.C.)) disability benefit under—

(i) Subchapters II (wartime disability compensation), III (wartime death compensation), IV (peacetime disability compensation), V (peacetime death compensation), or VI (general compensation provisions) of chapter 11 of title 38, U.S.C.; or

(ii) Chapters 13 (dependency and indemnity compensation for service commenced deaths), 21 (specially adapted housing for disabled veterans), 23 (burial benefits), 31 (vocational rehabilitation), 32 (post-Vietnam era veterans' educational assistance), 34 (veterans' educational assistance), 35 (survivors' and dependents' educational assistance), 37 (home, condominium, and mobile home loans), or 39 (automobiles and adaptive equipment for certain disabled veterans and members of the armed forces) of title 38, U.S.C.

(11) *Certain public assistance payments.* Any amount payable to an individual as a recipient of public assistance under—

(i) Title IV or title XVI (relating to supplemental security income for the aged, blind, and disabled) of the Social Security Act (42 U.S.C. 301 *et seq.*); or

(ii) State or local government public assistance or public welfare programs for which eligibility is determined by a needs or income test.

(12) *Assistance under Job Training Partnership Act.* Any amount payable to a participant under the Job Training Partnership Act (29 U.S.C. 1501 et. seq.) from funds appropriated pursuant to such Act.

(13) *Residences exempt in small deficiency cases and principal residences and certain business assets exempt in absence of certain approval or jeopardy*—(i) Residences in small deficiency cases. If the amount of the levy does not exceed $5,000, any real property used as a residence of the taxpayer or any real property of the taxpayer (other than real property which is rented) used by any other individual as a residence.

(ii) *Principal residences and certain business assets.* Except to the extent provided in section 6334(e), the principal residence (within the meaning of section 121) of the taxpayer and tangible personal property or real property (other than real property which is rented) used in the trade or business of an individual taxpayer.

(b) *Appraisal.* The internal revenue officer seizing property of the type described in section 6334(a) shall appraise and set aside to the owner the amount of such property declared to be exempt. If the taxpayer objects at the time of the seizure to the valuation fixed by the officer making the seizure, such officer shall summon three disinterested individuals who shall make the valuation.

(c) *Other property.* No other property or rights to property are exempt from levy except the property specifically exempted by section 6334(a). No provision of a State law may exempt property or rights to property from levy for the collection of any Federal tax. Thus, property exempt from execution under State personal or homestead exemption laws is, nevertheless, subject to levy by the United States for collection of its taxes.

(d) *Levy allowed on principal residence.* The Service will seek approval, in writing, by a judge or magistrate of a district court of the United States prior to levy of property that is owned by the taxpayer and used as the principal residence of the taxpayer, the taxpayer's spouse, the taxpayer's former spouse, or the taxpayer's minor child.

(1) *Nature of judicial proceeding.* The Government will initiate a proceeding for judicial approval of levy on a principal residence by filing a petition with the appropriate United States District

Court demonstrating that the underlying liability has not been satisfied, the requirements of any applicable law or administrative procedure relevant to the levy have been met, and no reasonable alternative for collection of the taxpayer's debt exists. The petition will ask the court to issue to the taxpayer an order to show cause why the principal residence property should not be levied and will also ask the court to issue a notice of hearing.

(2) The taxpayer will be granted a hearing to rebut the Government's prima facie case if the taxpayer files an objection within the time period required by the court raising a genuine issue of material fact demonstrating that the underlying tax liability has been satisfied, that the taxpayer has other assets from which the liability can be satisfied, or that the Service did not follow the applicable laws or procedures pertaining to the levy. The taxpayer is not permitted to challenge the merits underlying the tax liability in the proceeding. Unless the taxpayer files a timely and appropriate objection, the court would be expected to enter an order approving the levy of the principal residence property.

(3) *Notice letter to be issued to certain family members.* If the property to be levied is owned by the taxpayer but is used as the principal residence of the taxpayer's spouse, the taxpayer's former spouse, or the taxpayer's minor child, the Government will send a letter to each such person providing notice of the commencement of the proceeding. The letter will be addressed in the name of the taxpayer's spouse or ex-spouse, individually or on behalf of any minor children. If it is unclear who is living in the principal residence property and/or what such person's relationship is to the taxpayer, a letter will be addressed to ''Occupant''. The purpose of the letter is to provide notice to the family members that the property may be levied. The family members may not be joined as parties to the judicial proceeding because the levy attaches only to the taxpayer's legal interest in the subject property and the family members have no legal standing to contest the proposed levy.

(e) *Levy allowed on certain business assets.* The property described in section 6334(a)(13)(B)(ii) shall not be exempt from levy if—

(1) An Area Director of the Service personally approves (in writing) the levy of such property; or

(2) The Secretary finds that the collection of tax is in jeopardy. An Area Director may not approve a levy under paragraph (e)(1) unless the Area Director determines that the taxpayer's other assets subject to collection are insufficient to pay the amount due, together with expenses of the proceeding. When other assets of an individual taxpayer include permits issued by a State and required under State law for the harvest of fish or wildlife in the taxpayer's trade or business, the taxpayer's other assets also include future income that may be derived by such taxpayer from the commercial sale of fish or wildlife under such permit.

(f) *Levy allowed on certain specified payments.* Any payment described in section 6331(h)(2)(B) or (C) shall not be exempt from levy if the Secretary approves the levy thereon under section 6331(h).

(g) *Inflation adjustment.* For any calendar year beginning after 1999, each dollar amount referred to in paragraphs (a)(2) and (3) of this section will be increased by an amount equal to the dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) for the calendar year (using the language ''calendar year 1998'' instead of ''calendar year 1992'' in section 1(f)(3)(B)). If any dollar amount as adjusted is not a multiple of $10, the dollar amount will be rounded to the nearest multiple of $10 (rounding up if the amount is a multiple of $5).

(h) *Effective date.* This section is generally effective with respect to levies made on or after July 1, 1989. However, any reasonable attempt by a taxpayer to comply with the statutory amendments addressed by the regulations in this section prior to February 21, 1995, will be considered as meeting the requirements of the regulations in this section. In addition, paragraph (a)(11)(i) of this section is applicable with respect to levies issued after December 31, 1996. Paragraphs (a)(2), (a)(3), (a)(8), (a)(13), (d), (e), (f), (g) and

(h) of this section apply as of March 7, 2005.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7180, 37 FR 7319, Apr. 13, 1972; T.D. 7182, 37 FR 7887, Apr. 21, 1972; T.D. 7620, 44 FR 27988, May 14, 1979; T.D. 8568, 59 FR 53088, Oct. 21, 1994; T.D. 8725, 62 FR 39117, July 22, 1997; T.D. 9189, 70 FR 10885, Mar. 7, 2005]

§ 301.6334–2 Wages, salary, and other income.

(a) *In general.* Under section 6334 (a)(9) and (d) certain amounts payable to or received by a taxpayer as wages, salary, or other income are exempt from levy. This section describes the income of a taxpayer that is eligible for the exemption from levy (paragraph (b) of this section) and how exempt amounts are to be paid to the taxpayer (paragraph (c) of this section). Section 301.6334–3 describes that sum that will be exempt from levy for each of the taxpayer's pay periods. Pay periods are described in § 301.6334–3. For the amounts exempt from levy, see § 301.6334–3.

(b) *Eligible taxpayer income.* Only wages, salary, or other income payable to the taxpayer after the levy is made on the payor may be exempt from levy under section 6334(a)(9). No amount of wages, salary, or other income that is paid to the taxpayer before levy is made on the payor will be so exempt from levy under section 6334(a)(9). The provisions of this paragraph (b) may be illustrated by the following example:

Example. Delinquent taxpayer A, an individual, is employed by the M Corporation and is paid wages on Friday of each week. Accordingly, A is paid wages on Friday, February 16, 1990. On Saturday, February 17, A deposits these wages into his personal checking account at Bank N. On Tuesday, February 20, a notice of levy is served on the M Corporation and also on Bank N. Amounts payable to A as wages on Friday, February 23, 1990, and any payday thereafter may be exempt from levy under section 6334(a)(9). No amount of wages A deposited in his account at Bank N on February 17, 1990, is exempt from levy under section 6334(a)(9).

(c) *Payment of exempt amounts to taxpayer*—(1) *From wages, salary, or income from other sources where levy on all sources not made.* In the case of a taxpayer who has more than one source of wages, salary, or other income, the district director may elect to levy on only one or more sources while leaving other sources of income free from levy. If the wages, salary, or other income that the district director leaves free from levy equal or exceed the amount to which the taxpayer is entitled as an exemption from levy under section 6334(a)(9), computed in accordance with § 301.6334–3 (and are not otherwise exempt), the district director may treat no amount of the taxpayer's wages, salary, or other income on which the district director elects to levy as exempt from levy. In such a case, the district director must notify the employer or other person upon whom the levy is served that no amount of the taxpayer's wages, salary, or other income is exempt from levy. The employer or other person upon whom the levy is served may rely on such notification in paying over amounts pursuant to the levy. In the absence of such notification from the district director, however, the employer or other person upon whom the levy is served must determine the amount exempt from levy pursuant to § 301.6334–3 as if that employer or other person upon whom the levy is served is the only source of wages, salary, or other income. Amounts not exempt from levy are to be paid to the district director in accordance with the terms of the levy. The provisions of this paragraph (c)(1) may be illustrated by the following example:

Example. Delinquent taxpayer C is an employee of O Corporation and is paid wages totalling $450 on Friday of each week. C also performs services for P Corporation and is paid a salary of $250 on Friday of each week. On Tuesday, February 20, 1990, a levy is served on O Corporation with respect to the wages payable to C. A levy is not served on P Corporation. C's filing status is single and C is entitled to 1 personal exemption. Under § 301.6334–3, C is entitled to an exemption from levy under 6334(a)(9) totalling $101.92 for each weekly pay period. However, because levy has not been made on C's salary paid by the P Corporation ($250 per week) and that salary exceeds the weekly amount ($101.92) to which C is entitled as exempt from levy, the district director may treat no amount of C's wages paid by the O Corporation as exempt from levy. If the district director requires such treatment, the district director must notify O Corporation that no amount of C's wages is exempt from levy and O Corporation may rely on such notification; in

the absence of such notification O Corporation must treat $101.92 as exempt from levy.

(2) *Where sources not levied upon are less than exempt amount.* If the taxpayer's income upon which the district director does not levy is less than the amount to which the taxpayer is entitled as exempt from levy, then an additional amount, determined to be exempt from levy pursuant to § 301.6334–3, may be paid to the taxpayer from the sources of wages, salary, or other income upon which levy has been made. In such a case, the district director must designate those wages, salary, or other income from which the exempt amount is to be paid to the taxpayer, and must notify the employer or other person upon whom the levy is served of the amount of the taxpayer's wages, salary, or other income that is exempt from levy. The employer or other person may rely on such notification in paying over amounts pursuant to the levy. In the absence of such notification from the district director, the employer or other person upon whom the levy is served must determine the amount exempt from levy pursuant to § 301.6334–3 as if that employer or other person upon whom the levy is served is the only source of wages, salary, or other income. Amounts not exempt from levy are to be paid to the district director in accordance with the terms of the levy. The provisions of this paragraph (c)(2) may be illustrated by the following example:

Example. Delinquent taxpayer C is an employee of O Corporation and is paid wages totalling $50 on Friday of each week. C also performs services for P Corporation and is paid a salary of $75 on Friday of each week. On Tuesday, February 20, 1990, a levy is served on P Corporation with respect to the wages and salary of C. C's filing status is single and C is entitled to 1 personal exemption. Under § 301.6334–3, C is entitled to an exemption from levy under section 6334(a)(9) totalling $101.92 for each weekly pay period. The district director may notify P Corporation that only $51.92 of C's wages is exempt from levy and P Corporation may rely on such notification; in the absence of such notification, P Corporation must treat the entire $75 salary as exempt from levy.

(d) *Effective date.* These provisions are effective with respect to levies made on or after July 1, 1989. However, any reasonable attempt by a taxpayer to comply with the statutory amendments addressed by these regulations prior to February 21, 1995 will be considered as meeting the requirements of these regulations.

[T.D. 8568, 59 FR 53088, Oct. 21, 1994]

§ 301.6334–3 Determination of exempt amount.

(a) *Individuals paid on weekly basis.* In the case of any individual who is paid or receives all of his or her wages, salary, and other income on a weekly basis, the amount of wages, salary, and other income payable to or received by him or her during any week that is exempt from levy under section 6334(a)(9) is the exempt amount.

(b) *Term defined.* The term *exempt amount* means an amount equal to—

(1) The sum of—

(i) The standard deduction (including additional standard deductions on account of age or blindness); and

(ii) The aggregate amount of the deductions for personal exemptions allowed the taxpayer under section 151 in the taxable year in which such levy occurs;

(2) Divided by 52.

(c) *Written and properly verified statement.* Unless the taxpayer submits to the employer for forwarding to the district director a written and properly verified statement (as described in § 301.6334–4) specifying the facts necessary to determine the proper amount under paragraphs (b)(1) (i) and (ii) of this section, paragraphs (b)(1) (i) and (ii) of this section must be applied as if the taxpayer were a married individual filing a separate return with only 1 personal exemption.

(d) *Individuals paid on basis other than weekly*—(1) *In general.* In the case of an individual who is paid or receives wages, salary, and other income other than on a weekly basis, the amount payable to that individual during any applicable pay period that is exempt from levy under section 6334(a)(9) is the amount that as nearly as possible will result in the same total exemption from levy for such individual over that period of time other than weekly as that to which the individual would have been entitled under paragraph (b) of this section if, during such period of

time, the individual were paid or received such wages, salary, and other income on a regular weekly basis.

(2) *Specific pay periods other than weekly*. In the case of wages, salary, or other income paid to an individual on the basis of an established calendar period regularly used by the employer or other person levied upon for payroll or payment purposes, the exempt amount of wages, salary, and other income payable to or received by an individual during an applicable pay period other than weekly equals—

(i) The sum of—

(A) The standard deduction (including additional standard deductions on account of age or blindness); and

(B) The aggregate amount of the deductions for personal exemptions allowed the taxpayer under section 151 in the taxable year in which such levy occurs;

(ii) Divided by—

(A) 260 in the case of a daily pay period;

(B) 26 in the case of a bi-weekly pay period;

(C) 24 in the case of a semi-monthly pay period; and

(D) 12 in the case of a monthly pay period.

(3) *Nonspecific pay periods*. In the case of wages, salary, or other income paid to an individual on a one-time or a recurrent but irregular basis and which is not paid on the basis of an established calendar period regularly used by the employer or other person levied upon for payroll or payment purposes, the exempt amount of wages, salary, and other income payable to or received by an individual equals the exempt amount defined in paragraph (b) of this section multiplied by the number (but not more than 52) of full weeks (consisting of seven calendar days) to which such payment is attributable. The provisions of this paragraph (d)(3) may be illustrated by the following example:

Example. Taxpayer A's exempt amount per week (as determined under paragraph (b) of this section) is $100. Taxpayer A is hired by Corporation X to perform a specific task for Corporation X at a flat fee of $1,500 which is to be paid at the completion of the task. Taxpayer A completes the task in 10 weeks. The total exempt amount is $1,000 and $500 is subject to levy.

(e) *Levies continuing into following years*. The exempt amount is computed on the basis of the standard deduction (including additional standard deductions on account of age or blindness) for the taxpayer's filing status and the amount of the deduction for a personal exemption in effect in the taxable year in which the original notice of levy is served. Unless the taxpayer submits a new verified statement in accordance with § 301.6334–4, the exempt amount remains the same for pay periods following the pay period in which the notice of levy is served even if there is a change in the taxpayer's factual situation or a change by operation of law (such as by indexing or otherwise) to the standard deduction or personal exemption amounts.

(f) *Effective date*. These provisions are effective with respect to levies made on or after July 1, 1989. However, any reasonable attempt by a taxpayer to comply with the statutory amendments addressed by these regulations prior to February 21, 1995 will be considered as meeting the requirements of these regulations.

[T.D. 8568, 59 FR 53089, Oct. 21, 1994]

§ 301.6334–4 Verified statements.

(a) *In general*. For purposes of §§ 301.6334–2 and 301.6334–3, the amount of wages, salary, or other income that is exempt from levy must be determined on the basis of a written and properly verified statement submitted by the taxpayer to his or her employer for submission to the district director specifying the facts necessary to determine the standard deduction and the aggregate amount of the deductions for personal exemptions allowed the taxpayer under section 151 in the taxable year in which the levy is served. In the absence of submission of such statement, the amount that is exempt from levy must be determined as if the taxpayer were a married individual filing a separate return with only 1 personal exemption.

(b) *Content of statement*. The statement in paragraph (a) of this section must be a written statement signed under penalty of perjury, and dated, containing the following information—

(1) The filing status of the taxpayer as either:

(i) Single;

(ii) Married filing a joint return;

(iii) Married filing a separate return;

(iv) Head of household; or

(v) Qualifying widow or widower with dependent child;

(2) The name, relationship, and Social Security Number of each individual whom the taxpayer can claim as a personal exemption on the taxpayer's income tax return; and

(3) Any additional standard deductions that the taxpayer can claim on account of age (65 or older) or blindness on the taxpayer's income tax return.

(c) *Submission of verified statement*—(1) *Obligation of employer*. An employer upon whom a notice of levy for wages, salary, or other income of a taxpayer is served must promptly notify the taxpayer of the fact that a notice of levy has been served. Unless otherwise indicated on the face of the notice of levy, the employer must request the taxpayer to provide the employer with a written statement signed under penalty of perjury, and dated, containing the information set forth in paragraph (b) of this section, and this statement must be submitted by the employer to the district director. The employer must submit this statement to the district director at the time the employer first responds to the notice of levy.

(2) *Submission by taxpayer*. The taxpayer must provide the employer upon whom the notice of levy has been served with a verified statement complying with paragraph (b) of this section. Unless the taxpayer provides a verified statement, the amount that is exempt from levy must be determined as if the taxpayer were a married individual filing a separate return with only 1 personal exemption.

(3) *Additional statements*. A taxpayer may submit a verified statement to his or her employer at any time. Except as otherwise provided in paragraph (d) of this section, such verified statement will be effective for any payment of wages, salary, or other income made after the date of submission and will replace any previously submitted verified statement. The employer must provide the district director with the statement on the next occasion on which the employer responds to the notice of levy.

(d) *Effect of verified statement*—(1) A verified statement submitted by an employee is effective upon receipt by the employer, and the employer is required to compute the exempt amount on the basis of the information contained in the verified statement unless notified to the contrary by the Internal Revenue Service.

(2) The Internal Revenue Service may find that a verified statement submitted by an employee contains a materially incorrect statement, or it may determine, after written request to the employee for verification of information contained in the verified statement, that it lacks sufficient information to determine whether the verified statement is correct. If the Internal Revenue Service so finds or determines, and notifies the employer in writing that the verified statement is defective, upon receipt of such notice the employer shall consider the verified statement to be defective for purposes of computing the exempt amount.

(3) If the Internal Revenue Service notifies the employer that the verified statement is defective, the Internal Revenue Service will, based upon its finding, advise the employer that the employer is to compute the exempt amount as if no verified statement had been submitted by the employee or will describe upon what basis the exempt amount is to be computed. The Internal Revenue Service will also specify which Internal Revenue Service office to contact for further information.

(4) In addition to any notice furnished to the employer for the employer's use, the Internal Revenue Service will provide the employer with a copy for the employee of each notice it furnishes the employer.

(5) The employer must promptly furnish the employee with a copy of any Internal Revenue Service notice with respect to a verified statement submitted by the employee.

(6) Once paragraph (d)(3) of this section applies, the employer must continue to compute the exempt amount on the basis of the written notice from the Internal Revenue Service until the Internal Revenue Service by written notice advises the employer to compute the exempt amount on the basis of

a new verified statement (as described in paragraph (d)(7) of this section) and revokes its earlier written notice.

(7) Once paragraph (d)(3) of this section applies, the employee may submit a new verified statement together with a written explanation of any circumstances of the employee which have changed since the Internal Revenue Service's earlier written notice, or any other circumstances or reasons as justification or support for the claims made by the employee on the new verified statement. The employee may submit the new verified statement and written explanation either—

(i) To the Internal Revenue Service office specified in the notice furnished to the employer under paragraph (d)(3) of this section; or

(ii) To the employer, who must forward the new verified statement and written explanation to the Internal Revenue Service office specified in the notice earlier furnished to the employer on the next occasion on which the employer responds to the notice of levy.

(e) *Effective date*. These provisions are effective with respect to levies made on or after July 1, 1989. However, any reasonable attempt by a taxpayer to comply with the statutory amendments addressed by these regulations prior to February 21, 1995 will be considered as meeting the requirements of these regulations.

[T.D. 8568, 59 FR 53090, Oct. 21, 1994]

§ 301.6335–1 Sale of seized property.

(a) *Notice of seizure*. As soon as practicable after seizure of property, the internal revenue officer seizing the property shall give notice in writing to the owner of the property (or, in the case of personal property, to the possessor thereof). The written notice shall be delivered to the owner (or to the possessor, in the case of personal property) or left at his usual place of abode or business if he has such within the internal revenue district where the seizure is made. If the owner cannot be readily located, or has no dwelling or place of business within such district, the notice may be mailed to his last known address. Such notice shall specify the sum demanded and shall contain, in the case of personal property, a list sufficient to identify the property seized and, in the case of real property, a description with reasonable certainty of the property seized.

(b) *Notice of sale*. (1) As soon as practicable after seizure of the property, the district director shall give notice of sale in writing to the owner. Such notice shall be delivered to the owner or left at his usual place of abode or business if located within the internal revenue district where the seizure is made. If the owner cannot be readily located, or has no dwelling or place of business within such district, the notice may be mailed to his last known address. For further guidance regarding the definition of last known address, see § 301.6212–2. The notice shall specify the property to be sold, and the time, place, manner, and conditions of the sale thereof, and shall expressly state that only the right, title, and interest of the delinquent taxpayer in and to such property is to be offered for sale. The notice shall also be published in some newspaper published in the county wherein the seizure is made or in a newspaper generally circulated in that county. For example, if a newspaper of general circulation in a county but not published in that county will reach more potential bidders for the property to be sold than a newspaper published within the county, or if there is a newspaper of general circulation within the county but no newspaper published within the county, the district director may cause public notice of the sale to be given in the newspaper of general circulation within the county. If there is no newspaper published or generally circulated in the county, the notice shall be posted at the post office nearest the place where the seizure is made, and in not less than two other public places.

(2) The district director may use other methods of giving notice of sale and of advertising seized property in addition to those referred to in subparagraph (1) of this paragraph (b), when he believes that the nature of the property to be sold is such that a wider or more specialized advertising coverage will enhance the possibility of obtaining a higher price for the property.

(3) Whenever levy is made without regard to the 10-day period provided in section 6331(a) (relating to cases in which collection is in jeopardy), a public notice of sale of the property seized shall not be made within such 10-day period unless section 6336 (relating to perishable goods) is applicable.

(c) *Time, place, manner, and conditions of sale.* The time, place, manner, and conditions of the sale of property seized by levy shall be as follows:

(1) *Time and place of sale.* The time of sale shall not be less than 10 days nor more than 40 days from the time of giving public notice under section 6335(b) (see paragraph (b) of this section). The place of sale shall be within the county in which the property is seized, except that if it appears to the district director under whose supervision the seizure was made that substantially higher bids may be obtained for the property if the sale is held at a place outside such county, he may order that the sale be held in such other place. The sale shall be held at the time and place stated in the notice of sale.

(2) *Adjournment of sale.* When it appears to the district director that an adjournment of the sale will best serve the interest of the United States or that of the taxpayer, the district director may adjourn, or cause the internal revenue officer conducting the sale to adjourn, the sale from time to time, but the date of the sale shall not be later than one month after the date fixed in the original notice of sale.

(3) *Determinations relating to minimum price*—(i) *Minimum price.* Before the sale of property seized by levy, the district director shall determine a minimum price, taking into account the expenses of levy and sale, for which the property shall be sold. The internal revenue officer conducting the sale may either announce the minimum price before the sale begins, or defer announcement of the minimum price until after the receipt of the highest bid, in which case, if the highest bid is greater than the minimum price, no announcement of the minimum price shall be made.

(ii) *Purchase by the United States.* Before the sale of property seized by levy, the district director shall determine whether the purchase of property by the United States at the minimum price would be in the best interest of the United States. In determining whether the purchase of property would be in the best interest of the United States, the district director may consider all relevant facts and circumstances including for example—

(*a*) Marketability of the property;

(*b*) Cost of maintaining the property;

(*c*) Cost of repairing or restoring the property;

(*d*) Cost of transporting the property;

(*e*) Cost of safeguarding the property;

(*f*) Cost of potential toxic waste cleanup; and

(*g*) Other factors pertinent to the type of property.

(iii) *Effective date.* This paragraph (c)(3) applies to determinations relating to minimum price made on or after December 17, 1996.

(4) *Disposition of property at sale*—(i) *Sale to highest bidder at or above minimum price.* If one or more persons offer to buy the property for at least the amount of the minimum price, the property shall be sold to the highest bidder.

(ii) *Property deemed sold to United States at minimum price.* If no one offers at least the amount of the minimum price for the property and the Secretary has determined that it would be in the best interest of the United States to purchase the property for the minimum price, the property shall be declared to be sold to the United States for the minimum price.

(iii) *Release to owner.* If the property is not declared to be sold under paragraph (c)(4)(i) or (ii) of this section, the property shall be released to the owner of the property and the expense of the levy and sale shall be added to the amount of tax for the collection of which the United States made the levy. Any property released under this paragraph (c)(4)(iii) shall remain subject to any lien imposed by subchapter C of chapter 64 of subtitle F of the Internal Revenue Code.

(iv) *Effective date.* This paragraph (c)(4) applies to dispositions of property at sale made on or after December 17, 1996.

(5) *Offering of property*—(i) *Sale of indivisible property.* If any property levied upon is not divisible, so as to enable the district director by sale of a part

thereof to raise the whole amount of the tax and expenses of levy and sale, the whole of such property shall be sold. For application of surplus proceeds of sale, see section 6342(b).

(ii) *Separately, in groups, or in the aggregate.* The seized property may be offered for sale—

(*a*) As separate items, or

(*b*) As groups of items, or

(*c*) In the aggregate, or

(*d*) Both as separate items (or in groups) and in the aggregate. In such cases, the property shall be sold under the method which produces the highest aggregate amount.

The district director shall select whichever of the foregoing methods of offering the property for sale as, in his opinion, is most feasible under all the facts and circumstances of the case, except that if the property to be sold includes both real and personal property, only the personal property may be grouped for the purpose of offering such property for sale. However, real and personal property may be offered for sale in the aggregate, provided the real property, as separate items, and the personal property as a group, or as groups, or as separate items, are first offered separately.

(iii) *Condition of title and of property.* Only the right, title, and interest of the delinquent taxpayer in and to the property seized shall be offered for sale, and such interest shall be offered subject to any prior outstanding mortgages, encumbrances, or other liens in favor of third parties which are valid as against the delinquent taxpayer and are superior to the lien of the United States. All seized property shall be offered for sale ''as is'' and ''where is'' and without recourse against the United States. No guaranty or warranty, express or implied, shall be made by the internal revenue officer offering the property for sale, as to the validity of the title, quality, quantity, weight, size, or condition of any of the property, or its fitness for any use or purpose. No claim shall be considered for allowance or adjustment or for rescission of the sale based upon failure of the property to conform with any representation, express or implied.

(iv) *Terms of payment.* The property shall be offered for sale upon whichever of the following terms is fixed by the district director in the public notice of sale:

(*a*) Payment in full upon acceptance of the highest bid, without regard to the amount of such bid, or

(*b*) If the aggregate price of all property purchased by a successful bidder at the sale is more than $200, an initial payment of $200 or 20 percent of the purchase price, whichever is the greater, and payment of the balance (including all costs incurred for the protection or preservation of the property subsequent to the sale and prior to final payment) within a specified period, not to exceed 1 month from the date of the sale.

(6) *Method of sale.* The district director shall sell the property either—

(i) At public auction, at which open competitive bids shall be received, or

(ii) At public sale under sealed bids. The following rules, in addition to the other rules provided in this paragraph, shall be applicable to public sale under sealed bids:

(*a*) *Invitation to bidders.* Bids shall be solicited through a public notice of sale.

(*b*) *Form for use by bidders.* A bid shall be submitted on a form which will be furnished by the district director upon request. The form shall be completed in accordance with the instructions thereon.

(*c*) *Remittance with bid.* If the total bid is $200 or less, the full amount of the bid shall be submitted therewith. If the total bid is more than $200, 20 percent of such bid or $200, whichever is greater, shall be submitted therewith. (In the case of alternative bids submitted by the same bidder for items of property offered separately, or in groups, or in the aggregate, the bidder shall remit the full amount of the highest alternative bid submitted, if that bid is $200 or less. If the highest alternative bid submitted is more than $200, the bidder shall remit 20 percent of the highest alternative bid or $200, whichever is greater.) Such remittance shall be by a certified, cashier's, or treasurer's check drawn on any bank or trust company incorporated under the laws of the United States or under the laws of any State, Territory, or possession of the United States, or by a U.S.

postal, bank, express, or telegraph money order.

(*d*) *Time for receiving and opening bids.* Each bid shall be submitted in a securely sealed envelope. The bidder shall indicate in the upper left hand corner of the envelope his name and address and the time and place of sale as announced in the public notice of sale. A bid will not be considered unless it is received by the internal revenue officer conducting the sale prior to the opening of the bids. The bids will be opened at the time and place stated in the notice of sale, or at the time fixed in the announcement of the adjournment of the sale.

(*e*) *Consideration of bids.* The public notice of sale shall specify whether the property is to be sold separately, by groups, or in the aggregate or by a combination of these methods, as provided in subparagraph (4)(ii) of this paragraph. If the notice specifies an alternative method, bidders may submit bids under one or more of the alternatives. In case of error in the extension of prices in any bid, the unit price will govern. The internal revenue officer conducting the sale shall have the right to waive any technical defects in a bid. In the event two or more highest bids are equal in amount, the internal revenue officer conducting the sale shall determine the successful bidder by drawing lots. After the opening, examination, and consideration of all bids, the internal revenue officer conducting the sale shall announce the amount of the highest bid or bids and the name of the successful bidder or bidders. Any remittance submitted in connection with an unsuccessful bid shall be returned at the conclusion of the sale.

(*f*) *Withdrawal of bids.* A bid may be withdrawn on written or telegraphic request received from the bidder prior to the time fixed for opening the bids. A technical defect in a bid confers no right on the bidder for the withdrawal of his bid after it has been opened.

(7) *Payment of bid price.* All payments for property sold under this section shall be made by cash or by a certified, cashier's, or treasurer's check drawn on any bank or trust company incorporated under the laws of the United States or under the laws of any State, Territory, or possession of the United States, or by a U.S. postal, bank, express, or telegraph money order. If payment in full is required upon acceptance of the highest bid, the payment shall be made at such time. If deferred payment is permitted, the initial payment shall be made upon acceptance of the bid, and the balance shall be paid on or before the date fixed for payment thereof. Any remittance submitted with a successful sealed bid shall be applied toward the purchase price.

(8) *Delivery and removal of personal property.* Responsibility of the United States for the protection or preservation of seized personal property shall cease immediately upon acceptance of the highest bid. The risk of loss is on the purchaser of personal property upon acceptance of his bid. Possession of any personal property shall not be delivered to the purchaser until the purchase price has been paid in full. If payment of part of the purchase price for personal property is deferred, the United States will retain possession of such property as security for the payment of the balance of the purchase price and, as agent for the purchaser, will cause the property to be cared for until the purchase price has been paid in full or the sale is declared null and void for failure to make full payment of the purchase price. In such case, all charges and expenses incurred in caring for the property after the acceptance of the bid shall be borne by the purchaser.

(9) *Default in payment.* If payment in full is required upon acceptance of the bid and is not then and there paid, the internal revenue officer conducting the sale shall forthwith proceed again to sell the property in the manner provided in section 6335(e) and this section. If the conditions of the sale permit part of the payment to be deferred, and if such part is not paid within the prescribed period, suit may be instituted against the purchaser for the purchase price or such part thereof as has not been paid, together with interest at the rate of 6 percent per annum from the date of the sale; or, in the discretion of the district director, the sale may be declared by the district director to be null and void for failure to make full payment of the purchase

price and the property may again be advertised and sold as provided in subsections (b), (c), and (e) of section 6335 and this section. In the event of such readvertisement and sale, any new purchaser shall receive such property or rights to property free and clear of any claim or right of the former defaulting purchaser, of any nature whatsoever, and the amount paid upon the bid price by such defaulting purchaser shall be forfeited to the United States.

(10) *Stay of sale of seized property pending Tax Court decision.* For restrictions on sale of seized property pending Tax Court decision, see section 6863(b)(3) and § 301.6863–2.

(d) *Right to request the sale of seized property*—(1) *In general.* The owner of any property seized by levy may request that the district director sell such property within 60 days after such request, or within any longer period specified by the owner. The district director must comply with such a request unless the district director determines that compliance with the request is not in the best interests of the Internal Revenue Service and notifies the owner of such determination within the 60 day period, or any longer period specified by the owner.

(2) *Procedures to request the sale of seized property*—(i) *Manner.* A request for the sale of seized property shall be made in writing to the group manager of the revenue officer whose signature is on Levy Form 668–B. If the owner does not know the group manager's name or address, the owner may send the request to the revenue officer, marked for the attention of his or her group manager.

(ii) *Form.* The request for sale of seized property within 60 days, or such longer period specified by the owner, shall include:

(A) The name, current address, current home and work telephone numbers and any convenient times to be contacted, and taxpayer identification number of the owner making the request;

(B) A description of the seized property that is the subject of the request;

(C) A copy of the notice of seizure, if available;

(D) The period within which the owner is requesting that the property be sold; and

(E) The signature of the owner or duly authorized representative. For purposes of these regulations, a duly authorized representative is any attorney, certified public accountant, enrolled actuary, or any other person permitted to represent the owner before the Internal Revenue Service who is not disbarred or suspended from practice before the Internal Revenue Service and who has written power of attorney executed by the owner.

(3) *Notification to owner.* The group manager shall respond in writing to a request for sale of seized property as soon as practicable after receipt of such request and in no event later than 60 days after receipt of the request, or, if later, the date specified by the owner for the sale.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7180, 37 FR 7319, Apr. 13, 1972; T.D. 8398, 57 FR 7546, Mar. 3, 1992; T.D. 8691, 61 FR 66217, Dec. 17, 1996; T.D. 8939, 66 FR 2821, Jan. 12, 2001]

§ 301.6336–1 Sale of perishable goods.

(a) *Appraisal of certain seized property.* If the district director determines that any property seized by levy is liable to perish or become greatly reduced in price or value by keeping, or that such property cannot be kept without great expense, he shall appraise the value of such property and return it to the owner if the owner complies with the conditions prescribed in paragraph (b) of this section or, if the owner does not comply with such conditions, dispose of the property in accordance with paragraph (c) of this section.

(b) *Return to owner.* If the owner of the property can be readily found, the district director shall give him written notice of his determination of the appraised value of the property. However, if the district director determines that the circumstances require immediate action, he may give the owner an oral notice of his determination of the appraised value of the property, which notice shall be confirmed in writing prior to sale. The property shall be returned to the owner if, within the time specified in the notice, the owner—

(1) Pays to the district director an amount equal to the appraised value, or

(2) Gives an acceptable bond as prescribed by section 7101 and § 301.7101–1. Such bond shall be in an amount not less than the appraised value of the property and shall be conditioned upon the payment of such amount at such time as the district director determines to be appropriate in the circumstances.

(c) *Immediate sale.* If the owner does not pay the amount of the appraised value of the seized property within the time specified in the notice, or furnish bond as provided in paragraph (b) of this section within such time, the district director shall as soon as practicable make public sale of the property in accordance with the following terms and conditions—

(1) *Notice of sale.* If the owner can readily be found, a notice shall be given to him. A notice of sale also shall be posted in two public places in the county in which the property is to be sold. The notice shall specify the time and place of sale, the property to be sold, and the manner and conditions of sale. The district director may give such other notice and in such other manner as he deems advisable under the circumstances.

(2) *Sale.* The property shall be sold at public auction to the highest bidder.

(3) *Terms.* The purchase price shall be paid in full upon acceptance of the highest bid. The payment shall be made in cash, or by a certified, cashier's or treasurer's check drawn on any bank or trust company incorporated under the laws of the United States or under the laws of any State, Territory, or possession of the United States, or by a U.S. postal, bank, express, or telegraph money order.

§ 301.6337–1 Redemption of property.

(a) *Before sale.* Any person whose property has been levied upon shall have the right to pay the amount due, together with costs and expenses of the proceeding, if any, to the district director at any time prior to the sale of the property. Upon such payment the district director shall restore such property to the owner and all further proceedings in connection with the levy on such property shall cease from the time of such payment.

(b) *Redemption of real estate after sale*—(1) *Period.* The owner of any real estate sold as provided in section 6335, his heirs, executors, or administrators, or any person having any interest therein, or a lien thereon, or any person in their behalf, shall be permitted to redeem the property sold, or any particular tract of such property, at any time within 120 days after the sale thereof.

(2) *Price.* Such property or tract of property may be redeemed upon payment to the purchaser, or in case he cannot be found in the county in which the property to be redeemed is situated, then to the district director for the internal revenue district in which the property is situated, for the use of the purchaser, his heirs, or assigns, the amount paid by such purchaser and interest thereon at the rate of 20 percent per annum. In case real and personal property (or several tracts of real property) are purchased in the aggregate, the redemption price of the real property (or of each of the several tracts) shall be determined on the basis of the ratio, as of the time of sale, of the value of the real property (or tract) to the value of the total property purchased. For this purpose the minimum price or the highest bid price, whichever is higher, offered for the property separately or in groups shall be treated as the value.

(c) *Record.* When any real property is redeemed, the district director shall cause entry of the fact to be made upon the record of sale kept in accordance with section 6340, and such entry shall be evidence of such redemption. The party who redeems the property shall notify the district director of the internal revenue district in which the property is situated of the date of such redemption and of the transfer of the certificate of sale, the amount of the redemption price, and the name of the party to whom such redemption price was paid.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7180, 37 FR 7319, Apr. 13, 1972]

§ 301.6338–1 Certificate of sale; deed of real property.

(a) *Certificate of sale.* In the case of property sold as provided in section 6335 (relating to sale of seized property), the district director shall give to the purchaser a certificate of sale upon payment in full of the purchase price. A certificate of sale of real property shall set forth the real property purchased, for whose taxes the same was sold, the name of the purchaser, and the price paid therefor.

(b) *Deed to real property.* In the case of any real property sold as provided in section 6335 and not redeemed in the manner and within the time prescribed in section 6337, the district director shall execute (in accordance with the laws of the State in which the real property is situated pertaining to sales of real property under execution) to the purchaser of such real property at the sale or his assigns, upon surrender of the certificate of sale, a deed of the real property so purchased, reciting the facts set forth in the certificate.

(c) *Deed to real property purchased by the United States.* If real property is declared purchased by the United States at a sale pursuant to section 6335, the district director shall at the proper time execute a deed therefor and shall, without delay, cause the deed to be duly recorded in the proper registry of deeds.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7180, 37 FR 7319, Apr. 13, 1972]

§ 301.6339–1 Legal effect of certificate of sale of personal property and deed of real property.

(a) *Certificate of sale of property other than real property.* In all cases of sale pursuant to section 6335 of property (other than real property), the certificate of such sale—

(1) *As evidence.* Shall be prima facie evidence of the right of the officer to make such sale, and conclusive evidence of the regularity of his proceedings in making the sale; and

(2) *As conveyance.* Shall transfer to the purchaser all right, title, and interest of the party delinquent in and to the property sold; and

(3) *As authority for transfer of corporate stock.* If such property consists of corporate stocks, shall be notice, when received, to any corporation, company, or association of such transfer, and shall be authority to such corporation, company, or association to record the transfer on its books and records in the same manner as if the stocks were transferred or assigned by the party holding the stock certificate, in lieu of any original or prior certificate, which shall be void, whether canceled or not; and

(4) *As receipts.* If the subject of sale is securities or other evidences of debt, shall be a good and valid receipt to the person holding the certificate of sale as against any person holding or claiming to hold possession of such securities or other evidences of debt; and

(5) *As authority for transfer of title to motor vehicle.* If such property consists of a motor vehicle, shall be notice, when received, to any public official charged with the registration of title to motor vehicles, of such transfer and shall be authority to such official to record the transfer on his books and records in the same manner as if the certificate of title to such motor vehicle were transferred or assigned by the party holding the certificate of title, in lieu of any original or prior certificate, which shall be null and void, whether canceled or not.

(b) *Deed to real property.* In the case of the sale of real property pursuant to section 6335—

(1) *Deed as evidence.* The deed of sale given pursuant to section 6338 shall be prima facie evidence of the facts therein stated; and

(2) *Deed as conveyance of title.* If the proceedings of the district director as set forth have been substantially in accordance with the provisions of law, such deed shall be considered and operate as a conveyance of all the right, title, and interest the party delinquent had in and to the real property thus sold at the time the lien of the United States attached thereto.

(c) *Effect of junior encumbrances.* A certificate of sale of personal property given or a deed to real property executed pursuant to section 6338 discharges the property from all liens, encumbrances, and titles over which the lien of the United States, with respect to which the levy was made, has priority. For example, a mortgage on real

property executed after a notice of a Federal tax lien has been filed is extinguished when the district director executes a deed to the real property to a purchaser thereof at a sale pursuant to section 6335 following the seizure of the property by the United States. The proceeds of such a sale are distributed in accordance with priority of the liens, encumbrances, or titles. See section 6342(b) and the regulations thereunder for provisions relating to the distribution of surplus proceeds. See section 7426(a)(2) and the regulations thereunder for judicial procedures with respect to surplus proceeds.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7180, 37 FR 7320, Apr. 13, 1972]

§ 301.6340–1 Records of sale.

(a) *Requirement*. Each district director shall keep a record of all sales under section 6335 of real property situated within his district and of redemptions of such property. The records shall set forth (1) the tax for which any such sale was made, the dates of seizure and sale, the name of the party assessed and all proceedings in making such sale, the amount of expenses, the names of the purchasers, the date of the deed, and, in the case of redemption of the property, (2) the date of such redemption and of the transfer of the certificate of sale, the amount of the redemption price, and the name of the party to whom such redemption price was paid.

(b) *Copy as evidence*. A copy of such record, or any part thereof, certified by the district director shall be evidence in any court of the truth of the facts therein stated.

§ 301.6341–1 Expense of levy and sale.

The district director shall determine the expenses to be allowed in all cases of levy and sale. Such expenses shall include the expenses of protection and preservation of the property during the period subsequent to the levy, as well as the actual expenses incurred in connection with the sale thereof. In case real and personal property (or several tracts of real property) are sold in the aggregate, the district director shall properly apportion the expenses to the real property (or to each tract).

§ 301.6342–1 Application of proceeds of levy.

(a) *Collection of liability*. Any money realized by proceedings under subchapter D, chapter 64, of the Code or by sale of property redeemed by the United States (if the interest of the United States in the property was a lien arising under the provisions of the Internal Revenue Code), is applied in the manner specified in subparagraphs (1), (2), and (3) of this paragraph (a). Money realized by proceedings under subchapter D, chapter 64, of the Code includes money realized by seizure, by sale of seized property, or by surrender under section 6332 (except money realized by the imposition of a 50 percent penalty pursuant to section 6332(c)(2)).

(1) *Expense of levy and sale*. First, against the expenses of the proceedings or sale, including expenses allowable under section 6341 and amounts paid by the United States to redeem property.

(2) *Specific tax liability on seized property*. If the property seized and sold is subject to a tax imposed by any internal revenue law which has not been paid, the amount remaining after applying subparagraph (1) of this paragraph (a), shall then be applied against such tax liability (and, if such tax was not previously assessed, it shall then be assessed);

(3) *Liability of delinquent taxpayer*. The amount, if any, remaining after applying subparagraphs (1) and (2) of this paragraph (a), shall then be applied against the liability in respect of which the levy was made or the sale of redeemed property was conducted.

(b) *Surplus proceeds*. Any surplus proceeds remaining after the application of paragraph (a) of this section shall, upon application and satisfactory proof in support thereof, be credited or refunded by the district director to the person or persons legally entitled thereto. The delinquent taxpayer is the person entitled to the surplus proceeds unless another person establishes a superior claim thereto.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7180, 37 FR 7320, Apr. 13, 1972]

§ 301.6343–1 Requirement to release levy and notice of release.

(a) *In general*. A district director, service center director, or compliance

center director (*director*) must promptly release a levy upon all, or part of, property or rights to property levied upon and must promptly notify the person upon whom the levy was made of such a release, if the director determines that any of the conditions in paragraph (b) of this section (conditions requiring release) exist. The director must make a determination whether any of the conditions requiring release exist if a taxpayer submits a request for release of levy in accordance with paragraph (c) or (d) of this section; however, the director may make this determination based upon information received from a source other than the taxpayer. The director may require any supporting documentation as is reasonably necessary to determine whether a condition requiring release exists.

(b) *Conditions requiring release*. The director must release the levy upon all or a part of the property or rights to property levied upon if he or she determines that one of the following conditions exists—

(1) *Liability satisfied or unenforceable*—(i) *General rule*. The liability for which the levy was made is satisfied or the period of limitations provided in section 6502 (and any period during which the period of limitations is suspended as provided by law) has lapsed. A levy is considered made on the date on which the notice of seizure provided in section 6335(a) is given. A levy that is made within the period of limitations provided in section 6502 does not become unenforceable simply because the person who receives the levy does not surrender the subject property within the period of limitations. In this case, the liability remains enforceable to the extent of the value of the levied upon property. However, a levy made outside the period of limitations (normally ten years without suspensions) must be released unless—

(A) The taxpayer agreed in writing to extend the period of limitations as provided in section 6502(a)(2) and § 301.6502–1; or

(B) A proceeding in court to collect the liability has begun within the period of limitations.

(ii) *Special situations*. A continuing levy on salary or wages made under section 6331(e) must be released at the end of the period of limitations in section 6502. However, a levy on a fixed and determinable right to payment which right includes payments to be made after the period of limitations expires does not become unenforceable upon the expiration of the period of limitations and will not be released under this condition unless the liability is satisfied.

(2) *Release will facilitate collection*. The release of the levy will facilitate collection of the liability. A director has the discretion to release the levy in all situations, including those where the proceeds from the sale will not fully satisfy the tax liabilities of the taxpayer, under terms and conditions as he or she determines are warranted.

(i) *Example*. The following example illustrates the provisions of this paragraph (b)(2):

Example. A and B each own machines which, when used together, produce widgets. A owes delinquent federal taxes. A notice of federal tax lien is properly filed against all property or rights to property belonging to A. A's machine is seized to satisfy A's delinquent tax liability. The fair market value of A's property is greater than the expenses of seizure and sale, but less than the amount of A's tax liability. A and B find a buyer who wants to buy both machines together. The buyer will only buy the machines together. A's property has a greater value as part of the package than it does by itself. The larger value, as shown in the sale contract, is enough to pay A's tax liability in full. In this situation a release of the levy will facilitate collection because the sale of both machines can be completed and A's liability will be paid in full at the settlement.

(ii) *Compliance with other conditions*. The director may find that collection will be facilitated by the taxpayer's compliance with conditions other than immediate payment, such as:

(A) The delinquent taxpayer delivers a satisfactory arrangement, which is accepted by the director, for placing property in escrow to secure the payment of the liability (including the expenses of the levy) which is the basis of the levy.

(B) The delinquent taxpayer delivers an acceptable bond to the director conditioned upon the payment of the liability (including the expenses of levy) which is the basis of the levy. This

bond shall be in the form provided in section 7101 and § 301.7101–1.

(C) There is paid to the director an amount determined by the director to be equal to the interest of the United States in the seized property or the part of the seized property to be released.

(D) The delinquent taxpayer executes an agreement to extend the statute of limitations in accordance with section 6502(a)(2) and § 301.6502–1.

(iii) *Expenses of sale exceed the government's interest.* If the director determines that the value of the United States' interest in the seized property does not exceed the expenses of sale of the property, a release of the levy will be deemed to facilitate collection of the liability even though the fair market value of property which has been seized exceeds the expenses of seizure and sale.

(3) *Installment agreement.* The taxpayer has entered into an agreement under section 6159 to satisfy the liability by means of installment payments, unless the agreement provides otherwise. However, the director is not required to release the levy under this condition if a release of the levy will jeopardize the secured creditor status of the United States, e.g., where there is an intervening judgment lien creditor and a notice of tax lien has not been filed.

(4) *Economic hardship*—(i) *General rule.* The levy is creating an economic hardship due to the financial condition of an individual taxpayer. This condition applies if satisfaction of the levy in whole or in part will cause an individual taxpayer to be unable to pay his or her reasonable basic living expenses. The determination of a reasonable amount for basic living expenses will be made by the director and will vary according to the unique circumstances of the individual taxpayer. Unique circumstances, however, do not include the maintenance of an affluent or luxurious standard of living.

(ii) *Information from taxpayer.* In determining a reasonable amount for basic living expenses the director will consider any information provided by the taxpayer including—

(A) The taxpayer's age, employment status and history, ability to earn, number of dependents, and status as a dependent of someone else;

(B) The amount reasonably necessary for food, clothing, housing (including utilities, home-owner insurance, home-owner dues, and the like), medical expenses (including health insurance), transportation, current tax payments (including federal, state, and local), alimony, child support, or other court-ordered payments, and expenses necessary to the taxpayer's production of income (such as dues for a trade union or professional organization, or child care payments which allow the taxpayer to be gainfully employed);

(C) The cost of living in the geographic area in which the taxpayer resides;

(D) The amount of property exempt from levy which is available to pay the taxpayer's expenses;

(E) Any extraordinary circumstances such as special education expenses, a medical catastrophe, or natural disaster; and

(F) Any other factor that the taxpayer claims bears on economic hardship and brings to the attention of the director.

(iii) *Good faith requirement.* In addition, in order to obtain a release of a levy under this subparagraph, the taxpayer must act in good faith. Examples of failure to act in good faith include, but are not limited to, falsifying financial information, inflating actual expenses or costs, or failing to make full disclosure of assets.

(5) *Fair market value exceeds liability.* The fair market value of the property exceeds the liability for which the levy was made and release of the levy on a part of the property can be made without hindering the collection of the liability. The following example illustrates the provisions of this paragraph (b)(5):

Example. The Internal Revenue Service levies upon ten widgets which belong to the taxpayer to satisfy the taxpayer's outstanding tax liabilities. Subsequent to the levy, the taxpayer establishes that market conditions have increased the aggregate fair market value of widgets so that the value of seven widgets equals the aggregate anticipated expenses of sale and seizure and the tax liabilities for which the levy was made. The director must release three widgets from the levy and return them to the taxpayer.

(c) *Request for release of levy*—(1) *Information to be submitted by taxpayer*. A taxpayer who wishes to obtain a release of a levy must submit a request for release in writing or by telephone to the district director for the Internal Revenue district in which the levy was made. The taxpayer making the request must provide the following information—

(i) The name, address, and taxpayer identification number of the taxpayer;

(ii) A description of the property levied upon;

(iii) The type of tax and the period for which the tax is due;

(iv) The date of the levy and the originating Internal Revenue district, if known; and

(v) A statement of the grounds upon which the request for release of the levy is based.

(2) *Time for submission*. Except in extraordinary circumstances, a request for release of a levy must be made more than five days prior to a scheduled sale of the property to which the levy relates.

(3) *Determination by director*—(i) *When required*. The director must promptly make a determination concerning release prior to sale in all cases where a request for release of a levy is made except those where the request for release is made five or fewer days prior to a scheduled sale of the property to which the levy relates.

(ii) *Time for making required determination*. The determination will be made, generally, within 30 days of a request for release made 30 or more days prior to a scheduled sale of the property to which the levy relates. If a request for release is made less than 30 days prior to the scheduled sale but more than 5 days before the scheduled sale, a determination must be made prior to the scheduled sale. If necessary the director may postpone the scheduled sale in order to make this determination.

(iii) *Discretionary determination*. The director has the discretion, but is not required, to make a determination concerning release prior to sale in cases where a request for release of a levy is made five or fewer days prior to a scheduled sale of the property to which the levy relates.

(4) *Notification to taxpayer of determination*. The director must promptly notify the taxpayer if the levy is released. If the director determines that none of the conditions requiring release of the levy exist, the director must promptly notify the taxpayer of the decision not to release the levy and the reason why the levy is not being released.

(d) *Expedited determination with respect to certain business property*—(1) *General procedure*—(i) *Submission by taxpayer*. If a levy is made on essential business property as is described in paragraph (d)(2) of this section, the taxpayer may obtain an expedited determination of whether any of the conditions requiring release of the levy exist. In order to obtain an expedited determination, the taxpayer must submit, within the time frame specified in paragraph (c)(2) of this section, the information required in paragraph (c)(1) of this section and include with the information an explanation of why the property levied upon qualifies for an expedited determination of whether a condition requiring release of the levy exists.

(ii) *Time for making required determination*. The director must make such a determination by the later of 10 business days from the time the director receives the request for release, or 10 business days from the time the director receives any necessary supporting documentation, if 10 or more business days remain before a scheduled sale of the property to which the levy relates. An expedited determination concerning release must be made prior to sale in all cases where a request for release of a levy is made within the time frame specified in paragraph (c)(2) of this section. If necessary the director may postpone the scheduled sale in order to make this determination.

(iii) *Discretionary determination*. The director has the discretion, but is not required, to make an expedited determination concerning release in cases where the taxpayer does not submit, within the time frame specified in paragraph (c)(2) of this section, the information required in paragraph (c)(1) of this section and include with the information an explanation of why the property levied upon qualifies for an

expedited determination of whether a condition requiring release of the levy exists.

(2) *Essential business property defined.* For purposes of this section, *essential business property* means tangible personal property used in carrying on the trade or business of the taxpayer which when levied upon prevents the taxpayer from continuing to carry on the trade or business.

(3) *Seizure of perishable goods.* The provisions of this paragraph do not apply in the case of a seizure of perishable goods. Those seizures are governed by the provisions of section 6336 and § 301.6336–1.

(e) *Effect of a release of levy.* If property has not yet been surrendered to the director in response to a levy, a release of the levy under section 6343(a) will relieve the possessor of any obligation to surrender the property. Otherwise, a release of a levy under section 6343(a) will cause the property to be returned to the custody of the person or persons legally entitled thereto. The release of a levy on any property under this section does not prevent any subsequent levy on the property. Section 301.6343–2, dealing with return of wrongfully levied upon property, is subject to section 6402 which prohibits the Internal Revenue Service from refunding a payment of money that has been deposited in the Treasury and credited to the taxpayer's liability unless there is an overpayment.

(f) *Effective date.* This section is effective as of December 30, 1994.

[T.D. 8587, 59 FR 35, Jan. 3, 1995]

§ 301.6343–2 Return of wrongfully levied upon property.

(a) *Return of property*—(1) *General rule.* If the Internal Revenue Service (IRS) determines that property has been wrongfully levied upon, the IRS may return—

(i) The specific property levied upon;

(ii) An amount of money equal to the amount of money levied upon; or

(iii) An amount of money equal to the amount of money received by the United States from a sale of the property.

(2) *Time of return.* If the United States is in possession of specific property, the property may be returned at any time. An amount equal to the amount of money levied upon or received from a sale of the property may be returned at any time before the expiration of 9 months from the date of the levy. When a request described in paragraph (b) of this section is filed for the return of property before the expiration of 9 months from the date of levy, an amount of money may be returned after a reasonable period of time subsequent to the expiration of the 9-month period if necessary for the investigation and processing of such request.

(3) *Specific property.* In general the specific property levied upon will be returned whenever possible. For this purpose, money that is specifically identifiable, as in the case of a coin collection which may be worth substantially more than its face value, is treated as specific property.

(4) *Purchase by United States.* For purposes of paragraph (a)(1)(iii) of this section, if property is declared purchased by the United States at a sale pursuant to section 6335(e), the United States is treated as having received an amount of money equal to the minimum price determined by the IRS before the sale or, if larger, the amount received by the United States from the resale of the property.

(b) *Request for return of property.* A written request for the return of property wrongfully levied upon must be given to the IRS official, office and address specified in IRS Publication 4528, ''Making an Administrative Wrongful Levy Claim Under Internal Revenue Code (IRC) Section 6343(b),'' or any successor publication. The relevant IRS publications may be downloaded from the IRS internet site at *http://www.irs.gov*. Under this section, a request for the return of property wrongfully levied upon is not effective if it is given to an office other than the office listed in the relevant publication. The written request must contain the following information—

(1) The name and address of the person submitting the request;

(2) A detailed description of the property levied upon;

(3) A description of the claimant's basis for claiming an interest in the property levied upon; and

(4) The name and address of the taxpayer, the originating IRS office, and the date of the levy as shown on the notice of levy form, or levy form, or, in lieu thereof, a statement of the reasons why such information cannot be furnished.

(c) *Inadequate request.* A request for the return of property wrongfully levied upon will not be considered adequate unless it is a written request containing the information required by paragraph (b) of this section. However, unless a notification is mailed by the IRS to the claimant within 30 days of receipt of the request to inform the claimant of the inadequacies, any written request will be considered adequate. If the IRS timely notifies the claimant of the inadequacies of his request, the claimant has 30 days from the receipt of the notification of inadequacy to supply in writing any omitted information. Where the omitted information is so supplied within the 30-day period, the request will be considered to be adequate from the time the original request was made for purposes of determining the applicable period of limitation upon suit under section 6532(c).

(d) *Payment of interest.* Interest is paid at the overpayment rate established under section 6621—

(1) In the case of money returned under paragraph (a)(1)(ii) of this section, from the date the IRS received the money to a date (to be determined by the IRS) preceding the date of return by not more than 30 days; or

(2) In the case of money returned under paragraph (a)(1)(iii) of this section, from the date of the sale of the property to a date (to be determined by the IRS) preceding the date of return by not more than 30 days.

(e) *Effective/applicability date.* These regulations are effective on July 8, 2008.

[T.D. 8587, 59 FR 37, Jan. 3, 1995, as amended by T.D. 9344, 72 FR 39739, July 20, 2007; T.D. 9410, 73 FR 38916, July 8, 2008]

§ 301.6343–3 Return of property in certain cases.

(a) *In general.* If money has been levied upon and applied toward the taxpayer's liability, or property has been levied upon and sold, and the receipts have been applied toward the taxpayer's liability, or property has been levied upon and purchased by the United States and the United States still possesses the property, and the Commissioner determines that any of the conditions in paragraph (c) of this section exist, the Commissioner may return—

(1) An amount of money equal to the amount of money levied upon;

(2) An amount of money equal to the amount of money received by the United States from a sale of the property; or

(3) The specific property levied upon and purchased by the United States.

(b) *Return of levied upon property in possession of the Internal Revenue Service (IRS) pending sale under section 6335.* Other than as provided in § 301.6343–1(b) or in paragraph (d) of this section, the Commissioner, in his or her discretion, may return levied upon property that is in the possession of the United States pending sale under section 6335.

(c) *Conditions authorizing the return of property.* The Commissioner may return property upon determining that one of the following conditions exist:

(1) *Premature or not in accordance with administrative procedures.* The levy was premature or otherwise not in accordance with the administrative procedures of the Secretary.

(2) *Installment agreement.* Subsequent to the levy, the taxpayer enters into an agreement under section 6159 to satisfy the liability for which the levy was made by means of installment payments. If, however, the agreement specifically provides that already levied upon property will not be returned under section 6343(d), the Commissioner may not grant a request for return of property under this paragraph (c)(2).

(3) *Facilitate collection.* The return of property will facilitate the collection of the tax liability for which the levy was made.

(4) *Best interests of the United States and the taxpayer*—(i) *In general.* The taxpayer or the National Taxpayer Advocate (or his or her delegate) has consented to the return of property, and the return of property would be in the

best interest of the taxpayer, as determined by the National Taxpayer Advocate (or his or her delegate), and in the best interest of the United States, as determined by the Commissioner.

(ii) *Best interest of the taxpayer.* The National Taxpayer Advocate (or his or her delegate) generally will determine whether the return of property is in the best interest of the taxpayer. If, however, a taxpayer requests the Commissioner to return property and has not specifically requested the National Taxpayer Advocate (or his or her delegate) to determine the taxpayer's best interest, a finding by the Commissioner that the return of property is in the best interest of the taxpayer will be sufficient to support the return of property. Only the National Taxpayer Advocate (or his or her delegate) may determine that a return of property is not in the best interest of the taxpayer.

(5) *Examples.* The following examples illustrate the provisions of this paragraph (c):

Example 1. A owes $1,000 in Federal income taxes. The IRS levies on a broker with respect to a money market account belonging to the taxpayer and receives payment from the broker which it applies to the taxpayer's outstanding liability. However, the IRS failed to follow procedure provided by the Internal Revenue Manual (but not required by statute) with regard to managerial approval prior to the making of the levy. The Commissioner may return an amount of money equal to the amount of money the IRS levied upon and applied toward the taxpayer's tax liability.

Example 2. B owes $1,000 in Federal income taxes. The IRS levies on a bank with respect to a savings account belonging to the taxpayer and receives funds from the bank, which it applies to the taxpayer's liability. Subsequent to the levy, B enters into an installment agreement, under which B will pay timely installments to satisfy the entire liability. The installment agreement does not by its terms preclude the return of levied upon property. The revenue officer verifies that B is financially capable of paying the entire liability, including accruals, in the agreed-upon installment payments. The Commissioner may return an amount of money equal to the amount of money levied upon and applied toward the taxpayer's liability.

Example 3. C owns a house that is deteriorating and in unsalable condition. C is in the process of renovating the house for sale when the IRS levies upon C's bank account for the payment of a $20,000 outstanding Federal tax liability and receives funds in the amount of $3,000, which it applies toward C's liability. A notice of federal tax lien is the only lien encumbrancing the house. C requests that an amount of money equal to the amount seized from the bank account be returned so that C can complete the renovations on the house. Without the funds, C will be unable to complete the renovations and sell the house. Upon examination, the Commissioner determines that the IRS will be able to collect the entire tax liability if C's house is restored to salable condition. If the National Taxpayer Advocate, or the Commissioner in lieu of the National Taxpayer Advocate, determines that the return of the seized money is in the taxpayer's best interest, the Commissioner may return an amount of money equal to the amount seized from the bank account, in the best interest of the taxpayer and the United States.

(d) *Best Interests of the United States and the taxpayer to release levy and return of property where levy made in violation of law*—(1) *In general.* If the IRS makes a levy in violation of the law, it is in the best interests of the United States and the taxpayer to release the levy and the IRS will return to the taxpayer any property obtained pursuant to the levy. For example, the IRS will release the levy and return the taxpayer's property if the levy was made—

(i) Without giving the requisite thirty-day notice of the right to a hearing under section 6330;

(ii) During the pendency of a proceeding for refund of divisible tax in violation of section 6331(i);

(iii) Before investigation of the status of levied upon property in violation of section 6331(j);

(iv) During the pendency of an offer-in-compromise in violation of section 6331(k)(1); or

(v) During the period an offer to enter into an installment agreement is pending (or for 30 days following the rejection of an offer, or, if the rejection is timely appealed, during the period that the appeal is pending) or during the period an installment agreement is in effect (or during the 30 days following a termination or, if a timely appeal of termination is filed, during the period the appeal is pending) in violation of section 6331(k)(2).

(2) *Property may not be credited to outstanding liability without the taxpayer's permission.* When the release of a levy

and the return of property are required under this paragraph (d), the property or the proceeds from the sale of the property received by the IRS pursuant to the levy must be returned to the taxpayer unless the taxpayer requests otherwise. The property or proceeds of sale may not be credited to any outstanding tax liability of the taxpayer, including the one with respect to which the IRS made the levy, without the written permission of the taxpayer.

(e) *Time of return.* Levied upon property in possession of the IRS (other than money) may be returned under paragraphs (c) and (d) of this section at any time. An amount of money equal to the amount of money levied upon or received from a sale of property may be returned at any time before the expiration of 9 months from the date of the levy. When a request for the return of money filed in accordance with paragraph (h) of this section is filed before the expiration of the 9-month period, or a determination to return an amount of money is made before the expiration of the 9-month period, the money may be returned within a reasonable period of time after the expiration of the 9-month period if additional time is necessary for investigation or processing.

(f) *Purchase by the United States.* For purposes of paragraph (a)(2) of this section, if property is declared purchased by the United States at a sale pursuant to section 6335(e)(1)(C), the United States will be treated as having received an amount of money equal to the minimum price determined by the Commissioner before the sale.

(g) *Determinations by the Commissioner.* The Commissioner must determine whether any of the conditions authorizing the return of property exists if a taxpayer submits a request for the return of property in accordance with paragraph (h) of this section. The Commissioner also may make this determination independently. If the Commissioner determines that conditions authorizing the return of property are not present, the Commissioner may not authorize the return of property. If the Commissioner determines that conditions authorizing the return of property are present, the Commissioner may (but is not required to, unless the reason for the return of property is that the levy was made in violation of law and is governed by paragraph (d) of this section) authorize the return of property. If the Commissioner decides independently to return property under paragraph (c)(4) of this section based on the best interests of the taxpayer and the United States, the taxpayer or the National Taxpayer Advocate (or his or her delegate) must consent to the return of property.

(h) *Procedures for request for the return of property*—(1) *Manner.* A request for the return of property must be made in writing to the address on the levy form.

(2) *Form.* The written request must include the following information—

(i) The name, current address, and taxpayer identification number of the person requesting the return of money (or property purchased by the United States);

(ii) A description of the property levied upon;

(iii) The date of the levy; and

(iv) A statement of the grounds upon which the return of money is being requested (or property purchased by the United States).

(i) *No interest.* No interest will be paid on any money returned under this section.

(j) *Administrative collection upon default.* If the Commissioner returns property under this section, and the taxpayer fails to pay the previously assessed liability for which the levy was made on the returned property, the Commissioner may administratively collect the liability. Collection may include levying again on the returned property as long as statutory and administrative requirements are followed.

(k) *Effective date.* This section is applicable on July 14, 2005.

[T.D. 9213, 70 FR 40670, July 14, 2005]

§ 301.6361–1 Collection and administration of qualified taxes.

(a) *In general.* In the case of any State which has in effect a State agreement (as defined in paragraph (a) of § 301.6361–4), the Commissioner of Internal Revenue shall collect and administer each qualified tax (as defined in paragraph (b) of § 301.6361–4) of such

State. No fee or other charge shall be imposed upon any State for the collection or administration of any qualified tax of such State or any other State. In any such case of collection and administration of qualified taxes, the provisions of subtitle F (relating to procedure and administration), subtitle G (relating to the Joint Committee on Taxation), and chapter 24 (relating to the collection of income tax at source on wages), and the provisions of regulations thereunder, insofar as such provisions relate to the collection and administration of the taxes imposed on the income of individuals by chapter 1 (and the civil and criminal sanctions provided by subtitle F, or by title 18 of the United States Code (relating to crimes and criminal procedure), with respect to such collection and administration) shall apply to the collection and administration of qualified taxes as if such taxes were imposed by chapter 1, except to the extent that the application of such provisions (and sanctions) are modified by regulations issued under subchapter E (as defined in paragraph (d) of § 301.6361–4). Any extension of time which is granted for the making of a payment, or for the filing of any return, which relates to any Federal tax imposed by subtitle A (or by subtitle C with respect to filing a return) shall constitute automatically an extension of the same amount of time for the making of the corresponding payment or for the filing of the corresponding return relating to any qualified tax.

(b) *Returns of qualified taxes.* Every individual, estate, or trust which has liability for one or more qualified taxes for a taxable year—

(1) Shall file a Federal income tax return at the time prescribed pursuant to section 6072(a) (whether or not such return is required by section 6012), and shall file therewith on the prescribed form a return under penalties of perjury for each tax which is—

(i) A qualified resident tax imposed by a State of which the taxpayer was a resident, as defined in § 301.6362–6, for any part of the taxable year;

(ii) A qualified nonresident tax imposed by a State within which was located the source or sources from which the taxpayer derived, while not a resident of such State and while not exempt from liability for the tax by reason of a reciprocal agreement between such State and the State of which he is a resident, 25 percent or more of his aggregate wage and other business income, as defined in paragraph (c) of § 301.6362–5, for the taxable year; or

(iii) A qualified resident or nonresident tax with respect to which any amount was currently collected from the taxpayer's income (including collection by withholding on wages or by payment of estimated income tax), as provided in paragraph (f) of § 301.6362–6, for any part of the taxable year; and

(2) Shall declare (in addition to the declaration required with respect to the return of the Federal income tax and in the place and manner prescribed by form or instructions thereto) under penalties of perjury that, to the best of the knowledge and belief of the taxpayer (or, in the case of an estate or trust, of the fiduciary who executes the Federal income tax return), he has no liability for any qualified tax for the taxable year other than any such liabilities returned with the Federal income tax return (pursuant to subparagraph (1) of this paragraph (b)). Such declaration shall constitute a return indicating no liability with respect to each qualified tax other than any such tax for which liability is so returned. A Federal income tax return form which is filed but which does not contain such declaration shall constitute a Federal income tax return only if the taxpayer in fact has no liability for any qualified State tax for the taxable year.

(c) *Credits*—(1) *Credit for tax of another State or political subdivision*—(i) *In general.* A credit allowable under a qualified tax law against the tax imposed by such law for a taxpayer's tax liability to another State or a political subdivision of another State shall be allowed if the requirements of subdivision (ii) of this subparagraph are met, and if the credit meets the requirements of paragraph (c) of § 301.6362–4. Such credit shall be allowed without regard to whether the tax imposed by the other State or subdivision thereof is a qualified tax, and without regard to whether such tax has been paid.

(ii) *Substantiation of tax liability for which a credit is allowed.* If the liability

which gives rise to a credit of the type described in subdivision (i) of this subparagraph is with respect to a qualified tax, then the fact of such liability shall be substantiated by filing the return on which such liability is reported. If such liability is not with respect to a qualified tax, then the Commissioner may require a taxpayer who claims entitlement to such a credit to complete a form to be submitted with his return of the qualified tax against which the credit is claimed. On such form the taxpayer shall identify each of the other States (the liabilities to which were not substantiated as provided in the first sentence of this subdivision) or political subdivisions to which the taxpayer reported a liability for a tax giving rise to the credit, furnish the name or description of each such tax, state the amount of the liability so reported with respect to each such tax and the beginning and ending dates of the taxable period for which such liability was reported, and provide such other information as is requested in the form or in the instructions thereto. In addition, the taxpayer shall agree on such form to notify the Commissioner in the event that the amount of any tax liability (or portion thereof) which is claimed as giving rise to a credit of the type described in subdivision (i) of this subparagraph is changed or adjusted, whether as a result of an amended return filed by the taxpayer, a determination by the jurisdiction imposing the tax, or in any other manner.

(2) *Credit or withheld qualified tax.* An individual from whose wages an amount is withheld on account of a qualified tax shall receive a credit for such amount against his aggregate liability for all such qualified taxes and the Federal income tax for the taxable year, whether or not such tax has been paid over to the Federal Government by the employer. The credit shall operate in the manner provided by section 31(a) of the Code and the regulations thereunder with respect to Federal income tax withholding.

(d) *Collection of qualified taxes at source on wages*—(1) *In general.* Except as otherwise provided in subparagraph (2) of this paragraph, every employer making payment of wages to an employee described in such subparagraph shall deduct and withhold upon such wages the amount prescribed with respect to the qualified tax designated in such subparagraph. The amounts prescribed for withholding with respect to each such qualified tax shall be published in Circular E (Employer's Tax Guide) or other appropriate Internal Revenue Service publications. See paragraph (f)(1) of § 301.6362–7 with respect to civil and criminal penalties to which an employer shall be subject with respect to his responsibilities relating to qualified taxes.

(2) *Specific withholding requirements.* An employer shall deduct and withhold upon an employee's wages the amount prescribed with respect to a qualified tax with respect to which such employee is subject to the current collection provisions pursuant to paragraph (f) of § 301.6362–6, unless:

(i) In the case of a qualified resident tax, the employee's services giving rise to the wages are performed in another State, and such other State or a political subdivision thereof imposes a nonresident tax on such employee with respect to which the withholding amount exceeds the prescribed withholding amount with respect to such qualified resident tax, and the State imposing such qualified resident tax grants a credit against it for such nonresident tax.

(ii) In the case of a qualified nonresident tax, either:

(A) Residents of the State in which the employee resides are exempt from liability for the qualified nonresident tax imposed by the State from sources within which his wage income is derived, by reason of an interstate compact or agreement to which the two States are parties, or

(B) The State in which the employee resides imposes a qualified resident tax on such employee with respect to which the prescribed withholding amounts exceed the prescribed withholding amounts with respect to the qualified nonresident tax imposed by the State from sources within which his wage income is derived, and the State in which he resides grants a credit against its qualifed resident tax for such qualified nonresident tax.

If the nonresident tax described in subdivision (i) of this subparagraph is a

qualified nonresident tax imposed by a State, then the reference in such subdivision to the State in which the services are performed shall be construed as a reference to the State from sources within which the wage income is derived, within the meaning of paragraph (d)(1) of § 301.6362–5.

(3) *Forms, procedures, and returns relating to withholding with respect to qualified taxes*—(i) *Forms W–4 and W–4P.* Forms W–4 (Employee's Withholding Allowance Certificate) and W–4P (Annuitant's Request for Income Tax Withholding), shall include information as to the State in which the employee resides, and shall be used for purposes of withholding with respect to both Federal and qualified taxes. An employee shall show on his Form W–4 the State in which he resides for purposes of this paragraph, and shall file a new Form W–4 within 10 days after he changes his State of residence. An employee who fails to meet either of the requirements set forth in the preceding sentence, with the intent to evade the withholding tax imposed with respect to a qualifed tax, shall be subject to the penalty provided in section 7205 of the Code. An employer shall be responsible for determining the State within which are located the sources from which the employee's wage income is derived for purposes of this paragraph; and, if the employee does not file a Form W–4, the employer shall assume for such purposes that the employee resides in that State. When an employer and an employee enter into a voluntary withholding agreement pursuant to § 31.3402(p)–1, the employer shall withhold the amount prescribed with respect to the qualified resident tax imposed by the State in which the employee resides, as indicated on Form W–4. Similarly, if an annuitant requests withholding with respect to his annuity payments pursuant to section 3402 (o)(1)(B) of the Code, the payer shall withhold the whole dollar amount specified by the annuitant with respect to a qualified resident tax, provided that the combined withholding with respect to Federal and qualified taxes on each annuity payment shall be a whole dollar amount not less than $5, and that the net amount of any annuity payment received by the payee shall not be reduced to less than $10.

(ii) *Forms W-2 and W-2P.* Forms W-2 (Wage and Tax Statement) and W-2P (the corresponding form for annuities) shall show:

(A) The total amount withheld with respect to the Federal income tax;

(B) The total amount withheld with respect to qualified taxes;

(C) The name of each State imposing a qualified tax in which the employee (or annuitant) resided during the taxable year, as shown on Form W–4 (or W–4P);

(D) The name of each State imposing a qualified nonresident tax within which were located sources from which the employee's wage income was derived during a period of the taxable year in which he was not shown as a resident of such State on Form W–4, and the amount of the employee's wage income so derived; and

(E) The name of each State or locality that imposes an income tax which is not a qualified tax and with respect to which the employer withheld on the employee's wage income for the taxable year, and the amount of wage income with respect to which the employer so withheld.

(iii) *Requirements relating to deposit and payment of withheld tax.* Rules relating to the deposit and remittance of withheld Federal income and FICA taxes, including those prescribed in section 6302 of the Code and the regulations thereunder, shall apply also to amounts withheld with respect to qualified taxes. Thus, an employer's liability with respect to the deposit and payment of withheld taxes shall be for the combined amount of withholding with respect to Federal and qualified taxes. The Federal Tax Deposit form shall separately indicate:

(A) The combined total amount of Federal income, FICA, and qualified taxes withheld;

(B) The combined total amount of qualified taxes withheld; and

(C) The total amount of qualified taxes withheld with respect to each electing State.

Data indicating the total amount of tax deposits processed by the Internal Revenue Service with respect to the qualified taxes of an electing State will

be available to that State upon request on as frequent as a weekly basis. These data will be available no later than 10 working days after the end of the calendar week in which the deposits were processed by the Service.

(iv) *Employment tax returns.* Forms 941 (Employer's Quarterly Federal Tax Return), 941–E (Quarterly Return of Withheld Income Tax), 941–M (Employer's Monthly Federal Tax Return), 942 (Employer's Quarterly Tax Return for Household Employees), and 943 (Employer's Annual Tax Return for Agricultural Employees), shall indicate the total amount withheld with respect to each qualified tax, as directed by such forms or their instructions.

(e) *Criminal penalties.* A criminal offense committed with respect to a qualified tax shall be treated as a separate offense from a similar offense committed with respect to the Federal tax. Thus, for example, if a taxpayer willfully attempts to evade both the Federal tax and a qualified tax by failing to report a portion of his income, he shall be considered as having committed two criminal offenses, each subject to a separate penalty under section 7201. See also § 301.6362–7(f) with respect to criminal penalties.

(f) *Allocation of amounts collected with respect to tax and criminal fines*—(1) *In general.* The aggregate amount that has been collected from a taxpayer (including amounts collected by withholding) in respect of liability for both one or more qualified taxes and the Federal income tax for a taxable year shall be allocated among the Federal Government and the States imposing qualified taxes for which the taxpayer is liable in the proportion which the taxpayer's liability for each such tax bears to his aggregate liability for such year to all of such taxing jurisdictions with respect to such taxes. A reallocation shall be made either when an amount is collected from the taxpayer or his employer or is credited or refunded to the taxpayer, subsequent to the making of the initial allocation, or when a determination is made by the Commissioner that an error was made with respect to a previous allocation. However, any such allocation or reallocation shall not affect the amount of a taxpayer's or employer's liability to either jurisdiction, or the amount of the assessment and collection which may be made with respect to a taxpayer or employer. Accordingly, such allocations and reallocations shall not be taken into consideration for purposes of the application of statutes of limitation or provisions relating to interest, additions to tax, penalties, and criminal sanctions. See example 4 in subparagraph (4) of this paragraph (e). In addition, any such allocation or reallocation shall not affect the amount of the deduction to which a taxpayer is entitled under section 164 for a year in which he made payment (including payments made by withholding) of an amount which was designated as being in respect of his liability for a qualified tax. However, to the extent that an amount which was paid by a taxpayer and designated as being in respect of his liability for a qualified tax is allocated or reallocated in such a manner as to apply it toward the taxpayer's liability for the Federal income tax, such allocation or reallocation shall be treated as a refund to the taxpayer of an amount paid in respect of a State income tax, and shall be included in the gross income of the taxpayer to the extent appropriate under section 111 and the regulations thereunder in the year in which the allocation or reallocation is made. See section 451 and the regulations thereunder. Similarly, to the extent that an amount which was paid by a taxpayer and designated as being in respect of his Federal income tax liability is allocated or reallocated in such a manner as to apply it toward his liability for a qualified tax, such allocation or reallocation shall be treated as a payment made by the taxpayer in respect of a State income tax, and shall be deductible under section 164 in the year in which the allocation or reallocation is made. The Internal Revenue Service shall notify the taxpayer in writing of any allocation or reallocation of tax liabilities in a proportion other than that of the respective tax liabilities shown on the taxpayer's returns.

(2) *Amounts of collections and liabilities.* For purposes of this paragraph the aggregate amount that has been collected from a taxpayer or his employer in respect of tax liability shall include

the amounts of interest provided in chapter 67, and additions to tax and assessable penalties provided in chapter 68, which are collected with respect to such tax; but shall not include criminal fines provided in chapter 75, or in title 18 of the United States Code, which are collected with respect to offenses relating to such tax. (See subparagraph (3) of this paragraph (e) with respect to the treatment of such criminal fines.) However, for purposes of this paragraph, the amount of the taxpayer's liability for each tax shall exclude his liability for such interest additions to tax, and assessable penalties with respect to such tax, and his liability for criminal fines imposed with respect to offenses relating to such tax. For purposes of this paragraph, the amount of the taxpayer's liability for each tax shall be computed by taking credits into account, except that there shall be no reduction for any amounts paid on account of such liability, whether by means of withholding, estimated tax payment, or otherwise.

(3) *Special rules relating to criminal fines.* (i) Except as otherwise provided in subdivision (ii) of this subparagraph, when a criminal charge is brought against a taxpayer with respect to a taxable year pursuant to chapter 75, or to title 18 of the United States Code, or to a corresponding provision of a qualified tax law, alleging that an offense was committed against the United States with respect to the Federal income tax or against a State with respect to a qualified tax, and an amount of money is collected by the Federal Government as a fine as a result of such charge, then the Federal Government shall remit an amount to each State, if any, which is an affected jurisdiction. The amount remitted to each such State shall bear the same proportion to the total amount collected as a fine as the taxpayer's liability with respect to the qualified taxes of that State bears to the aggregate of the taxpayer's income tax liabilities to all affected jurisdictions for the taxable year, as determined under subparagraphs (1) and (2) of this paragraph (e). For purposes of this subparagraph, an affected jurisdiction is (A) a jurisdiction with respect to the tax of which a criminal charge described in the preceding sentence was brought for the taxable year, or (B) a jurisdiction with respect to the Federal income tax or the qualified tax of which the acts or omissions alleged in such a criminal charge would constitute the basis for the bringing of a criminal charge for the same taxable year. However, in no case shall the amount received by an affected State, or the amount of the excess of the amount received by the Federal Government over the amount of its remissions to States, with respect to a fine exceed the maximum fine prescribed by statute for the offense against that jurisdiction with respect to which a criminal charge was brought, or with respect to which the bringing of a criminal charge could have been supported on the basis of the acts or omissions alleged in a criminal charge brought. For purposes of this subparagraph, the amount collected as a fine as a result of a criminal charge shall include amounts paid in settlement of an actual or potential liability for a fine, amounts paid pursuant to a conviction and amounts paid pursuant to a plea of guilty or *nolo contendere*.

(ii) If a criminal charge described in the first sentence of subdivision (i) of this subparagraph is actually brought with respect to the income tax of every affected jurisdiction with respect to the taxable year, and if a Court adjudicates on the merits the taxpayer's liability for a fine to each such jurisdiction, and includes in its decree a direction of the amount, if any, to be paid as a fine to each such jurisdiction, then that decree shall govern the allocation of the amount of money collected by the Federal Government as a fine with respect to the taxable year.

(4) *Examples.* The application of this paragraph may be illustrated by the following examples:

Example 1. The total combined amount of State X qualified tax and Federal income tax collected from A, a resident of State X, for the taxable year is $5,100. The amounts of A's liabilities for such taxes for that year are $800 to State X and $4,000 to the Federal Government. Since A's tax liability to State X is one-sixth of the combined tax liability ($4,800), one-sixth ($50) of the amount to be refunded to A ($300) is chargeable against State X's account, and five-sixths ($250) is chargeable against the Federal Government's account.

Example 2. Assume the same facts as in example 1 except that the total amount collected from A is $4,500. Since A's liabilities for the State X tax and the Federal tax are one-sixth and five-sixths, respectively, of the combined tax liability, the Federal Government shall pay over to State X one-sixth ($750) of the amount actually collected from A, and the Federal Government shall retain five-sixths ($3,750).

Example 3. The total amount of State X qualified tax, State Y qualified tax, and Federal income tax collected from B, a resident of State X who is employed in State Y, for the taxable year is $5,500. The amounts of B's liabilities for such taxes for that year are: $250 for the State X tax (after allowance of a credit for State Y's qualified tax), $750 for the State Y tax, and $4,000 for the Federal tax. Since B's liability for the State X tax ($250) is 5 percent of the combined tax liability ($5,000), his liability for the State Y tax ($750) is 15 percent of such combined liability, and his liability for the Federal tax ($4,000) is 80 percent of such combined liability, the total amount to be refunded to B ($500) shall be chargeable in the following manner: 5 percent ($25) against State X's account, 15 percent ($75) against State Y's account, and 80 percent ($400) against the Federal Government's account.

Example 4. C is liable for $2,000 in Federal income tax and $500 in State X qualified tax (a resident tax) for the taxable year. However, on his Federal income tax return for such year, C erroneously described himself as a resident of State Y (which does not have a qualified tax), and he filed with such return his declaration to the effect that he had no qualified tax liability for the year. Accordingly, C paid only $2,000 for his Federal tax liability, and such amount was retained in the account of the Federal Government. Subsequently, C's error is discovered. The amount collected by the Federal Government from C for such year must be allocated between the Federal Government and State X in proportion to C's tax liability to both. Accordingly, the Federal Government must pay over to State X the amount of $400 (which is ⅕ ($500/$2,500) of the $2,000 collected). If the Federal Government collects from C the additional $500 owed, it will retain $400 of such amount and pay the remaining $100 to State X. Similarly, if the Federal Government collects from C any interest, or any additions to tax or assessable penalties under chapter 68, ⅘ of the amount of such collections shall be retained by the Federal Government and ⅕ of such amount shall be paid over to State X. However, notwithstanding the allocation of the funds between the taxing jurisdictions, C's liability for the $500 retains its character as a liability for State X tax. Therefore, any interest, additions to tax, or assessable penalties imposed with respect to the State X tax shall be imposed with respect to C's full $500 liability for such tax, notwithstanding the fact that amounts collected with respect to such items shall be allocated ⅘ to the Federal Government.

Example 5. A criminal charge is brought against D pursuant to chapter 75, alleging that he willfully evaded the payment of Federal income tax by failing to report interest income derived from obligations of the United States. D enters a plea of *non contendere* to the charge and pays $2,500 as a fine to the Federal Government. The act alleged in the criminal charge would not support the bringing of a criminal charge under a State law corresponding to chapter 75, or to title 18 of the United States Code, with respect to the qualified tax of any State; accordingly, the United States is the only affected jurisdiction, and no remittances shall be made to any State with respect to the amount collected by the Federal Government as a fine.

Example 6. A criminal charge is brought against E pursuant to chapter 75, alleging that he willfully attempted to evade the assessment of liability for both Federal income tax and the qualified tax of State X by filing false and fraudulent income tax returns. E's case is settled upon the condition that he pay a fine in the amount of $5,000. As determined pursuant to subparagraph (2) of this paragraph, E's liabilities for the taxable year are in the amounts of $7,200 to the Federal Government and $800 to State X. Accordingly, after the Federal Government collects the fine, $500 ($5,000 + $800 × $8,000) is remitted to State X.

Example 7. Assume the same facts as in example 6, except that E is tried and convicted on both charges, and pursuant to court decree he pays to the United States a fine of $6,000 with respect to each charge, or a total of $12,000. Because a criminal charge was brought with respect to each affected jurisdiction, and the allocation of the total amount paid as a fine was specifically imposed by a court decree, the direction of the Court shall govern the allocation. Accordingly, after the Federal Government collects the fines it pays over $6,000 to the account of State X.

[T.D. 7577, 43 FR 59361, Dec. 20, 1978]

§ 301.6361–2 Judicial and administrative proceedings; Federal representation of State interests.

(a) *Civil proceedings*—(1) *General rule.* Any person shall have the same right to bring or contest a civil action, and to obtain a review thereof, with respect to a qualified tax (including the current collection thereof) in the same court or courts which would be available to him, and pursuant to the same

requirements and procedures to which he would be subject, under chapter 76 (relating to judicial proceedings), and under title 28 of the United States Code (relating to the judiciary and judicial procedure), if the tax were imposed by section 1 or chapter 24 of the Internal Revenue Code. For purposes of this section, the term ''person'' includes the Federal Government. Except as provided in subparagraph (2) of this paragraph (a), to the extent that the preceding sentence provides judicial procedures (including review procedures) with respect to any matter, such procedures shall replace civil judicial procedures under State law.

(2) *Exception*. The right or power of the courts of any State to pass on matters involving the constitution of such State is unaffected by any provision of this paragraph; however, the jurisdiction of a State court in such matters shall not extend beyond the issue of constitutionality. Thus, if in a case involving the validity of a qualified tax statute under the State constitution, the State court holds such statute constitutional, such court shall not proceed to decide the amount of the tax liability.

(b) *Criminal proceedings*. Only the Federal Government shall have the right to bring a criminal action with respect to a qualified tax (including the current collection thereof). Such an action shall be brought in the same court or courts which would be available to the Federal Government, and pursuant to the same requirements and procedures to which the Federal Government would be subject, if the tax were imposed by section 1 or chapter 24 of the Internal Revenue Code.

(c) *Administrative proceedings*. Any person shall have the same rights in administrative proceedings of the Internal Revenue Service with respect to a qualified tax (including the current collection thereof) which would be available to him, and shall be subject to the same administrative requirements and procedures to which he would be subject, if the tax were imposed by section 1 or chapter 24 of the Internal Revenue Code.

(d) *United States representation of State interests*—(1) *General rule*. Except as provided in subparagraphs (2) and (3) of this paragraph (d), the Federal Government shall appear on behalf of any State the qualified tax of which it collects (or did collect for the year in issue), and shall represent such State's interests in any administrative or judicial proceeding, either civil or criminal in nature, which relates to the administration and collection of such qualified tax, in the same manner as it represents the interests of the United States in corresponding proceedings involving Federal income tax matters.

(2) *Exceptions*. The Federal Government shall not so represent a State's interests either—

(i) In proceedings in a State court involving the constitution of such State, to the extent of such constitutional issue, or

(ii) In proceedings in any court involving the relationship between the United States and the State, to the extent of the issue pertaining to such relationship, if either:

(A) The proceeding is one which is initiated by the United States against the State, or by the State against the United States, and no individual (except in his official capacity as a governmental official) is an original party to the proceeding, or

(B) The proceeding is not one described in (A), but the State elects to represent its own interests to the extent permissible under this subdivision.

(3) *Finality of Federal administrative determinations*. State and local government officials and employees may not review Federal administrative determinations concerning tax liabilities of, refunds owed to, or criminal prosecutions of, individuals with respect to qualified taxes. See, however, § 301.6363–3 relating to State administration of a qualified tax with respect to transition years. If requested by an electing State, the Commissioner or his delegate may, under terms and conditions set forth in an agreement with such State, permit such State to carry on operations supplementary to the Federal administration of the State's qualified tax (including supplemental audits or examinations of tax returns by State audit personnel), but all administrative determinations shall be made by the Federal Government without review by the State. An agreement

which permits supplemental audits or examinations of tax returns by State audit personnel shall provide that the audits and examinations shall be conducted under the supervision and control of the Commissioner or his delegate, who shall have the authority to determine which returns shall be audited and when the audits shall occur. Also, such agreements shall provide that the results of any such supplemental audit shall be referred to the Commissioner or his delegate for final administrative determination. The Commissioner or his delegate shall, to the extent permitted by law, allow an electing State reasonable access to tax returns and other appropriate records and information relating to its qualified tax for the purpose of conducting any such supplemental operations. In addition, the Secretary or his delegate shall permit an electing State to inspect the workpapers which are compiled in the course of verification by the Treasury Department of the correctness of the accounting by which the amounts of the actual net collections attributable to the electing State's qualified taxes are determined.

[T.D. 7577, 43 FR 59364, Dec. 20, 1978]

§ 301.6361–3 Transfers to States.

(a) *Periodic transfers.* In general, amounts collected by the Federal Government which are allocable to qualified taxes (including criminal fines which are required to be paid to a State, as determined under paragraph (f)(3) of § 301.6361–1) shall be promptly transferred to each State imposing such a tax. Transfers of such amounts, based on percentages of estimated Federal collections, shall be made not less frequently than every third business day unless the State agrees to accept transfers at less frequent intervals.

(b) *Determination of amounts of transfers.* The amounts allocable to the qualified taxes of each State for purposes of periodic transfer shall be determined as a percentage of the estimated aggregate net individual income tax collections made by the Federal Government. For purposes of this paragraph, the ''aggregate net individual income tax collections'' shall include amounts collected on account of the Federal individual income tax and all qualified taxes by all means (including withholding, tax returns, and declarations of estimated tax), and shall be reduced to the extent of any liability to taxpayers for credits or refunds by reason of overpayments of such taxes. The percentage of the estimated amount of such collections which is allocated to each State shall be based on an estimate which is to be made by the Office of Tax Analysis prior to the beginning of each calendar year as to what portion of the estimated aggregate net individual income tax collections for the forthcoming year will be attributable to the qualified taxes of that State. Each State will be notified prior to the beginning of each calendar year of the amount which it is estimated that the State will receive by application of that percentage for the year. However, the Office of Tax Analysis shall, from time to time throughout the calendar year, revise the percentage estimates when such a revision is, in the opinion of that office necessary to conform such estimates to the actual receipts. When such a revision is made, the payments to the State will be adjusted accordingly.

(c) *Adjustment of difference between actual collections and periodic transfers.* At least once annually the Secretary or his delegate shall determine the difference between the aggregate amount of the actual net collections made (taking into account credits, refunds, and amounts received by withholding with respect to which a tax return is not filed) which is attributable to each State's qualified taxes during the preceding year and the aggregate amount actually transferred to such State based on estimates during such year. The amount of such difference, as so determined, shall be a charge against, or an addition to, the amounts otherwise determined to be payable to the State.

(d) *Recipient of transferred funds.* All funds transferred pursuant to section 6361(c) and paragraph (a) of this section shall be transferred by the Federal Government to the State official designated by the Governor to receive such funds in the State agreement pursuant to paragraph (d)(5) of § 301.6363–1, unless the Governor notifies the Secretary or his delegate in writing of the

designation of a different State official to receive the funds.

[T.D. 7577, 43 FR 59365, Dec. 20, 1978]

§ 301.6361–4 Definitions.

For purposes of the regulations in this part under subchapter E of chapter 64 of the Internal Revenue Code of 1954, relating to collection and administration of State individual income taxes—

(a) *State agreement.* The term ''State agreement'' means an agreement between a State and the Federal Government which was entered into pursuant to section 6363 and the regulations thereunder, and which provides for the Federal collection and administration of the qualified tax or taxes of that State.

(b) *Qualified tax.* The term ''qualified tax'' means a tax which is a ''qualified State individual income tax'', as defined in section 6362 (including subsection (f)(1) thereof, which requires that a State agreement be in effect) and the regulations thereunder.

(c) *Chapters and subtitles.* References in regulations in this part under subchapter E to chapters and subtitles are to chapters and subtitles of the Internal Revenue Code of 1954, unless otherwise indicated.

(d) *Subchapter E.* The term ''subchapter E'' means subchapter E of chapter 64 of the Internal Revenue Code of 1954, relating to collection and administration of State individual income taxes, as amended from time to time.

[T.D. 7577, 43 FR 59365, Dec. 20, 1978]

§ 301.6361–5 Effective date of section 6361.

Section 6361 shall take effect on the first January 1 which is more than 1 year after the first date on which at least one State has filed a notice of election with the Secretary or his delegate to enter into a State agreement. For purposes of this section, a notice of election shall be deemed to have been filed by a State only if there is no defect in either the State's notice of election or the State's tax law of which the Secretary notified the Governor pursuant to paragraph (c) of § 301.6363–1, and which has not been retroactively cured under the provisions of such paragraph.

[T.D. 7577, 43 FR 59365, Dec. 20, 1978]

§ 301.6362–1 Types of qualified tax.

(a) *In general.* A qualified tax may be either a ''qualified resident tax'' within the meaning of paragraph (b) of this section, or a ''qualified nonresident tax'' within the meaning of paragraph (c) of this section.

(b) *Qualified resident tax.* A tax imposed by a State on the income of individuals, estates, and trusts which are residents of such State within the meaning of section 6362(e) and § 301.6362–6 shall be a ''qualified resident tax'' if it is either:

(1) A tax based on Federal taxable income which meets the requirements of section 6362 (b), (e), and (f), and of §§ 301.6362–2, 301.6362–6, and 301.6362–7; or

(2) A tax which is a percentage of the Federal tax and which meets the requirements of section 6362 (c), (e), and (f), and of §§ 301.6362–3, 301.6362–6, and 301.6362–7.

(c) *Qualified nonresident tax.* A tax imposed by a State on the wage and other business income of individuals who are not residents of such State within the meaning of section 6362(e)(1) and paragraph (b) of § 301.6362–6 shall be a ''qualified nonresident tax'' if it meets the requirements of section 6362 (d), (e), and (f), and of §§ 301.6362–5, 301.6362–6, and 301.6362–7.

[T.D. 7577, 43 FR 59366, Dec. 20, 1978]

§ 301.6362–2 Qualified resident tax based on taxable income.

(a) *In general.* A tax meets the requirements of section 6362(b) and this section only if it is imposed on the amount of the taxable income, as defined in section 63, of the individual, estate, or trust, adjusted—

(1) By subtracting an amount equal to the amount of the taxpayer's interest on obligations of the United States which was included in his gross income for the taxable year;

(2) By adding an amount equal to the amount of the taxpayer's net State income tax deduction, as defined in paragraph (a) of § 301.6362–4, for the taxable year;

(3) By adding an amount equal to the amount of the taxpayer's net tax-exempt income, as defined in paragraph (b) of § 301.6362–4, for the taxable year; and

(4) If a credit is allowed against the tax in accordance with paragraph (b)(3) of this section for sales tax imposed by the State or a political subdivision thereof, by adding an amount equal to the amount of the taxpayer's deduction under section 164(a)(4) for such sales tax.

The tax may provide for either a single rate or multiple rates which vary with the amount of taxable income, as adjusted.

(b) *Permitted adjustments.* A tax which otherwise meets the requirements of paragraph (a) of this section shall not be deemed to fail to meet such requirements solely because it provides for one or more of the following adjustments:

(1) A credit meeting the requirements of paragraph (c) of § 301.6362–4 is allowed against the tax for the taxpayer's income tax liability to another State or a political subdivision thereof.

(2) A tax is imposed on the amount taxed under section 56 (relating to the minimum tax for tax preferences).

(3) A credit is allowed against the tax for all or a portion of any general sales tax imposed by the State or a political subdivision thereof with respect to sales either to the taxpayer or to one or more of his dependents.

(c) *Method of making mandatory adjustments.* The mandatory adjustments provided in paragraph (a) of this section shall be made directly to taxable income. Except as provided in paragraph (c)(2) of § 301.6362–4, no account shall be taken of any reduction or increase in the Federal adjusted gross income which would result from the exclusion from, or inclusion in, gross income of the items which are the subject of the adjustments. Thus, for example, when for purposes of the calculation the taxpayer's Federal taxable income is adjusted to reflect the exclusion from gross income of interest on obligations of the United States, no change shall be made in the amount of the taxpayer's deduction for medical expenses, or in the amount of his charitable contribution base, even though such amounts would ordinarily depend upon the amount of adjusted gross income.

[T.D. 7577, 43 FR 59366, Dec. 20, 1978]

§ 301.6362–3 Qualified resident tax which is a percentage of Federal tax.

(a) *In general.* A tax meets the requirements of section 6362(c) and this section only if:

(1) The tax is imposed as a single specified percentage of the excess of the taxes imposed by chapter 1 over the sum of the credits allowable under part IV of subchapter A of chapter 1 (other than the credits allowable under sections 31 and 39), and

(2) The amount of the tax is decreased by the amount of the decrease in such liability which would result from excluding from the taxpayer's gross income an amount equal to the amount of interest on obligations of the United States which was included in his gross income for the taxable year.

(b) *Permitted adjustments.* A tax which otherwise meets the requirements of paragraph (a) of this section shall not be deemed to fail to meet such requirements solely because it provides for one or more of the following three adjustments:

(1) The amount of a taxpayer's liability for tax is increased by the amount of the increase in such liability which would result from including in such taxpayer's gross income all of the following:

(i) An amount equal to the amount of his net State income tax deduction, as defined in paragraph (a) of § 301.6362–4, for the taxable year,

(ii) An amount equal to the amount of his net tax-exempt income, as defined in paragraph (b) of § 301.6362–4, for the taxable year, and

(iii) If a credit is allowed against the tax under paragraph (b)(3) of this section for sales tax imposed by the State or a political subdivision thereof, an amount equal to the amount of his deduction under section 164(a)(4) for such sales tax.

(2) A credit meeting the requirements of paragraph (c) of § 301.6362–4 is allowed against the tax for the income

tax of another State or a political subdivision thereof.

(3) A credit is allowed against the tax for all or a portion of any general sales tax imposed by the State or a political subdivision thereof with respect to sales either to the taxpayer or to one or more of his dependents.

(c) *Method of making adjustments.* Except as specifically provided in paragraphs (a)(2) and (b)(1) of this section and in paragraph (c)(2) of § 301.6362–4, no account shall be taken of any reduction or increase in the Federal adjusted gross income which would result from the exclusion from, or inclusion in, gross income of the items which are the subject of the adjustments provided in those paragraphs. Thus, for example, when for purposes of the calculation the taxpayer's Federal income tax liability is adjusted to reflect the exclusion from gross income of interest on obligations of the United States, no change shall be made in the amount of the taxpayer's deduction for medical expenses, or in the amount of his charitable contribution base, even though such amounts would ordinarily depend upon the amount of adjusted gross income. Also, when calculating the adjusted Federal tax liability to which the rate of the State tax is to be applied, no adjustment shall be made in the amount of any credit against Federal tax to which a taxpayer is entitled.

[T.D. 7577, 43 FR 59366, Dec. 20, 1978]

§ 301.6362–4 Rules for adjustments relating to qualified resident taxes.

(a) *Net State income tax deduction.* For purposes of section 6362 (b)(1)(B) and (c)(3)(B), and §§ 301.6362–2 and 301.6362–3, the ''net State income tax deduction'' shall be the excess (if any) of (1) the amount deducted from income under section 164(a)(3) as taxes paid to a State or to a political subdivision thereof, over (2) the amounts included in income as recoveries of prior income taxes which were paid to a State or to a political subdivision thereof and which had been deducted under section 164(a)(3).

(b) *Net tax-exempt income.* For purposes of section 6362 (b)(1)(C) and (c)(3)(A) and §§ 301.6362–2 and 301.6362–3, the ''net tax-exempt income'' shall be the excess (if any) of:

(1) The sum of (i) the interest on obligations described in section 103 (a)(1) other than obligations of the State imposing the tax and the political subdivisions thereof, and (ii) the interest on obligations described in such section of such State and the political subdivisions thereof which under the law of the State is subject to the tax; over

(2) The sum of (i) the amount of deductions allocable to the interest described in subparagraph (1) (i) or (ii) of this paragraph (b), which is disallowed pursuant to section 265 and the regulations thereunder, and (ii) the amount of the adjustment to basis allocable to such obligations which is required to be made for the taxable year under section 1016(a) (5) or (6).

For purposes of subparagraph (1)(ii) of this paragraph (b), a State may, at its option, subject to the tax the interest from all, none, or some of its section 103(a)(1) obligations and those of its political subdivisions. For example, a State may subject to tax all of such obligations other than those which it or its political subdivisions issued prior to a specified date, which may be the date that subchapter E became applicable to the State.

(c) *Credits for taxes of other jurisdictions*—(1) *In general.* A State tax law that provides for a credit, pursuant to section 6362(b)(2) (B) or (C) or section 6362(c)(4), and paragraph (b)(1) of § 301.6362–2 or paragraph (b)(2) of § 301.6362–3, for income tax of another State or a political subdivision thereof shall provide that, in the case of each taxpayer, the amount of the credit shall equal the amount of his liability with respect to such other jurisdiction's tax for the taxable year which runs concurrently with, or which ends in, the taxable year used by the taxpayer for purposes of the State tax which provides for the credit. Such a credit may be allowed with respect to every income tax (whether or not qualified) imposed on the taxpayer by another State or a political subdivision thereof, or only with respect to certain of such taxes. However, for purposes of this paragraph, the amount which is

treated as being the amount of the taxpayer's liability with respect to any such tax imposed by another jurisdiction shall not exceed the amount of liability for such tax which is both—

(A) Reported to the taxing authorities responsible for collecting such other jurisdiction's tax, and

(B) Substantiated pursuant to the requirements of paragraph (c)(1)(ii) of § 301.6361–1.

(2) *Limitation*. The amount of any credit allowed for the taxable year pursuant to this paragraph shall not exceed the product of the amount of the resident tax against which the credit is allowed, as computed without subtracting any such credit, multiplied by a fraction the numerator of which is the amount of income subject to tax by both the State imposing the resident tax against which the credit is allowed and the other jurisdiction whose tax is being credited, and the denominator of which is the amount of income subject to tax by the State imposing the resident tax against which the credit is allowed. For purposes of the preceding sentence, ''income subject to tax'' means the amount of the taxpayer's adjusted gross income which is taken into account for purposes of computing tax liability; in the case of a qualified resident tax, an appropriate modification shall be made to take into account any adjustments which are made pursuant to paragraph (a)(1) and (3) of § 301.6362–2, or pursuant to paragraph (a)(2) or (b)(1)(ii) of § 301.6362–3.

(3) *Examples*. The application of this paragraph may be illustrated by the following examples:

Example 1. (i) A, a calendar-year, cash-basis taxpayer, is a resident of State X throughout the taxable year. For such year, his adjusted gross income for Federal income tax purposes consists of $24,000, consisting of $3,000 derived from employment in State X, $5,000 derived from employment in State Y. $15,000 derived from employment in State Z, and $1,000 in interest income from United States savings bonds. In addition, he received net tax-exempt income in the amount of $2,000. For the taxable year, he incurs liabilities of $200 for the State Y nonresident income tax, and $1,400 for the State Z nonresident income tax. State X, which has in effect a State agreement for the taxable year, imposes a resident tax against which credits are allowed for the nonresident taxes imposed by States Y and Z. Without taking any such credits into account, however, the amount of A's liability for such resident tax would be $1,500. A properly reports his nonresident income tax liabilities to States Y and Z at the same time that he files his return with respect to the State X tax, and he substantiates on such return his liabilities to States Y and Z.

(ii) The amount of A's income subject to tax in State X is $25,000 (his adjusted gross income of $24,000, minus the United States savings bond income of $1,000, plus the net tax-exempt income of $2,000). The amount of the credit allowable against the State X resident tax for the amount of A's liability with respect to the State Y nonresident tax is calculated as follows: The maximum amount of credit is the actual amount of his liability to Y, or $200. Under subparagraph (2) of this paragraph, the amount of the credit is limited to $300 ($1,500 × $5,000/$25,000). Thus, such limit has no effect, and the full $200 is allowable as a credit against A's liability for the resident tax of State X. The amount of the credit allowable against the State X resident tax for the amount of A's liability with respect to the State Z nonresident tax is calculated as follows: The maximum amount of the credit is the actual amount of his liability to Z, or $1,400. Under subparagraph (2) of this paragraph, the amount of the credit is limited to $900 (1,500 × $15,000/$25,000). Thus, such limit has the effect of reducing to $900 the amount of the credit allowable for tax of State Z against A's liability for the resident tax of State X.

Example 2. (i) B, a calendar-year, cash-basis taxpayer, is a resident of State X employed in State Y through March 14, 1977. On March 15, 1977, B becomes a resident of State Z and remains a resident of such State through the remainder of 1977. For 1977, the amount of B's adjusted gross income for Federal income tax purposes is $20,000, consisting of $6,000 derived from employment in State Y which B held during the period of his residence in State X, $12,000 derived from employment in State Z which B held during the period of his residence in State Z, and $2,000 in interest income from various bank accounts. During 1977, B has no interest income from United States obligations, and no tax-exempt income. For 1977, B incurs a liability of $200 to State Y on account of its nonresident income tax imposed with respect to his $6,000 of income derived from sources within that State. State Z, which has in effect a State agreement for 1977, imposes a resident income tax on B which, if B had been a resident of State Z for all 1977, would amount to $1,200 prior to the allowance of any credits under this paragraph. However, by reason of paragraph (e)(1) of § 301.6362–6, B's liability for the resident tax of State Z, before taking into account

credits allowed under this paragraph, is reduced to $960 ($1,200 × 292/365, or 4/5). Furthermore, State Z allows a credit for the nonresident tax imposed by State Y.

(ii) The amount of the credit allowable against the State Z resident tax for the amount of B's liability with respect to the State Y nonresident tax is calculated as follows: The maximum amount of the credit is the amount of his actual liability to State Y, or $200. Under subparagraph (2) of this paragraph, the amount of the credit is limited to $288 ($960 × $6,000/$20,000). Thus, such limit has no effect, and the full $200 is allowable as a credit for tax of State Y against B's liability for the resident tax of State Z.

[T.D. 7577, 43 FR 59367, Dec. 20, 1978]

§ 301.6362–5 Qualified nonresident tax.

(a) *In general.* A tax meets the requirements of section 6362(d) and this section only if:

(1) The tax is imposed by a State which simultaneously imposes a resident tax meeting the requirements of section 6362(b) and § 301.6362–2 or of section 6362(c) and § 301.6362–3;

(2) The tax is required to be computed in accordance with either the method prescribed in paragraph (b) of this section or another method of which the Secretary or his delegate approves upon submission by the State of the laws pertaining to the tax;

(3) The tax is imposed only on the wage and other business income derived from sources within such State (as defined in paragraph (d) of this section), of all individuals each of whom derives 25 percent or more of his aggregate wage and other business income for the taxable year from sources within such State while he is neither (i) a resident of such State within the meaning of section 6362(e) and § 301.6362–6, nor (ii) exempt from liability for the tax by reason of a reciprocal agreement between such State and the State of which he is a resident within the meaning of those provisions;

(4) The amount of the tax imposed with respect to any individual does not exceed the amount of tax for which such individual would be liable under the qualified resident tax imposed by such State if he were a resident of the State for the period during which he earned wage or other business income from sources within the State, and if his taxable income for such period were an amount equal to the sum of the zero bracket amount (within the meaning of section 63(d) and determined as if he had been a resident of the State for such period) and the excess of:

(i) The amount of his wage and other business income derived from sources within the State, over

(ii) That portion of the sum of the zero bracket amount and the nonbusiness deductions (*i.e.*, all deductions from adjusted gross income allowable in computing taxable income) taken into account for purposes of the State's qualified resident tax which bears the same ratio to such sum as the amount described in subdivision (i) of this subparagraph bears to his total adjusted gross income for the year; and

(5) For purposes of the tax, wage or other business income is considered as being the income of the individual whose income it is for purposes of section 61.

(b) *Approved method of computing liability for qualified nonresident tax.* A tax satisfies the requirement of paragraph (a)(2) of this section if the amount of the tax is computed either as a percentage of the excess of the amount described in paragraph (a)(4)(i) of this section over the amount described in paragraph (a)(4)(ii) of this section, or by application of progressive rates to such excess.

(c) *Definition of wage and other business income.* For purposes of section 6362(d) and this section, the term ''wage and other business income'' means the following types of income:

(1) Wages, as defined in section 3401(a) and the regulations thereunder, but for these purposes:

(i) The amount of wages shall exclude amounts which are treated as wages under section 3402 (o) or (p) (relating to supplemental unemployment compensation benefits, annuity payments, and voluntary withholding agreements), and amounts which are treated as disability payments to the extent that they are excluded from gross income for Federal income tax purposes, pursuant to section 105(d), and

(ii) The amount of wages shall be reduced by those expenses which are directly related to the earning of such wages and with respect to which deductions are properly claimed from gross

income in computing adjusted gross income;

(2) Net earnings from self-employment, as defined in section 1402(a); and

(3) The distributive share of income of any trade or business carried on by a trust, estate, or electing small business corporation (as defined in section 1371(a) and the regulations thereunder), to the extent that such share:

(i) Is includible in the gross income of the taxpayer for the taxable year, and

(ii) Would constitute net earnings from self-employment if the trade or business were carried on by a partnership.

For purposes of this subparagraph, ''distributive share'' includes the income of a trust or estate which is taxable to the taxpayer as a beneficiary under applicable Federal income tax rules, and the undistributed taxable income of an electing small business corporation which is taxable to the taxpayer as a shareholder under section 1373.

(d) *Income derived from sources within a State*—(1) *Income attributable primarily to services*. Except as otherwise provided by Federal statute (see paragraphs (h), (i), and (j) of § 301.6362–7), wage income and other business income (net earnings from self-employment or distributive shares) which is attributable more to services performed by the taxpayer than to a capital investment of the taxpayer shall be considered to have been derived from sources within a State only if the services of the taxpayer which give rise to the income are performed in such State. If for a taxable year only a portion of the taxpayer's services giving rise to the income from one employment, trade, or business is performed within a State, then it shall be presumed that the amount of income from such employment, trade, or business which is derived from sources within that State equals that portion of the total income derived from such employment, trade, or business for the year which the amount of time spent by the taxpayer for such year performing services with respect to that employment, trade, or business in that State bears to the aggregate amount of time spent by the taxpayer for such year performing all of such services. However, the presumption stated in the preceding sentence may be rebutted in the event that the taxpayer proves, by use of detailed records, that the correct allocation of his income is otherwise.

(2) *Income attributable primarily to investment*. Except as otherwise provided by Federal statute (see paragraph (j) of § 301.6362–7), business income (net earnings from self-employment or distributive shares) which is attributable more to a capital investment of the taxpayer than to services performed by the taxpayer shall be considered to have been derived from sources within the State, if any, in which the significant activities of the trade or business are conducted. If for the taxable year only a portion of the significant activities conducted with respect to one trade or business is conducted within a certain State, then the portion of the taxpayer's total income for the year from such trade or business which is considered to be derived from sources within that State shall be computed as follows:

(i) *Allocation by records*. The portion of the taxpayer's total income from the trade or business which is considered to be derived from sources within the State shall be the portion which is allocable to such sources according to the records of the taxpayer or of the partnership, trust, estate, or electing small business corporation from which his income is derived, provided that the taxpayer establishes to the satisfaction of the district director, when requested to do so, that those records fairly and equitably reflect the income which is allocable to sources within the State. An allocation made pursuant to this subdivision shall be based on the location of the significant activities of the trade or business, and not on the location at which the taxpayer's personal services are performed.

(ii) *Allocation by formula*. If the taxpayer (or the trade or business) does not keep records meeting the requirements of subdivision (i) of this subparagraph, or if the taxpayer fails to meet the burden of proof set forth therein, then the amount of the taxpayer's income from the trade or business which is considered to be derived from

sources within the State shall be determined by multiplying the total of his income (as defined in paragraphs (c) (2) and (3) of this section) from the trade or business for the taxable year by the percentage which is the average of these three percentages:

(A) *Property percentage*. The percentage computed by dividing the average of the value, at the beginning and end of the taxable year, of real and tangible personal property connected with the taxpayer's trade or business and located within the State, by the average of the value, at the beginning and end of the taxable year, of all such property located both within and without the State. For this purpose, real property shall include real property rented to the taxpayer in connection with the trade or business, or rented to the trade or business.

(B) *Payroll percentage*. The percentage computed by dividing the total wages, salaries, and other compensation for personal services which is paid or incurred during the taxable year to employees in connection with the taxpayer's trade or business, and which would be treated as derived by such employees from sources within the State pursuant to subparagraph (1) of this paragraph (d), by the total of all such wages, salaries, and other compensation for personal services which is so paid or incurred without regard to whether such payments would be treated as derived by the employees from sources within the State. For purposes of this subdivision (ii), no amount paid as deferred compensation pursuant to a retirement plan to a former employee shall be taken into consideration.

(C) *Gross income percentage*. The percentage computed by dividing the gross sales or charges for services performed by or through an agency located within the State by the total of all gross sales or charges for services performed both within and without the State. The sales or charges to be allocated to the State shall include all sales which are negotiated, and charges which are for services performed, by an employee, agent, agency, or independent contractor chiefly situated at, or working principally out of an office located within, the State.

(3) *Income attributable to real estate investment*. Notwithstanding subparagraph (2) of this paragraph (d), income and deductions from the rental of real property, and gain and loss from the sale, exchange, or other disposition of real property, shall not be subject to allocation under subparagraph (2), but shall be considered as entirely derived from sources located within the State in which such property is located.

(4) *Treatment of losses*. A loss attributable to the taxpayer's employment, or to his conduct of, participation in, or investment in a trade or business, shall be allocated in the same manner as the income attributable to such employment or trade or business would be allocated pursuant to this paragraph.

(5) *Examples*. The application of this paragraph may be illustrated by the following examples:

Example 1. A, an employee who earns $10,000 in wage income attributable to services, and who has no other wage or other business income, spends 60 percent of his working time performing services for his employer in State X, 30 percent in State Y, and 10 percent in State Z. In the absence of the requisite proof to the contrary, A's wage income is considered to have been derived 60 percent from sources located within State X, 30 percent within State Y, and 10 percent within State Z. Assuming that A is a nonresident with respect to all three States, and that they all impose qualified nonresident taxes, then the qualified nonresident tax of State X is imposed on $6,000, the qualified nonresident tax of State Y is imposed on $3,000, and the qualified nonresident tax of State Z is not imposed on any of the income because A did not derive at least 25 percent of his wage and other business income from sources located within State Z.

Example 2. B, who earns no wage income but who has a total of $10,000 of other business income for the taxable year, all of which is net income from self-employment attributable primarily to services, spends 45 percent of his working time performing services in State X, 30 percent in State Y, and 25 percent in State Z. However, the rates that B is able to charge for his services and the business expenses which he incurs vary in the different States, and he is able to prove by detailed records that his net income from self-employment was in fact derived 50 percent from sources located within State X, 35 percent from sources located within State Y, and 15 percent from sources located within State Z. Assuming that B is a nonresident with respect to all three States, and that they all impose qualified nonresident taxes,

then the qualified nonresident tax of State X is imposed on $5,000, the qualified nonresident tax of State Y is imposed on $3,500, and the qualified nonresident tax of State Z is not imposed on any of the income because B did not derive at least 25 percent of his wage and other business income from sources located within State Z.

Example 3. C is a partner in a profitable business concern, in which he has a substantial capital investment. His net earnings from self-employment attributable to his partnership interest are $75,000 for the taxable year. The fair market value of the services which C performs for the partnership during the taxable year is $30,000. C's income is therefore attributable primarily to his capital investment. The partnership business is carried on partially within and partially without State X. Neither C nor the partnership maintains records from which the portion of C's $75,000 income which is considered to be derived from sources within State X can be satisfactorily proven. As determined under subparagraph (2) of this paragraph, the partnership's ''property percentage'' in State X is 70, its ''payroll percentage'' therein is 60, and its ''gross income percentage'' therein is 56. The amount of C's partnership income considered to be derived from sources within State X is $46,500 ($75,000 × 62 percent). This result would obtain even if C's services for the partnership are performed entirely within State X.

Example 4. Assume the same facts as in (3), except that the records of the partnership of which C is a member indicate that the net profits of the partnership are derived 40 percent from business activities conducted in State X, and 60 percent from business activities conducted in State Y. C is requested to prove that those records fairly and equitably reflect the income which is allocable to sources within State X. The documentary evidence which he adduces in support of the allocation made by the records shows how such allocation results from a careful step-by-step tracing of the profitability of each phase and aspect of the partnership's operations, and shows the State in which each such phase and aspect of the operations is conducted. C's proof is satisfactory to show that the percentage allocation, and the amount of his partnership income considered to be derived from sources within State X is $30,000, or $75,000 multiplied by 40 percent. This result would obtain even if B's services for the partnership are performed entirely within State X.

[T.D. 7577, 43 FR 59367, Dec. 20, 1978]

§ 301.6362–6 Requirements relating to residence.

(a) *In general.* A tax imposed by a State meets the requirements of section 6362(e) and this section if in effect it provides that:

(1) The State of residence of an individual, estate, or trust is determined according to paragraph (1), (2), or (3) respectively, of section 6362(e), and according to paragraph (b), (c), or (d), respectively, of this section.

(2) The liability for a resident tax imposed by such State upon an individual or trust which changes residence to another State in the taxable year is determined according to section 6362(e)(4) and paragraph (e) of this section.

(3) The rules relating to current collection of tax apply as provided in section 6362(e)(5) and paragraph (f) of this section.

(b) *Residence of an individual*—(1) *In general.* Except as otherwise provided in subparagraph (5) of this paragraph (b), an individual is treated as a resident of a State with respect to a taxable year only if:

(i) His principal place of residence (as defined in subparagraph (2) of this paragraph (b)) is within such State for a period of at least 135 consecutive days, at least 30 days of which are in such taxable year; or

(ii) In the case of a citizen or resident of the United States who is not a resident of any State (determined as provided in subdivision (i) of this subparagraph) with respect to such taxable year, his domicile (as defined in subparagraph (3) of this paragraph (b)) is in such State for at least 30 days during such taxable year.

With respect to an individual who is a resident (determined as provided in subdivision (i) of this subparagraph) of more than one State during a taxable year, see paragraph (e) of this section.

(2) *Principal place of residence*—(i) *Definition.* For purposes of subparagraph (1)(i) of this paragraph (b), and paragraph (d)(4) of this section, the term ''principal place of residence'' shall mean the place which is an individual's primary home. An individual's temporary absence from his primary home shall not effect a change with respect thereto. On the other hand, if an individual moves to another State, other than as a mere transient or sojourner, he shall be treated as having changed the location of his primary home.

(ii) *Examples*. The application of this subparagraph may be illustrated by the following examples:

Example 1. A has a city home and a country home. He resides in the city home for 7 months of the year and uses the address of that home as his legal residence for purposes of driver's license, automobile registration, and voter registration. He resides in the country home 5 months of the year. His city home is considered his principal place of residence.

Example 2. During the taxable year, B, a construction worker, is employed at several different locations in different States. The duration of each job on which he is employed ranges from a few weeks to several months, and he knows when he accepts a job what its approximate duration will be. He owns a house in State X which he uses as his legal residence for purposes of driver's license, automobile registration, and voter registration. In addition, his family lives there during the entire year, and B lives there during periods between jobs. However, the duration of the jobs and the distance between the job-sites and his house require him to live in the localities of the respective job-sites during the period of his employment, although occasionally he returns to his house in State X on weekends. B's house in State X is his principal place of residence during all of the taxable year.

Example 3. C, a dependent of his parents who are residents of State X, is a full-time student in a 4-year degree program at a college in State Y. During the 9-month academic year, C lives on the college campus, but he returns to his parents' home in State X for the summer recess. C gives the State Y as his residence for purposes of his driver's license and voter registration, but lists the address of his parents' home in State X as his ''permanent address'' on the records of the college which he attends. Although C's domicile remains at his parents' home in State X, his presence in State Y cannot be regarded as that of a mere transient or sojourner; accordingly, C's principal place of residence is in State Y for that portion of the taxable year during which he attends college.

Example 4. D loses his job in State X, where he lived and worked for many years. After a series of unsuccessful attempts to find other employment in State X, he accepts a job in State Y. D gives up his apartment in State X and moves to State Y upon commencing his new job; however, he intends to continue to explore available employment opportunities in State X so that he may return there as soon as an opportunity to do so arises. D changes his principal place of residence when he moves to State Y.

(3) *Domicile defined*. For purposes of subparagraph (1)(ii) of this paragraph (b), and paragraph (d)(4) of this section, the term ''domicile'' shall mean an individual's fixed or permanent home. An individual acquires a domicile in a place by living there; even for a brief period of time, with no definite present intention of later removing therefrom. Residence without the requisite intention to remain indefinitely will not suffice to change domicile, nor will intention to change domicile effect such a change until accompanied by actual removal. A domicile, once acquired, is maintained until a new domicile is acquired.

(4) *Period of residence*—(i) *General rule*. An individual who becomes a resident of a State pursuant to subparagraph (1) of this paragraph (b), or who is at the beginning of a taxable year a resident of a State pursuant to such provision, shall be treated as continuing to be a resident of such State through the end of the taxable year, unless, prior thereto, such individual becomes a resident, under the principles of subparagraph (1), of another State or a possession or foreign country. In the event that the individual becomes a resident of such another jurisdiction prior to the end of the taxable year, his residence in such State shall be treated as ending on the day prior to the day on which he becomes a resident of such other jurisdiction pursuant to subparagraph (1).

(ii) *Examples*. The application of this subparagraph may be illustrated by the following examples:

Example 1. A, a calendar-year taxpayer, has his principal place of residence in State X from the beginning of 1976 through August 1, 1976, when he gives up pemanently such principal place of residence. He spends the remainder of 1976 traveling outside of the United States, but does not become a resident of any other country. A is considered to be a resident of State X for the entire year 1976.

Example 2. Assume the same facts as in example 1, except that A ceases his traveling and establishes his principal place of residence in State Y on November 15, 1976. Assume, also, that A maintains that principal place of residence for more than 135 consecutive days. Under these circumstances, for his taxable year 1976, A is considered to be a resident of State X from January 1 through November 14, and a resident of State Y from November 15 through December 31.

(5) *Special rules.* (i) No provision of subchapter E or the regulations thereunder shall be construed to require or authorize the treatment of a Senator, Representative, Delegate, or Resident Commissioner as a resident of a State other than the State which he represents in Congress.

(ii) For special rules relating to members of the Armed Forces, see paragraph (h) of § 301.6362–7.

(6) *Examples.* The application of this paragraph may be illustrated by the following examples:

Example 1. A, a calendar-year taxpayer, maintains his principal place of residence in State X from December 1, 1976, through April 15, 1977. Assuming that A was not a resident of any other jurisdiction at any time during 1976, A is treated as a resident of State X for the entire year 1976. Such result would obtain even if A was absent from State X on vacation for some portion of December 1976. Moreover, such result would obtain even if it is assumed that A was a domiciliary of State Y from January 1, 1976, through April 15, 1977, because an individual's domicile does not determine his residence so long as residence in one State for the taxable year can be determined from the general rule stated in the first sentence of paragraph (b)(1) of this section.

Example 2. Assume the same facts as in example 1 (including the fact of A's domicile in State Y), except that A maintained his principal place of residence in State Z from September 15, 1975, through January 31, 1976, inclusive. With respect to the year 1976, A is treated as a resident of State Z from January 1 through November 30, and as a resident of State X from December 1 through December 31. A's liability for the qualified taxes of the respective States for 1976 shall be determined pursuant to the provisions in paragraph (e) of this section.

(c) *Residence of an estate.* An estate of an individual is treated as a resident of the last State of which such individual was a resident, as determined under the rules of paragraph (b) of this section, prior to his death. However, the estate of an individual who was not a resident of any State (as determined without regard to the 30-day requirement in paragraph (b)(1) of this section) immediately prior to his death, and who was not a resident of any State at any time during the 3-year period ending on the date of his death, is not treated as a resident of any State. For purposes of determining the decedent's last State of residence, the rules of paragraph (b) shall be applied irrespective of whether subchapter E was in effect at the time the period of 135 consecutive days of residence began, or whether the decedent's last State of residence is a State electing to enter into an agreement pursuant to subchapter E. The determination of the State of residence of an estate pursuant to this paragraph shall not be governed by any determination under State law as to which State is treated as the residence or domicile of the decedent for purposes other than its individual income tax (such as liability for State inheritance tax or jurisdiction of probate proceedings).

(d) *Residence of a trust*—(1) *In general.* (i) The State of residence of a trust shall be determined by reference to the circumstances of the individual who, by either an inter-vivos transfer or a testamentary transfer, is deemed to be the ''principal contributor'' to the trust under the provisions of subdivision (ii) of this subparagraph.

(ii) If only one individual has ever contributed assets to the trust, including the assets which were transferred to the trust at its inception, then such individual is the principal contributor to the trust. However, if on any day subsequent to the initial creation of the trust, such trust receives assets having a value greater than the aggregate value of all assets theretofore contributed to it, then the trust shall be deemed (for the limited purpose of determining the State of residence) to have been ''created'' anew, and the individual who on the day of such creation contributed more (in value) than any other individual contributed on that day shall become the principal contributor to the trust. When a trust is created anew, all references in this paragraph to the creation of the trust shall be construed as referring to the most recent creation. For purposes of this paragraph, the value of any asset shall be its fair market value on the day that it was contributed to the trust; any subsequent appreciation or depreciation in the value of the asset shall be disregarded.

(2) *Testamentary trust.* A trust with respect to which a deceased individual is the principal contributor by reason of property passing on his death is

treated as a resident of the last State of which such individual was a resident, as determined under the rules of paragraph (b) of this section, before his death. However, if such deceased individual was not a resident of any State (as determined without regard to the 30-day requirement in paragraph (b)(1) of this section) immediately prior to his death, and was not a resident of any State at any time during the 3-year period ending on the date of his death, then a testamentary trust of which he is the principal contributor by reason of property passing on his death is not treated as a resident of any State. All property passing on the transferor's death is treated for this purpose as a contribution made to the trust on the date of death, regardless of when the property is actually paid over to the trust.

(3) *Nontestamentary trust.* A trust which is not a trust described in subparagraph (2) of this paragraph (d), is treated as a resident of the State in which the principal contributor to the trust, during the 3-year period ending on the date of the creation of the trust, had his principal place of residence for an aggregate number of days longer than the aggregate number of days he had his principal place of residence in any other State. However, if the principal contributor to such a trust was not a resident of any State at any time during such 3-year period, then the trust is not treated as a resident of any State.

(4) *Special rules.* If the application of the provisions of the foregoing subparagraphs of this paragraph results in a determination of more than one State of residence for a trust, or does not provide a rule by which the residence or nonresidence of the trust can be determined, then the determination of the State of residence of such trust shall be made according to the rules of the applicable subdivision of this subparagraph.

(i) If, at the time of creation of the trust, 50 percent or more in value of the trust corpus consists of real property, then the trust shall be treated as a resident of the State in which more of the real property (in value) which was in the trust at such time was located than any other State.

(ii) If, at the time of creation of the trust, less than 50 percent in value of the trust corpus consists of real property, then the trust shall be treated as a resident of the State in which, at such time, the trustee, if an individual, had his principal place of residence, or, if a corporation, had its principal place of business. If there were two or more trustees, then the foregoing sentence shall be applied by reference to the principal places of residence, or of business, of the majority of trustees who had authority to make investment and other management decisions for the trust.

(iii) If, after application of the provisions of subdivisions (i) and (ii) of this subparagraph, the State of residence of the trust still cannot be ascertained, then the Commissioner of Internal Revenue shall determine the State of residence of such trust for purposes of qualified taxes. Such determination shall be made by reference to the number of significant contacts each State had with the trust at the time of its creation. Significant contacts shall include the principal place of residence of the principal contributor or contributors to the trust, the principal place of residence or business of the trustee (or trustees), the situs of the assets of which the trust corpus was composed, and the location from which management decisions emanated with respect to the business and investment interests of the trusts.

(5) *Examples.* The application of this paragraph may be illustrated by the following examples:

Example 1. A created a trust in 1950 by transferring to it certain stock in a corporation. At the time of such transfer, the stock had a fair market value of $1,000. A at all relevant times had his principal place of residence in State X, and accordingly the trust is treated as a resident of such State for qualified tax purposes. As of January 1, 1977, the stock originally contributed by A, which was at all times the only property in the trust, has a fair market value of $3,000. On such date, B, who has had his principal place of residence in State Y for more than 3 years, contributes to the trust property having a fair market value of $1,200. For purposes of determining the identity of the principal contributor to the trust and the State of residence of the trust, the stock contributed by A in 1950 continues to be valued for such purposes at $1,000. Thus, the trust is

treated as being created anew on January 1, 1977, with B as the principal contributor, and with State Y as its State of residence.

Example 2. C has his principal place of residence in State X continuously for many years, until August 1, 1978, when he establishes his principal place of residence in State Y. The change of residence is intended to be permanent, and C has no further contact with State X after such change. On January 1, 1980, C creates a nontestamentary trust. During the 3–year period ending on such date C had his principal place of residence in State X for 576 days, and in State Y for 519 days. Therefore, the trust is treated as a resident of State X.

(e) *Liability for tax on change of residence during taxable year*—(1) *In general.* If, under the principles contained in paragraph (b) or (d) of this section, an individual or trust becomes a resident, or ceases to be a resident, of a State, and is also a resident of another jurisdiction outside of such State during the same taxable year, the liability of such individual or trust for the resident tax of such State shall be determined by multiplying the amount which would be his or its liability for tax (computed after allowing the nonrefundable credits (*i.e.*, credits not corresponding to the credits referred to in section 6401(b) available against the tax)) if he or it had been a resident of such State for the entire taxable year by a fraction, the numerator of which is the number of days he or it was a resident of such State during the taxable year, and the denominator of which is the total number of days in the taxable year. The preceding sentence shall not apply by reason of the fact that an individual is born or dies during the taxable year, or by reason of the fact that a trust comes into existence or ceases to exist during the taxable year.

(2) *Residence determined by domicile.* When an individual is treated as a resident of a State by reason of being domiciled in such State, pursuant to paragraph (b)(1)(ii) of this section, then the numerator of the fraction provided in subparagraph (1) of this paragraph (e), shall be the number of days the individual was domiciled in the State during the taxable year.

(3) *Example.* The application of this paragraph may be illustrated by the following example:

Example. A, a calendar-year taxpayer, is a resident of State X continuously for many years prior to March 15, 1977. On such date, A retires and establishes a new principal place of residence in State Y. A earns $6,000 in 1977 prior to March 15, but receives no taxable income for the remainder of such year. If A had been a resident of State X for the entire taxable year 1977, his liability with respect to the qualified tax of such State (computed after allowing the nonrefundable credits available against the tax) would be $600. If he had been a resident of State Y for the entire taxable year 1977, his liability with respect to the qualified tax on that State (computed similarly) would be $400. Pursuant to the provisions in paragraph (e) of this section, A's liabilities for State qualified taxes for 1977 are as follows:

Liability for State *X* tax = $600 × 73 / 365 = $120

Liability for State *Y* Tax = $400 × 292 / 365 = $320.

(f) *Current collection of tax.* The State tax laws shall contain provisions for methods of current collection with respect to individuals which correspond to the provisions of the Internal Revenue Code of 1954 with respect to such current collection, including chapter 24 (relating to the collection of income tax at source on wages) and sections 6015, 6073, 6153, and other provisions of the Code relating to declarations (and amendments thereto) and payments of estimated income tax. Except as otherwise provided by Federal statute (see paragraphs (h), (i), and (j) of § 301.6362–7), in applying such provisions of the State tax laws:

(1) In the case of a resident tax, an individual shall be subject to the current collection provisions if either—

(i) He is a resident of the State within the meaning of paragraph (b) of this section, or

(ii) He has his principal place of residence (as defined in paragraph (b)(2) of this section) within the State,

And it is reasonable to expect him to have it within the State for 30 days or more during the taxable year.

(2) In the case of a nonresident tax, an individual shall be subject to the current collection provisions if he does not meet either description relating to an individual in subparagraph (1) of this paragraph (f), if he is not exempt from liability for the tax by reason for a reciprocal agreement between the

State of which he is a resident and the State imposing the tax, and if it is reasonable to expect him to receive wage or other business income derived from sources within the State imposing the tax (as defined in paragraph (d) of § 301.6362–5) for services performed on 30 days or more of the taxable year.

For additional rules relating to withholding see paragraph (d) of § 301.6361–1.

[T.D. 7577, 43 FR 59369, Dec. 20, 1978]

§ 301.6362–7 Additional requirements.

A State tax meets the additional requirements of section 6362(f) and this section only if:

(a) *State agreement must be in effect for period concerned.* A State agreement, as defined in paragraph (a) of § 301.6361–4, is in effect with respect to such tax for the taxable period in question.

(b) *State laws must contain certain provisions.* Under the laws of such State, the provisions of subchapter E and the regulations thereunder, as in effect from time to time, are applicable for the entire period for which the State agreement is in effect. Any change made by the State in such tax (other than an adjustment in the State law which is made solely in order to comply with a change in the Federal Law or regulations) shall not apply to taxable years beginning in any calendar year for which the State agreement is in effect unless the change is enacted before November 1 of such year.

(c) *State individual income tax laws can be only of certain kinds.* Such State does not impose any tax on the income of individuals other than (1) a qualified resident tax, and (2) either or both a qualified nonresident tax and a separate tax on income which is not wage and other business income as defined in paragraph (c) of § 301.6362–5 and which is received or accrued by individuals who are domiciled in the State, but who are not residents of the State (as defined in paragraph (b) of § 301.6362–6). For purposes of this paragraph, a tax imposed on the amount taxed under section 56 (as permitted under § 301.6362–2(b)(2)) shall be treated as an adjustment to and a part of the qualified resident tax. Also, tax laws which were in effect prior to the effective date of a State agreement and which are not repealed, but which are made inapplicable for the period during which the State agreement is in effect, shall be disregarded.

(d) *Taxable years must coincide.* The taxable years of all individuals, estates, and trusts under such tax are required to coincide with their taxable years used for purposes of the taxes imposed by chapter 1. Accordingly, when subchapter E begins to apply to a State, a taxpayer whose taxable year for purposes of the Federal income tax is different from his taxable year for purposes of the State income tax which precedes the qualified tax may have one short taxable year for purposes of such State income tax, so that thereafter his taxable years for purposes of the qualified tax will coincide with the Federal taxable year.

(e) *Married individuals.* Individuals who are married within the meaning of section 143 of the Code are prohibited from filing (1) a joint return for purposes of such State tax if they file separate Federal income tax returns, or (2) separate returns for purposes for such State tax if they file a joint Federal income tax return.

(f) *Penalties; no double jeopardy.* Under the laws of such State:

(1) Civil and criminal sanctions identical to those provided by subtitle F, and by title 18 of the United States Code (relating to crimes and criminal procedures), with respect to the taxes imposed on the income of individuals by chapter 1 and on the wages of individuals by chapter 24, apply to individuals and their employers who are subject to such State tax (and the collection and administration thereof, including the corresponding withholding tax imposed to implement the current collection of such State tax) as if such tax were imposed by chapter 1 or chapter 24, in the case of the withholding tax), except to the extent that the application of such sanctions is modified by regulations issued under subchapter E; and

(2) No other sanctions or penalties apply with respect to any act or omission to act in respect of such State tax.

See also paragraph (e) of § 301.6361–1 with respect to criminal penalties.

(g) *Partnerships, trusts, subchapter S corporations, and other conduit entities.*

Under the laws of such State, the State tax treatment of—

(1) Partnerships and partners,

(2) Trusts and their beneficiaries,

(3) Estate and their beneficiaries,

(4) Electing small business corporations (within the meaning of section 1371(a) and their shareholders, and

(5) Any other entity and the individuals having beneficial interests therein (such as a cooperative corporation and its shareholders), to the extent that such entity is treated as a conduit for purposes of the taxes imposed by chapter 1, corresponds to the tax treatment provided therefor with respect to the taxes imposed by chapter 1. For example, a subchapter S corporation shall not be subject to the State's corporate income tax on amounts which are includible in shareholders incomes which are subject to that State's individual income tax, except to the extent that the subchapter S corporation is subject to tax under Federal law. Similarly, a partnership shall not be subject to the State's unincorporated business income tax on amounts which are includible in partners' incomes which are subject to that State's individual income tax. However, the laws of the State which set forth the provisions of such State individual income tax shall authorize the Commissioner of Internal Revenue to require that the conduit entities described in this paragraph (or some of them) supply information to the Federal Government with respect to the source of income, the State of residence, or the amount of income of a particular type, of an individual, estate, or trust holding a beneficial interest in such conduit entity.

(h) *Members of armed forces*. The relief provided to any member of the Armed Forces by section 514 of the Soldiers' and Sailors' Civil Relief Act (50 U.S.C. App. section 574) is in no way diminished. Accordingly, for purposes of such State tax, an individual shall not be considered to have become a resident of a State solely because of his absence from his original State of residence under military order. Moreover, compensation for military service shall not be considered as income derived from a source within a State of which the individual earning such compensation is not a resident, within the meaning of paragraph (d) of § 301.6362–5. The preceding sentence shall not apply to nonmilitary compensation. Thus, for example, if an individual who is serving in State X as a member of the Armed Forces, and who is regarded as a resident of State Y under the Soldiers' and Sailors' Civil Relief Act, earns nonmilitary income in State X from a part-time job, such nonmilitary income may be subject to a qualified nonresident tax imposed by State X.

(i) *Withholding on compensation of employees of railroads, motor carriers, airlines, and water carriers*. There is no contravention of the provisions of section 26, 226A, or 324 of the Interstate Commerce Act, or of section 1112 of the Federal Aviation Act of 1958, with respect to the withholding of compensation to which such sections apply for purposes of the nonresident tax.

(j) *Income derived from interstate commerce*. There is no contravention of the provisions of the Act of September 14, 1959 (73 Stat. 555), with respect to the taxation of income derived from interstate commerce to which such statute applies.

[T.D. 7577, 43 FR 59372, Dec. 20, 1978]

§ 301.6363–1 State agreements.

(a) *Notice of election*. If a State elects to enter into a State agreement it shall file notice of such election with the Secretary or his delegate. The notice of election shall include the following:

(1) *Statement by the Governor*. A written statement by the Governor of the electing State:

(i) Requesting that the Secretary enter into a State agreement, and

(ii) Binding the Governor and his successors in office to notify the Secretary or his delegate immediately of the enactment, between the time of the filing of the notice of election and the time of the execution of the State agreement, of any law of that State which meets the description given in any of the subdivisions of subparagraph (2) of this paragraph (a), whether or not such law is intended to be administered by the United States pursuant to subchapter E.

(2) *Copy of State laws*. Certified copies of all laws of that State described in any of the following subdivisions of this subparagraph, and a specification

of laws described in subdivision (i) of this subparagraph as ''subchapter E laws'', of laws described in subdivision (ii) as ''other tax laws'', of laws described in subdivision (iii) as ''non-tax laws'', and of laws described in subdivision (iv) as ''interstate cooperation laws'':

(i) All of the State individual income tax laws (including laws relating to the collection or administration of such taxes or to the prosecution of alleged civil or criminal violations with respect to such taxes) which the State would expect the United States to administer pursuant to subchapter E if the State agreement is executed as requested. In order to have a valid notice, the State must have a tax which would meet the requirements for qualification specified in section 6362 and the regulations thereunder if a State agreement were in effect with respect thereto, with no conditions attached to the effectiveness of such tax other than the execution of a State agreement. Such tax must be effective no later than the January 1 specified in the State's notice of election as the date as of which subchapter E is desired to become applicable to the electing State, except that such effective date shall be deferred to the date provided in the State agreement for the beginning of applicability of subchapter E to the State, if the latter date is different from the date specified in the notice of election.

(ii) All of the State income tax laws applicable to individuals (including laws relating to the collection or administration of such taxes or to the prosecution of alleged civil or criminal violations with respect to such taxes) which the State would not expect the United States to administer but which may be in effect simultaneously (for any period of time) with the State agreement.

(iii) All of the State laws other than individual income tax laws which provide for the making of any payments by the State based on one or more criteria which the State may desire to verify by reference to information contained in returns of qualified taxes.

(iv) All of the State laws which may be in effect simultaneously (for any period of time) with the State agreement and which provide for cooperation or reciprocal agreement between the electing State and another State with respect to income taxes applicable to individuals.

(3) *Approval by legislature or authorization by constitutional amendment.* A certified copy of an Act or Resolution of the legislature of the electing State in which the legislature affirmatively expresses its approval of the State's entry into a State agreement, or a certified copy of an amendment to the constitution of such State by which the voters of the State affirmatively authorize such entry.

(4) *Opinion by State Attorney General or judgment of highest court.* A written statement by the State Attorney General to the effect that, in his opinion, no provision of the State's Constitution would be violated by the State law's incorporation by reference of the Federal individual income tax laws and regulations, as amended from time to time, by the Federal prosecution and trial of individuals who are alleged to have committed crimes with respect to the State's qualified tax (when it goes into effect as such), or by any other provision relating to such tax, considered as of the time it is being collected and administered by the Federal Government pursuant to subchapter E. However, if such a statement is not included in the notice of election, a judgment of the highest court of the State to the same effect may be submitted in its place.

(5) *Effective date.* A written specification of the January as of which subchapter E is desired to become applicable to the electing State.

(b) *Rules relating to time for filing notice of election.* An electing State must file its notice of election more than 6 months prior to the January 1 as of which the notice specifies that the provisions of subchapter E are desired to become applicable to such State. Thus, for example, if the date specified in the notice is January 1, 1979, the notice must be filed no later than June 30, 1978. However, because under the provisions of section 204(b) of the Federal-State Tax Collection Act of 1972 (86 Stat. 945), as amended by section 2116(a) of the Tax Reform Act of 1976

(90 Stat. 1910), the provisions of subchapter E will initially take effect on the first January 1 which is more than 1 year after the first date on which at least one State has filed a notice of its election (see § 301.6361–5), the notice of an election which causes subchapter E to initially take effect must be filed with the Secretary or his delegate more than 1 year prior to the January 1 as of which such notice specifies that the provisions of subchapter E are desired to become applicable to such State. Thus, for example, if such an initially electing State desires to elect subchapter E as of January 1, 1979, its notice must be filed no later than December 31, 1977. For purposes of this section, if the notice of election is sent by either registered or certified mail to the Secretary of the Treasury, Washington, D.C. 20220, then it shall be deemed to be filed on the date of mailing; otherwise, the notice of election shall be deemed to be filed when it is received by the Secretary or his delegate.

(c) *Procedures relating to defects in notice or tax laws.* If a State has filed a notice of election, then the Secretary shall, within 90 days after the notice is filed, notify the Governor of such State in writing of any defect in the notice of election which prevents it from being valid, and of any defect in the State's tax laws which causes the tax submitted to fail to meet the requirements for qualification specified in section 6362 and the regulations thereunder, other than the fact that no State agreement is in effect with respect thereto. Any such defect of which the Secretary does not notify the Governor within such 90-day period is waived. The Secretary or his delegate may, in his discretion, permit any of such defects of which the Governor is timely notified to be cured retroactively to the date of the filing of the notice of election, by amendment of the notice or the State law. Judicial review of the Secretary's determination that the notice of election or the tax laws, or both, contain defects, may be obtained as set forth in section 6363(d) and § 301.6363–4.

(d) *Execution and contents of State agreement.* If the Secretary does not timely notify the Governor of a defect in the notice of election or in the State's tax laws, as provided in paragraph (c) of this section, or if, as provided in such paragraph, all such defects have been cured retroactively, then the Secretary shall enter into a State agreement. The agreement shall include the following elements:

(1) *Effective date.* The agreement shall specify the January 1 as of which subchapter E will commence to be applicable to the State. Such date shall be the same as that specified in the notice of election pursuant to paragraph (a)(5) of this section, unless the parties agree to a different January 1, except that in no event shall a State agreement executed after November 1 specify the next January 1.

(2) *Obligation of Governor to notify the United States of changes in pertinent State laws.* The agreement shall require the Governor of the State, and his successors in office, to notify the Secretary or his delegate within 30 days of the enactment of any law of the State, after the execution of the agreement, of a type described in paragraph (a)(2) of this section.

(3) *Obligation of Governor to furnish to the United States information needed to administer State tax laws.* The agreement shall require the Governor and his successors to furnish to the Secretary or his delegate any information needed by the Federal Government to administer the State tax laws. Such information shall include, for example, a list (which shall be maintained on a current basis) of those obligations of the State or its political subdivisions described in section 103(a)(1) from which the interest is not subject to the qualified taxes of the State.

(4) *Identification of State official to act as liaison with Federal Government.* The agreement shall include a designation by the Governor of the State official or officials with whom the Secretary or his delegate should coordinate in connection with any questions or problems which may arise during the period for which the State agreement is effective, including those which may result from changes or contemplated changes in pertinent State laws.

(5) *Identification of State official to receive transferred funds.* The agreement

shall include a designation by the Governor of the State official who shall initially receive the funds on behalf of the State when they are transferred pursuant to section 6361(c) and § 301.6361–3.

(6) *Other obligations.* If the Secretary and the Governor both so agree, the agreement shall provide for additional obligations.

(e) *State agreement superseding certain other agreements.* For the period of its effectiveness, a State agreement shall supersede an otherwise effective agreement entered into by the State and the Secretary for the withholding of State income taxes from the compensation of Federal employees pursuant to 5 U.S.C. 5517 (or pursuant to 5 U.S.C. 5516, in the case of the District of Columbia).

[T.D. 7577, 43 FR 59373, Dec. 20, 1978]

§ 301.6363–2 Withdrawal from State agreements.

(a) *By notification.* If a State which has entered into a State agreement desires to withdraw from the agreement, its Governor shall file a notice of withdrawal with the Secretary or his delegate. A notice of withdrawal shall include the following documents:

(1) *Request by the Governor.* A request by the Governor of the State that the State agreement cease to be effective with respect to taxable years beginning on or after a specified January 1, except as provided in paragraph (b)(2) of § 301.6365–2 with respect to withholding in the case of fiscal year taxpayers.

(2) *Legislative approval of withdrawal.* A certified copy of an act or Resolution of the legislature of the State in which the legislature affirmatively expresses its approval of the State's withdrawal from the State agreement.

(3) *Identification of State official.* A written identification of the State official or officials with whom the Secretary or his delegate should coordinate in connection with the State's withdrawal from the State agreement.

(b) *By change in State law.* If any law of a State which has entered into a State agreement is enacted pertaining to individual income taxes (including the collection or administration of such taxes, and the prosecution of alleged civil or criminal violations with respect to such taxes), and if the Secretary or his delegate determines that as a result of such law the State no longer has a qualified tax, then such change in the State law shall be treated as a notification of withdrawal from the agreement. The Secretary shall notify the Governor in writing when a change is to be so treated. Such notification shall have the same effect as if, on the effective date of the disqualifying change in the law, the Governor had filed with the Secretary or his delegate a valid and sufficient notice of withdrawal requesting that the State agreement cease to be effective with respect to taxable years beginning on or after the first January 1 which is more than 6 months thereafter, subject to the exception with respect to withholding in the case of fiscal-year taxpayers. However, the cessation of effectiveness may be deferred to a subsequent January 1 if the Governor so requests and if the Secretary or his delegate in his discretion determines that the date of cessation provided in the preceding sentence would subject the State or its taxpayers to undue hardship. In addition, the Governor may request the Secretary or his delegate to permit the State's early withdrawal from the agreement, pursuant to paragraph (c)(2) of this section. Until the date of cessation of effectiveness of the State agreement, the change in State law which was treated as a notification of withdrawal, and any other such subsequent change that would be similarly treated, shall not be given effect for purposes of the Federal collection and administration of the State taxes. Similarly, such changes shall not be given effect for such purposes during the period of litigation if the State seeks judicial review of the action of the Secretary or his delegate pursuant to section 6363(d) or § 301.6363–4, even if such changes are ultimately found by the court not to disqualify the State's qualified tax. However, a change in State law which would be treated as a notice of withdrawal in the absence of this sentence shall not be so treated if, prior to the last November 1 preceding the January 1 on which the cessation of effectiveness of the State agreement is to occur, either such change in State law is retroactively repealed, or the State law is retroactively modified and

the Secretary or his delegate determines that with such modification the State has a qualified tax.

(c) *Rules relating to time of withdrawal*—(1) *General rule*. Except as provided in subparagraph (2) of this paragraph (c), a notice of withdrawal shall not be valid unless the January 1 specified therein is not earlier than the first January 1 which is more than 6 months subsequent to the date on which the notice is received by the Secretary or his delegate. Thus, for example, if the notice specifies January 1, 1980, for withdrawal, the notice must be received no later than June 30, 1979.

(2) *Early withdrawal*. The Secretary or his delegate may, in his discretion and upon written request by a Governor of a State who has filed a notice of withdrawal, waive the 6-months requirement of section 6363(b)(1) and subparagraph (1) of this paragraph (c), if the Secretary determines that:

(i) The State will suffer a hardship if required to meet such requirement, and

(ii) The early withdrawal requested by the Governor would be practicable from the standpoint of orderly collection of the qualified tax and administration of the State law by the Federal Government.

[T.D. 7577, 43 FR 59374, Dec. 20, 1978]

§ 301.6363–3 Transition years.

The State may by law provide for the transition to or from a qualified tax to the extent necessary to prevent double taxation or other unintended hardships, or to prevent unintended benefits, under State law. Generally, such provisions shall be administered by the State; but, if requested to do so by the Governor of the State, the Secretary or his delegate may in his discretion, agree to administer such provisions either solely or jointly with the State.

[T.D. 7577, 43 FR 59375, Dec. 20, 1978]

§ 301.6363–4 Judicial review.

(a) *General rule*. If the Secretary or his delegate determines pursuant to paragraph (c) of § 301.6363–1 that a State did not file a valid notice of election or does not have a tax which would meet the requirements for qualification specified in section 6362 and the regulations thereunder if a State agreement were in effect with respect thereto, or if he determines pursuant to paragraph (b) of § 301.6363–2 that a participating State has enacted a law as a result of which the State no longer has a qualified tax, such State may, within 60 days after its Governor has received notification of such determination, file a petition for the review of such determination with either the United States Court of Appeals for the circuit in which the State is located or the United States Court of Appeals for the District of Columbia. If a State files such a petition, the clerk of the court shall forthwith transmit a copy of the petition to the Secretary or his delegate, who in turn shall thereupon file in the court the record of proceedings on which the determination adverse to the State was based, as provided in section 2112 of title 28, United States Code.

(b) *Court of Appeals' jurisdiction*. The court of Appeals may affirm or set aside, in whole or in part, the action of the Secretary or his delegate; and (subject to the rules delaying the effectiveness of the change in State law provided in paragraph (b) of § 301.6363–2) the court may issue such other orders as may be appropriate with respect to taxable years which include any part of the period of litigation.

(c) *Review of Court of Appeals' judgment*. The judgment of the Court of Appeals shall be subject to review by the Supreme Court of the United States upon certiorari or certification sought by either party as provided in section 1254 of title 28, United States Code.

(d) *Effect of final judgment*. If a final judgment, rendered with respect to litigation involving a State's petition to review a determination of the Secretary or his delegate to the effect that the State's individual income tax laws included in its notice of election would not meet the requirements for qualification specified in section 6362 and the regulations thereunder if a State agreement were in effect with respect thereto, includes a determination that the State's tax would in fact meet such requirements, then the provisions of subchapter E shall apply to the State with respect to taxable years beginning on or after the first January 1 which is more than 6 months after the date of

such final judgment. If a final judgment, rendered with respect to litigation involving a State's petition to review a determination of the Secretary or his delegate to the effect that the State's previously-qualified tax ceases to qualify because of a change in the State's law, includes a determination that the State's tax does in fact cease to qualify, then the provisions of subchapter E (other than section 6363) shall cease to apply to the State with respect to taxable years beginning on or after the first January 1 which is more than 6 months after the date of such final judgment. See paragraph (b) of § 301.6365–2 for special rules with respect to withholding in the case of fiscal-year taxpayers.

(e) *Expeditious treatment of judicial proceedings*. Under section 6363(d)(4), any judicial proceedings to which a State and the United States are parties, and which are brought pursuant to section 6363, are entitled to receive a preference, and to be heard and determined as expeditiously as possible, upon request of the Secretary or the State.

[T.D. 7577, 43 FR 59375, Dec. 20, 1978]

§ 301.6365–1 Definitions.

(a) *State*. For purposes of subchapter E and the regulations thereunder, the term ''State'' shall include the District of Columbia, but shall not include the Commonwealth of Puerto Rico or any possession of the United States.

(b) *Governor*. For purposes of subchapter E and the regulations thereunder, the term ''Governor'' shall include the Mayor of the District of Columbia.

[T.D. 7577, 43 FR 59375, Dec. 20, 1978]

§ 301.6365–2 Commencement and cessation of applicability of subchapter E to individual taxpayers.

(a) *General rule*. Except for purposes of chapter 24 (relating to the collection of income tax at source on wages), whenever subchapter E begins or ceases to apply to any State (*i.e.*, a State agreement begins or ceases to be effective) as of any January 1, such commencement or cessation of applicability shall apply to taxable years of individuals beginning on or after such date. For example, if subchapter E begins to apply to a particular State on January 1, 1980, it would become applicable for calendar year 1980 for calendar-year taxpayers in that State; but if a taxpayer in the State is using a fiscal year running from July 1 to June 30, the subchapter would begin to apply (except for purposes of chapter 24) to that taxpayer on July 1, 1980, for his taxable year ending June 30, 1981. Similarly, if the subchapter ceases to apply to such State on January 1, 1982, it would cease to apply to calendar-year taxpayers after the end of calendar year 1981; but it would cease to apply (except for purposes of chapter 24) to fiscal-year taxpayers at the end of their fiscal years which are in progress on January 1, 1982. The cessation of applicability of subchapter E to a State does not affect rights, duties, and liabilities with respect to any taxable year for which subchapter E does apply with respect to any taxpayer (or his employer).

(b) *Special rules pertaining to withholding*—(1) *Subchapter E beginning to apply*. The Federal withholding system provided in chapter 24 shall go into effect for State individual income tax purposes with respect to wages paid on or after the January 1 as of which subchapter E begins to apply to a State. If an employee is subject to a qualified tax imposed by the State, such withholding system shall apply to his wages paid on or after that January 1, without regard to whether he is a calendar-year or fiscal-year taxpayer. See § 301.6363–3 with respect to transition-year rules.

(2) *Subchapter E ceasing to apply*. The Federal withholding system provided in chapter 24 shall cease to be effective for State tax purposes with respect to wages paid on or after the January 1 as of which subchapter E ceases to apply to the State, although fiscal-year taxpayers of that State continue to be subject to the other provisions of subchapter E for the remainder of their fiscal years then in progress. See § 301.6363–3 with respect to transition-year rules.

[T.D. 7577, 43 FR 59375, Dec. 20, 1978]

Abatements, Credits, and Refunds

PROCEDURE IN GENERAL

§ 301.6401–1 Amounts treated as overpayments.

(a) The term ''overpayment'' includes:

(1) Any payment of any internal revenue tax which is assessed or collected after the expiration of the period of limitation applicable thereto.

(2) Any amount allowable for a taxable year as credits under sections 31 (relating to tax withheld on wages), 39 (relating to certain uses of gasoline, special fuels, and, lubricating oil), 43 (relating to earned income credit), and 667(b) (relating to taxes paid by certain trusts) which exceeds the tax imposed by subtitle A of the Code (reduced by the credits allowable under subpart A of part IV of subchapter A of chapter 1 of the Code, other than the credits allowable under sections 31, 39, and 43) for such year.

(b) An amount paid as tax shall not be considered not to constitute an overpayment solely by reason of the fact that there was no tax liability in respect of which such amount was paid.

[T.D. 7204, 37 FR 17158, Aug. 25, 1972, as amended by T.D. 7537, 43 FR 13878, Apr. 3, 1978]

§ 301.6402–1 Authority to make credits or refunds.

The Commissioner, within the applicable period of limitations, may credit any overpayment of tax, including interest thereon, against any outstanding liability for any tax (or for any interest, additional amount, addition to the tax, or assessable penalty) owed by the person making the overpayment and the balance, if any, shall be refunded, subject to sections 6402 (c) and (d) and the regulations thereunder, to that person by the Commissioner.

[T.D. 8053, 50 FR 39662, Sept. 30, 1985]

§ 301.6402–2 Claims for credit or refund.

(a) *Requirement that claim be filed.* (1) Credits or refunds of overpayments may not be allowed or made after the expiration of the statutory period of limitation properly applicable unless, before the expiration of such period, a claim therefor has been filed by the taxpayer. Furthermore, under section 7422, a civil action for refund may not be instituted unless a claim has been filed within the properly applicable period of limitation.

(2) Except as provided in paragraph (b) of § 301.6091–1 (relating to hand-carried documents), if a taxpayer is required to file a claim for credit or refund using a particular form, then the claim, together with appropriate supporting evidence, shall be filed in a manner consistent with such form, form instructions, publications, or other guidance found on the IRS.gov Web site. If a taxpayer is filing a claim in response to an IRS notice or correspondence, then the claim must be filed in accordance with the specific instructions contained in the notice or correspondence regarding the manner of filing. Any other claim not described in the preceding sentences generally must be filed with the service center at which the taxpayer currently would be required to file a tax return for the type of tax to which the claim relates or via the appropriate electronic portal. For rules relating to interest in the case of credits or refunds, see section 6611. For rules treating timely mailing as timely filing, see section 7502. For rules relating to the time for filing a claim when the last day falls on Saturday, Sunday, or a legal holiday, see section 7503.

(b) *Grounds set forth in claim.* (1) No refund or credit will be allowed after the expiration of the statutory period of limitation applicable to the filing of a claim therefor except upon one or more of the grounds set forth in a claim filed before the expiration of such period. The claim must set forth in detail each ground upon which a credit or refund is claimed and facts sufficient to apprise the Commissioner of the exact basis thereof. The statement of the grounds and facts must be verified by a written declaration that it is made under the penalties of perjury. A claim which does not comply with this paragraph will not be considered for any purpose as a claim for refund or credit.

(2) The IRS does not have the authority to refund on equitable grounds penalties or other amounts legally collected.

(c) *Form for filing claim.* If a particular form is prescribed on which the claim must be made, then the claim must be made on the form so prescribed. For special rules applicable to refunds of income taxes, see § 301.6402–3. For provisions relating to credits and refunds of taxes other than income tax, see the regulations relating to the particular tax. All claims by taxpayers for the refund of taxes, interest, penalties, and additions to tax that are not otherwise provided for must be made on Form 843, ''Claim for Refund and Request for Abatement.''

(d) *Separate claims for separate taxable periods.* In the case of income and gift taxes, income tax withheld, taxes under the Federal Insurance Contributions Act, taxes under the Railroad Retirement Tax Act, and taxes under the Federal Unemployment Tax Act, a separate claim must be made for each return for each taxable period.

(e) *Proof of representative capacity.* If a return is filed by an individual and, after his death, a refund claim is filed by his legal representative, certified copies of the letters testamentary, letters of administration, or other similar evidence must be annexed to the claim, to show the authority of the legal representative to file the claim. If an executor, administrator, guardian, trustee, receiver, or other fiduciary files a return and thereafter a refund claim is filed by the same fiduciary, documentary evidence to establish the legal authority of the fiduciary need not accompany the claim, provided a statement is made in the claim showing that the return was filed by the fiduciary and that the latter is still acting. In such cases, if a refund is to be paid, letters testamentary, letters of administration, or other evidence may be required, but should be submitted only upon the receipt of a specific request therefor. If a claim is filed by a fiduciary other than the one by whom the return was filed, the necessary documentary evidence should accompany the claim. A claim may be executed by an agent of the person assessed, but in such case a power of attorney must accompany the claim.

(f) *Mailing of refund check.* (1) Checks in payment of claims allowed will be drawn in the names of the persons entitled to the money and, except as provided in subparagraph (2) of this paragraph (f), the checks may be sent direct to the claimant or to such person in care of an attorney or agent who has filed a power of attorney specifically authorizing him to receive such checks.

(2) Checks in payment of claims which have either been reduced to judgment or settled in the course or as a result of litigation will be drawn in the name of the person or persons entitled to the money and will be sent to the Assistant Attorney General, Tax Division, Department of Justice, for delivery to the taxpayer or the counsel of record in the court proceeding.

(3) For restrictions on the assignment of claims, see section 3477 of the Revised Statutes (31 U.S.C. 203).

(g) *Misdirected direct deposit refund*—(1) *Definition.* The term *misdirected direct deposit refund* includes any refund of an overpayment of tax that is disbursed as a direct deposit but is not deposited into the account designated on the claim for refund to receive the direct deposit refund.

(2) *Procedures for reporting a misdirected direct deposit refund*—(i) *In general.* A taxpayer or a taxpayer's authorized representative may report to the IRS that the taxpayer never received a direct deposit refund and request a replacement refund. The report must include the name of the taxpayer who requested the refund, the taxpayer identification number of the taxpayer, the taxpayer's mailing address, the type of return to which the refund is related, the account number and routing number that the taxpayer requested the refund be directly deposited into, and any other information necessary to locate the misdirected direct deposit refund.

(ii) *How to report a misdirected direct deposit refund.* A reporting described in paragraph (g)(2)(i) of this section may be made in the following ways:

(A) By calling the IRS;

(B) On the form prescribed by the IRS and in accordance with the applicable publications, instructions, or other appropriate guidance;

(C) By contacting the Office of the Taxpayer Advocate by telephone, by mail, facsimile, or in person; or

(D) By submitting the appropriate form in person at a Taxpayer Assistance Center.

(3) *Procedures for coordination with financial institutions*—(i) *Identification of the account that received the misdirected direct deposit refund.* If the IRS receives a report described in paragraph (g)(2)(ii) of this section, the IRS will confirm that the overpayment was issued as a direct deposit. The IRS will confirm that the overpayment was not credited or offset pursuant to the law in effect immediately prior to the direct deposit being disbursed. If the direct deposit described in the report was issued, the IRS will initiate a refund trace to request the assistance of the Department of the Treasury's Bureau of the Fiscal Service. In accordance with its own procedures, the Bureau of the Fiscal Service coordinates with the financial institution that holds directly or indirectly the deposit account into which the refund was made, requesting from the financial institution such information as is necessary to identify whether the financial institution received the refund; whether the financial institution returned, or will return, the refund to the IRS, or if no funds are available for return; whether a deposit was made into the account designated on the claim for refund; and the identity of the deposit account owner to whom the deposit was disbursed.

(ii) *Coordination to recover the amounts transferred.* Recovery of the misdirected direct deposit refund from a financial institution shall follow the procedures established by the Bureau of the Fiscal Service. The Bureau of the Fiscal Service shall request the return of the misdirected direct deposit refund from the financial institution that received it. The IRS may contact the financial institution directly to recover the misdirected direct deposit refund.

(4) *Issuance of replacement refund.* When the IRS has determined that a misdirected direct deposit refund has occurred, the IRS will issue a replacement refund in the full amount of the refund that was misdirected. The replacement refund may be issued as a direct deposit or as a paper check sent to the taxpayer's last known address.

(5) *Applicability of this paragraph (g) to missing refunds.* The provisions of paragraphs (g)(2) through (g)(3)(i) of this section should be used for any refund that was disbursed as a direct deposit and that the taxpayer reports as missing. For example, although a refund that was deposited into an incorrect bank account because the taxpayer transposed two digits in their bank account number is not considered to be a misdirected direct deposit refund, the provisions of paragraphs (g)(2) through (g)(3)(i) of this section should be used. If the application of these procedures results in an amount recovered by the IRS, the recovered amount will be refunded or credited as allowed by law.

(h) *Applicability dates.* Paragraphs (a)(2), (b)(2), (c), and (d) of this section apply to claims for credit or refund filed on or after July 24, 2015. Paragraphs (a)(1), (b)(1), (e), and (f) of this section apply to claims for credit or refund filed before, on or after July 24, 2015. Paragraph (g) of this section applies to reports described in paragraph (g)(2)(ii) of this section made after December 22, 2020.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7008, 34 FR 3673, Mar. 1, 1969; T.D. 7188, 37 FR 12794, June 29, 1972; T.D. 7410, 41 FR 11020, Mar. 16, 1976; T.D. ATF–33, 41 FR 44038, Oct. 6, 1976; T.D. 7484, 42 FR 22143, May 2, 1977; T.D. 9727, 80 FR 43951, July 24, 2015; T.D. 9940, 85 FR 83447, Dec. 22, 2020]

§ 301.6402–3 Special rules applicable to income tax.

(a) The following rules apply to a claim for credit or refund of income tax:—

(1) In general, in the case of an overpayment of income taxes, a claim for credit or refund of such overpayment shall be made on the appropriate income tax return.

(2) In the case of an overpayment of income taxes for a taxable year of an individual for which a Form 1040 or 1040A has been filed, a claim for refund shall be made on Form 1040X

(''Amended U.S. Individual Income Tax Return'').

(3) In the case of an overpayment of income taxes for a taxable year of a corporation for which a Form 1120 has been filed, a claim for refund shall be made on Form 1120X (''Amended U.S. Corporation Income Tax Return'').

(4) In the case of an overpayment of income taxes for a taxable year for which a form other than Form 1040, 1040A, or 1120 was filed (such as Form 1041 (U.S. Fiduciary Income Tax Return) or Form 990T (Exempt Organization Business Income Tax Return)), a claim for credit or refund shall be made on the appropriate amended income tax return.

(5) A properly executed individual, fiduciary, or corporation original income tax return or an amended return (on 1040X or 1120X if applicable) shall constitute a claim for refund or credit within the meaning of section 6402 and section 6511 for the amount of the overpayment disclosed by such return (or amended return). For purposes of section 6511, such claim shall be considered as filed on the date on which such return (or amended return) is considered as filed, except that if the requirements of § 301.7502–1, relating to timely mailing treated as timely filing are met, the claim shall be considered to be filed on the date of the postmark stamped on the cover in which the return (or amended return) was mailed. A return or amended return shall constitute a claim for refund or credit if it contains a statement setting forth the amount determined as an overpayment and advising whether such amount shall be refunded to the taxpayer or shall be applied as a credit against the taxpayer's estimated income tax for the taxable year immediately succeeding the taxable year for which such return (or amended return) is filed. If the taxpayer indicates on its return (or amended return) that all or part of the overpayment shown by its return (or amended return) is to be applied to its estimated income tax for its succeeding taxable year, such indication shall constitute an election to so apply such overpayment, and no interest shall be allowed on such portion of the overpayment credited and such amount shall be applied as a payment on account of the estimated income tax for such year or the installments thereof.

(6) Notwithstanding paragraph (a)(5) of this section, the Internal Revenue Service, within the applicable period of limitations, may credit any overpayment of individual, fiduciary, or corporation income tax, including interest thereon, against—

(i) First, any outstanding liability for any tax (or for any interest, additional amount, additions to the tax, or assessable penalty) owed by the taxpayer making the overpayment;

(ii) Second, in the case of an individual taxpayer, amounts of past-due support assigned to a State under section 402(a)(26) or 471(a)(17) of the Social Security Act under procedures set forth in the regulations under section 6402(c);

(iii) Third, past-due and legally enforceable debt under procedures set forth in the regulations under section 6402(d); and

(iv) Fourth, qualifying amounts of past-due support not assigned to a State under procedures set forth in the regulations under section 6402 (c).

Only the balance, if any, of the overpayment remaining after credits described in this paragraph (a)(6) shall be treated in the manner so elected.

(b) [Reserved]

(c) If the taxpayer is not required to show the tax on the form (see section 6014 and the accompanying regulations), the IRS will treat a properly filed income tax return as a claim for refund and such return will constitute a claim for refund within the meaning of section 6402 and section 6511 for the amount of the overpayment shown by the computation of the tax made by the IRS on the basis of the return. For purposes of the limitations period of section 6511, such claim will be treated as filed on the date the return is treated as filed.

(d) In any case in which a taxpayer elects to have an overpayment refunded to him he may not thereafter change his election to have the overpayment applied as a payment on account of his estimated income tax.

(e) In the case of a nonresident alien individual or foreign corporation, the appropriate income tax return on which the claim for refund or credit is

made must contain the tax identification number of the taxpayer required pursuant to section 6109 and the entire amount of income of the taxpayer subject to tax, even if the tax liability for that income was fully satisfied at source through withholding under chapters 3 or 4 of the Internal Revenue Code (Code). Also, if the overpayment of tax resulted from the withholding of tax at source under chapter 3 or 4 of the Code, a copy of the Form 1042–S, ''Foreign Person's U.S. Source Income subject to Withholding,'' Form 8805, ''Foreign Partner's Information Statement of Section 1446 Withholding Tax,'' or other statement (required under § 1.1446–3(d)(2) of this chapter) required to be provided to the beneficial owner or partner pursuant to § 1.1461–1(c)(1)(i), § 1.1474–1(d)(1)(i), or § 1.1446–3(d) of this chapter must be attached to the return. For purposes of claiming a refund, the Form 8805 or other statement must include the taxpayer identification number of the beneficial owner or partner even if not otherwise required. No claim for refund or credit under chapter 65 of the Code may be made by the taxpayer for any amount that the payor has repaid to the taxpayer pursuant to reimbursement or set-off procedures (described in § 1.1461–2(a)(2),(3) or § 1.1474–2(a)(3), (4) of this chapter). In addition, no claim for refund or credit may be made by a taxpayer for any amount that has been repaid to a qualified intermediary (as described in § 1.1441–1(e)(5)(ii)) or a participating FFI (as described in § 1.1471–1(b)(91)) pursuant to a collective refund filed by such entity on behalf of the taxpayer. See § 1.1441–1(e)(5)(iii) (describing a qualified intermediary agreement) and § 1.1471–4(h) (describing a collective refund). Upon request, a taxpayer must also submit such documentation as the IRS, may require establishing that the taxpayer is the beneficial owner of the income for which a claim for refund or credit is being made and verifying the grounds and facts set forth in taxpayer's claim as required by § 301.6402–2(b)(1). See § 1.1474–5 for additional requirements that may apply in the case of a refund of tax withheld under chapter 4.

(f) *Effective/applicability date*—(1) Except as provided in paragraph (f)(2) of this section, this section applies on or after January 6, 2017. (For payments made after June 30, 2014, and before January 6, 2017, see this section as in effect and contained in 26 CFR part 1, revised April 1, 2016.)

(2) References in paragraph (e) of this section to Form 8805 or other statements required under § 1.1446–3(d)(2) shall apply to partnership taxable years beginning after April 29, 2008. References in paragraph (e) of this section to amounts withheld under chapter 4 of the Code and claims made with respect to amounts withheld under chapter 4 of the Code shall apply to withholdable payments made after June 30, 2014.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7102, 36 FR 5498, Mar. 24, 1971; T.D. 7234, 37 FR 28163, Dec. 21, 1972; T.D. 7293, 38 FR 32804, Nov. 28, 1973; T.D. 7298, 38 FR 35234, Dec. 26, 1973; T.D. 7410, 41 FR 11020, Mar. 16, 1976; T.D. 7808, 47 FR 5714, Feb. 8, 1982; T.D. 8053, 50 FR 39662, Sept. 30, 1985; T.D. 8734, 62 FR 53495, Oct. 14, 1997; T.D. 9394, 73 FR 23086, Apr. 29, 2008; T.D. 9658, 79 FR 12809, Mar. 6, 2014; T.D. 9727, 80 FR 43951, July 24, 2015; T.D. 9808, 82 FR 2121, Jan. 6, 2017]

§ 301.6402–4 Payments in excess of amounts shown on return.

(a) If the IRS determines that the payments by the taxpayer that are made within the period prescribed for payment and before the filing of the return exceed the amount of tax shown on the return (for example, excessive estimated income tax payments or excessive withholding), the IRS may credit or refund such overpayment without awaiting examination of the completed return and without awaiting the filing of a claim for refund. The provisions of §§ 301.6402–2 and 301.6402–3 are applicable to such overpayment, and taxpayers should submit claims for refund (if the income tax return is not itself a claim for refund, as provided in § 301.6402–3) to protect themselves in the event the IRS fails to make such determination and credit or refund. The provisions of section 6405 (relating to reports of refunds in excess of the statutorily prescribed threshold referral amount to the Joint Committee on Taxation) do not apply to the overpayments described in this section.

(b) *Effective/applicability date.* The rules of this section apply to payments made on or after July 24, 2015.

[T.D. 9727, 80 FR 43951, July 24, 2015]

§ 301.6402–5 Offset of past-due support against overpayment.

(a) *Introduction*—(1) *Scope.* Section 6402(c) requires the Secretary of the Treasury or his delegate to reduce the amount of any overpayment to be refunded to a person making an overpayment by the amount of past-due support owed by that person of which the Secretary has been notified in accordance with section 464 of the Social Security Act. Past-due support shall be collected by offset under section 6402(c) and this section in the same manner as if it were a liability for tax imposed by the Internal Revenue Code of 1954 (except that a liability for tax shall be given priority with respect to offset arising under section 6402(a)). Collection by offset under section 6402(c) of this section is a collection procedure separate from the collection procedures provided by section 6305 and § 301.6305–1, relating to assessment and collection of certain child and spousal support liabilities. The sole collection procedure provided by section 6402(c) and this section is that of offset against overpayment. Section 6305 and § 301.6305–1, by contrast, provide for other collection procedures in addition to collection by offset against overpayment. Sections 6305 and 6402(c) have differing procedural requirements and may be used separately or in conjunction with each other.

(2) *General rule.* An amount of past-due support qualifies for offset under this section if it satisfies the requirements of paragraph (b) of this section. A State shall submit to the Department of Health and Human Services a notification of liability for qualifying past-due support containing the information described in paragraph (c) of this section. A qualifying amount of past-due support owed by a taxpayer who has made an overpayment shall be collected in accordance with the procedures set forth in paragraph (d) of this section. Under paragraph (d), the balance of any overpayment remaining after crediting of the overpayment under section 6402(a) to any liability for an internal revenue tax on the part of the taxpayer shall be offset by the amount of past-due support of which the Internal Revenue Service has been notified. The amount of the overpayment not subject to offset for any liability for an internal revenue tax or for past-due support shall be promptly refunded to the taxpayer. Paragraph (e) of this section requires that the Internal Revenue Service notify the taxpayer of the amount of the offset and of the State to which it has been paid. Under procedures set forth in paragraph (f) of this section, amounts collected by offset shall be transferred to a special account maintained by the Bureau of Government Financial Operations for distribution to the States. The Internal Revenue Service shall make monthly collection reports to the Secretary of Health and Human Services or his delegate. The States shall reimburse the Secretary of the Treasury for the full cost of the refund offset under paragraph (g) of this section.

(b) *Past-due support*—(1) *Definition.* For purposes of this section, the term ''past-due support'' means the amount of a delinquent obligation, which amount was determined under a court order, or an order pursuant to an administrative process established under State law, for support and maintenance of a child or of a child and the parent with whom the child is living.

(2) *Past-due support qualifying for offset.* Past-due support qualifies for offset under section 6402(c) and this section if—

(i) There has been as assignment of the support obligation to a State pursuant to section 402(a)(26) of the Social Security Act (relating to aid and service to needy families with children) and that State has made reasonable efforts to collect the amount of the obligation;

(ii) The amount of past-due support is not less than $150.00;

(iii) The past-due support has been delinquent for three months or longer; and

(iv) A notification of liability for past-due support has been received by the Secretary of the Treasury as prescribed by paragraph (c) of this section.

(c) *Notification of liability for past-due support*—(1) *Form.* A State shall, by October 1 of each year, submit a notification (or notifications) of liability for past-due support on magnetic tape to the Special Collection Activities Unit. Office of Child Support Enforcement, Department of Health and Human Services, 6110 Executive Boulevard, Suite 900, Rockville, Maryland 20852, Attention: Tax Refund Offset—Tape Processing.

(2) *Content.* The notification of liability for past-due support shall contain with respect to each taxpayer—

(i) The name of the taxpayer who owes the past-due support;

(ii) The social security number of that taxpayer;

(iii) The amount of past-due support owed; and

(iv) The alphabetical designation of the State submitting the notification of liability for past-due support.

The Secretary of Health and Human Services may also require such other information from the State submitting the notification as is necessary for his orderly consolidation of data for transmittal to the Internal Revenue Service.

(3) *Transmittal of notification to Internal Revenue Service.* The Secretary of Health and Human Services shall, by December 1 of each year, consolidate and transmit to the Internal Revenue Service on magnetic tape the data contained in the notifications of liability for past-due support submitted by the participating States.

(4) *Correction of notification.* If, after submitting a notification of liability for past-due support, a State determines that an error has been made with respect to the information contained in the notification, or if a State receives a payment or credits a payment to the account of a taxpayer named in this notification, the State shall promptly notify the Office of Child Support Enforcement of the Department of Health and Human Services of these corrections in accordance with any time limitations specified by the Office of Child Support Enforcement. That Office shall promptly transmit these corrections to the Internal Revenue Service and the Internal Revenue Service shall make the appropriate correction of the notification of liability for past-due support. However, in no case shall a State notify the Internal Revenue Service under this paragraph (c)(4) of an increased amount of past-due support owed by a taxpayer named in its notification of liability for past-due support. The correction notification described in this paragraph (c)(4) is to be submitted only for the purpose of completing or correcting the information contained in the notification of liability for past-due support.

(d) *Collection*—(1) *Priority of offset for outstanding tax liability.* Under section 6402(a) and § 301.6402–1, the Commissioner may credit any overpayment of tax against any outstanding liability for any tax owed by the person making the overpayment. Only the balance remaining after such crediting is available for offset under section 6402(c) of this section. Thus, if a taxpayer making an overpayment has both an outstanding tax liability and a liability for past-due support subject to this section, then the entire amount of the overpayment shall be credited first against the outstanding tax liability under section 6402(a) and § 301.6402–1 and only the remainder, if any, of the overpayment will be offset by the amount of past-due support. However, an overpayment shall be offset by an amount of past-due support under section 6402(c) before any crediting of the overpayment to any future liability for an internal revenue tax. Thus, for example, if no outstanding tax liability is owed and the amount of an overpayment is equal to or less than the amount of past-due support, the Internal Revenue Service shall offset the overpayment by the amount of past-due support before crediting the overpayment against the taxpayer's estimated income tax for the succeeding taxable year under section 6402(b).

(2) *Amounts subject to offset.* The balance of any overpayment remaining after a crediting of the overpayment under section 6402(a) to any outstanding liability for tax on the part of the taxpayer shall be offset by the amount of past-due support of which the Internal Revenue Service has been notified under this section.

(3) *Amounts not subject to offset.* The amount of an overpayment not subject

to offset for any liability for tax or for past-due support shall be promptly refunded to the taxpayer.

(e) *Notice of offset.* The Internal Revenue Service shall notify the taxpayer in writing of the amount and date of the offset for past-due support and of the State to which this amount of past-due support has been paid.

(f) *Disposition of amounts collected.* Amounts collected under this section shall be transferred to a special account maintained by the Bureau of Government Financial Operations. The Internal Revenue Service shall advise the Secretary of Health and Human Services or his delegate on a monthly basis of the names and social security numbers of the taxpayers from whom the amounts of past-due support were collected, of the amounts collected from each taxpayer, and of the State on whose behalf each collection was made. After authorization by the Division of Finance of the Social Security Administration, the Bureau of Government Financial Operations of the Department of the Treasury shall pay to the participating States amounts equal to the amounts collected under this section.

(g) *Fee.* A refund offset fee in the amount of $17.00 per offset for taxable year 1981, or such greater or smaller amount as the Secretary of the Treasury and the Secretary of Health and Human Services have agreed to be sufficient to reimburse the Internal Revenue Service for the full cost of the offset procedure, shall be billed and collected from the participating States by the Secretary of Health and Human Services or his delegate and deposited in the United States Treasury and credited to the appropriation accounts of the Internal Revenue Service which bore all or part of the costs involved in making the collection.

(h) Effective dates. This section applies to refunds payable on or before January 1, 1999. For the rules applicable after January 1, 1999, see 31 CFR part 285.

[T.D. 7895, 48 FR 22709, May 20, 1983, as amended by T.D. 8837, 64 FR 48548, Sept. 7, 1999]

§ 301.6402–6 Offset of past-due, legally enforceable debt against overpayment.

(a) *General rule.* (1) A Federal agency (as defined in section 6402(f)) that has entered into an agreement with the Internal Revenue Service with regard to its participation in the tax refund offset program and that is owed a past-due, legally enforceable debt may refer the past-due, legally enforceable debt to the Internal Revenue Service to be collected by Federal tax refund offset. The Service shall, after making appropriate credits as provided by § 301.6402–3(a)(6) (i) and (ii), reduce the amount of any overpayment payable to a taxpayer by the amount of any past-due, legally enforceable debt owed to the agency and properly referred to the Service. This section does not apply to any debt subject to section 464 of the Social Security Act (past-due support).

(2)(i) This section applies to OASDI overpayments provided the requirements of 31 U.S.C. 3720A(f)(1) and (2) are met with respect to such overpayments.

(ii) For purposes of this section, ''OASDI overpayment'' means any overpayment of benefits made to an individual under title II of the Social Security Act.

(b) *Eligible Federal agencies.* (1) A Federal agency is eligible to participate in the tax refund offset program if the agency—

(i) Has promulgated temporary of final regulations under 31 U.S.C. 3720A, governing the operation of the Federal tax refund offset program in the agency;

(ii) Has promulgated temporary or final regulations under 31 U.S.C. 3716, governing the operation of the administrative offset program in the agency; and

(iii) Has promulgated temporary or final regulations under 5 U.S.C. 5514(a), governing the operation of the salary offset program in the agency (unless the agency has certified that, relying on the most current information reasonably available, it will not refer to the Service any names of present or former Federal employees or other persons whose debts are subject to offset under the provisions of 5 U.S.C. 5514(a)(1)).

(2) An agency prohibited by Federal law from meeting any of the requirements of paragraph (b)(1) or (c) of this section shall notify the Service in writing of the specific legal impediment to meeting these requirements. This notification shall be made prior to entering into an agreement with the Service to participate in the tax refund offset program. The Service will determine in writing whether the agency is prohibited by Federal law from meeting any of the requirements of paragraph (b)(1) or (c) of this section. The Service will waive in writing any requirement that it determines the agency is prohibited by Federal law from meeting.

(c) *Past-due, legally enforceable debt eligible for refund offset.* For purposes of this section, a Federal agency may refer a past-due, legally enforceable debt to the Service for offset if—

(1) Except in the case of a judgment debt or any debts specifically exempt from this requirement (for example, debts referred by the Department of Education that were pending on or after April 9, 1991, and referred to the Service for offset before November 15, 1992), the debt is referred for offset within ten years after the agency's right of action accrues;

(2) The debt cannot be currently collected pursuant to the salary offset provisions of 5 U.S.C. 5514(a)(1);

(3) The debt is ineligible for administrative offset under 31 U.S.C. 3716(a) by reason of 31 U.S.C. 3716(c)(2), or cannot be currently collected by administrative offset under 31 U.S.C. 3716(a) by the referring agency against amounts payable to the taxpayer by the referring agency;

(4) The agency has notified, or has made a reasonable attempt to notify, the taxpayer that the debt is past-due, and unless repaid within 60 days thereafter, will be referred to the Service for offset against an overpayment of tax;

(5) The agency has given the taxpayer at least 60 days to present evidence that all or part of the debt is not past-due or legally enforceable, has considered any evidence presented by the taxpayer, and has determined that the debt is past-due and legally enforceable;

(6) The debt has been disclosed by the agency to a consumer reporting agency as authorized by 31 U.S.C. 3711(f), unless the consumer reporting agency would be prohibited from reporting information concerning the debt by reason of 15 U.S.C. 1681c, or unless the amount of the debt does not exceed $100;

(7) The debt is at least $25; and

(8) In the case of an OASDI overpayment—

(i) The individual is not currently entitled to monthly insurance benefits under title II of the Social Security Act;

(ii) The notice describes conditions under which the Department of Health and Human Services is required to waive recovery of the overpayment, as provided under section 204(b) of the Social Security Act; and

(iii) If the taxpayer files for a waiver under section 204(b) of the Social Security Act within the 60-day notice period, the agency has considered the taxpayer's request.

(d) *Pre-offset notice and consideration of evidence.* (1) For purposes of paragraph (c)(4) of this section, an agency has made a reasonable attempt to notify the taxpayer if the agency uses the most recent address information obtained from the Service pursuant to section 6103(m) (2), (4), or (5) of the Code, unless the agency receives clear and concise notification from the taxpayer that notices from the agency are to be sent to an address different from the address obtained from the Service. Clear and concise notification means that the taxpayer has provided the agency with written notification including the taxpayer's name and identifying number (as defined in section 6109), the taxpayer's new address, and the taxpayer's intent to have agency notices sent to the new address.

(2) For purposes of paragraph (c)(5) of this section, if the evidence presented by the taxpayer is considered by an agent of the agency, or other entities or persons acting on the agency's behalf, the taxpayer must be accorded at least 30 days from the date the agent or other entity or person determines that all or part of the debt is past-due and legally enforceable to request review by an officer or employee of the agency of any unresolved dispute. The agency

must then notify the taxpayer of its decision.

(e) *Referral of past-due, legally enforceable debt.* A Federal agency must refer a past-due, legally enforceable debt to the Service in the time and manner prescribed by the Service. The referral must contain—

(1) The name and identifying number (as defined in section 6109) of the taxpayer who is responsible for the debt;

(2) The amount of such past-due and legally enforceable debt;

(3) The date on which the debt became past-due;

(4) The designation of the Federal agency or subagency referring the debt; and

(5) In the case of an OASDI overpayment, a certification by the Secretary of Health and Human Services designating whether the amount payable to the agency is to be deposited in either the Federal Old-Age and Survivors Insurance Trust Fund or the Federal Disability Insurance Trust Fund, but not both.

(f) *Correction of referral.* If, after referring a past-due, legally enforceable debt to the Service as provided by paragraph (e) of this section, an agency determines that an error has been made with respect to the information transmitted to the Service, or if an agency receives a payment or credits a payment to the account of a taxpayer referred to the Service for offset, the agency shall promptly notify the Service. The Service shall make the appropriate correction of its records. However, this paragraph (f) does not permit an agency to increase the amount of a past-due, legally enforceable debt or refer additional debtors to the Service for offset after an agency makes its original referral of debts for tax refund offset. The agency may refer additional debts to the Service for refund offset in subsequent tax refund offset years.

(g) *Priorities for offset.* (1) An overpayment shall be reduced first by the amount of an outstanding liability for any tax under section 6402(a); second, by the amount of any past-due support assigned to a State under section 402(a)(26) or section 471(a)(17) of the Social Security Act which is to be offset under section 6402(c) and the regulations thereunder; third, by the amount of any past-due, legally enforceable debt owed to a Federal agency under section 6402(d) and this section; and fourth, by the amount of any qualifying past-due support not assigned to a State which is to be offset under section 6402(c) and the regulations thereunder.

(2) If a taxpayer owes more than one past-due, legally enforceable debt to a Federal agency or agencies, the overpayment shall be credited against the debts in the order in which the debts accrued. A debt shall be considered to have accrued at the time at which the agency determines that the debt became past due.

(3) Reduction of the overpayment pursuant to section 6402 (a), (c), and (d) shall occur prior to crediting the overpayment to any future liability for an internal revenue tax. Any amount remaining after offset under section 6402 (a), (c), and (d) shall be refunded to the taxpayer, or applied to estimated tax, if elected by the taxpayer.

(h) *Post-offset notice to the taxpayer and the agency.* (1) The Service shall notify the taxpayer in writing of the amount and date of the offset for a past-due, legally enforceable debt and of the Federal agency to which this amount has been paid or credited. For joint returns, see paragraph (i) of this section.

(2) The Service shall advise each agency of the names, mailing addresses, and identifying numbers of the taxpayers from whom amounts of past-due, legally enforceable debt were collected and of the amounts collected from each taxpayer. If the refund from which an amount of past-due, legally enforceable debt is to be withheld is based upon a joint return, the Service shall notify the agency and furnish the names and addresses of each taxpayer filing the joint return.

(i) *Offset made with regard to refund based upon joint return.* (1) In the case of an offset from a refund based on a joint return, the Service shall issue a notice in writing to any person who may have filed a joint return with the taxpayer, including the amount and date of any offset and the steps which the non-debtor spouse may take in order to secure his or her proper share of the refund (unless the non-debtor

spouse has already taken these steps prior to offset).

(2) If the person filing the joint return with the taxpayer owing the past-due, legally enforceable debt takes appropriate action to secure his or her proper share of a refund from which an offset was made, the Service shall pay the person his or her share of the refund and shall deduct that amount from amounts payable to the agency.

(j) *Disposition of amounts collected.* Amounts collected under this section shall be transferred to a special account maintained by the Financial Management Service (FMS) for each Federal agency. If an erroneous payment is made to any agency, the Service shall deduct the amount of such payment from amounts payable to the agency.

(k) *Fees.* The agency shall enter into a separate agreement with the Service and FMS to reimburse the Service and FMS for the full cost of administering the tax refund offset program. The fees shall be deducted from amounts collected prior to disposition. The fees shall be deposited in the United States Treasury and credited to the appropriation accounts which bore all or part of the costs involved in administering the refund offset procedures.

(l) *Review of offset of refunds.* Any reduction of a taxpayer's refund made pursuant to section 6402(c) or (d) shall not be subject to review by any court of the United States or by the Service in an administrative proceeding. No action brought against the United States to recover the amount of this reduction shall be considered to be a suit for refund of tax. Any legal, equitable, or administrative action by any person seeking to recover the amount of the reduction of the overpayment must be taken against the Federal agency to which the amount of the reduction was paid. Any action which is otherwise available with respect to recoveries of overpayments of benefits under section 204 of the Social Security Act must be taken against the Secretary of Health and Human Services.

(m) *Access to and use of confidential tax information.* Access to and use of confidential tax information in connection with the tax refund offset program are restricted by section 6103 of the Code. However, section 6103(l)(10) permits Federal officers and employees of agencies participating in the tax refund offset program to have access to and use of confidential tax information. Agencies receiving such information are subject to the safeguard, recordkeeping, and reporting requirements of section 6103(p)(4) and the regulations thereunder. The agency shall inform its officers and employees who access or use confidential tax information of the restrictions and penalties under the Internal Revenue Code for misuse of confidential tax information.

(n) *Effective dates.* This section applies to refunds payable under section 6402 after April 15, 1992, and on or before January 1, 1998. For the rules applicable after January 1, 1998, see 31 CFR part 285.

[T.D. 8413, 57 FR 13038, Apr. 15, 1992; 57 FR 36691, Aug. 14, 1992, as amended by T.D. 8837, 64 FR 48548, Sept. 7, 1999]

§ 301.6402–7 Claims for refund and applications for tentative carryback adjustments involving consolidated groups that include insolvent financial institutions.

(a) *In general*—(1) *Overview.* Section 6402(i) authorizes the Secretary to issue regulations providing for the payment of a refund directly to the statutory or court-appointed fiduciary of an insolvent corporation that was a subsidiary in a consolidated group, to the extent the Secretary determines that the refund is attributable to losses or credits of the insolvent corporation. This section provides rules for the payment of refunds and tentative carryback adjustments to the fiduciary of an insolvent financial institution that was a subsidiary in a consolidated group.

(2) *Notice.* This section provides notice to the common parent of a consolidated group of which an insolvent financial institution is or was a member that—

(i) The fiduciary for the institution may, in addition to the common parent, act as agent for the group in certain matters relating to the tax liability of the group in the year in which a loss arose and for the year to which a

claim for refund or application for tentative carryback adjustment relates; and

(ii) The Internal Revenue Service may deal directly with the common parent or the fiduciary (or both) as agent for the group to the extent provided in this section.

(b) *Definitions.* For purposes of this section, the following terms have the meanings set forth below:

(1) *Carryback year group.* A carryback year group is a consolidated group of which a corporation that is or becomes an insolvent financial institution is a member during a consolidated carryback year.

(2) *Consolidated carryback year.* A consolidated carryback year is a consolidated return year to which a loss arising in a loss year is carried back.

(3) *Fiduciary.* A fiduciary is—

(i) The Federal Deposit Insurance Corporation;

(ii) The Resolution Trust Corporation; or

(iii) Any other entity established by federal law, or a federal agency, that is identified by the Commissioner in a revenue ruling or revenue procedure as a fiduciary for purposes of this section;

in its capacity as an authorized receiver or conservator of an insolvent financial institution.

(4) *Insolvent financial institution.* An insolvent financial institution (an institution) is a bank or domestic building and loan association for which the fiduciary is authorized to act as a receiver or conservator—

(i) On the ground that the institution is insolvent within the meaning of 12 U.S.C. 191, 12 U.S.C. 1821(c)(5)(A), 12 U.S.C. 1464(d)(2)(A)(i), or 12 U.S.C. 1464(d)(2)(C)(i) or any applicable state law (or any successor statute which adopts a substantially similar standard); or

(ii) On grounds other than insolvency, provided that the institution is insolvent within the meaning of paragraph (b)(4)(i) of this section at any time after commencement of the conservatorship or receivership.

A reference to an institution under these regulations includes, as the context requires, a reference to predecessors and successors of the institution.

(5) *Loss year.* A loss year is a taxable year for which any member or former member of the carryback year group claims a loss that may be carried back.

(6) *Loss year group.* A loss year group is a consolidated group of which a corporation that is or becomes an insolvent financial institution is a member during a loss year.

(7) *Procedure effective date.* The procedure effective date is the day on which the Internal Revenue Service has processed the notice described in paragraph (d)(1) of this section to the extent necessary for all Internal Revenue Service Centers to have access to information indicating that—

(i) Appropriate notice to the Internal Revenue Service has been filed; and

(ii) Payments with respect to losses of an institution are to be paid in accordance with the procedures set forth in this section.

(8) *Definitions in § 1.1502–1.* Unless otherwise provided, the definitions contained in § 1.1502–1 of this chapter apply in this section.

(c) *Deemed agency status of fiduciary*—(1) *In general.* Notwithstanding the general treatment of a common parent as the agent of a group under §§ 1.1502–77 and 1.1502–78 of this chapter, if the fiduciary satisfies the notice requirements of paragraph (d)(1) of this section, the fiduciary may also be deemed to be an agent under §§ 1.1502–77 and 1.1502–78 of this chapter—

(i) Of the loss year group (if any) for purposes of filing a consolidated return for the loss year;

(ii) Of the carryback year group for purposes of filing a claim for refund or an application for a tentative carryback adjustment for the consolidated carryback year under paragraph (e) of this section and receiving payments of any refund or tentative carryback adjustment under paragraph (g) of this section; and

(iii) Of the carryback year group, the loss year group or any other group of which the institution is a member for any matter pertaining to the determination of the refund or tentative carryback adjustment, but only to the extent provided in paragraph (c)(2) of this section.

(2) *Limitation.* The fiduciary may act as an agent for matters described in

paragraph (c)(1)(iii) of this section only to the extent—

(i) Authorized by the district director, in his/her sole discretion, after receiving a written request from the fiduciary; or

(ii) Requested by the Internal Revenue Service under paragraph (f)(3) of this section.

(d) *Notice requirements*—(1) *Notice to the Internal Revenue Service.* To satisfy the notice requirement of this paragraph (d)(1), the fiduciary must file Form 56–F, Notice Concerning Fiduciary Relationship of Financial Institution, with the Internal Revenue Service Center indicated on the form. However, in its sole discretion, the Internal Revenue Service may treat notice to it in any other manner as satisfying the notice requirement under this paragraph (d)(1).

(2) *Notice to the common parent*—(i) *Form 56-F.* The fiduciary must send a copy of the form 56–F filed with the Internal Revenue Service Center or any other notice provided to the Service under paragraph (d)(1) of this section to the common parent of the loss year group (if any) and the common parent of all carryback year groups (if different from the loss year group).

(ii) *Claim for refund and loss year return.* If a claim for refund is filed by the fiduciary in accordance with paragraph (e)(1) of this section, the fiduciary must provide a copy of the claim for refund to the common parent of the carryback year group. If a loss year return is filed by the fiduciary in accordance with paragraph (e)(3) of this section, the fiduciary must provide a copy of the loss year return to the common parent of the loss year group (if any).

(iii) *Additional information.* The fiduciary must provide to the affected common parent a copy of the request for agency status referred to in paragraphs (c)(2) (i) and (ii) of this section, and a copy of any additional information submitted to the Internal Revenue Service as agent under paragraph (c)(1)(iii) of this section.

(e) *Filing requirements of the fiduciary*—(1) *Claim for refund by the fiduciary.* If the fiduciary accepts a claim for refund filed by the common parent, the fiduciary may claim a refund under this section by filing a copy of the common parent's claim for refund. If no claim for refund is filed by the common parent for the consolidated carryback year or the fiduciary does not accept a claim for refund filed by the common parent, the fiduciary may claim a refund under this section by filing its own claim for refund under section 6402, based on all information pertaining to the institution and all information pertaining to other members of the carryback year group and the loss year group to which the fiduciary has reasonable access. Any claim for refund filed by the fiduciary under this paragraph (e)(1) must contain the title ''Claim for refund under section 6402(i) of the Code'' at the top of the first page of the claim, and the following must be attached to the claim:

(i) The name and employer identification number of the institution that was a member of the carryback year group;

(ii) The name of the fiduciary;

(iii) A schedule demonstrating that the amount of the refund claimed by the fiduciary is determined in accordance with paragraph (g) of this section;

(iv) A representation that the institution is an insolvent financial institution as defined in paragraph (b)(4) of this section;

(v) A representation that the fiduciary has satisfied the requirements set forth in paragraphs (d)(2)(i) and (ii) of this section; and

(vi) A statement executed by an authorized representative of the fiduciary and any paid preparer utilized by the fiduciary that provides ''Under penalties of perjury, I declare that I have examined the items listed in § 301.6402–7T(e)(1)(i) through (v), including accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than fiduciary) is based on all information of which the preparer has any knowledge.''

(2) *Application for tentative carryback adjustment pursuant to section 6411.* Notwithstanding section 6411 and § 1.1502–78 of this chapter, an application for a tentative carryback adjustment must be signed by both the common parent of the carryback year group and the fiduciary if the payment with respect to

the tentative carryback adjustment is not made before the procedure effective date (whether or not the application was filed before the procedure effective date). Any application for a tentative carryback adjustment filed under this paragraph (e)(2) must contain the title ''Application for tentative carryback adjustment under section 6402(i) of the Code'' at the top of the first page of the application. In addition, the following must be attached to the application:

(i) The name and employer identification number of the institution that was a member of the carryback year group;

(ii) The name of the fiduciary;

(iii) A schedule demonstrating that the amount claimed by the fiduciary is determined in accordance with paragraph (g) of this section;

(iv) A representation that the institution is an insolvent financial institution as defined in paragraph (b)(4) of this section; and

(v) A representation that the fiduciary has satisfied the requirements set forth in paragraph (d)(2)(i) of this section.

(3) *Loss year return by the fiduciary*. If the institution is a member of a loss year group, and either the common parent does not file a loss year return or the fiduciary does not accept the loss year return filed by the common parent, the fiduciary may file a loss year return with respect to the loss year group. A loss year return can only be filed by the fiduciary in conjunction with the filing of a claim for refund under paragraph (e)(1).The return must be based on all information pertaining to the institution and all information pertaining to other members to which the fiduciary has reasonable access. Any return filed by the fiduciary under this paragraph (e)(3) must contain the title ''Loss year return under section 6402(i) of the Code'' at the top of the first page of the return, and the following must be attached to the return:

(i) The name and employer identification number of the institution that is a member of the loss year group;

(ii) The name of the fiduciary;

(iii) A representation that the institution is an insolvent financial institution as defined in paragraph (b)(4) of this section; and

(iv) A representation that the fiduciary has satisfied the requirements set forth in paragraphs (d)(2)(i) and (ii) of this section.

(4) *Additional information*. If the fiduciary files additional information under paragraph (c)(1)(iii) of this section, the fiduciary must attach a representation that it has satisfied the requirements set forth in paragraph (d)(2)(iii) of this section.

(5) *Election to waiver carryback*. Any election filed after December 30, 1991, by the common parent of a loss year group under section 172(b)(3) to relinquish the entire carryback period with respect to a consolidated net operating loss arising in a loss year is not effective with respect to the portion of the consolidated net operating loss attributable to a subsidiary that is an institution. Instead, the fiduciary may make the election under section 172(b)(3) with respect to the portion attributable to the institution after the notice described in paragraph (d)(1) of this section is filed. For purposes of this paragraph (e)(5), the portion attributable to an institution is determined under the principles of paragraph (g)(2)(ii) of this section.

(f) *Processing and reconciliation of information by the Internal Revenue Service*—(1) *Loss year return if the insolvent financial institution is a member of a loss year group*. The Internal Revenue Service may, in its sole discretion, adjust a loss year return filed by the common parent of a loss year group to take into account information filed by the fiduciary in accordance with paragraph (e) of this section, or accept or adjust a loss year return for the loss year group filed by the fiduciary. Nothing in this section relieves the common parent of a loss year group of its duty to file a consolidated return taking into account an institution's items of income, gain, loss, deduction, and credit for any taxable year, or obligates the Internal Revenue Service to accept a return filed by the fiduciary as the return of the loss year group.

(2) *Claim for refund with respect to consolidated carryback year*. The Internal Revenue Service may, in its sole discretion, adjust a claim for refund filed by the common parent of a carryback

year group to take into account information filed by the fiduciary in accordance with paragraph (e) of this section, or accept or adjust a claim for refund for the carryback year group filed by the fiduciary. Nothing in this section obligates the Internal Revenue Service to pay a claim for refund, or to accept a claim for refund, filed by the fiduciary as a claim for refund for the carryback year group.

(3) *Additional information.* In determining the amount of any refund that may be paid to the fiduciary under paragraph (g) of this section, the Internal Revenue Service may, in its sole discretion, take into account any information that the Internal Revenue Service deems relevant and may require the fiduciary to file any additional information the Internal Revenue Service deems appropriate.

(g) *Payment of a refund or a tentative carryback adjustment to fiduciary*—(1) *In general.* If a claim for refund or an application for a tentative carryback adjustment is filed for the consolidated carryback year in accordance with paragraph (e) of this section, the Internal Revenue Service may, in its sole discretion, pay to the fiduciary all or any portion of the refund or tentative carryback adjustment that the Internal Revenue Service determines under this section to be attributable to the net operating losses of the institution. Nothing in this section obligates the Internal Revenue Service to pay to the fiduciary all or any portion of a claim for refund or application for tentative carryback adjustment.

(2) *Portion of refund or tentative carryback adjustment attributable to the net operating loss of an insolvent financial institution*—(i) *In general.* The portion of a refund or tentative carryback adjustment attributable to a net operating loss of an institution that is carried to a consolidated carryback year is determined based on the absorption, as described in paragraph (g)(2)(iii) of this section, of the institution's net operating loss carried to the consolidated carryback year.

(ii) *Member's net operating loss.* If the loss year is a consolidated return year, references in this section to the net operating loss of a member of the loss year group is a reference to the portion of the loss year group's consolidated net operating loss attributable to the member. The consolidated net operating loss for a taxable year that is attributable to a member is determined by a fraction, the numerator of which is the separate net operating loss of the member for the year of the loss and the denominator of which is the sum of the separate net operating losses for that year of all members having such losses. For this purpose, the separate net operating loss of a member is determined by computing the consolidated net operating loss by taking into account only the member's items of income, gain, deduction, and loss, including the member's losses and deductions actually absorbed by the group in the taxable year (whether or not absorbed by the member).

(iii) *Absorption of net operating losses.* The absorption of net operating losses generally is determined under applicable principles of the Code and regulations, including the principles of section 172 and §§ 1.1502–21(b) or 1.1502–21A(b) (as appropriate) of this chapter. Notwithstanding any contrary rule or principle of the Code or regulations, if an institution and another member of the carryback year group have net operating losses that arise in taxable years ending on the same date and are carried to the same consolidated carryback year, the carryback year group's consolidated taxable income for that year is treated as offset first by the loss attributable to the institution to the extent thereof.

(3) *Examples.* For purposes of the examples in this section, all groups file consolidated returns, all corporations have calendar taxable years, the facts set forth the only corporate activity, the fiduciary has met the notice and filing requirements of this section, and the common parent has filed a return for the loss year and a claim for refund. The principles of this paragraph (g) are illustrated by the following examples.

Example 1. Absorption of net operating losses, (a) P owns all the stock of S1, an insolvent financial institution, and S2, a corporation that is not a financial institution. For Year 1, P, S1, and S2 each have $50 of income, and the P group's consolidated taxable income is $150. On May 31 of Year 2, S1 becomes insolvent and is placed in receivership under the supervision of a fiduciary. For Year 2, the P

group has a consolidated net operating loss of $200, of which $100 is attributable to S1 and $100 is attributable to S2.

(b) Under paragraph (g)(2)(iii) of this section, the $150 of consolidated taxable income for Year 1 is offset first by the $100 portion of the consolidated net operating loss for Year 2 attributable to S1. The remaining $50 is treated as offset by $50 of the $100 of consolidated net operating loss attributable to S2. Thus, the refund attributable to $100 of the loss may be payable to the fiduciary and the refund attributable to $50 of the loss may be payable to P. The remaining $50 consolidated net operating loss, available to be carried forward, is entirely attributable to S2.

Example 2. Separate return net operating loss. The facts are the same as in *Example 1,* except that S1 left the P group at the end of Year 1 and its $100 of loss in Year 2 is incurred in a separate return limitation year. Under paragraph (g)(2)(iii) of this section, the generally applicable absorption principles of section 172 and §1.1502–21 of this chapter apply. Although S1 and S2 are carrying back losses to Year 1 from taxable years ending on the same date (Year 2), S1's loss is subject to a $50 limitation under §1.1502–21(c) of this chapter and only $50 of S1's loss is absorbed before S2's net operating loss. Therefore, the refund attributable to $50 of the net operating loss of S1 may be payable to the fiduciary, and the refund attributable to $100 of the net operating loss of S2 may be payable to P. The remaining $50 net operating loss of S1 is available to be carried forward.

(4) *Refund or tentative carryback adjustment allocation agreement.* The determination of the portion of any refund or tentative carryback adjustment payable to the fiduciary under this paragraph (g) shall be made without regard to—

(i) Any agreement among the members of the consolidated group; or

(ii) Whether the fiduciary is otherwise entitled to any portion of the refund or tentative carryback adjustment under applicable law.

(h) *Credits, net capital losses, and subgroups*—(1) *Credits and net capital losses*—(i) *In general.* The principles of this section also apply to credits and net capital losses, with appropriate adjustments to reflect differences between the rules applicable to net operating losses and those applicable to credits and net capital losses.

(ii) *Example.* The principles of this paragraph (h)(1) are illustrated by the following example.

Example. Net capital loss. (a) P owns all the stock of S1, an insolvent financial institution, and S2, a corporation that is not a financial institution. For Year 1, P, S1, and S2 each have $50 of capital gain, and the P group's consolidated capital gain net income is $150. On May 31 of Year 2, S1 becomes insolvent and is placed in receivership under the supervision of a fiduciary. For Year 2, the P group has a consolidated net operating loss of $100 that is attributable to S1, and a consolidated net capital loss of $100 that is attributable to S2.

(b) Under paragraphs (g)(2)(iii) and (h)(1) of this section, the generally applicable absorption principles of sections 172 and 1212 and §§1.1502–21(b) and 1.1502–22(b) of this chapter apply. Consequently, S2's capital loss is absorbed before S1's net operating loss. Therefore, the $150 of consolidated capital gain net income is offset first by S2's $100 capital loss and the remaining $50 by S1's net operating loss. The refund attributable to $50 of the net operating loss may be payable to the fiduciary, and the refund attributable to the $100 of capital loss may be payable to P. The remaining $50 consolidated net operating loss available to be carried forward is entirely attributable to S1.

(2) *Insolvent financial institution subgroup*—(i) *In general.* The principles of this section apply to all members included in an insolvent financial institution subgroup with appropriate adjustments to reflect differences resulting from the application to more than one corporation in a group. Unless otherwise determined by the Internal Revenue Service in its sole discretion, an insolvent financial institution subgroup is composed of an insolvent financial institution and those other members of a loss year group that, at any time during the conservatorship or receivership of the institution, bear the same relationship to the institution that the members of a group bear to their common parent under section 1504(a)(1).

(ii) *Examples.* The principles of this paragraph (h)(2) are illustrated by the following examples.

Example 1. Loss of other subgroup members. (a) S1 is a financial institution, and P, S2, and S3 are not financial institutions. P owns all the stock of S1, S1 owns all the stock of S2, and the stock of S3 is owned 20 percent by S2 and 80 percent by P. For Year 1, P, S1, and S2 each have $100 of income, S3 has no income or loss, and the P group's consolidated taxable income is $300. On May 31 of Year 2, S1 becomes insolvent and is placed

in receivership under the supervision of a fiduciary. For Year 2, the P group has a consolidated net operating loss of $300, of which $200 is attributable to S1 and $100 is attributable to S2.

(b) S1 and S2 compose a subgroup because S2 bears the same relationship to S1 that the member of a group bears to its common parent under section 1504(a). S3 is not included in the subgroup because it is not connected to S1 through 80 percent stock ownership as described in section 1504(a).

(c) Because S1 and S2 are members of a subgroup, a claim for refund under paragraph (e) of this section must be based on the aggregate consolidated net operating loss of both S1 and S2. Under paragraph (e)(5) of this section, P may not elect under section 172(b)(3) to relinquish the entire carryback period with respect to the $300 of consolidated net operating loss arising in Year 2 that is attributable to S1 and S2. Any refund payable under paragraph (g)(1) of this section with respect to the $300 loss of S1 and S2 may be paid by the Internal Revenue Service directly to the fiduciary.

Example 2. Income of other subgroup members, (a) The facts are the same as in *Example 1,* except that S2 has $100 of income in Year 2 rather than $100 of loss. Any refund payable under paragraph (g) of this section with respect to the loss of S1 in Year 2 must take into account the income of S2, and therefore the refund will be based on a $100 loss of the subgroup.

(b) Although P and S3 are not members included in the subgroup, the loss year return and the claim for refund filed by the fiduciary under paragraph (e) of this section must be completed based on all information to which the fiduciary has reasonable access. Under paragraph (e)(3) of this section, if P does not file a loss year return that is accepted by S1, and S1 has reasonable access to information indicating that P and S3 have income in Year 2, S1 must take that income into account in filing the P group's return for Year 2 and reduce the amount of S1's loss that may be carried to Year 1 accordingly. However, if P or S3 has a loss in Year 2, any refund attributable to that loss will not be paid to the fiduciary.

(i) [Reserved]

(j) *Determination of ownership.* This section determines the party to whom a refund or tentative carryback adjustment will be paid but is not determinative of ownership of any such amount among current or former members of a consolidated group (including the institution).

(k) *Liability of the Government.* Any refund or tentative carryback adjustment paid to the fiduciary discharges any liability of the Government to the same extent as payment to the common parent under § 1.1502–77 or § 1.1502–78 of this chapter. Furthermore, any refund or tentative carryback adjustment paid to the fiduciary is considered a payment to all members of the carryback year group. Any determination made by the Internal Revenue Service under this section to pay a refund or tentative carryback adjustment to a fiduciary or the common parent may not be challenged by the common parent, any member of the group, or the fiduciary.

(l) *Effective dates.* This section applies to refunds and tentative carryback adjustments paid after December 30, 1991.

[T.D. 8387, 56 FR 67487, Dec. 31, 1991; 57 FR 6073, Feb. 20, 1992. Redesignated and amended by T.D. 8446, 57 FR 53034, Nov. 6, 1992; T.D. 8677, 61 FR 33325, June 27, 1996; T.D. 8823, 64 FR 36101, July 2, 1999]

§ 301.6403–1 Overpayment of installment.

If any installment of tax is overpaid, the overpayment shall first be applied against any outstanding installments of such tax. If the overpayment exceeds the correct amount of tax due, the overpayment shall be credited or refunded as provided in section 6402 and §§ 301.6402–1 to 301.6402–4, inclusive.

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[T.D. 8299, 55 FR 14245, Apr. 17, 1990, as amended by T.D. 9488, 75 FR 33993, June 16, 2010; T.D. 9545, 76 FR 52261, Aug. 22, 2011]

§ 301.6404–1 Abatements.

(a) The district director or the director of the regional service center may abate any assessment, or unpaid portion thereof, if the assessment is in excess of the correct tax liability, if the assessment is made subsequent to the expiration of the period of limitations applicable thereto, or if the assessment has been erroneously or illegally made.

(b) No claim for abatement may be filed with respect to income, estate, or gift tax.

(c) Except in case of income, estate, or gift tax, if more than the correct amount of tax, interest, additional amount, addition to the tax, or assessable penalty is assessed but not paid to the district director, the person against whom the assessment is made may file a claim for abatement of such overassessment. Each claim for abatement under this section shall be made on Form 843. In the case of a claim filed prior to April 15, 1968, the claim shall be filed in the office of the internal revenue officer by whom the tax was assessed or with the assistant regional Commissioner (alcohol, tobacco, and firearms) where the regulations respecting the particular tax to which the claim relates specifically require the claim to be filed with that officer. Except as provided in paragraph (b) of § 301.6091–1 (relating to hand-carried documents), in the case of a claim filed after April 14, 1968, the claim shall be filed (1) with the Director of International Operations if the tax was assessed by him, or (2) with the assistant regional Commissioner (alcohol, tobacco, and firearms) where the regulations respecting the particular tax to which the claim relates specifically require the claim to be filed with that officer; otherwise, the claim shall be filed with the service center serving

the internal revenue district in which the tax was assessed. Form 843 shall be made in accordance with the instructions relating to such form.

(d) The Commissioner may issue uniform instructions to district directors authorizing them, to the extent permitted in such instructions, to abate amounts the collection of which is not warranted because of the administration and collection costs.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7008, 34 FR 3673, Mar. 1, 1969; T.D. 7188, 37 FR 12794, June 29, 1972; T.D. ATF–33, 41 FR 44038, Oct. 6, 1976]

§ 301.6404–2 Abatement of interest.

(a) *In general.* (1) Section 6404(e)(1) provides that the Commissioner may (in the Commissioner's discretion) abate the assessment of all or any part of interest on any—

(i) Deficiency (as defined in section 6211(a), relating to income, estate, gift, generation-skipping, and certain excise taxes) attributable in whole or in part to any unreasonable error or delay by an officer or employee of the Internal Revenue Service (IRS) (acting in an official capacity) in performing a ministerial or managerial act; or

(ii) Payment of any tax described in section 6212(a) (relating to income, estate, gift, generation-skipping, and certain excise taxes) to the extent that any unreasonable error or delay in payment is attributable to an officer or employee of the IRS (acting in an official capacity) being erroneous or dilatory in performing a ministerial or managerial act.

(2) An error or delay in performing a ministerial or managerial act will be taken into account only if no significant aspect of the error or delay is attributable to the taxpayer involved or to a person related to the taxpayer within the meaning of section 267(b) or section 707(b)(1). Moreover, an error or delay in performing a ministerial or managerial act will be taken into account only if it occurs after the IRS has contacted the taxpayer in writing with respect to the deficiency or payment. For purposes of this paragraph (a)(2), no significant aspect of the error or delay is attributable to the taxpayer merely because the taxpayer consents to extend the period of limitations.

(b) *Definitions*—(1) *Managerial act* means an administrative act that occurs during the processing of a taxpayer's case 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 under paragraph (a) of this section.

(2) *Ministerial act* means a procedural or mechanical act that does not involve the exercise of judgment or discretion, and that occurs during the processing of a taxpayer's case 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.

(c) *Examples.* The following examples illustrate the provisions of paragraphs (b) (1) and (2) of this section. Unless otherwise stated, for purposes of the examples, no significant aspect of any error or delay is attributable to the taxpayer, and the IRS has contacted the taxpayer in writing with respect to the deficiency or payment. The examples are as follows:

Example 1. A taxpayer moves from one state to another before the IRS selects the taxpayer's income tax return for examination. A letter explaining that the return has been selected for examination is sent to the taxpayer's old address and then forwarded to the new address. The taxpayer timely responds, asking that the audit be transferred to the IRS's district office that is nearest the new address. The group manager timely approves the request. After the request for transfer has been approved, the transfer of the case is a ministerial act. The Commissioner may (in the Commissioner's discretion) abate interest attributable to any unreasonable delay in transferring the case.

Example 2. An examination of a taxpayer's income tax return reveals a deficiency with respect to which a notice of deficiency will be issued. The taxpayer and the IRS identify all agreed and unagreed issues, the notice is prepared and reviewed (including review by

District Counsel, if necessary), and any other relevant prerequisites are completed. The issuance of the notice of deficiency is a ministerial act. The Commissioner may (in the Commissioner's discretion) abate interest attributable to any unreasonable delay in issuing the notice.

Example 3. A revenue agent is sent to a training course for an extended period of time, and the agent's supervisor decides not to reassign the agent's cases. During the training course, no work is done on the cases assigned to the agent. The decision to send the revenue agent to the training course and the decision not to reassign the agent's cases are not ministerial acts; however, both decisions are managerial acts. The Commissioner may (in the Commissioner's discretion) abate interest attributable to any unreasonable delay resulting from these decisions.

Example 4. A taxpayer appears for an office audit and submits all necessary documentation and information. The auditor tells the taxpayer that the taxpayer will receive a copy of the audit report. However, before the report is prepared, the auditor is permanently reassigned to another group. An extended period of time passes before the auditor's cases are reassigned. The decision to reassign the auditor and the decision not to reassign the auditor's cases are not ministerial acts; however, they are managerial acts. The Commissioner may (in the Commissioner's discretion) abate interest attributable to any unreasonable delay resulting from these decisions.

Example 5. A taxpayer is notified that the IRS intends to audit the taxpayer's income tax return. The agent assigned to the case is granted sick leave for an extended period of time, and the taxpayer's case is not reassigned. The decision to grant sick leave and the decision not to reassign the taxpayer's case to another agent are not ministerial acts; however, they are managerial acts. The Commissioner may (in the Commissioner's discretion) abate interest attributable to any unreasonable delay caused by these decisions.

Example 6. A revenue agent has completed an examination of the income tax return of a taxpayer. There are issues that are not agreed upon between the taxpayer and the IRS. Before the notice of deficiency is prepared and reviewed, a clerical employee misplaces the taxpayer's case file. The act of misplacing the case file is a managerial act. The Commissioner may (in the Commissioner's discretion) abate interest attributable to any unreasonable delay resulting from the file being misplaced.

Example 7. A taxpayer invests in a tax shelter and reports a loss from the tax shelter on the taxpayer's income tax return. IRS personnel conduct an extensive examination of the tax shelter, and the processing of the taxpayer's case is delayed because of that examination. The decision to delay the processing of the taxpayer's case until the completion of the examination of the tax shelter is a decision on how to organize the processing of tax returns. This is a general administrative decision. Consequently, interest attributable to a delay caused by this decision cannot be abated under paragraph (a) of this section.

Example 8. A taxpayer claims a loss on the taxpayer's income tax return and is notified that the IRS intends to examine the return. However, a decision is made not to commence the examination of the taxpayer's return until the processing of another return, for which the statute of limitations is about to expire, is completed. The decision on how to prioritize the processing of returns based on the expiration of the statute of limitations is a general administrative decision. Consequently, interest attributable to a delay caused by this decision cannot be abated under paragraph (a) of this section.

Example 9. During the examination of an income tax return, there is disagreement between the taxpayer and the revenue agent regarding certain itemized deductions claimed by the taxpayer on the return. To resolve the issue, advice is requested in a timely manner from the Office of Chief Counsel on a substantive issue of federal tax law. The decision to request advice is a decision concerning the proper application of federal tax law; it is neither a ministerial nor a managerial act. Consequently, interest attributable to a delay resulting from the decision to request advice cannot be abated under paragraph (a) of this section.

Example 10. The facts are the same as in *Example 9* except the attorney who is assigned to respond to the request for advice is granted leave for an extended period of time. The case is not reassigned during the attorney's absence. The decision to grant leave and the decision not to reassign the taxpayer's case to another attorney are not ministerial acts; however, they are managerial acts. The Commissioner may (in the Commissioner's discretion) abate interest attributable to any unreasonable delay caused by these decisions.

Example 11. A taxpayer contacts an IRS employee and requests information with respect to the amount due to satisfy the taxpayer's income tax liability for a particular taxable year. Because the employee fails to access the most recent data, the employee gives the taxpayer an incorrect amount due. As a result, the taxpayer pays less than the amount required to satisfy the tax liability. Accessing the most recent data is a ministerial act. The Commissioner may (in the Commissioner's discretion) abate interest attributable to any unreasonable error or delay

arising from giving the taxpayer an incorrect amount due to satisfy the taxpayer's income tax liability.

Example 12. A taxpayer contacts an IRS employee and requests information with respect to the amount due to satisfy the taxpayer's income tax liability for a particular taxable year. To determine the current amount due, the employee must interpret complex provisions of federal tax law involving net operating loss carrybacks and foreign tax credits. Because the employee incorrectly interprets these provisions, the employee gives the taxpayer an incorrect amount due. As a result, the taxpayer pays less than the amount required to satisfy the tax liability. Interpreting complex provisions of federal tax law is neither a ministerial nor a managerial act. Consequently, interest attributable to an error or delay arising from giving the taxpayer an incorrect amount due to satisfy the taxpayer's income tax liability in this situation cannot be abated under paragraph (a) of this section.

Example 13. A taxpayer moves from one state to another after the IRS has undertaken an examination of the taxpayer's income tax return. The taxpayer asks that the audit be transferred to the IRS's district office that is nearest the new address. The group manager approves the request, and the case is transferred. Thereafter, the taxpayer moves to yet another state, and once again asks that the audit be transferred to the IRS's district office that is nearest that new address. The group manager approves the request, and the case is again transferred. The agent then assigned to the case is granted sick leave for an extended period of time, and the taxpayer's case is not reassigned. The taxpayer's repeated moves result in a delay in the completion of the examination. Under paragraph (a)(2) of this section, interest attributable to this delay cannot be abated because a significant aspect of this delay is attributable to the taxpayer. However, as in *Example 5*, the Commissioner may (in the Commissioner's discretion) abate interest attributable to any unreasonable delay caused by the managerial decisions to grant sick leave and not to reassign the taxpayer's case to another agent.

(d) *Effective dates*—(1) *In general.* Except as provided in paragraph (d)(2) of this section, the provisions of this section apply to interest accruing with respect to deficiencies or payments of any tax described in section 6212(a) for taxable years beginning after July 30, 1996.

(2) *Special rules*—(i) *Estate tax.* The provisions of this section apply to interest accruing with respect to deficiencies or payments of—

(A) Estate tax imposed under section 2001 on estates of decedents dying after July 30, 1996;

(B) The additional estate tax imposed under sections 2032A(c) and 2056A(b)(1)(B) in the case of taxable events occurring after July 30, 1996; and

(C) The additional estate tax imposed under section 2056A(b)(1)(A) in the case of taxable events occurring after December 31, 1996.

(ii) *Gift tax.* The provisions of this section apply to interest accruing with respect to deficiencies or payments of gift tax imposed under chapter 12 on gifts made after December 31, 1996.

(iii) *Generation-skipping transfer tax.* The provisions of this section apply to interest accruing with respect to deficiencies or payments of generation-skipping transfer tax imposed under chapter 13—

(A) On direct skips occurring at death, if the transferor dies after July 30, 1996; and

(B) On inter vivos direct skips, and all taxable terminations and taxable distributions occurring after December 31, 1996.

[T.D. 8789, 63 FR 70013, Dec. 18, 1998]

§ 301.6404–3 Abatement of penalty or addition to tax attributable to erroneous written advice of the Internal Revenue Service.

(a) *General rule.* Any portion of any penalty or addition to tax that is attributable to erroneous advice furnished to the taxpayer in writing by an officer or employee of the Internal Revenue Service (Service), acting in his or her official capacity, shall be abated, provided the requirements of paragraph (b) of this section are met.

(b) *Requirements*—(1) *In general.* Paragraph (a) of this section shall apply only if—

(i) The written advice was reasonably relied upon by the taxpayer;

(ii) The advice was issued in response to a specific written request for advice by the taxpayer; and

(iii) The taxpayer requesting advice provided adequate and accurate information.

(2) *Advice was reasonably relied upon*—(i) *In general.* The written advice from the Service must have been reasonably relied upon by the taxpayer in order for

any penalty to be abated under paragraph (a) of this section.

(ii) *Advice relating to a tax return.* In the case of written advice from the Service that relates to an item included on a federal tax return of a taxpayer, if such advice is received by the taxpayer subsequent to the date on which the taxpayer filed such return, the taxpayer shall not be considered to have reasonably relied upon such written advice for purposes of this section, except as provided in paragraph (b)(2)(iii) of this section.

(iii) *Amended returns.* If a taxpayer files an amended federal tax return that conforms with written advice received by the taxpayer from the Service, the taxpayer will be considered to have reasonably relied upon the advice for purposes of the position set forth in the amended return.

(iv) *Advice not related to a tax return.* In the case of written advice that does not relate to an item included on a federal tax return (for example, the payment of estimated taxes), if such written advice is received by the taxpayer subsequent to the act or omission of the taxpayer that is the basis for the penalty or addition of tax, then the taxpayer shall not be considered to have reasonably relied upon such written advice for purposes of this section.

(v) *Period of reliance.* If the written advice received by the taxpayer relates to a continuing action or series of actions, the taxpayer may rely on that advice until the taxpayer is put on notice that the advice is no longer consistent with Service position and, thus, no longer valid. For purposes of this section, the taxpayer will be put on notice that written advice is no longer valid if the taxpayer receives correspondence from the Service stating that the advice no longer represents Service position. Further, any of the following events, occurring subsequent to the issuance of the advice, that set forth a position that is inconsistent with the written advice received from the Service shall be deemed to put the taxpayer on notice that the advice is no longer valid—

(A) Enactment of legislation or ratification of a tax treaty;

(B) A decision of the United States Supreme Court;

(C) The issuance of temporary or final regulations; or

(D) The issuance of a revenue ruling, a revenue procedure, or other statement published in the Internal Revenue Bulletin.

(3) *Advice was in response to written request.* No abatement under paragraph (a) of this section shall be allowed unless the penalty or addition to tax is attributable to advice issued in response to a specific written request for advice by the taxpayer. For purposes of the preceding sentence, a written request from a representative of the taxpayer shall be considered a written request by the taxpayer only if—

(i) The taxpayer's representative is an attorney, a certified public accountant, an enrolled agent, an enrolled actuary, or any other person permitted to represent the taxpayer before the Service and who is not disbarred or suspended from practice before the Service; and

(ii) The written request for advice either is accompanied by a power of attorney that is signed by the taxpayer and that authorizes the representative to represent the taxpayer for purposes of the request, or such a power of attorney is currently on file with the Service.

(4) *Taxpayer's information must be adequate and accurate.* No abatement under paragraph (a) of this section shall be allowed with respect to any portion of any penalty or addition to tax that resulted because the taxpayer requesting the advice did not provide the Service with adequate and accurate information. The Service has no obligation to verify or correct the taxpayer's submitted information.

(c) *Definitions*—(1) *Advice.* For purposes of section 6404(f) and the regulations thereunder, a written response issued to a taxpayer by an officer or employee of the Service shall constitute ''advice'' if, and only if, the response applies the tax laws to the specific facts submitted in writing by the taxpayer and provides a conclusion regarding the tax treatment to be accorded the taxpayer upon the application of the tax law to those facts.

(2) *Penalty and addition to tax.* For purposes of section 6404(f) and the regulations thereunder, the terms ''penalty'' and ''addition to tax'' refer to any liability of a particular taxpayer imposed under subtitle F, chapter 68, subchapter A and subchapter B of the Internal Revenue Code, and the liabilities imposed by sections 6038(b), 6038(c), 6038A(d), 6038B(b), 6039E(c), and 6332(d)(2). In addition, the terms ''penalty'' and ''addition to tax'' shall include any liability resulting from the application of other provisions of the Code where the Commissioner of Internal Revenue has designated by regulation, revenue ruling, or other guidance published in the Internal Revenue Bulletin that such provision shall be considered a penalty or addition to tax for purposes of section 6404(f). The terms ''penalty'' and ''addition to tax'' shall also include interest imposed with respect to any penalty or addition to tax.

(d) *Procedures for abatement.* Taxpayers entitled to an abatement of a penalty or addition to tax pursuant to section 6404(f) and this section should complete and file Form 843. If the erroneous advice received relates to an item on a federal tax return, taxpayers should submit Form 843 to the Internal Revenue Service Center where the return was filed. If the advice does not relate to an item on a federal tax return, the taxpayer should submit Form 843 to the Service Center where the taxpayer's return was filed for the taxable year in which the taxpayer relied on the erroneous advice. At the top of Form 843 taxpayers should write, ''Abatement of penalty or addition to tax pursuant to section 6404(f).'' Further, taxpayers must state on Form 843 whether the penalty or addition to tax has been paid. Taxpayers must submit, with Form 843, copies of the following—

(1) The taxpayer's written request for advice;

(2) The erroneous written advice furnished by the Service to the taxpayer and relied on by the taxpayer; and

(3) The report (if any) of tax adjustments that identifies the penalty or addition to tax and the item relating to the erroneous written advice.

(e) *Period for requesting abatement.* An abatement of any penalty or addition to tax pursuant to section 6404(f) and this section shall be allowed only if the request for abatement described in paragraph (d) of this section is submitted within the period allowed for collection of such penalty or addition to tax, or, if the penalty or addition to tax has been paid, the period allowed for claiming a credit or refund of such penalty or addition to tax.

(f) *Examples.* The following examples illustrate the application of section 6404(f) of the Code and the regulations thereunder:

Example 1. In February 1989, an individual submitted a written request for advice to an Internal Revenue Service Center and included adequate and accurate information to consider the request. The question posed by the taxpayer concerned whether a certain amount was includible in income on the taxpayer's 1989 federal income tax return. An employee of the Service Center issued the taxpayer a written response that concluded that based on the specific facts submitted by the taxpayer, the amount was not includible in income on the taxpayer's 1989 return. Since the response provided a conclusion regarding the tax treatment accorded the taxpayer on the basis of the facts submitted, the response constitutes ''advice'' for purposes of section 6404(f). The taxpayer filed his 1989 return and, relying on the Service's advice, did not include the item in income. Upon examination, it was determined that the item should have been included in income on the taxpayer's 1989 return. Because the taxpayer reasonably relied upon erroneous written advice from the Service, any penalty or addition to tax attributable to the erroneous advice will be abated by the Service. However, the erroneous advice will not affect the amount of any taxes and interest owed by the taxpayer (except to the extent interest relates to a penalty or addition to tax attributable to the erroneous advice) due to the fact that the item was not included in income.

Example 2. In March 1989, an individual submitted a written request to the National Office of the Internal Revenue Service regarding whether a certain activity constitutes a passive activity within the meaning of section 469 of the Code. The request did not meet the procedural requirements set forth by the National Office for consideration of the submission as a private letter ruling request and, thus, was not treated as such by the Service. The Service furnished the taxpayer with a written response that transmitted various published provisions of section 469 and the regulations thereunder relevant to the determination of whether an activity is passive within the meaning of those

provisions. The Service also included a Publication regarding the tax treatment of passive activities. However, the Service's response contained no opinion or determination regarding whether the taxpayer's described activity was or was not passive under section 469. The Service's response is not advice within the meaning of section 6404(f), and cannot be relied upon for purposes of an abatement of a portion of a penalty or addition to tax under that section.

Example 3. On April 1, 1989, an individual submitted a written request for advice to an Internal Revenue Service Center. The advice related to an item included on a federal tax return. The individual filed a federal income tax return with the appropriate Service Center on April 15, 1989. Subsequently, on May 1, 1989, the individual received advice from the Service Center concerning the written request made on April 1. Because the individual filed his tax return prior to the date on which written advice from the Service was received, the individual did not rely on the Service's written advice for purposes of section 6404(f). If, however, the individual amends his tax return to conform with the written advice received from the Service, the individual will be considered to have reasonably relied upon the Service's advice.

Example 4. Individual A, on May 1, 1989, received advice from the Service that concluded that interest paid by the taxpayer with respect to a specific loan was interest paid or accrued in connection with a trade or business, within the meaning of section 163(h)(2)(A) of the Code. The advice relates to a continuing action. Therefore, provided the facts submitted by the taxpayer to obtain the advice remain adequate and accurate (that is, the circumstances relating to the indebtedness do not change), Individual A may rely on the Service's advice for subsequent taxable years until the individual is put on notice that the advice no longer represents Service position and, thus, is no longer valid.

Example 5. An individual, on June 1, 1989, received advice from the Service that concluded that no gain or loss would be recognized with respect to a transfer of property to his spouse under section 1041. The advice does not relate to a continuing action. Therefore, the taxpayer may not rely on the advice of the Service for transfers other than the transfer discussed in the taxpayer's written request for advice.

(g) *Effective date.* Section 6404(f) shall apply with respect to advice requested on or after January 1, 1989.

[T.D. 8254, 54 FR 21057, May 16, 1989. Redesignated at 55 FR 14245, Apr. 17, 1990]

§ 301.6404–4 Suspension of interest and certain penalties when the Internal Revenue Service does not timely contact the taxpayer.

(a) *Suspension*—(1) *In general.* Except as provided in paragraph (b) of this section, if an individual taxpayer files a return of tax imposed by subtitle A on or before the due date for the return (including extensions) and the Internal Revenue Service does not timely provide the taxpayer with a notice specifically stating the amount of any increased liability and the basis for that liability, then the IRS must suspend the imposition of any interest, penalty, addition to tax, or additional amount, with respect to any failure relating to the return that is computed by reference to the period of time the failure continues to exist and that is properly allocable to the suspension period. The notice described in this paragraph (a) is timely if provided before the close of the 18-month period (36-month period in the case of notices provided after November 25, 2007, subject to the provisions of paragraph (a)(5)) beginning on the later of the date on which the return is filed or the due date of the return without regard to extensions.

(2) *Treatment of amended returns and other documents*—(i) *Amended returns filed on or after December 21, 2005, that show an increase in tax liability.* If a taxpayer, on or after December 21, 2005, provides to the IRS an amended return or one or more other signed written documents showing an increase in tax liability, the date on which the return was filed will, for purposes of this paragraph (a), be the date on which the last of the documents was provided. Documents described in this paragraph (a)(2)(i) are provided on the date that they are received by the IRS.

(ii) *Amended returns that show a decrease in tax liability.* If a taxpayer provides to the IRS an amended return or other signed written document that shows a decrease in tax liability, any interest, penalty, addition to tax, or additional amount will not be suspended if the IRS at any time proposes to adjust the changed item or items on the amended return or other signed written document.

(iii) *Amended returns and other documents as notice.* (A) As to the items reported, an amended return or one or more other signed written documents showing that the taxpayer owes an additional amount of tax for the taxable year serves as the notice described in paragraph (a)(1) of this section with respect to the items reported on the amended return.

(B) *Example.* An individual taxpayer timely files a Federal income tax return for taxable year 2008 on April 15, 2009. On January 19, 2010, the taxpayer mails to the IRS an amended return reporting an additional item of income and an increased tax liability for taxable year 2008. The IRS receives the amended return on January 21, 2010. The amended return will be treated for purposes of this paragraph (a) as filed on January 21, 2010, the date the IRS received it. Pursuant to paragraph (a)(2)(iii) of this section, the amended return serves as the notice described in paragraph (a)(1) of this section with respect to the item reported on the amended return. Accordingly, because the filing of the amended return and the provision of notice occur simultaneously, no suspension of any interest, penalty, addition to tax or additional amount will occur under this paragraph (a) with respect to the item reported on the amended return.

(iv) *Joint return after filing separate return.* A joint return filed under section 6013(b) is subject to the rules for amended returns described in this paragraph (a)(2). The IRS will not suspend any interest, penalty, addition to tax, or additional amount on a joint return filed under section 6013(b) after the filing of a separate return unless each spouse's separate return, if required to be filed, was timely.

(3) *Separate application.* This paragraph (a) shall be applied separately with respect to each item or adjustment.

(4) *Duration of suspension period.* The suspension period described in paragraph (a)(1) of this section begins the day after the close of the 18-month period (36-month period, in the case of notices provided after November 25, 2007, subject to the provisions of paragraph (a)(5)) beginning on the later of the date on which the return is filed or the due date of the return without regard to extensions. The suspension period ends 21 days after the earlier of the date on which the IRS mails the required notice to the taxpayer's last known address, the date on which the required notice is hand-delivered to the taxpayer, or the date on which the IRS receives an amended return or other signed written document showing an increased tax liability.

(5) *Certain notices provided on or after November 26, 2007.* If the IRS provides the notice described in paragraph (a)(1) of this section to a taxpayer on or after November 26, 2007, and the notice relates to an individual Federal income tax return that was timely filed before that date, the following rules will apply:

(i) *Eighteen-month period has closed.* If, as of November 25, 2007, the 18-month period described in paragraph (a)(1) of this section has closed and the IRS has not provided the taxpayer with the notice described in that paragraph (a)(1), the suspension described in paragraph (a)(1) of this section will begin on the day after the close of the 18-month period. The suspension will end on the date that is 21 days after the notice is provided.

(ii) *All other cases.* In all other cases, the suspension described in paragraph (a)(1) of this section will begin on the day after the close of the 36-month period described in that paragraph (a)(1) and end on the date that is 21 days after the notice described in paragraph (a)(1) of this section is provided.

(6) *Examples.* The following examples, which assume that no exceptions in section 6404(g)(2) to the general rule of suspension apply, illustrate the rules of this paragraph (a).

Example 1. An individual taxpayer timely files a Federal income tax return for taxable year 2005 on April 17, 2006. On December 11, 2007, the taxpayer mails to the IRS an amended return reporting an additional item of income and an increased tax liability for taxable year 2005. The IRS receives the amended return on December 13, 2007. On January 16, 2008, the IRS provides the taxpayer with a notice stating that the taxpayer has an additional tax liability based on the disallowance of a deduction the taxpayer claimed on his original return and did not change on his amended return. The date the amended return was received substitutes

for the date that the original return was filed with respect to the additional item of tax liability reported on the amended return. Thus, the IRS will not suspend any interest, penalty, addition to tax, or additional amount with respect to the additional item of income and the increased tax liability reported on the amended return. The suspension period for the additional tax liability based on the IRS's disallowance of the deduction begins on October 17, 2007, so the IRS will suspend any interest, penalty, addition to tax, and additional amount with respect to the disallowed deduction and additional tax liability from that date through February 6, 2008, which is 21 days after the IRS provided notice of the additional tax liability and the basis for that liability. The suspension period in this example begins 18 months after filing the return (not 36 months) because, as of November 25, 2007, the 18-month period beginning on the date the return was filed had closed without the IRS giving notice of the additional liability. Thus, under the rules in paragraph (a)(5) of this section, the suspension period begins 18 months from the April 17, 2006 return filing date.

Example 2. An individual taxpayer files a Federal income tax return for taxable year 2008 on April 15, 2009. The taxpayer consents to extend the time within which the IRS may assess any tax due on the return until June 30, 2013. On December 20, 2012, the IRS provides a notice to the taxpayer specifically stating the taxpayer's liability and the basis for the liability. The suspension period for the liability identified by the IRS begins on April 15, 2012, so the IRS will suspend any interest, penalty, addition to tax, and additional amount with respect to that liability from that date through January 10, 2013, which is 21 days after the IRS provided notice of the additional tax liability and the basis for that liability.

(7) *Notice of liability and the basis for the liability*—(i) *In general.* Notice to the taxpayer must be in writing and specifically state the amount of the liability and the basis for the liability. The notice must provide the taxpayer with sufficient information to identify which items of income, deduction, loss, or credit the IRS has adjusted or proposes to adjust, and the reason for that adjustment. Notice of the reason for the adjustment does not require a detailed explanation or a citation to any Internal Revenue Code section or other legal authority. The IRS need not incorporate all of the information necessary to satisfy the notice requirement within a single document or provide all of the information at the same time. Documents that may contain information sufficient to constitute notice, either alone or in conjunction with other documents, include, but are not limited to, statutory notices of deficiency; examination reports (for example, Form 4549, *Income Tax Examination Changes* or Form 886–A, *Explanation of Items);* Form 870, *Waiver of Restriction on Assessments and Collection of Deficiency in Tax and Acceptance of Overassessment;* notices of proposed deficiency that allow the taxpayer an opportunity for review in the Office of Appeals (30-day letters); notices pursuant to section 6213(b) (mathematical or clerical errors); and notice and demand for payment of a jeopardy assessment under section 6861.

(ii) *Tax attributable to TEFRA partnership items.* Notice to the partner or the tax matters partner (TMP) of a partnership subject to the unified audit and litigation procedures of subchapter C of chapter 63 of subtitle F of the Internal Revenue Code (TEFRA partnership procedures) that provides specific information about the basis for the adjustments to partnership items is sufficient notice if a partner could reasonably compute the specific tax attributable to the partnership item based on the proposed adjustments as applied to the partner's individual tax situation. Documents provided by the IRS during a TEFRA partnership proceeding that may contain information sufficient to satisfy the notice requirements include, but are not limited to, a Notice of Final Partnership Administrative Adjustment (FPAA); examination reports (for example, Form 4605–A or Form 886–A); or a letter that allows the partners an opportunity for review in the Office of Appeals (60-day letter).

(iii) *Examples.* The following examples illustrate the rules of this paragraph (a)(7).

Example 1. During an audit of Taxpayer A's 2005 taxable year return, the IRS questions a charitable deduction claimed on the return. The IRS provides A with a 30-day letter that proposes to disallow the charitable contribution deduction resulting in a deficiency of $1,000 and informs A that A may file a written protest of the proposed disallowance with the Office of Appeals within 30 days. The letter includes as an attachment a copy of the revenue agent's report that states, ''It

has not been established that the amount shown on your return as a charitable contribution was paid during the tax year. Therefore, this deduction is not allowable.'' The information in the 30-day letter and attachment provides A with notice of the specific amount of the liability and the basis for that liability as described in this paragraph (a)(7).

Example 2. Taxpayer B is a partner in partnership P, a TEFRA partnership for taxable year 2005. B claims a distributive share of partnership income on B's Federal income tax return for 2005 timely filed on April 17, 2006. On October 1, 2007, during the course of a partnership audit of P for taxable year 2005, the IRS provides P's TMP with a 60-day letter proposing to adjust P's income by $10,000. The IRS previously had provided the TMP with a copy of the examination report explaining that the adjustment was based on $10,000 of unreported net income. On October 31, 2007, P's TMP informs B of the proposed adjustment as required by § 301.6223(g)–1(b). By accounting for B's distributive share of the $10,000 of unreported income from P with B's other income tax items, B can determine B's tax attributable to the $10,000 partnership adjustment. The information in the 60-day letter and the examination report allows B to compute the specific amount of the liability attributable to the adjustment to the partnership item and the basis for that adjustment and therefore satisfies the notice requirement of paragraph (a). Because the IRS provided that notice to the TMP, B's agent under the TEFRA partnership provisions, within 18 months of the April 17, 2006 filing date of B's return, any interest, penalty, addition to tax, or additional amount with respect to B's tax liability attributable to B's distributive share of the $10,000 of unreported partnership income will not be suspended under section 6404(g).

(8) *Providing notice*—(i) *In general*. The IRS may provide notice by mail or in person to the taxpayer or the taxpayer's representative. If the IRS mails the notice, it must be sent to the taxpayer's last known address under rules similar to section 6212(b), except that certified or registered mail is not required. Notice is considered provided as of the date of mailing or delivery in person.

(ii) *Providing notice in TEFRA partnership proceedings*. In the case of TEFRA partnership proceedings, the IRS must provide notice of final partnership administrative adjustments (FPAA) by mail to those partners specified in section 6223. Within 60 days of an FPAA being mailed, the TMP is required to forward notice of the FPAA to those partners not entitled to direct notice from the IRS under section 6223. Certain partners with small interests in partnerships with more than 100 partners may form a Notice Group and designate a partner to receive the FPAA on their behalf. The IRS may provide other information after the beginning of the partnership administrative proceeding to the TMP who, in turn, must provide that information to the partners specified in § 301.6223(g)–1 within 30 days of receipt. Pass-thru partners who receive notices and other information from the IRS or the TMP must forward that notice or information within 30 days to those holding an interest through the pass-thru partner. Information provided by the IRS to the TMP is deemed to be notice for purposes of this section to those partners specified in § 301.6223(g)–1 as of the date the IRS provides that notice to the TMP. A similar rule applies to notice provided to the designated partner of a Notice Group, and to notice provided to a pass-thru partner. In the foregoing situations, the TMP, designated partner, and pass-thru partner are agents for direct and indirect partners. Consequently, notice to these agents is deemed to be notice to the partners for whom they act.

(b) *Exceptions*—(1) *Failure to file tax return or to pay tax*. Paragraph (a) of this section does not apply to any penalty imposed by section 6651.

(2) *Fraud*. Paragraph (a) of this section does not apply to any interest, penalty, addition to tax, or additional amount for a year involving a false or fraudulent return. If a taxpayer files a fraudulent return for a particular year, paragraph (a) of this section may apply to any other tax year of the taxpayer that does not involve fraud. Fraud affecting a particular item on a return precludes paragraph (a) of this section from applying to any other items on that return.

(3) *Tax shown on return*. Paragraph (a) of this section does not apply to any interest, penalty, addition to tax, or additional amount with respect to any tax liability shown on a return.

(4) *Gross misstatement*—(i) *Description*. Paragraph (a) of this section does not apply to any interest, penalty, addition

to tax, or additional amount with respect to a gross misstatement. A *gross misstatement* for purposes of this paragraph (b) means:

(A) a substantial omission of income as described in section 6501(e)(1) or section 6229(c)(2);

(B) a gross valuation misstatement within the meaning of section 6662(h)(2)(A) and (B); or

(C) a misstatement to which the penalty under section 6702(a) applies.

(ii) *Effect of gross misstatement.* If a gross misstatement occurs, then paragraph (a) of this section does not apply to any interest, penalty, addition to tax, or additional amount with respect to any items of income omitted from the return and with respect to overstated deductions, even though one or more of the omitted items would not constitute a substantial omission, gross valuation misstatement, or misstatement to which section 6702(a) applies.

(5) *Listed transactions and undisclosed reportable transactions*—(i) *In general.* The general rule of suspension under section 6404(g)(1) does not apply to any interest, penalty, addition to tax, or additional amount with respect to any listed transaction as defined in section 6707A(c) or any undisclosed reportable transaction. For purposes of this section, an *undisclosed reportable transaction* is a reportable transaction described in the regulations under section 6011 that is not adequately disclosed under those regulations and that is not a listed transaction. The date that the IRS provides notice to the taxpayer specifically stating the taxpayer's liability regarding a listed transaction or an undisclosed reportable transaction and the basis for that liability is the controlling date for determining whether the transaction is a listed transaction or an undisclosed reportable transaction for purposes of the suspension rules under section 6404(g).

(ii) *Special rule for certain listed or undisclosed reportable transactions.* With respect to interest relating to listed transactions and undisclosed reportable transactions accruing on or before October 3, 2004, the exception to the general rule of interest suspension will not apply to a taxpayer who is a participant in a settlement initiative with respect to that transaction, to any transaction in which the taxpayer has acted reasonably and in good faith, or to a closed transaction. For purposes of this special rule, a ''participant in a settlement initiative,'' a ''taxpayer acting in good faith,'' and a ''closed transaction'' have the following meanings:

(A) *Participant in a settlement initiative—(1) Participant in a settlement initiative who, as of January 23, 2006, had not reached agreement with the IRS.* A *participant in a settlement initiative* includes a taxpayer who, as of January 23, 2006, was participating in a settlement initiative described in Internal Revenue Service Announcement 2005–80, 2005–2 C.B. 967. See § 601.601(d)(2)(ii)(b) of this chapter. A taxpayer participates in the initiative by complying with Section 5 of the Announcement. A taxpayer is not a participant in a settlement initiative if, after January 23, 2006, the taxpayer withdraws from or terminates participation in the initiative, or the IRS determines that a settlement agreement will not be reached under the initiative within a reasonable period of time.

(2) Participant in a settlement initiative who, as of January 23, 2006, had reached agreement with the IRS. A *participant in a settlement initiative* is a taxpayer who, as of January 23, 2006, had entered into a settlement agreement under Announcement 2005–80 or any other prior or contemporaneous settlement initiative either offered through published guidance or, if the initiative was not formally published, direct contact with taxpayers known to have participated in a tax shelter promotion.

(B) *Taxpayer acting in good faith—(1) In general.* The IRS may suspend interest relating to a listed transaction or an undisclosed reportable transaction accruing on or before October 3, 2004, if the taxpayer has acted reasonably and in good faith. The IRS's determination of whether a taxpayer has acted reasonably and in good faith will take into account all the facts and circumstances surrounding the transaction. The facts and circumstances include, but are not limited to, whether the taxpayer disclosed the transaction and the taxpayer's course of conduct

after being identified as participating in the transaction, including the taxpayer's response to opportunities afforded to the taxpayer to settle the transaction, and whether the taxpayer engaged in unreasonable delay at any stage of the matter.

(*2*) *Presumption*. If a taxpayer and the IRS promptly enter into a settlement agreement with respect to a transaction on terms proposed by the IRS or, in the event of atypical facts and circumstances, on terms more favorable to the taxpayer, and the taxpayer has complied with the terms of that agreement without unreasonable delay, the taxpayer will be presumed to have acted reasonably and in good faith except in rare and unusual circumstances. Rare and unusual circumstances must involve specific actions involving harm to tax administration. Even if a taxpayer does not qualify for the presumption described in this paragraph (b)(5)(iii)(B)(*2*), the taxpayer may still be granted interest suspension under the general facts and circumstances test set forth in paragraph (b)(5)(iii)(B)(*1*) of this section.

(*3*) *Examples*. The following examples illustrate the rules the IRS uses in determining whether a taxpayer has acted reasonably and in good faith.

Example 1. The taxpayer participated in a listed transaction. The IRS, in a letter sent directly to the taxpayer in July 2005, proposed a settlement of the transaction. The taxpayer informed the IRS of his interest in the settlement within the prescribed time period. The revenue agent assigned to the taxpayer's case was not able to calculate the taxpayer's liability under the settlement or tender a closing agreement to the taxpayer until March 2006. The taxpayer promptly executed the closing agreement and returned it to the IRS with a proposal for arrangements to pay the agreed-upon liability. The IRS agreed with the proposed arrangements for full payment. For purposes of the application of section 6404(g)(2)(E), the taxpayer has acted reasonably and in good faith. Interest accruing on or before October 3, 2004, relating to the transaction in which the taxpayer participated will be suspended.

Example 2. The facts are the same as in *Example 1*, except that the letter was sent by the IRS in February 2006, and the closing agreement was tendered to the taxpayer in April 2006. For purposes of the application of section 6404(g)(2)(E), the taxpayer has acted reasonably and in good faith. Interest accruing on or before October 3, 2004, relating to the transaction in which the taxpayer participated will be suspended.

Example 3. The taxpayer participated in a listed transaction. In response to an offer of settlement extended by the IRS in August 2005, the taxpayer informed the IRS of her interest in entering into a closing agreement on the terms proposed by the IRS. The revenue agent assigned to the transaction calculated the taxpayer's liability under the settlement and tendered a closing agreement to the taxpayer in November 2005. The taxpayer executed the closing agreement but failed to make any arrangement for payment of the agreed-upon liability stated in the closing agreement. Taking into account all the facts and circumstances surrounding the transaction, the taxpayer did not act reasonably and in good faith. Interest accruing on or before October 3, 2004, relating to the transaction in which the taxpayer participated will not be suspended.

Example 4. The taxpayer participated in a listed transaction. In a letter sent by the IRS directly to the taxpayer in July 2005, the IRS extended an offer of settlement. The July 2005 letter informed the taxpayer that, absent atypical facts and circumstances, the taxpayer should not expect resolution of the tax issues on more favorable terms than proposed in the letter. The taxpayer declined the proposed settlement terms of the letter and proceeded to Appeals to present what the taxpayer claimed were atypical facts and circumstances. The administrative file did not contain sufficient information bearing on atypical facts and circumstances, and the taxpayer failed to provide additional information when requested by Appeals to explain how the transaction originally proposed to the taxpayer differed in structure or types of tax benefits claimed, from the transaction as implemented by the taxpayer. Appeals determined that the taxpayer's facts and circumstances were not significantly different from those of other taxpayers who participated in that listed transaction and thus, were not atypical. In September 2006, the taxpayer and Appeals entered into a closing agreement on terms consistent with those originally proposed in the July 2005 letter. The taxpayer has complied with the terms of that closing agreement. For purposes of the application of section 6404(g)(2)(E), this taxpayer is not presumed to have acted reasonably and in good faith; instead, the IRS will apply the general rule to determine whether to suspend interest accruing on or before October 3, 2004, relating to the transaction in which the taxpayer participated.

Example 5. The facts are the same as in *Example 4*, except that Appeals agrees that atypical facts were present that warrant additional concessions by the government. A settlement is reached on terms more favorable to the taxpayer than those proposed in

the July 2005 letter. For purposes of the application of section 6404(g)(2)(E), this taxpayer is presumed to have acted reasonably and in good faith, and absent evidence of rare or unusual circumstances harmful to tax administration, is eligible for suspension of interest accruing on or before October 3, 2004, relating to the transaction in which the taxpayer participated.

(C) *Closed transactions*. A transaction is considered closed for purposes of this clause if, as of December 14, 2005, the assessment of all federal income taxes for the taxable year in which the tax liability to which the interest relates is prevented by the operation of any law or rule of law, or a closing agreement under section 7121 has been entered into with respect to the tax liability arising in connection with the transaction.

(c) *Special rules*—(1) *Tentative carryback and refund adjustments*. If an amount applied, credited or refunded under section 6411 exceeds the overassessment properly attributable to a tentative carryback or refund adjustment, any interest, penalty, addition to tax, or additional amount with respect to the excess will not be suspended.

(2) *Election under section 183(e)*—(i) *In general*. If a taxpayer elects under section 183(e) to defer the determination of whether the presumption that an activity is engaged in for profit applies, the 18-month (or 36-month) notification period described in paragraph (a)(1) of this section will be tolled for the period to which the election applies. If the 18-month (or 36-month) notification period has passed as of the date the section 183(e) election is made, the suspension period described in paragraph (a)(4) of this section will be tolled for the period to which the election applies and will resume the day after the tolling period ends. Tolling will begin on the date the election is made and end on the later of the date the return for the last taxable year to which the election applies is filed or is due without regard to extensions.

(ii) *Example*. In taxable year 2007, taxpayer begins training and showing horses. On January 4, 2011, the taxpayer elects under section 183(e) to defer the determination of whether the horse-related activity will be presumed (under section 183(d)) to be engaged in for profit. Accordingly, under section 183(e)(1), a determination of whether the section 183(d) presumption applies will not occur before the close of the 2013 taxable year. Assume that in 2014, the IRS is considering issuing a notice of deficiency for taxable year 2009 regarding tax deductions claimed for the horse-related activity. Pursuant to paragraph (c)(2)(i) of this section, the 36-month notification period under paragraph (a)(1) of this section will be tolled with respect to taxable year 2009 for the period to which the section 183(e) election applies. This tolling of the notification period begins on January 4, 2011 (the date the taxpayer made the section 183(e) election) and ends on the later of April 15, 2014, or the date the taxpayer's return for taxable year 2013 is filed.

(d) *Effective/Applicability date*. Paragraph (b)(5) of these regulations applies to interest relating to listed transactions and undisclosed reportable transactions accruing before, on, or after October 3, 2004. Paragraphs (a), (b)(1) through (b)(4), and (c) are effective on August 22, 2011.

[T.D. 9488, 75 FR 33993, June 16, 2010, as amended by T.D. 9545, 76 FR 52261, Aug. 22, 2011; 76 FR 60373, Sept. 29, 2011]

§ 301.6405–1 Reports of refunds and credits.

Section 6405 requires that a report be made to the Joint Committee on Taxation of proposed refunds or credits in excess of $100,000 of any income tax (including any qualified State individual income tax collected by the Federal Government), war profits tax, excess profits tax, estate tax, or gift tax. An exception is provided under which refunds and credits made after July 1, 1972, and attributable to an election under section 165(h) to deduct a disaster loss for the taxable year in which the disaster occurred, may be made prior to the submission of such report to the Joint Committee on Taxation.

[T.D. 7577, 43 FR 59376, Dec. 20, 1978]

§ 301.6407–1 Date of allowance of refund or credit.

The date on which the district director or the director of the regional service center, or an authorized certifying officer designated by either of them,

first certifies the allowance of an overassessment in respect of any internal revenue tax shall be considered as the date of allowance of refund or credit in respect of such tax.

RULES OF SPECIAL APPLICATION

§ 301.6411–1 Tentative carryback adjustments.

For regulations under section 6411, see §§ 1.6411–1 to 1.6411–4, inclusive, of this chapter (Income Tax Regulations).

§ 301.6413–1 Special rules applicable to certain employment taxes.

For regulations under section 6413, see §§ 31.6413(a)–1 to 31.6413(c)–1, inclusive, of this chapter (Employment Tax Regulations).

§ 301.6414–1 Income tax withheld.

(a) For rules relating to the refund or credit of income tax withheld under chapter 3 of the Code on nonresident aliens and foreign corporations and tax-free covenant bonds, see § 1.6414–1 of this chapter (Income Tax Regulations).

(b) For rules relating to the refund or credit of income tax withheld under chapter 24 of the Code from wages, see § 31.6414–1 of this chapter (Employment Tax Regulations).

§ 301.6425–1 Adjustment of overpayment of estimated income tax by corporation.

For regulations under section 6425, see §§ 1.6425–1 to 1.6425–3, inclusive, of this chapter (Income Tax Regulations).

[T.D. 7059, 35 FR 14548, Sept. 17, 1970]

Limitations

LIMITATIONS ON ASSESSMENT AND COLLECTION

§ 301.6501(a)–1 Period of limitations upon assessment and collection.

(a) The amount of any tax imposed by the Code (other than a tax collected by means of stamps) shall be assessed within 3 years after the return was filed. For rules applicable in cases where the return is filed prior to the due date thereof, see section 6501(b). In the case of taxes payable by stamp, assessment shall be made at any time after the tax became due and before the expiration of 3 years after the date on which any part of the tax was paid. For exceptions and additional rules, see subsections (b) to (g) of section 6501, and for cross references to other provisions relating to limitations on assessment and collection, see sections 6501(h) and 6504.

(b) No proceeding in court without assessment for the collection of any tax shall be begun after the expiration of the applicable period for the assessment of such tax.

§ 301.6501(b)–1 Time return deemed filed for purposes of determining limitations.

(a) *Early return.* Any return, other than a return of tax referred to in paragraph (b) of this section, filed before the last day prescribed by law or regulations for the filing thereof (determined without regard to any extension of time for filing) shall be considered as filed on such last day.

(b) *Returns of social security tax and of income tax withholding.* If a return on or after November 13, 1966, of tax imposed by chapter 3 of the Code (relating to withholding of tax on nonresident aliens and foreign corporations and tax-free covenant bonds), or if a return of tax imposed by chapter 21 of the Code (relating to the Federal Insurance Contributions Act) or by chapter 24 of the Code (relating to collection of income tax at source on wages), for any period ending with or within a calendar year is filed before April 15 of the succeeding calendar year, such return shall be deemed filed on April 15 of such succeeding calendar year. For example, if quarterly returns of the tax imposed by chapter 24 of the Code are filed for the four quarters of 1955 on April 30, July 31, and October 31, 1955, and on January 31, 1956, the period of limitation for assessment with respect to the tax required to be reported on such return is measured from April 15, 1956. However, if any of such returns is filed after April 15, 1956, the period of limitation for assessment of the tax required to be reported on that return is measured from the date it is in fact filed.

(c) *Returns executed by district directors or other internal revenue officers.*

The execution of a return by a district director or other authorized internal revenue officer or employee under the authority of section 6020(b) shall not start the running of the statutory period of limitations on assessment and collection.

§ 301.6501(c)–1 Exceptions to general period of limitations on assessment and collection.

(a) *False return.* In the case of a false or fraudulent return with intent to evade any tax, the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time after such false or fraudulent return is filed.

(b) *Willful attempt to evade tax.* In the case of a willful attempt in any manner to defeat or evade any tax imposed by the Code (other than a tax imposed by subtitle A or B, relating to income, estate, or gift taxes), the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time.

(c) *No return.* In the case of a failure to file a return, the tax may be assessed, or a proceeding in court for the collection of such tax may be begun without assessment, at any time after the date prescribed for filing the return. For special rules relating to filing a return for chapter 42 and similar taxes, see §§ 301.6501(n)–1, 301.6501(n)–2, and 301.6501(n)–3.

(d) *Extension by agreement.* The time prescribed by section 6501 for the assessment of any tax (other than the estate tax imposed by chapter 11 of the Code) may, prior to the expiration of such time, be extended for any period of time agreed upon in writing by the taxpayer and the district director or an assistant regional commissioner. The extension shall become effective when the agreement has been executed by both parties. The period agreed upon may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.

(e) *Gifts subject to chapter 14 of the Internal Revenue Code not adequately disclosed on the return.* If any transfer of property subject to the special valuation rules of section 2701 or section 2702, or if the occurrence of any taxable event described in section § 25.2701–4 of this chapter, is not adequately shown on a return of tax imposed by chapter 12 of subtitle B of the Internal Revenue Code (without regard to section 2503(b)), any tax imposed by chapter 12 of subtitle B of the Code on the transfer or resulting from the taxable event may be assessed, or a proceeding in court for the collection of the appropriate tax may be begun without assessment, at any time.

(2) *Adequately shown.* A transfer of property valued under the rules of section 2701 or section 2702 or any taxable event described in § 25.2701–4 of this chapter will be considered adequately shown on a return of tax imposed by chapter 12 of subtitle B of the Internal Revenue Code only if, with respect to the entire transaction or series of transactions (including any transaction that affected the transferred interest) of which the transfer (or taxable event) was a part, the return provides:

(i) A description of the transactions, including a description of transferred and retained interests and the method (or methods) used to value each;

(ii) The identity of, and relationship between, the transferor, transferee, all other persons participating in the transactions, and all parties related to the transferor holding an equity interest in any entity involved in the transaction; and

(iii) A detailed description (including all actuarial factors and discount rates used) of the method used to determine the amount of the gift arising from the transfer (or taxable event), including, in the case of an equity interest that is not actively traded, the financial and other data used in determining value. Financial data should generally include balance sheets and statements of net earnings, operating results, and dividends paid for each of the 5 years immediately before the valuation date.

(3) *Effective date.* The provisions of this paragraph (e) are effective as of January 28, 1992. In determining whether a transfer or taxable event is adequately shown on a gift tax return filed prior to that date, taxpayers may rely on any reasonable interpretation of the statutory provisions. For these purposes, the provisions of the proposed

regulations and the final regulations are considered a reasonable interpretation of the statutory provisions.

(f) *Gifts made after December 31, 1996, not adequately disclosed on the return*—(1) *In general.* If a transfer of property, other than a transfer described in paragraph (e) of this section, is not adequately disclosed on a gift tax return (Form 709, ''United States Gift (and Generation-Skipping Transfer) Tax Return''), or in a statement attached to the return, filed for the calendar period in which the transfer occurs, then any gift tax imposed by chapter 12 of subtitle B of the Internal Revenue Code on the transfer may be assessed, or a proceeding in court for the collection of the appropriate tax may be begun without assessment, at any time.

(2) *Adequate disclosure of transfers of property reported as gifts.* A transfer will be adequately disclosed on the return only if it is reported in a manner adequate to apprise the Internal Revenue Service of the nature of the gift and the basis for the value so reported. Transfers reported on the gift tax return as transfers of property by gift will be considered adequately disclosed under this paragraph (f)(2) if the return (or a statement attached to the return) provides the following information—

(i) A description of the transferred property and any consideration received by the transferor;

(ii) The identity of, and relationship between, the transferor and each transferee;

(iii) If the property is transferred in trust, the trust's tax identification number and a brief description of the terms of the trust, or in lieu of a brief description of the trust terms, a copy of the trust instrument;

(iv) Except as provided in § 301.6501–1(f)(3), a detailed description of the method used to determine the fair market value of property transferred, including any financial data (for example, balance sheets, etc. with explanations of any adjustments) that were utilized in determining the value of the interest, any restrictions on the transferred property that were considered in determining the fair market value of the property, and a description of any discounts, such as discounts for blockage, minority or fractional interests, and lack of marketability, claimed in valuing the property. In the case of a transfer of an interest that is actively traded on an established exchange, such as the New York Stock Exchange, the American Stock Exchange, the NASDAQ National Market, or a regional exchange in which quotations are published on a daily basis, including recognized foreign exchanges, recitation of the exchange where the interest is listed, the CUSIP number of the security, and the mean between the highest and lowest quoted selling prices on the applicable valuation date will satisfy all of the requirements of this paragraph (f)(2)(iv). In the case of the transfer of an interest in an entity (for example, a corporation or partnership) that is not actively traded, a description must be provided of any discount claimed in valuing the interests in the entity or any assets owned by such entity. In addition, if the value of the entity or of the interests in the entity is properly determined based on the net value of the assets held by the entity, a statement must be provided regarding the fair market value of 100 percent of the entity (determined without regard to any discounts in valuing the entity or any assets owned by the entity), the pro rata portion of the entity subject to the transfer, and the fair market value of the transferred interest as reported on the return. If 100 percent of the value of the entity is not disclosed, the taxpayer bears the burden of demonstrating that the fair market value of the entity is properly determined by a method other than a method based on the net value of the assets held by the entity. If the entity that is the subject of the transfer owns an interest in another non-actively traded entity (either directly or through ownership of an entity), the information required in this paragraph (f)(2)(iv) must be provided for each entity if the information is relevant and material in determining the value of the interest; and

(v) A statement describing any position taken that is contrary to any proposed, temporary or final Treasury regulations or revenue rulings published at the time of the transfer (see § 601.601(d)(2) of this chapter).

(3) *Submission of appraisals in lieu of the information required under paragraph (f)(2)(iv) of this section.* The requirements of paragraph (f)(2)(iv) of this section will be satisfied if the donor submits an appraisal of the transferred property that meets the following requirements—

(i) The appraisal is prepared by an appraiser who satisfies all of the following requirements:

(A) The appraiser is an individual who holds himself or herself out to the public as an appraiser or performs appraisals on a regular basis.

(B) Because of the appraiser's qualifications, as described in the appraisal that details the appraiser's background, experience, education, and membership, if any, in professional appraisal associations, the appraiser is qualified to make appraisals of the type of property being valued.

(C) The appraiser is not the donor or the donee of the property or a member of the family of the donor or donee, as defined in section 2032A(e)(2), or any person employed by the donor, the donee, or a member of the family of either; and

(ii) The appraisal contains all of the following:

(A) The date of the transfer, the date on which the transferred property was appraised, and the purpose of the appraisal.

(B) A description of the property.

(C) A description of the appraisal process employed.

(D) A description of the assumptions, hypothetical conditions, and any limiting conditions and restrictions on the transferred property that affect the analyses, opinions, and conclusions.

(E) The information considered in determining the appraised value, including in the case of an ownership interest in a business, all financial data that was used in determining the value of the interest that is sufficiently detailed so that another person can replicate the process and arrive at the appraised value.

(F) The appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions.

(G) The valuation method utilized, the rationale for the valuation method, and the procedure used in determining the fair market value of the asset transferred.

(H) The specific basis for the valuation, such as specific comparable sales or transactions, sales of similar interests, asset-based approaches, merger-acquisition transactions, etc.

(4) *Adequate disclosure of non-gift completed transfers or transactions.* Completed transfers to members of the transferor's family, as defined in section 2032A(e)(2), that are made in the ordinary course of operating a business are deemed to be adequately disclosed under paragraph (f)(2) of this section, even if the transfer is not reported on a gift tax return, provided the transfer is properly reported by all parties for income tax purposes. For example, in the case of salary paid to a family member employed in a family owned business, the transfer will be treated as adequately disclosed for gift tax purposes if the item is properly reported by the business and the family member on their income tax returns. For purposes of this paragraph (f)(4), any other completed transfer that is reported, in its entirety, as not constituting a transfer by gift will be considered adequately disclosed under paragraph (f)(2) of this section only if the following information is provided on, or attached to, the return—

(i) The information required for adequate disclosure under paragraphs (f)(2)(i), (ii), (iii) and (v) of this section; and

(ii) An explanation as to why the transfer is not a transfer by gift under chapter 12 of the Internal Revenue Code.

(5) *Adequate disclosure of incomplete transfers.* Adequate disclosure of a transfer that is reported as a completed gift on the gift tax return will commence the running of the period of limitations for assessment of gift tax on the transfer, even if the transfer is ultimately determined to be an incomplete gift for purposes of § 25.2511–2 of this chapter. For example, if an incomplete gift is reported as a completed gift on the gift tax return and is adequately disclosed, the period for assessment of the gift tax will begin to run when the return is filed, as determined under section 6501(b). Further, once the

period of assessment for gift tax expires, the transfer will be subject to inclusion in the donor's gross estate for estate tax purposes only to the extent that a completed gift would be so included. On the other hand, if the transfer is reported as an incomplete gift whether or not adequately disclosed, the period for assessing a gift tax with respect to the transfer will not commence to run even if the transfer is ultimately determined to be a completed gift. In that situation, the gift tax with respect to the transfer may be assessed at any time, up until three years after the donor files a return reporting the transfer as a completed gift with adequate disclosure.

(6) *Treatment of split gifts*. If a husband and wife elect under section 2513 to treat a gift made to a third party as made one-half by each spouse, the requirements of this paragraph (f) will be satisfied with respect to the gift deemed made by the consenting spouse if the return filed by the donor spouse (the spouse that transferred the property) satisfies the requirements of this paragraph (f) with respect to that gift.

(7) *Examples*. The following examples illustrate the rules of this paragraph (f):

Example 1. (i) *Facts*. In 2001, A transfers 100 shares of common stock of XYZ Corporation to A's child. The common stock of XYZ Corporation is actively traded on a major stock exchange. For gift tax purposes, the fair market value of one share of XYZ common stock on the date of the transfer, determined in accordance with § 25.2512–2(b) of this chapter (based on the mean between the highest and lowest quoted selling prices), is $150.00. On A's Federal gift tax return, Form 709, for the 2001 calendar year, A reports the gift to A's child of 100 shares of common stock of XYZ Corporation with a value for gift tax purposes of $15,000. A specifies the date of the transfer, recites that the stock is publicly traded, identifies the stock exchange on which the stock is traded, lists the stock's CUSIP number, and lists the mean between the highest and lowest quoted selling prices for the date of transfer.

(ii) *Application of the adequate disclosure standard*. A has adequately disclosed the transfer. Therefore, the period of assessment for the transfer under section 6501 will run from the time the return is filed (as determined under section 6501(b)).

Example 2. (i) *Facts*. On December 30, 2001, A transfers closely-held stock to B, A's child. A determined that the value of the transferred stock, on December 30, 2001, was $9,000. A made no other transfers to B, or any other donee, during 2001. On A's Federal gift tax return, Form 709, for the 2001 calendar year, A provides the information required under paragraph (f)(2) of this section such that the transfer is adequately disclosed. A claims an annual exclusion under section 2503(b) for the transfer.

(ii) *Application of the adequate disclosure standard*. Because the transfer is adequately disclosed under paragraph (f)(2) of this section, the period of assessment for the transfer will expire as prescribed by section 6501(b), notwithstanding that if A's valuation of the closely-held stock was correct, A was not required to file a gift tax return reporting the transfer under section 6019. After the period of assessment has expired on the transfer, the Internal Revenue Service is precluded from redetermining the amount of the gift for purposes of assessing gift tax or for purposes of determining the estate tax liability. Therefore, the amount of the gift as reported on A's 2001 Federal gift tax return may not be redetermined for purposes of determining A's prior taxable gifts (for gift tax purposes) or A's adjusted taxable gifts (for estate tax purposes).

Example 3. (i) *Facts*. A owns 100 percent of the common stock of X, a closely-held corporation. X does not hold an interest in any other entity that is not actively traded. In 2001, A transfers 20 percent of the X stock to B and C, A's children, in a transfer that is not subject to the special valuation rules of section 2701. The transfer is made outright with no restrictions on ownership rights, including voting rights and the right to transfer the stock. Based on generally applicable valuation principles, the value of X would be determined based on the net value of the assets owned by X. The reported value of the transferred stock incorporates the use of minority discounts and lack of marketability discounts. No other discounts were used in arriving at the fair market value of the transferred stock or any assets owned by X. On A's Federal gift tax return, Form 709, for the 2001 calendar year, A provides the information required under paragraph (f)(2) of this section including a statement reporting the fair market value of 100 percent of X (before taking into account any discounts), the pro rata portion of X subject to the transfer, and the reported value of the transfer. A also attaches a statement regarding the determination of value that includes a discussion of the discounts claimed and how the discounts were determined.

(ii) *Application of the adequate disclosure standard*. A has provided sufficient information such that the transfer will be considered adequately disclosed and the period of assessment for the transfer under section 6501 will run from the time the return is filed (as determined under section 6501(b)).

Example 4. (i) *Facts.* A owns a 70 percent limited partnership interest in PS. PS owns 40 percent of the stock in X, a closely-held corporation. The assets of X include a 50 percent general partnership interest in PB. PB owns an interest in commercial real property. None of the entities (PS, X, or PB) is actively traded and, based on generally applicable valuation principles, the value of each entity would be determined based on the net value of the assets owned by each entity. In 2001, A transfers a 25 percent limited partnership interest in PS to B, A's child. On the Federal gift tax return, Form 709, for the 2001 calendar year, A reports the transfer of the 25 percent limited partnership interest in PS and that the fair market value of 100 percent of PS is $y and that the value of 25 percent of PS is $z, reflecting marketability and minority discounts with respect to the 25 percent interest. However, A does not disclose that PS owns 40 percent of X, and that X owns 50 percent of PB and that, in arriving at the $y fair market value of 100 percent of PS, discounts were claimed in valuing PS's interest in X, X's interest in PB, and PB's interest in the commercial real property.

(ii) *Application of the adequate disclosure standard.* The information on the lower tiered entities is relevant and material in determining the value of the transferred interest in PS. Accordingly, because A has failed to comply with requirements of paragraph (f)(2)(iv) of this section regarding PS's interest in X, X's interest in PB, and PB's interest in the commercial real property, the transfer will not be considered adequately disclosed and the period of assessment for the transfer under section 6501 will remain open indefinitely.

Example 5. The facts are the same as in *Example 4* except that A submits, with the Federal tax return, an appraisal of the 25 percent limited partnership interest in PS that satisfies the requirements of paragraph (f)(3) of this section in lieu of the information required in paragraph (f)(2)(iv) of this section. Assuming the other requirements of paragraph (f)(2) of this section are satisfied, the transfer is considered adequately disclosed and the period for assessment for the transfer under section 6501 will run from the time the return is filed (as determined under section 6501(b) of this chapter).

Example 6. A owns 100 percent of the stock of X Corporation, a company actively engaged in a manufacturing business. B, A's child, is an employee of X and receives an annual salary paid in the ordinary course of operating X Corporation. B reports the annual salary as income on B's income tax returns. In 2001, A transfers property to family members and files a Federal gift tax return reporting the transfers. However, A does not disclose the 2001 salary payments made to B. Because the salary payments were reported as income on B's income tax return, the salary payments are deemed to be adequately disclosed. The transfer of property to family members, other than the salary payments to B, reported on the gift tax return must satisfy the adequate disclosure requirements under paragraph (f)(2) of this section in order for the period of assessment under section 6501 to commence to run with respect to those transfers.

(8) *Effective date.* This paragraph (f) is applicable to gifts made after December 31, 1996, for which the gift tax return for such calendar year is filed after December 3, 1999.

(g) *Listed transactions*—(1) *In general.* If a taxpayer is required to disclose a listed transaction under section 6011 and the regulations thereunder and does not do so in the time and manner required, then the time to assess any tax attributable to that listed transaction for the taxable year(s) to which the failure to disclose relates (as defined in paragraph (g)(3)(iii) of this section) will not expire before the earlier of one year after the date on which the taxpayer makes the disclosure described in paragraph (g)(5) of this section or one year after the date on which a material advisor makes a disclosure described in paragraph (g)(6) of this section. In no case will the operation of this paragraph (g) cause the period of limitations on assessment to expire any earlier than the period that would have otherwise applied under this section determined without regard to this paragraph (g)(1).

(2) *Limitations period if paragraph (g)(5) or (g)(6) is satisfied.* If one of the disclosure provisions described in paragraphs (g)(5) or (6) of this section is satisfied, then the tax attributable to the listed transaction may be assessed at any time before the expiration of the limitations period that would have otherwise applied under this section (determined without regard to paragraph (g)(1) of this section) or the period ending one year after the date that one of the disclosure provisions described in paragraphs (g)(5) or (6) of this section was satisfied, whichever is later. If both disclosure provisions are satisfied, the one-year period will begin on the earlier of the dates on which the provisions were satisfied. Paragraph (g)(1) of this section does not apply to any period of limitations on assessment that expired before the date on

which the failure to disclose the listed transaction under section 6011 occurred.

(3) *Definitions*—(i) *Listed transaction*. The term *listed transaction* means a transaction described in section 6707A(c)(2) of the Code and § 1.6011–4(b)(2) of this chapter.

(ii) *Material advisor*. The term *material advisor* means a person described in section 6111(b)(1) of the Code and § 301.6111–3(b) of this chapter.

(iii) *Taxable year(s) to which the failure to disclose relates*. The *taxable year(s) to which the failure to disclose relates* are each taxable year that the taxpayer participated (as defined under section 6011 and the regulations thereunder) in a transaction that was identified as a listed transaction and the taxpayer failed to disclose the listed transaction as required under section 6011. If the taxable year in which the taxpayer participated in the listed transaction is different from the taxable year in which the taxpayer is required to disclose the listed transaction under section 6011, the taxable year(s) to which the failure to disclose relates are each taxable year that the taxpayer participated in the transaction.

(4) *Application of paragraph with respect to pass-through entities*. In the case of taxpayers who are partners in partnerships, shareholders in S corporations, or beneficiaries of trusts and are required to disclose a listed transaction under section 6011 and the regulations thereunder, paragraph (g)(1) of this section will apply to a particular partner, shareholder, or beneficiary if that particular partner, shareholder, or beneficiary does not disclose within the time and in the form and manner provided by section 6011 and § 1.6011–4(d) and (e), regardless of whether the partnership, S corporation, or trust or another partner, shareholder, or beneficiary discloses in accordance with section 6011 and the regulations thereunder. Similarly, because paragraph (g)(1) of this section applies on a taxpayer-by-taxpayer basis, the failure of a partnership, S corporation, or trust that has a disclosure obligation under section 6011 and that does not disclose within the time or in the form and manner provided by § 1.6011–4(d) and (e) will not cause paragraph (g)(1) of this section to apply to a partner, shareholder or beneficiary of the entity. Instead, the application of paragraph (g)(1) of this section to a partner, shareholder, or beneficiary will be determined based on whether the particular partner, shareholder, or beneficiary satisfied their disclosure obligation under section 6011 and the regulations thereunder.

(5) *Taxpayer's disclosure of a listed transaction that the taxpayer did not properly disclose under section 6011*—(i) *In general*—(A) *Method of disclosure*. The taxpayer must complete the most current version of Form 8886, ''Reportable Transaction Disclosure Statement'' (or successor form), available on the date the taxpayer attempts to satisfy this paragraph (g)(5) in accordance with § 1.6011–4(d) and the instructions to the Form in effect on that date. The taxpayer must indicate on the Form 8886 that the form is being submitted for purposes of section 6501(c)(10) and the tax return(s) and taxable year(s) for which the taxpayer is making a section 6501(c)(10) disclosure. Disclosure under this paragraph (g)(5) will only be effective for the tax return(s) and taxable year(s) that the taxpayer specifies on the Form 8886 that he or she is attempting to disclose for purposes of section 6501(c)(10). If the Form 8886 contains a line for this purpose, then the taxpayer must complete the line in accordance with the instructions to that form. Otherwise, the taxpayer must include on the top of Page 1 of the Form 8886, and each copy of the form, the following statement: ''*Section 6501(c)(10) Disclosure*'' followed by the tax return(s) and taxable year(s) for which the taxpayer is making a section 6501(c)(10) disclosure. For example, if the taxpayer did not properly disclose its participation in a listed transaction the tax consequences of which were reflected on the taxpayer's Form 1040 for the 2005 taxable year, the taxpayer must include the following statement: ''*Section 6501(c)(10) Disclosure; 2005 Form 1040*'' on the form. The taxpayer must submit the properly completed Form 8886 and a cover letter, which must be completed in accordance with the requirements set forth in paragraph (g)(5)(i)(B) of this section, to the Office of Tax Shelter Analysis (OTSA). The

taxpayer is permitted, but not required, to file an amended return with the Form 8886 and cover letter. Separate Forms 8886 and separate cover letters must be submitted for each listed transaction the taxpayer did not properly disclose under section 6011. If the taxpayer participated in one listed transaction over multiple years, the taxpayer may submit one Form 8886 (or successor form) and cover letter and indicate on that form all of the tax returns and taxable years for which the taxpayer is making a section 6501(c)(10) disclosure. If a taxpayer participated in more than one listed transaction, then the taxpayer must submit separate Forms 8886 (or successor form) for each listed transaction, unless the listed transactions are the same or substantially similar, in which case all the listed transactions may be reported on one Form 8886.

(B) *Cover letter.* (*1*) A cover letter to which a Form 8886 is to be attached must identify the tax return(s) and taxable year(s) for which the taxpayer is making a section 6501(c)(10) disclosure and include the following statement signed under penalties of perjury by the taxpayer:

Under penalties of perjury, I declare that I have examined this reportable transaction disclosure statement and, to the best of my knowledge and belief, this reportable transaction disclosure statement is true, correct, and complete.

(*2*) If the Form 8886 is prepared by a paid preparer, in addition to the statement under penalties of perjury signed by the taxpayer, the Form 8886 must also include the following statement signed under penalties of perjury by the paid preparer.

Under penalties of perjury, I declare that I have examined this reportable transaction disclosure statement and, to the best of my knowledge and belief, this reportable transaction disclosure statement is true, correct, and complete. This declaration is based on all information of which I, as paid preparer, have any knowledge.

(C) *Taxpayer under examination or Appeals consideration.* A taxpayer making a disclosure under paragraph (g)(5) of this section with respect to a taxable year under examination or Appeals consideration by the IRS must satisfy the requirements of paragraphs (g)(5)(i)(A) and (B) of this section and also submit a copy of the submission to the IRS examiner or Appeals officer examining or considering the taxable year(s) to which the disclosure under this paragraph (g) relates.

(D) *Date the one-year period will begin to run if paragraph (g)(5) satisfied.* Unless an earlier expiration is provided for in paragraph (g)(6) of this section, the time to assess tax under this paragraph (g) will not expire before one year after the date on which the Secretary is furnished the information from the taxpayer that satisfies all of the requirements of paragraphs (g)(5)(i)(A) and (B) of this section and, if applicable, paragraph (g)(5)(i)(C) of this section. If the taxpayer does not satisfy all of the requirements on the same date, the one-year period will begin on the date that the IRS is furnished the information that, together with prior disclosures of information, satisfies the requirements of this paragraph (g)(5). For purposes of this paragraph (g)(5), the information is deemed furnished on the date the IRS receives the information.

(ii) *Exception for returns other than annual returns.* The IRS may prescribe alternative procedures to satisfy the requirements of this paragraph (g)(5) in a revenue procedure, notice, or other guidance published in the Internal Revenue Bulletin for circumstances involving returns other than annual returns.

(6) *Material advisor's disclosure of a listed transaction not properly disclosed by a taxpayer under section 6011*—(i) *In general.* In response to a written request of the IRS under section 6112, a material advisor with respect to a listed transaction must furnish to the IRS the information described in section 6112 and § 301.6112–1(b) in the form and manner prescribed by section 6112 and § 301.6112–1(e). If the information the material advisor furnishes identifies the taxpayer as a person who entered into the listed transaction, regardless of whether the material advisor provides the information before or after the taxpayer's failure to disclose the listed transaction under section 6011, then the requirements of this paragraph (g)(6) will be satisfied for that taxpayer. The requirements of this

paragraph (g)(6) will be considered satisfied even if the material advisor furnishes the information required under section 6112 to the IRS after the date prescribed in section 6708 or published guidance relating to section 6708.

(ii) *Paragraph (g)(6) not satisfied*—(A) *Information not furnished by a material advisor or a person permitted to act on behalf of the material advisor*. The requirements of this paragraph (g)(6) are not satisfied for a taxpayer unless the information is furnished by—

(*1*) A person who is a material advisor (as defined in paragraph (g)(3)(ii) of this section) with respect to the taxpayer,

(*2*) A person who is providing the information pursuant to § 301.6112–1(d) on behalf of a dissolved or liquidated material advisor with respect to the taxpayer, or

(*3*) a person who is providing the information on behalf of a material advisor with respect to the taxpayer under a designation agreement in accordance with § 301.6112–1(f).

(B) *No written request by IRS*. The requirements of this paragraph (g)(6) are not satisfied unless the information is furnished in response to a written request made by the IRS to the material advisor under section 6112 (except as provided in § 301.6112–1(d) with respect to a list furnished to OTSA within 60 days after dissolution or liquidation of a material advisor).

(C) *Information furnished does not identify the taxpayer*. The requirements of this paragraph (g)(6) are not satisfied for a taxpayer unless the information furnished identifies the taxpayer as a person who entered into the listed transaction.

(iii) *Date the one-year period will begin if paragraph (g)(6) is satisfied*. Unless an earlier expiration is provided for in paragraph (g)(5) of this section, the time to assess tax under this paragraph (g) will expire one year after the date on which the material advisor satisfies the requirements of paragraph (g)(6)(i) of this section with respect to the taxpayer. For purposes of this paragraph (g)(6), information is deemed to be furnished on the date that, in response to a request under section 6112, the IRS receives the information from a material advisor that satisfies the requirements of paragraph (g)(6)(i) of this section with respect to the taxpayer.

(7) *Tax assessable under this section*. If the period of limitations on assessment for a taxable year remains open under this section, the Secretary has authority to assess any tax with respect to the listed transaction in that year. This includes, but is not limited to, adjustments made to the tax consequences claimed on the return plus interest, additions to tax, additional amounts, and penalties that are related to the listed transaction or adjustments made to the tax consequences. This also includes any item to the extent the item is affected by the listed transaction even if it is unrelated to the listed transaction. An example of an item affected by, but unrelated to, a listed transaction is the threshold for the medical expense deduction under section 213 that varies if there is a change in an individual's adjusted gross income. An example of a penalty related to the listed transaction is the penalty under section 6707A for failure to file the disclosure statement reporting the taxpayer's participation in the listed transaction. Examples of penalties related to the adjustments made to the tax consequences are the accuracy-related penalties under sections 6662 and 6662A.

(8) *Examples*. The rules of this paragraph (g) are illustrated by the following examples:

Example 1. No requirement to disclose under section 6011. P, an individual, is a partner in a partnership that entered into a transaction in 2001 that was the same as or substantially similar to the transaction identified as a listed transaction in Notice 2000–44 (2000–2 CB 255). P claimed a loss from the transaction on his Form 1040 for the tax year 2001. P filed the Form 1040 prior to June 14, 2002. P did not disclose his participation in the listed transaction because P was not required to disclose the transaction under the applicable section 6011 regulations (TD 8961), which were effective for any transaction entered into before January 1, 2001 and any transaction entered into on or after January 1, 2001 that was reported on a return of the taxpayer filed on or before June 14, 2002. Although the transaction was a listed transaction and P did not disclose the transaction, P had no obligation to include on any return or statement any information with respect to a listed transaction within the meaning of section 6501(c)(10) because TD

8961 only applied to corporations, not individuals. Accordingly, section 6501(c)(10) does not apply.

Example 2. Taxable year to which the failure to disclose relates when transaction is identified as a listed transaction after first year of participation and the transaction must be disclosed with the return next filed. (i) On December 30, 2003, Y, a corporation, enters into a transaction that at the time is not a reportable transaction. On March 15, 2004, Y timely files its 2003 Form 1120, reporting the tax consequences from the transaction. On April 1, 2004, the IRS issues Notice 2004–31 that identifies the transaction as a listed transaction. Y also reports tax consequences from the transaction on its 2004 Form 1120, which it timely filed on March 15, 2005. Y did not attach a completed Form 8886 to its 2004 Form 1120 and did not send a copy of the form to OTSA. The general three-year period of limitations on assessment for Y's 2003 and 2004 taxable years would expire on March 15, 2007, and March 17, 2008, respectively.

(ii) The period of limitations on assessment for Y's 2003 taxable year was open on the date the transaction was identified as a listed transaction. Under the applicable section 6011 regulations (TD 9108), which were effective for transactions entered into before August 3, 2007, Y should have disclosed its participation in the transaction with its next filed return, which was its 2004 Form 1120, but Y did not disclose its participation. Y's failure to disclose with the 2004 Form 1120 relates to taxable years 2003 and 2004. Section 6501(c)(10) operates to keep the period of limitations on assessment open for the 2003 and 2004 taxable years with respect to the listed transaction until at least one year after the date Y satisfies the requirements of paragraph (g)(5) of this section or a material advisor satisfies the requirements of paragraph (g)(6) of this section with respect to Y.

Example 3. Taxable year to which the failure to disclose relates when transaction is identified as a listed transaction after the first year of participation and the transaction must be disclosed 90 days after the transaction became a listed transaction. (i) In January 2015, A, a calendar year taxpayer, enters into a transaction that at the time is not a listed transaction. A reports the tax consequences from the transaction on its individual income tax return for 2015 timely filed on April 15, 2016. The time for the IRS to assess tax against A under the general three-year period of limitations for A's 2015 taxable year would expire on April 15, 2019. A only participated in the transaction in 2015. On March 7, 2017, the IRS identifies the transaction as a listed transaction. A does not file the Form 8886 with OTSA by June 5, 2017.

(ii) The period of limitations on assessment for A's 2015 taxable year was open on the date the transaction was identified as a listed transaction. Under the current section 6011 regulations (TD 9350) which are effective for transactions entered into on or after August 3, 2007, A must disclose its participation in the transaction by filing a completed Form 8886 with OTSA on or before June 5, 2017, which is 90 days after the date the transaction became a listed transaction. A did not disclose the transaction as required. A's failure to disclose relates to taxable year 2015 even though the obligation to disclose did not arise until 2017. Section 6501(c)(10) operates to keep the period of limitations on assessment open for the 2015 taxable year with respect to the listed transaction until at least one year after the date A satisfies the requirements of paragraph (g)(5) of this section or a material advisor satisfies the requirements of paragraph (g)(6) of this section with respect to A.

Example 4. Requirements of paragraph (g)(6) satisfied. Same facts as *Example 3,* except that on April 5, 2019, the IRS hand delivers to Advisor J, who is a material advisor, a section 6112 request related to the listed transaction. Advisor J furnishes the required list with all the information required by section 6112 and § 301.6112–1, including all the information required with respect to A, to the IRS on May 8, 2019. The submission satisfies the requirements of paragraph (g)(6) even though Advisor J furnishes the information outside of the 20-business-day period provided in section 6708. Accordingly, under section 6501(c)(10), the period of limitations with respect to A's taxable year 2015 will end on May 8, 2020, one year after the IRS received the required information, unless the period of limitations remains open under another exception. Any tax for the 2015 taxable year not attributable to the listed transaction must be assessed by April 15, 2019.

Example 5. Requirements of paragraph (g)(5) also satisfied. Same facts as *Examples 3 and 4,* except that on May 23, 2019, A files a properly completed Form 8886 and signed cover letter with OTSA both identifying that the section 6501(c)(10) disclosure relates to A's Form 1040 for 2015. A satisfied the requirements of paragraph (g)(5) of this section as of May 23, 2019. Because the requirements of paragraph (g)(6) were satisfied first as described in *Example 4,* under section 6501(c)(10) the period of limitations will end on May 8, 2020 (one year after the requirements of paragraph (g)(6) were satisfied) instead of May 23, 2020 (one year after the requirements of paragraph (g)(5) were satisfied). Any tax for the 2015 taxable year not attributable to the listed transaction must be assessed by April 15, 2019.

Example 6. Period to assess tax remains open under another exception. Same facts as *Examples 3, 4, and 5,* except that on April 1, 2019, A signed Form 872, consenting to extend, without restriction, its period of limitations on assessment for taxable year 2015 under

section 6501(c)(4) until July 15, 2020. In that case, although under section 6501(c)(10) the period of limitations would otherwise expire on May 8, 2020, the IRS may assess tax with respect to the listed transaction (as well as any other item on the return covered by the Form 872 extension) at any time up to and including July 15, 2020, pursuant to section 6501(c)(4). Section 6501(c)(10) operates to extend the assessment period but not to shorten any other applicable assessment period.

Example 7. Requirements of (g)(5) not satisfied. In 2015, X, a corporation, enters into a listed transaction. On March 15, 2016, X timely files its 2015 Form 1120, reporting the tax consequences from the transaction. X does not disclose the transaction as required under section 6011 when it files its 2015 return. The failure to disclose relates to taxable year 2015. On February 13, 2017, X completes and files a Form 8886 with respect to the listed transaction with OTSA but does not submit a cover letter, as required. The requirements of paragraph (g)(5) of this section have not been satisfied. Therefore, the time to assess tax against X with respect to the transaction for taxable year 2015 remains open under section 6501(c)(10).

Example 8. Section 6501(c)(10) applies to keep one partner's period of limitations on assessment open. T and S are partners in a partnership, TS, that enters into a listed transaction in 2015. T and S each receive a Schedule K–1 from TS on April 11, 2016. On April 15, 2016, TS, T and S each file their 2015 returns. Under the applicable section 6011 regulations, TS, T, and S each are required to disclose the transaction. TS attaches a completed Form 8886 to its 2015 Form 1065 and sends a copy of Form 8886 to OTSA. Neither T nor S files a disclosure statement with their respective returns nor sends a copy to OTSA on April 15, 2016. On May 17, 2016, T timely files a completed Form 8886 with OTSA pursuant to §1.6011–4(e)(1). T's disclosure is timely because T received the Schedule K–1 within 10 calendar days before the due date of the return and, thus, T had 60 calendar days to file Form 8886 with OTSA. TS and T properly disclosed the transaction in accordance with the applicable regulations under section 6011, but S did not. S's failure to disclose relates to taxable year 2015. The time to assess tax with respect to the transaction against S for 2015 remains open under section 6501(c)(10) even though TS and T disclosed the transaction.

Example 9. Section 6501(c)(10) satisfied before expiration of three-year period of limitations under section 6501(a). Same facts as *Example 8*, except that on August 26, 2016, S satisfies the requirements of paragraph (g)(5) of this section. No material advisor satisfied the requirements of paragraph (g)(6) of this section with respect to S on a date earlier than August 26, 2016. Under section 6501(c)(10), the period of time in which the IRS may assess tax against S with respect to the listed transaction would expire no earlier than August 26, 2017, one year after the date S satisfied the requirements of paragraph (g)(5). As the general three-year period of limitations on assessment under section 6501(a) does not expire until April 15, 2019, the IRS will have until that date to assess any tax with respect to the listed transaction.

Example 10. No section 6112 request. B, a calendar year taxpayer, entered into a listed transaction in 2015. B did not comply with the applicable disclosure requirements under section 6011 for taxable year 2015; therefore, section 6501(c)(10) applies to keep the period of limitations on assessment open with respect to the tax related to the transaction until at least one year after B satisfies the requirements of paragraph (g)(5) of this section or a material advisor satisfies the requirements of paragraph (g)(6) of this section with respect to B. In June 2016, the IRS conducts a section 6700 investigation of Advisor K, who is a material advisor to B with respect to the listed transaction. During the course of the investigation, the IRS obtains the name, address, and TIN of all of Advisor K's clients who engaged in the transaction, including B. The information provided does not satisfy the requirements of paragraph (g)(6) with respect to B because the information was not provided pursuant to a section 6112 request. Therefore, the time to assess tax against B with respect to the transaction for taxable year 2015 remains open under section 6501(c)(10).

Example 11. Section 6112 request but the requirements of paragraph (g)(6) are not satisfied with respect to B. Same facts as *Example 10*, except that on January 9, 2017, the IRS sends by certified mail a section 6112 request to Advisor L, who is another material advisor to B with respect to the listed transaction. Advisor L furnishes some of the information required under section 6112 and §301.6112–1 to the IRS for inspection on January 17, 2017. The list includes information with respect to many clients of Advisor L, but it does not include any information with respect to B. The submission does not satisfy the requirements of paragraph (g)(6) of this section with respect to B. Therefore, the time to assess tax against B with respect to the transaction for taxable year 2015 remains open under section 6501(c)(10).

Example 12. Section 6112 submission made before taxpayer failed to disclose a listed transaction. Advisor M, who is a material advisor, advises C, an individual, in 2015 with respect to a transaction that is not a reportable transaction at that time. C files its return claiming the tax consequences of the transaction on April 15, 2016. The time for the IRS to assess tax against C under the general three-year period of limitations for C's 2015 taxable year would expire on April 15, 2019. The IRS identifies the transaction as a listed

transaction on November 3, 2017. On December 7, 2017, the IRS hand delivers to Advisor M a section 6112 request related to the transaction. Advisor M furnishes the information to the IRS on December 29, 2017. The information contains all the required information with respect to Advisor M's clients, including C. C does not disclose the transaction on or before February 1, 2018, as required under section 6011 and the regulations under section 6011. Advisor M's submission under section 6112 satisfies the requirements of paragraph (g)(6) of this section even though it occurred prior to C's failure to disclose the listed transaction. Thus, under section 6501(c)(10), the period of limitations to assess tax against C with respect to the listed transaction will end on December 29, 2018 (one year after the requirements of paragraph (g)(6) of this section were satisfied), unless the period of limitations remains open under another exception.

Example 13. Transaction removed from the category of listed transactions after taxpayer failed to disclose. D, a calendar year taxpayer, entered into a listed transaction in 2015. D did not comply with the applicable disclosure requirements under section 6011 for taxable year 2015; therefore, section 6501(c)(10) applies to keep the period of limitations on assessment open with respect to the tax related to the transaction until at least one year after D satisfies the requirements of paragraph (g)(5) of this section or a material advisor satisfies the requirements of paragraph (g)(6) of this section with respect to D. In 2017, the IRS removes the transaction from the category of listed transactions because of a change in law. Section 6501(c)(10) continues to apply to keep the period of limitations on assessment open for D's taxable year 2015.

Example 14. Taxes assessed with respect to the listed transaction. (i) F, an individual, enters into a listed transaction in 2015. F files its 2015 Form 1040 on April 15, 2016, but does not disclose his participation in the listed transaction in accordance with section 6011 and the regulations under section 6011. F's failure to disclose relates to taxable year 2015. Thus, section 6501(c)(10) applies to keep the period of limitations on assessment open with respect to the tax related to the listed transaction for taxable year 2015 until at least one year after the date F satisfies the requirements of paragraph (g)(5) of this section or a material advisor satisfies the requirements of paragraph (g)(6) of this section with respect to F.

(ii) On July 2, 2020, the IRS completes an examination of F's 2015 taxable year and disallows the tax consequences claimed as a result of the listed transaction. The disallowance of a loss increased F's adjusted gross income. Due to the increase of F's adjusted gross income, certain credits, such as the child tax credit, and exemption deductions were disallowed or reduced because of limitations based on adjusted gross income. In addition, F now is liable for the alternative minimum tax. The examination also uncovered that F claimed two deductions on Schedule C to which F was not entitled. Under section 6501(c)(10), the IRS can timely issue a statutory notice of deficiency (and assess in due course) against F for the deficiency resulting from (1) disallowing the loss, (2) disallowing the credits and exemptions to which F was not entitled based on F's increased adjusted gross income, and (3) being liable for the alternative minimum tax. In addition, the IRS can assess any interest and applicable penalties related to those adjustments, such as the accuracy-related penalty under sections 6662 and 6662A and the penalty under section 6707A for F's failure to disclose the transaction as required under section 6011 and the regulations under section 6011. The IRS cannot, however, pursuant to section 6501(c)(10), assess the increase in tax that would result from disallowing the two deductions on F's Schedule C because those deductions are not related to, or affected by, the adjustments concerning the listed transaction.

(9) *Effective/applicability date.* The rules of this paragraph (g) apply to taxable years with respect to which the period of limitations on assessment under section 6501 (including subsection (c)(10)) did not expire before March 31, 2015.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7838, 47 FR 44250, Oct. 7, 1982; T.D. 8395, 57 FR 4277, Feb. 4, 1992; T.D. 8845, 64 FR 67771, Dec. 3, 1999; 65 FR 1059, Jan. 7, 2000; T.D. 9718, 80 FR 16976, Mar. 31, 2015; T.D. 9718, 80 FR 23444, Apr. 28, 2015]

§ 301.6501(d)–1 Request for prompt assessment.

(a) Except as otherwise provided in section 6501 (c), (e), or (f), any tax for which a return is required and for which:

(1) A decedent or an estate of a decedent may be liable, other than the estate tax imposed by chapter 11 of the Code, or

(2) A corporation which is contemplating dissolution, is in the process of dissolution, or has been dissolved, may be liable, shall be assessed, or a proceeding in court without assessment for the collection of such tax shall be begun, within 18 months after the receipt of a written request for prompt assessment thereof.

(b) The executor, administrator, or other fiduciary representing the estate of the decedent, or the corporation, or the fiduciary representing the dissolved corporation, as the case may be, shall, after the return in question has been filed, file the request for prompt assessment in writing with the district director for the internal revenue district in which such return was filed. The request, in order to be effective, must be transmitted separately from any other document, must set forth the classes of tax and the taxable periods for which the prompt assessment is requested, and must clearly indicate that it is a request for prompt assessment under the provisions of section 6501(d). The effect of such a request is to limit the time in which an assessment of tax may be made, or a proceeding in court without assessment for collection of tax may be begun, to a period of 18 months from the date the request is filed with the proper district director. The request does not extend the time within which an assessment may be made, or a proceeding in court without assessment years from the date the return was filed. This special period of limitations will not apply to any return filed after a request for prompt assessment has been made unless an additional request is filed in the manner provided herein.

(c) In the case of a corporation the 18-month period shall not apply unless:

(1) The written request notifies the district director that the corporation contemplates dissolution at or before the expiration of such 18-month period; the dissolution is in good faith begun before the expiration of such 18-month period; and the dissolution so begun is completed either before or after the expiration of such 18-month period; or

(2) The written request notifies the district director that a dissolution has in good faith been begun, and the dissolution is completed either before or after the expiration of such 18-month period; or

(3) A dissolution has been completed at the time the written request is made.

§ 301.6501(e)–1 Omission from return.

(a) *Income taxes*—(1) *General rule.* (i) If a taxpayer omits from the gross income stated in the return of a tax imposed by subtitle A of the Internal Revenue Code an amount properly includible therein that is in excess of 25 percent of the gross income so stated, the tax may be assessed, or a proceeding in court for the collection of that tax may be begun without assessment, at any time within 6 years after the return was filed.

(ii) For purposes of paragraph (a)(1)(i) of this section, the term *gross income,* as it relates to a trade or business, means the total of the amounts received or accrued from the sale of goods or services, to the extent required to be shown on the return, without reduction for the cost of those goods or services.

(iii) For purposes of paragraph (a)(1)(i) of this section, the term *gross income,* as it relates to any income other than from the sale of goods or services in a trade or business, has the same meaning as provided under section 61(a), and includes the total of the amounts received or accrued, to the extent required to be shown on the return. In the case of amounts received or accrued that relate to the disposition of property, and except as provided in paragraph (a)(1)(ii) of this section, *gross income* means the excess of the amount realized from the disposition of the property over the unrecovered cost or other basis of the property. Consequently, except as provided in paragraph (a)(1)(ii) of this section, an understated amount of gross income resulting from an overstatement of unrecovered cost or other basis constitutes an omission from gross income for purposes of section 6501(e)(1)(A)(i).

(iv) An amount shall not be considered as omitted from gross income if information sufficient to apprise the Commissioner of the nature and amount of the item is disclosed in the return, including any schedule or statement attached to the return.

(2) [Reserved]

(b) *Estate and gift taxes*—(1) If the taxpayer omits from the gross estate as stated in the estate tax return, or from the total amount of the gifts made during the period for which the gift tax return was filed (see § 25.6019–1 of this

chapter) as stated in the gift tax return, an item or items properly includible therein the amount of which is in excess of 25 percent of the gross estate as stated in the estate tax return, or 25 percent of the total amount of the gifts as stated in the gift tax return, the tax may be assessed, or a proceeding in court for the collection thereof may be begun without assessment, at any time within 6 years after the estate tax or gift tax return, as applicable, was filed.

(2) For purposes of this paragraph (b), an item disclosed in the return or in any schedule or statement attached to the return in a manner sufficient to apprise the Commissioner of the nature and amount thereof shall not be taken into account in determining items omitted from the gross estate or total gifts, as the case may be. Further, there shall not be taken into account in computing the 25 percent omission from the gross estate stated in the estate tax return or from the total gifts stated in the gift tax return, any increases in the valuation of assets disclosed on the return.

(c) *Excise taxes*—(1) *In general.* If the taxpayer omits from a return of a tax imposed under a provision of subtitle D an amount properly includible thereon, which amount is in excess of 25 percent of the amount of tax reported thereon, the tax may be assessed or a proceeding in court for the collection thereof may be begun without assessment, at any time within 6 years after the return was filed. For special rules relating to chapter 41, 42, 43 and 44 taxes, see paragraphs (c)(2), (3), (4), and (5) of this section.

(2) *Chapter 41 excise taxes.* If an organization discloses an expenditure in its return (or in a schedule or statement attached thereto) in a manner sufficient to apprise the Commissioner of the existence and nature of the expenditure, the three-year limitation on assessment and collection described in section 6501(a) shall apply with respect to any tax under chapter 41 arising from the expenditure. If a taxpayer fails to so disclose an expenditure in its return (or in a schedule or statement attached thereto), the tax arising from the expenditure not so disclosed may be assessed, or a proceeding in court for the collection of the tax may be begun without assessment, at any time within 6 years after the return was filed.

(3) *Chapter 42 excise taxes.* (i) If a private foundation omits from its annual return with respect to the tax imposed by section 4940 an amount of tax properly includible therein that is in excess of 25 percent of the amount of tax imposed by section 4940 that is reported on the return, the tax may be assessed, or a proceeding in court for the collection of the tax may be begun without assessment, at any time within 6 years after the return was filed. If a private foundation discloses in its return (or in a schedule or statement attached thereto) the nature, source, and amount of any income giving rise to any omitted tax, the tax arising from the income shall be counted as reported on the return in computing whether the foundation has omitted more than 25 percent of the tax reported on its return.

(ii) If a private foundation, trust, or other organization (as the case may be) discloses an item in its return (or in a schedule or statement attached thereto) in a manner sufficient to apprise the Commissioner of the existence and nature of the item, the three-year limitation on assessment and collection described in section 6501(a) shall apply with respect to any tax imposed under sections 4941(a), 4942(a), 4943(a), 4944(a), 4945(a), 4951(a), 4952(a), 4953 and 4958, arising from any transaction disclosed by the item. If a private foundation, trust, or other organization (as the case may be) fails to so disclose an item in its return (or in a schedule or statement attached thereto), the tax arising from any transaction not so disclosed may be assessed or a proceeding in court for the collection of the tax may be begun without assessment, at any time within 6 years after the return was filed.

(4) *Chapter 43 excise taxes.* If a taxpayer discloses an item in its return (or in a schedule or statement attached thereto) in a manner sufficient to apprise the Commissioner of the existence and nature of the item, the three-year limitation on assessment and collection described in section 6501(a) shall apply with respect to any tax imposed under sections 4971(a), 4972, 4973,

4974 and 4975(a), arising from any transaction disclosed by the item. If a taxpayer fails to so disclose an item in its return (or in a schedule or statement attached thereto), the tax arising from any transaction not so disclosed may be assessed, or a proceeding in court for the collection of the tax may be begun without assessment, at any time within 6 years after the return was filed. The applicable return for the tax under sections 4971, 4972, 4973 and 4974, is the return designated by the Commissioner for reporting the respective tax. The applicable return for the tax under section 4975 is the return filed by the plan used to report the act giving rise to the tax.

(5) *Chapter 44 excise taxes*. If a real estate investment trust omits from its annual return with respect to the tax imposed by section 4981 an amount of tax properly includible therein that is in excess of 25 percent of the amount of tax imposed by section 4981 that is reported on the return, the tax may be assessed, or a proceeding in court for the collection of the tax may be begun without assessment, at any time within 6 years after the return was filed. If a real estate investment trust discloses in its return (or in a schedule or statement attached thereto) the nature, source, and amount of any income giving rise to any omitted tax, the tax arising from the income shall be counted as reported on the return in computing whether the trust has omitted more than 25 percent of the tax reported on its return.

(d) *Exception*. The provisions of this section do not limit the application of section 6501(c).

(e) *Effective/applicability date*—(1) *Income taxes*. Paragraph (a) of this section applies to taxable years with respect to which the period for assessing tax was open on or after September 24, 2009.

(2) *Estate, gift and excise taxes*. Paragraphs (b) through (d) of this section continue to apply as they did prior to being removed inadvertently on September 28, 2009. Specifically, paragraph (b) of this section applies to returns filed on or after May 2, 1956, except for the amendment to paragraph (b)(1) of this section that applies to returns filed on or after December 29, 1972. Paragraph (c) of this section applies to returns filed on or after October 7, 1982, except for the amendment to paragraph (c)(3)(ii) of this section that applies to returns filed on or after January 10, 2001. Paragraph (d) of this section applies to returns filed on or after May 2, 1956.

[T.D. 9511, 75 FR 78899, Dec. 17, 2010]

§ 301.6501(f)–1 Personal holding company tax.

If a corporation which is a personal holding company for any taxable year fails to file with its income tax return for such year a schedule setting forth the items of gross income described in section 543(a) received by the corporation during such year, and the names and addresses of the individuals who owned, within the meaning of section 544, at any time during the last half of such taxable year, more than 50 percent in value of the outstanding capital stock of the corporation, the personal holding company tax for such year may be assessed, or a proceeding in court for the collection thereof may be begun without assessment, at any time within 6 years after the return for such year was filed.

§ 301.6501(g)–1 Certain income tax returns of corporations.

(a) *Trusts or partnerships*. If a taxpayer determines in good faith that it is a trust or partnership and files a return as such under subtitle A of the Code, and if the taxpayer is later held to be a corporation for the taxable year for which the return was filed, such return shall be deemed to be the return of the corporation for the purpose of section 6501.

(b) *Exempt organizations*. If a taxpayer determines in good faith that it is an exempt organization and files a return as such under section 6033, and if the taxpayer is later held to be a taxable organization for the taxable year for which the return was filed, such return shall be deemed to be the return of the organization for the purpose of section 6501.

(c) *DISC*. If a corporation determines in good faith that it is a DISC (as defined in section 992(a)(1)) for a taxable

year and files a return as such pursuant to section 6011(c)(2), and if the corporation is thereafter held to be a corporation which is not a DISC for the taxable year for which the return was filed, then—

(1) Such return shall be deemed to be the return of the corporation for the purpose of section 6501.

(2) Such return if filed within the time required by section 6072(b) for filing a DISC return shall be deemed to be filed within the time required by section 6072(b) for filing of a return by a corporation which is not a DISC, and

(3) Interest on underpayment and overpayments allowed by chapter 67 of the Code and additions to the tax, additional amounts and assessable penalties allowed by chapter 68 of the Code, when determined by reference to the time for filing of a return, shall be determined by reference to the time required by section 6072(b) for filing of a return by a DISC.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7533, 43 FR 6604, Feb. 15, 1978]

§ 301.6501(h)–1 Net operating loss or capital loss carrybacks.

In the case of a deficiency attributable to the application to the taxpayer of a net operating loss or capital loss carryback (including deficiencies which may be assessed pursuant to the provisions of section 6213(b)(2)), such deficiency may be assessed at any time before the expiration of the period within which a deficiency for the taxable year of the net operating loss or net capital loss which results in such carryback may be assessed. In the case of a deficiency attributable to the application of a net operating loss carryback, such deficiency may be assessed within 18 months after the date on which the taxpayer files in accordance with section 172(b)(3) a copy of the certification (with respect to such taxable year) issued under section 317 of the Trade Expansion Act of 1962, if later than the date prescribed by the preceding sentence.

[T.D. 7301, 39 FR 974, Jan. 4, 1974]

§ 301.6501(i)–1 Foreign tax carrybacks; taxable years beginning after December 31, 1957.

With respect to taxable years beginning after December 31, 1957, a deficiency attributable to the application to the taxpayer of a carryback under section 904(d) (relating to carryback and carryover of excess foreign taxes), may be assessed at any time before the expiration of 1 year after the expiration of the period within which a deficiency may be assessed for the taxable year of the excess taxes described in section 904(d) which result in such carryback.

§ 301.6501(j)–1 Investment credit carryback; taxable years ending after December 31, 1961.

With respect to taxable years ending after December 31, 1961, a deficiency attributable to the application to the taxpayer of an investment credit carryback may be assessed at any time before the expiration of the period within which a deficiency for the taxable year of the unused investment credit which results in such carryback may be assessed, or, with respect to any portion of an investment credit carryback from a taxable year attributable to a net operating loss or capital loss carryback from a subsequent taxable year, at any time before the expiration of the period within which a deficiency for such subsequent taxable year may be assessed. For purposes of this section a deficiency shall include a deficiency which may be assessed pursuant to the provisions of section 6213(b)(2), but only those arising with respect to applications for tentative carryback adjustments filed after November 2, 1966.

[T.D. 7301, 39 FR 975, Jan. 4, 1974]

§ 301.6501(m)–1 Tentative carryback adjustment assessment period.

(a) *Period of limitation after tentative carryback adjustment.* (1) Under section 6501(m), in a case where an amount has been applied, credited, or refunded under section 6411, by reason of a net operating loss carryback, a capital loss carryback, an investment credit

carryback, or a work incentive program credit carryback to a prior taxable year, the period described in section 6501(a) of the Code for assessing a deficiency for such prior taxable year is extended to include the period described in section 6501 (h), (j), or (o), whichever is applicable; except that the amount which may be assessed solely by reason of section 6501(m) may not exceed the amount so applied, credited, or refunded under section 6411, reduced by any amount which may be assessed solely by reason of section 6501 (h), (j), or (o), as the case may be.

(2) The application of this paragraph may be illustrated by the following example:

Example. Assume that M Corporation, which claims an unused investment credit of $50,000 for the calendar year 1968, files an application under section 6411 of the Code for an adjustment of its tax for 1965, and receives a refund of $50,000 in 1969. In 1971, it is determined that the amount of the unused investment credit for 1968 is $30,000 rather than $50,000. Moreover, it is determined that M Corporation would have owed $40,000 of additional tax for 1965 if it had properly reported certain income which it failed to include in its 1965 return. Assuming that M Corporation filed its 1968 return on March 15, 1969, and that the 3-year period described in section 6501(a) has not been extended, the period prescribed in section 6501(j) for assessing the excessive amount refunded, $20,000 (*i.e.*, $50,000, original amount refunded less $30,000, correct amount of unused investment credit), does not expire until March 15, 1972, and $20,000 may be assessed on or before such date under section 6501(j). Under section 6501(m), M Corporation may be assessed on or before March 15, 1972, an amount not in excess of $30,000 ($50,000, the amount refunded under section 6411, minus $20,000, the amount which may be assessed solely by reason of section 6501 (j)).

(b) *Effective date*. The provisions of paragraph (a) of this section apply only with respect to applications under section 6411 filed after November 2, 1966.

[T.D. 7301, 39 FR 975, Jan. 4, 1974]

§ 301.6501(n)–1 Special rules for chapter 42 and similar taxes.

(a) *Return filed by private foundation, plan, trust, or other organization*. (1) A return filed by a private foundation, plan, trust, or other organization (as the case may be) with respect to any act giving rise to a tax imposed by chapter 42 (other than a tax imposed by section 4940), or by section 4975 shall be considered, for purposes of section 6501, to be the return of all persons required to file a return with respect to any such tax arising from such act, notwithstanding that all such persons have not signed the return. In the case of a private foundation that files a Form 990–PF (or a Form 5227 in the case of a nonexempt foundation described in section 4947(a)(2)), which contains questions with respect to such taxes, the filing of such form by such foundation shall constitute the filing of a return with respect to any such act, even though the foundation incorrectly answered such questions.

(2) For purposes of section 4940, the return referred to in this section is the return filed by the private foundation for the taxable year for which the tax is imposed.

(b) *Failure of private foundation plan, trust, or other organization to file*. The period of limitations on assessment and collection described in section 6501 does not begin with respect to any person liable for tax under chapter 42 (other than section 4940) or section 4975 arising from a given act, where the private foundation, plan, trust, or other organization (as the case may be) has not filed its required return that reports such act for the year in which the act (or failure to act) giving rise to liability for such tax occurred.

(c) *Example*. The provision of this section may be illustrated by the following example:

Example. In 1973, D, an individual taxpayer who was a disqualified person under the provisions of section 4946(a)(1), participated in an act of self-dealing with a private foundation and incurred a tax under section 4941(a)(1). On May 15, 1974, the private foundation files a Form 990–PF and answers all the questions thereon with regard to any acts of self-dealing (as defined in section 4941(d)) in which it may have engaged in 1973. Assuming that the foundation's return was not a false or fraudulent return nor made with the willful attempt to defeat tax, the period of limitations on assessment and collection under section 6501(a) shall start with respect to any tax under section 4941(a) or section 4941(b) imposed on D arising out of that transaction with such foundation.

[T.D. 7838, 47 FR 44251, Oct. 7, 1982, as amended by T.D. 8920, 66 FR 2171, Jan. 10, 2001]

§ 301.6501(n)–2 Certain contributions to section 501(c)(3) organizations.

If a private foundation makes a contribution to a section 501(c)(3) organization as provided in section 4942(g)(3), and a deficiency of tax of such foundation occurs due to the failure of the section 501(c)(3) organization to make the distribution prescribed by section 4942(g)(3), then such deficiency may be assessed within one year after the expiration of the period within which a deficiency may be assessed for the taxable year with respect to which the contribution was made.

[T.D. 7838, 47 FR 44251, Oct. 7, 1982]

§ 301.6501(n)–3 Certain set-asides described in section 4942(g)(2).

Where a deficiency of tax of a private foundation results from the failure of an amount set aside by such foundation for a specific project to be treated as a qualifying distribution under section 4942(g)(2)(B)(ii)(II), such deficiency may be assessed within two years after the expiration of the period within which a deficiency may be assessed for the taxable year to which the amount set aside relates.

[T.D. 7838, 47 FR 44251, Oct. 7, 1982]

§ 301.6502–1 Collection after assessment.

(a) *General rule*. In any case in which a tax has been assessed within the applicable statutory period of limitations on assessment, a proceeding in court to collect the tax may be commenced, or a levy to collect the tax may be made, within 10 years after the date of assessment.

(b) *Agreement to extend the period of limitations on collection*. The Secretary may enter into an agreement with a taxpayer to extend the period of limitations on collection in the following circumstances:

(1) *Extension agreement entered into in connection with an installment agreement*. If the Secretary and the taxpayer enter into an installment agreement for the tax liability prior to the expiration of the period of limitations on collection, the Secretary and the taxpayer, at the time the installment agreement is entered into, may enter into a written agreement to extend the period of limitations on collection to a date certain. A written extension agreement entered into under this paragraph shall extend the period of limitations on collection until the 89th day after the date agreed upon in the written agreement.

(2) *Extension agreement entered into in connection with the release of a levy under section 6343*. If the Secretary has levied on any part of the taxpayer's property prior to the expiration of the period of limitations on collection and the levy is subsequently released pursuant to section 6343 after the expiration of the period of limitations on collection, the Secretary and the taxpayer, prior to the release of the levy, may enter into a written agreement to extend the period of limitations on collection to a date certain. A written extension agreement entered into under this paragraph shall extend the period of limitations on collection until the date agreed upon in the extension agreement.

(c) *Proceeding in court for the collection of the tax*. If a proceeding in court for the collection of a tax is begun within the period provided in paragraph (a) of this section (or within any extended period as provided in paragraph (b) of this section), the period during which the tax may be collected by levy is extended until the liability for the tax or a judgment against the taxpayer arising from the liability is satisfied or becomes unenforceable.

(d) *Effect of statutory suspensions of the period of limitations on collection if executed collection extension agreement is in effect*. (1) Any statutory suspension of the period of limitations on collection tolls the running of the period of limitations on collection, as extended pursuant to an executed extension agreement under paragraph (b) of this section, for the amount of time set forth in the relevant statute.

(2) The following example illustrates the principle set forth in this paragraph (d):

Example. In June of 2003, the Internal Revenue Service (IRS) enters into an installment agreement with the taxpayer to provide for periodic payments of the taxpayer's timely assessed tax liabilities. At the time the installment agreement is entered into, the taxpayer and the IRS execute a written

agreement to extend the period of limitations on collection. The extension agreement executed in connection with the installment agreement operates to extend the period of limitations on collection to the date agreed upon in the extension agreement, plus 89 days. Subsequently, and prior to the expiration of the extended period of limitations on collection, the taxpayer files a bankruptcy petition under chapter 7 of the Bankruptcy Code and receives a discharge from bankruptcy a few months later. Assuming the tax is not discharged in the bankruptcy, section 6503(h) of the Internal Revenue Code operates to suspend the running of the previously extended period of limitations on collection for the period of time the IRS is prohibited from collecting due to the bankruptcy proceeding, and for 6 months thereafter. The new expiration date for the IRS to collect the tax is the date agreed upon in the previously executed extension agreement, plus 89 days, plus the period during which the IRS is prohibited from collecting due to the bankruptcy proceeding, plus 6 months.

(e) *Date when levy is considered made.* The date on which a levy on property or rights to property is considered made is the date on which the notice of seizure required under section 6335(a) is given.

(f) *Effective date.* This section is applicable on September 6, 2006.

[T.D. 9284, 71 FR 52445, Sept. 6, 2006]

§ 301.6503(a)–1 Suspension of running of period of limitation; issuance of statutory notice of deficiency.

(a) *General rule.* (1) Upon the mailing of a notice of deficiency for income, estate, gift, chapter 41, 42, 43, or 44 tax under the provisions of section 6212, the period of limitation on assessment and collection of any deficiency is suspended for 90 days after the mailing of a notice of such deficiency if the notice of deficiency is addressed to a person within the States of the Union and the District of Columbia, or 150 days if such notice of deficiency is addressed to a person outside the States of the Union and the District of Columbia (not counting Saturday, Sunday, or a legal holiday in the District of Columbia as the 90th or 150th day), plus an additional 60 days thereafter in either case. If a proceeding in respect of the deficiency is placed on the docket of the Tax Court, the period of limitation is suspended until the decision of the Tax Court becomes final, and for an additional 60 days thereafter. If a notice of deficiency is mailed to a taxpayer within the period of limitation and the taxpayer does not appeal therefrom to the Tax Court, the notice of deficiency so given does not suspend the running of the period of limitation with respect to any additional deficiency shown to be due in a subsequent deficiency notice.

(2) This paragraph may be illustrated by the following example:

Example. A taxpayer filed a return for the calendar year 1973 on April 15, 1974; the notice of deficiency was mailed to him (at an address within the United States) on April 15, 1977; and he filed a petition with the Tax Court on July 14, 1977. The decision of the Tax Court became final on November 6, 1978. The running of the period of limitation for assessment is suspended from April 15, 1977, to January 5, 1979, which date is 60 days after the date (November 6, 1978), on which the decision became final. If in this example the taxpayer had failed to file a petition with the Tax Court, the running of the period of limitation for assessment would then be suspended from April 15, 1977 (the date of notice), to September 12, 1977 (that is, for the 90-day period in which he could file a petition with the Tax Court, and for 60 days thereafter).

(3) For provisions relating to suspension of the running of the period of limitation with respect to collection of ''second tier'' excise taxes (as defined in section 4963) until final resolution of a refund proceeding described in sections 4961 and 7422 for the determination of the taxpayer's liability for the second tier taxes, see § 53.4961–2 (e)(4).

(b) *Corporations joining in consolidated return.* If a notice under section 6212(a) with respect to a deficiency in tax imposed by subtitle A of the Code for any taxable year is mailed to a corporation, the suspension of the running of the period of limitation provided in section 6503(a)(1) shall apply in the case of corporations with which such corporation made a consolidated income tax return for such taxable year. Under § 1.1502–77(a) of this chapter (Income Tax Regulations), relating to consolidated returns, notices of deficiency are mailed only to the common parent.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7244, 37 FR 28898, Dec. 30, 1972; T.D. 7838, 47 FR 44251, Oct. 7, 1982; T.D. 8084, 51 FR 16305, May 2, 1986]

§ 301.6503(b)–1 Suspension of running of period of limitation; assets of taxpayer in control or custody of court.

Where all or substantially all of the assets of a taxpayer are in the control or custody of the court in any proceeding before any court of the United States, or of any State of the United States, or of the District of Columbia, the period of limitations on collection after assessment prescribed in section 6502 is suspended with respect to the outstanding amount due on the assessment for the period such assets are in the control or custody of the court, and for 6 months thereafter. In the case of an estate of a decedent or an incompetent, the period of limitations on collection is suspended only for periods beginning after November 2, 1966, during which assets are in the control or custody of a court, and for 6 months thereafter.

[T.D. 7121, 36 FR 10782, June 3, 1971]

§ 301.6503(c)–1 Suspension of running of period of limitation; location of property outside the United States or removal of property from the United States; taxpayer outside of United States.

(a) *Property located outside, or removed from, the United States prior to November 3, 1966.* The running of the period of limitations on collection after assessment prescribed in section 6502 is suspended for the period of time, prior to November 3, 1966, that collection is hindered or delayed because property of the taxpayer is situated or held outside the United States or is removed from the United States. The total suspension of time under this provision shall not in the aggregate exceed 6 years. In any case in which the district director determines that collection is so hindered or delayed, he shall make and retain in the files of his office a written report which shall identify the taxpayer and the tax liability, shall show what steps were taken to collect the tax liability, shall state the grounds for his determination that property of the taxpayer is situated or held outside, or is removed from, the United States, and shall show the date on which it was first determined that collection was so hindered or delayed. The term ''property'' includes all property or rights to property, real or personal, tangible or intangible, belonging to the taxpayer. The suspension of the running of the period of limitations on collection shall be considered to begin on the date so determined by the district director. A copy of the report shall be mailed to the taxpayer at his last known address. For further guidance regarding the definition of last known address, see § 301.6212–2.

(b) *Taxpayer outside United States after November 2, 1966.* The running of the period of limitations on collection after assessment prescribed in section 6502 (relating to collection after assessment) is suspended for the period after November 2, 1966, during which the taxpayer is absent from the United States if such period is a continuous period of absence from the United States extending for 6 months or more. In a case where the running of the period of limitations has been suspended under the first sentence of this paragraph and at the time of the taxpayer's return to the United States the period of limitations would expire before the expiration of 6 months from the date of his return, the period of limitations shall not expire until after 6 months from the date of the taxpayer's return. The taxpayer will be deemed to be absent from the United States for purposes of this section if he is generally and substantially absent from the United States, even though he makes casual temporary visits during the period.

[T.D. 7121, 36 FR 10782, June 3, 1971, as amended by T.D. 8939, 66 FR 2821, Jan. 12, 2001]

§ 301.6503(d)–1 Suspension of running of period of limitation; extension of time for payment of estate tax.

Where an estate is granted an extension of time as provided in section 6161 (a)(2) or (b)(2), or under the provisions of section 6166, for payment of any estate tax, the running of the period of limitations for collection of such tax is suspended for the period of time for which the extension is granted.

§ 301.6503(e)–1 Suspension of running of period of limitation; certain powers of appointment.

Where the estate of a decedent is allowed an estate tax charitable deduction under the provisions of section 2055(b)(2) (with respect to property over which the decedent's surviving spouse was given a power of appointment exercisable in favor of charitable organizations) subject to the later disallowance of the deduction if all conditions set forth in section 2055(b)(2) are not complied with, the running of the period of limitation for assessment or collection of any estate tax imposed on the decedent's estate is suspended until 30 days after the expiration of the period for assessment or collection of the estate tax imposed on the estate of the decedent's surviving spouse.

§ 301.6503(f)–1 Suspension of running of period of limitation; wrongful seizure of property of third-party owner and discharge of lien for substitution of value.

(a) *Wrongful seizure*. The running of the period of limitations on collection after assessment prescribed in section 6502 (relating to collection after assessment) shall be suspended for a period equal to a period beginning on the date property (including money) is wrongfully seized or received by the appropriate official and ending on the date 30 days after the date on which the appropriate official returns the property pursuant to section 6343(b) (relating to authority to return property) or the date 30 days after the date on which a judgment secured pursuant to section 7426 (relating to civil actions by persons other than taxpayers) with respect to such property becomes final. The running of the period of limitations on collection after assessment shall be suspended under this section only with respect to the amount of such assessment which is equal to the amount of money or the value of specific property returned. This section applies in the case of property wrongfully seized or received after November 2, 1966. The following example illustrates the principles of this section:

Example. On June 1, 1968 (at which time 10 months remain before the period of limitations on collection after assessment will expire), the appropriate official wrongfully seizes $1,000 in B's account in Bank X and properly seizes $500 in taxpayer A's account in Bank Y in an attempt to satisfy A's assessed tax liability of $1,500. The appropriate official determines that the $1,000 seized in Bank X was not the property of taxpayer A and, on March 1, 1969, he returns the $1,000 to B. As a result of the wrongful seizure, the running of the period of limitations on collection after assessment of the amount owed by taxpayer A is suspended for the 9-month period (beginning June 1, 1968, when the money was wrongfully seized and ending March 1, 1969, when the money was returned to B), plus 30 days. Therefore, the period of limitations on collection after assessment prescribed in section 6502 will not expire until February 1, 1970, which is 10 months plus 30 days after the money was returned.

(b) *Discharge of wrongful lien for substitution of value*. If a person other than the taxpayer submits a request in writing for a certificate of discharge for a filed Federal tax lien under section 6325(b)(4), the running of the period of limitations on collection after assessment under section 6502 for any liability listed in such notice of Federal tax lien shall be suspended for a period equal to the period beginning on the date the appropriate official receives a deposit or bond in the amount specified in § 301.6325–1(b)(4)(i) and ending on the date that is 30 days after the earlier of—

(1) The date the appropriate official no longer holds, or is deemed to no longer hold, within the meaning of paragraph (b)(4)(iv) of this section, any amount as a deposit or bond by reason of taking such actions as prescribed in sections 6325(b)(4)(B) and (C); or

(2) The date the judgment secured under section 7426(b)(5) becomes final.

(c) As used in this section, the term *appropriate official* means either the official or office identified in the relevant IRS Publication or, if such official or office is not so identified, the Secretary or his delegate.

(d) *Effective/applicability date*. This section applies to any request for a certificate of discharge made after January 31, 2008.

[T.D. 7121, 36 FR 10783, June 3, 1971. Redesignated by T.D. 7838, 47 FR 44252, Oct. 7, 1982; 73 FR 5744, Jan. 31, 2008]

§ 301.6503(g)–1 Suspension pending correction.

The running of the periods of limitations provided in sections 6501 and 6502 on the making of assessments, the collection by levy, or a proceeding in court in respect of any tax imposed by chapter 42 or section 507, 4971, or 4975 shall be suspended for any period described in section 507(g)(2) or during which the Commissioner has extended the time for making correction under section 4963(e)(1)(B).

[T.D. 7838, 47 FR 44252, Oct. 7, 1982, as amended by T.D. 8084, 51 FR 16305, May 2, 1986]

§ 301.6503(j)–1 Suspension of running of period of limitations; extension in case of designated and related summonses.

(a) *General rule.* The running of the applicable period of limitations on assessment provided for in section 6501 is suspended with respect to any return of tax by a corporation that is the subject of a designated or related summons if a court proceeding is instituted with respect to that summons.

(b) *Period of suspension.* The period of suspension is the time during which the running of the applicable period of limitations on assessment provided for in section 6501 is suspended under section 6503(j). If a court requires any compliance with a designated or related summons by ordering that any record, document, paper, object, or items be produced, or the testimony of any person be given, the period of suspension consists of the judicial enforcement period plus 120 days. If a court does not require any compliance with a designated or related summons, the period of suspension consists of the judicial enforcement period, and the period of limitations on assessment provided in section 6501 shall not expire before the 60th day after the close of the judicial enforcement period.

(c) *Definitions*—(1) A *designated summons* is a summons issued to a corporation (or to any other person to whom the corporation has transferred records) with respect to any return of tax by such corporation for a taxable period for which such corporation is being examined under the coordinated industry case program or any other successor to the coordinated examination program if—

(i) The Division Commissioner and the Division Counsel of the Office of Chief Counsel (or their successors) for the organizations that have jurisdiction over the corporation whose tax liability is the subject of the summons have reviewed the summons before it is issued;

(ii) The Internal Revenue Service (IRS) issues the summons at least 60 days before the day the period prescribed in section 6501 for the assessment of tax expires (determined with regard to extensions); and

(iii) The summons states that it is a designated summons for purposes of section 6503(j).

(2) A *related summons* is any summons issued that—

(i) Relates to the same return of the corporation under examination as the designated summons; and

(ii) Is issued to any person, including the person to whom the designated summons was issued, during the 30-day period that begins on the day the designated summons is issued.

(3) The *judicial enforcement period* is the period that begins on the day on which a court proceeding is instituted with respect to a designated or related summons and ends on the day on which there is a final resolution as to the summoned person's response to that summons.

(4) *Court proceeding*—(i) *In general.* For purposes of this section, a *court proceeding* is a proceeding filed in a United States district court either to quash a designated or related summons under section 7609(b)(2) or to enforce a designated or related summons under section 7604. A court proceeding includes any collateral proceeding, such as a civil contempt proceeding.

(ii) *Date when proceeding is no longer pending.* A proceeding to quash or to enforce a designated or related summons is no longer pending when all appeals (including review by the Supreme Court) are disposed of or after the expiration of the period in which an appeal may be taken or a request for further review (including review by the Supreme Court) may be made. If, however, following an enforcement order, a

collateral proceeding is brought challenging whether the testimony given or production made by the summoned party fully satisfied the court order and whether sanctions should be imposed against the summoned party for a failure to so testify or produce, the proceeding to quash or to enforce the summons shall include the time from which the proceeding to quash or to enforce the summons was brought until the decision in the collateral proceeding becomes final. The decision becomes final on the date when all appeals (including review by the Supreme Court) are disposed of or when all appeal periods or all periods for further review (including review by the Supreme Court) expire. A decision in a collateral proceeding becomes final when all appeals (including review by the Supreme Court) are disposed of or when all appeal periods or all periods for further review (including review by the Supreme Court) expire.

(5) *Compliance*—(i) *In general. Compliance* is the giving of testimony or the performance of an act or acts of production, or both, in response to a court order concerning the designated or related summons and the determination that the terms of the court order have been satisfied.

(ii) *Date compliance occurs.* Compliance with a court order that wholly denies enforcement of a designated or related summons is deemed to occur on the date when all appeals (including review by the Supreme Court) are disposed of or when the period in which an appeal may be taken or a request for further review (including review by the Supreme Court) may be made expires. Compliance with a court order that grants enforcement, in whole or in part, of a designated or related summons, occurs on the date the IRS determines that the testimony given, or the books, papers, records, or other data produced, or both, by the summoned party fully satisfy the court order concerning the summons. The IRS will determine whether there has been full compliance within a reasonable time, given the volume and complexity of the records produced, after the later of the giving of all testimony or the production of all records requested by the summons or required by any order enforcing any part of the summons. If, following an enforcement order, collateral proceedings are brought challenging whether the production made by the summoned party fully satisfied the court order and whether sanctions should be imposed against the summoned party for a failing to do so, the suspension of the periods of limitations shall continue until the order enforcing any part of the summons is fully complied with and the decision in the collateral proceeding becomes final. A decision in a collateral proceeding becomes final when all appeals are disposed of, the period in which an appeal may be taken has expired or the period in which a request for further review may be made has expired.

(6) *Final resolution* occurs when the designated or related summons or any order enforcing any part of the designated or related summons is fully complied with and all appeals or requests for further review are disposed of, the period in which an appeal may be taken has expired or the period in which a request for further review may be made has expired.

(d) *Special rules*—(1) *Number of summonses that may be issued*—(i) *Designated summons.* Only one designated summons may be issued in connection with the examination of a specific taxable year or other period of a corporation. A designated summons may cover more than one year or other period of a corporation. The designated summons may require production of information that was previously sought in a summons (other than a designated summons) issued in the course of the examination of that particular corporation if that information was not previously produced.

(ii) *Related summonses.* There is no restriction on the number of related summonses that may be issued in connection with the examination of a corporation. As provided in paragraph (c)(2) of this section, however, a related summons must be issued within the 30-day period that begins on the date on which the designated summons to which it relates is issued and must relate to the same return as the designated summons. A related summons may request

the same information as the designated summons.

(2) *Time within which court proceedings must be brought.* In order for the period of limitations on assessment to be suspended under section 6503(j), a court proceeding to enforce or to quash a designated or related summons must be instituted within the period of limitations on assessment provided in section 6501 that is otherwise applicable to the tax return.

(3) *Computation of suspension period if multiple court proceedings are instituted.* If multiple court proceedings are instituted to enforce or to quash a designated or one or more related summonses concerning the same tax return, the period of limitations on assessment is suspended beginning on the date the first court proceeding is brought. The suspension shall end on the date that is the latest date on which the judicial enforcement period, plus the 120 day or 60 day period (depending on whether the court requires any compliance) as provided in paragraph (b) of this section, expires with respect to each summons.

(4) *Effect on other suspension periods*—(i) *In general.* Suspensions of the period of limitations under section 6501 provided for under subsections 7609(e)(1) and (e)(2) do not apply to any summons that is issued pursuant to section 6503(j). The suspension under section 6503(j) of the running of the period of limitations on assessment under section 6501 is independent of, and may run concurrent with, any other suspension of the period of limitations on assessment that applies to the tax return to which the designated or related summons relates.

(ii) *Examples.* The rules of paragraph (d)(4)(i) of this section are illustrated by the following examples:

Example 1. The period of limitations on assessment against Corporation P, a calendar year taxpayer, for its 2007 return is scheduled to end on March 17, 2011. (Ordinarily, Corporation P's returns are filed on March 15th of the following year, but March 15, 2008, was a Saturday, and Corporation P timely filed its return on the subsequent Monday, March 17, 2008, making March 17, 2011 the last day of the period of limitations on assessment for Corporation P's 2007 tax year.) On January 4, 2011, a designated summons is issued to Corporation P concerning its 2007 return. On March 3, 2011 (14 days before the period of limitations on assessment would otherwise expire with respect to Corporation P's 2007 return), a court proceeding is brought to enforce the designated summons issued to Corporation P. On June 6, 2011, the court orders Corporation P to comply with the designated summons. Corporation P does not appeal the court's order. On September 6, 2011, agents for Corporation P deliver material that they state are the records requested by the designated summons. On October 13, 2011, a final resolution to Corporation P's response to the designated summons occurs when it is determined that Corporation P has fully complied with the court's order. The suspension period applicable with respect to the designated summons issued to Corporation P consists of the judicial enforcement period (March 3, 2011, through October 13, 2011) and an additional 120-day period under section 6503(j)(1)(B), because the court required Corporation P to comply with the designated summons. Thus, the suspension period applicable with respect to the designated summons issued to Corporation P begins on March 3, 2011, and ends on February 10, 2012. Under the facts of this *Example 1*, the period of limitations on assessment against Corporation P further extends to February 24, 2012, to account for the additional 14 days that remained on the period of limitations on assessment under section 6501 when the suspension period under section 6503(j) began.

Example 2. Assume the same facts set forth in *Example 1*, except that in addition to the issuance of the designated summons and related enforcement proceedings, on April 5, 2011, a summons concerning Corporation P's 2007 return is issued and served on individual A, a third party. This summons is not a related summons because it was not issued during the 30-day period that began on the date the designated summons was issued. The third-party summons served on individual A is subject to the notice requirements of section 7609(a). Final resolution of individual A's response to this summons does not occur until February 15, 2012. Because there is no final resolution of individual A's response to this summons by October 5, 2011, which is six months from the date of service of the summons, the period of limitations on assessment against Corporation P is suspended under section 7609(e)(2) to the date on which there is a final resolution to that response for the purposes of section 7609(e)(2). Moreover, because final resolution to the summons served on individual A does not occur until after February 10, 2012, the end of the suspension period for the designated summons, the period of limitations on assessment against Corporation P expires 14 days after the date that the final resolution as provided for in section 7609(e)(2) occurs

with respect to the summons served on individual A.

(5) *Computation of 60-day period when last day of assessment period falls on a weekend or holiday.* For purposes of paragraph (c)(1)(ii) of this section, in determining whether a designated summons has been issued at least 60 days before the date on which the period of limitations on assessment prescribed in section 6501 expires, the provisions of section 7503 apply when the last day of the assessment period falls on a Saturday, Sunday, or legal holiday.

(e) *Effective/applicability date.* This section is applicable on July 31, 2009.

[T.D. 9455, 74 FR 38097, July 31, 2009]

LIMITATIONS ON CREDIT OR REFUND

§ 301.6511(a)–1 Period of limitation on filing claim.

(a) In the case of any tax (other than a tax payable by stamp):

(1) If a return is filed, a claim for credit or refund of an overpayment must be filed by the taxpayer within 3 years from the time the return was filed or within 2 years from the time the tax was paid, whichever of such periods expires the later.

(2) If no return is filed, the claim for credit or refund of an overpayment must be filed by the taxpayer within 2 years from the time the tax was paid.

(b) In the case of any tax payable by means of a stamp, a claim for credit or refund of an overpayment of such tax must be filed by the taxpayer within 3 years from the time the tax was paid. For provisions relating to redemption of unsued stamps, see section 6805.

(c) For limitations on allowance of credit or refund, special rules, and exceptions, see subsections (b) through (e) of section 6511. For limitations in the case of a petition to the Tax Court, see section 6512. For rules as to time return is deemed filed and tax considered paid, see section 6513.

§ 301.6511(b)–1 Limitations on allowance of credits and refunds.

(a) *Effect of filing claim.* Unless a claim for credit or refund of an overpayment is filed within the period of limitation prescribed in section 6511(a), no credit or refund shall be allowed or made after the expiration of such period.

(b) *Limit on amount to be credited or refunded.* (1) In the case of any tax (other than a tax payable by stamp):

(i) If a return was filed, and a claim is filed within 3 years from the time the return was filed, the amount of the credit or refund shall not exceed the portion of the tax paid within the period, immediately preceding the filing of the claim, equal to 3 years plus the period of any extension of time for filing the return.

(ii) If a return was filed, and a claim is filed after the 3-year period described in subdivision (i) of this subparagraph but within 2 years from the time the tax was paid, the amount of the credit or refund shall not exceed the portion of the tax paid within the 2 years immediately preceding the filing of the claim.

(iii) If no return was filed, but a claim is filed, the amount of the credit or refund shall not exceed the portion of the tax paid within the 2 years immediately preceding the filing of the claim.

(iv) If no claim is filed, the amount of the credit or refund allowed or made by the district director or the director of the regional service center shall not exceed the amount that would have been allowable under the preceding subdivisions of this subparagraph if a claim had been filed on the date the credit or refund is allowed.

(2) In the case of a tax payable by stamp:

(i) If a claim is filed, the amount of the credit or refund shall not exceed the portion of the tax paid within the 3 years immediately preceding the filing of the claim.

(ii) If no claim is filed, the amount of the credit or refund allowed or made by the district director or the director of the regional service center shall not exceed the portion of the tax paid within the 3 years immediately preceding the allowance of the credit or refund.

For provisions relating to redemption of unused stamps, see section 6805.

§ 301.6511(c)–1 Special rules applicable in case of extension of time by agreement.

(a) *Scope.* If, within the period prescribed in section 6511(a) for the filing of a claim for credit or refund, an agreement extending the period for assessment of a tax has been made in accordance with the provisions of section 6501(c)(4), the special rules provided in this section become applicable. This section shall not apply to any claim filed, or credit or refund allowed if no claim is filed, either (1) prior to the execution of an agreement extending the period in which assessment may be made, or (2) more than 6 months after the expiration of the period within which an assessment may be made pursuant to the agreement or any extension thereof.

(b) *Period in which claim may be filed.* Claim for credit or refund of an overpayment may be filed, or credit or refund may be allowed if no claim is filed, at any time within which an assessment may be made pursuant to an agreement, or any extension thereof, under section 6501(c)(4), and for 6 months thereafter.

(c) *Limit on amount to be credited or refunded.* (1) If a claim is filed within the time prescribed in paragraph (b) of this section, the amount of the credit or refund allowed or made shall not exceed the portion of the tax paid after the execution of the agreement and before the filing of the claim, plus the amount that could have been properly credited or refunded under the provisions of section 6511(b)(2) if a claim had been filed on the date of the execution of the agreement.

(2) If no claim is filed, the amount of credit or refund allowed or made within the time prescribed in paragraph (b) of this section shall not exceed the portion of the tax paid after the execution of the agreement and before the making of the credit or refund, plus the amount that could have been properly credited or refunded under the provisions of section 6511(b)(2) if a claim had been filed on the date of the execution of the agreement.

(d) *Effective date of agreement.* The agreement referred to in this section shall become effective when signed by the taxpayer and the district director or an assistant regional commissioner.

§ 301.6511(d)–1 Overpayment of income tax on account of bad debts, worthless securities, etc.

(a)(1) If the claim for credit or refund relates to an overpayment of income tax on account of—

(i) The deductibility by the taxpayer, under section 166 or section 832(c), of a debt as a debt which became worthless, or, under section 165(g), of a loss from the worthlessness of a security, or

(ii) The effect that the deductibility of a debt or loss described in subdivision (i) of this subparagraph has on the application to the taxpayer of a carryover, then in lieu of the 3-year period from the time the return was filed in which claim may be filed or credit or refund allowed, as prescribed in section 6511 (a) or (b), the period shall be 7 years from the date prescribed by law for filing the return (determined without regard to any extension of time for filing such return) for the taxable year for which the claim is made or the credit or refund allowed or made.

(2) If the claim for credit or refund relates to an overpayment on account of the effect that the deductibility of a debt or loss, described in subparagraph (1) of this paragraph (a), has on the application to the taxpayer of a net operating loss carryback provided in section 172(b), the period in which claim for credit or refund may be filed shall be whichever of the following two periods expires later:

(i) Seven years from the last date prescribed for filing the return (determined without regard to any extension of time for filing such return) for the taxable year of the net operating loss which results in such carryback, or

(ii) The period which ends with the expiration of the period prescribed in section 6511(c) within which a claim for credit or refund may be filed with respect to the taxable year of the net operating loss which resulted in the carryback.

(3) In the case of a claim for credit or refund involving items described in this section, the amount of the credit or refund may exceed the portion of the tax paid within the period provided in section 6511 (b)(2) or (c), whichever is

applicable, to the extent of the amount of the overpayment attributable to the deductibility of items described in subparagraph (1) of this paragraph (a). If the claim involves an overpayment based not only on the deductibility of items described in subparagraph (1) of this paragraph (a), but based also on other items, the credit or refund cannot exceed the sum of the following:

(i) The amount of the overpayment which is attributable to the deductibility of items described in subparagraph (1) of this paragraph (a), and

(ii) The balance of such overpayment up to a limit of the portion, if any, of the tax paid within the period provided in section 6511 (b)(2) or (c), or within the period provided in any other applicable provision of law.

(4) If the claim involves an overpayment based not only on the deductibility of items described in subparagraph (1) of this paragraph (a), but based also on other items, and if the claim with respect to any items is barred by the expiration of any applicable period of limitation, the portion of the overpayment attributable to the items not so barred shall be determined by treating the allowance of such items as the first adjustment to be made in computing such overpayment.

(b) If a claim for credit or refund is not filed within the applicable period described in paragraph (a) of this section, then credit or refund may be allowed or made only if claim therefor is filed or if such credit or refund is allowed within any period prescribed in section 6511 (a), (b), or (c), whichever is applicable, subject to the provisions thereof limiting the amount of credit or refund in the case of a claim filed, or, if no claim was filed, in the case of credit or refund allowed within such applicable period as prescribed in section 6511 (b) or (c).

(c) The provisions of this section and section 6511(d)(1) do not apply to an overpayment resulting from the deductibility of a debt that became partially worthless during the taxable year, but only to an overpayment resulting from the deductibility of a debt which became entirely worthless during such year.

(d) The provisions of paragraph (a) of this section with regard to an overpayment caused by the deductibility of a bad debt under section 166 or section 832(c), or of a loss from the worthlessness of a security under section 165(g), are likewise applicable to an overpayment caused by the effect that the deductibility of such bad debt or loss has on the application to the taxpayer of a carryover or of a carryback.

§ 301.6511(d)–2 Overpayment of income tax on account of net operating loss or capital loss carrybacks.

(a) *Special period of limitation.* (1) If the claim for credit or refund relates to an overpayment of income tax attributable to a net operating loss carryback (provided in section 172(b)), or a capital loss carryback (provided in section 1212(a)), then in lieu of the 3-year period from the time the return was filed in which the claim may be filed or credit or refund allowed, as prescribed in section 6511 (a) or (b), the period shall be whichever of the following two periods expires later:

(i) The period which ends with the expiration of the 15th day of the 40th month (or 39th month, in the case of a corporation) following the end of the taxable year of the net operating loss or net capital loss which resulted in the carryback; or

(ii) The period which ends with the expiration of the period prescribed in section 6511(c) within which a claim for credit or refund may be filed with respect to the taxable year of the net operating loss or net capital loss which resulted in the carryback except that—

(*a*) With respect to an overpayment attributable to a net operating loss carryback to any year on account of a certification issued to the taxpayer under section 317 of the Trade Expansion Act of 1962, the period shall not expire before the expiration of the sixth month following the month in which such certification is issued to the taxpayer, and

(*b*) With respect to an overpayment attributable to the creation of, or an increase in, a net operating loss as a result of the elimination of excessive profits by a renegotiation (as defined in section 1481(a)(1)(A)), the period shall not expire before September 1, 1959, or

the expiration of the 12th month following the month in which the agreement or order for the elimination of such excessive profits becomes final, whichever is the later.

(2) In the case of a claim for credit or refund involving a net operating loss or capital loss carryback described in subparagraph (1) of this paragraph (a), the amount of the credit or refund may exceed the portion of the tax paid within the period provided in section 6511 (b)(2) or (c), whichever is applicable, to the extent of the amount of the overpayment attributable to the carryback. If the claim involves an overpayment based not only on a net operating loss or capital loss carryback described in subparagraph (1) of this paragraph (a), but based also on other items, the credit or refund cannot exceed the sum of the following:

(i) The amount of the overpayment which is attributable to the net operating loss or capital loss carryback, and

(ii) The balance of such overpayment up to a limit of the portion, if any, of the tax paid within the period provided in section 6511 (b)(2) or (c), or within the period provided in any other applicable provision of law.

(3) If the claim involves an overpayment based not only on a net operating loss or capital loss carryback described in subparagraph (1) of this paragraph (a), but based also on other items, and if the claim with respect to any items is barred by the expiration of any applicable period of limitation, the portion of the overpayment attributable to the items not so barred shall be determined by treating the allowance of such items as the first adjustment to be made in computing such overpayment. If a claim for credit or refund is not filed, and if credit or refund is not allowed, within the period prescribed in this paragraph, then credit or refund may be allowed or made only if claim therefor is filed, or if such credit or refund is allowed, within the period prescribed in section 6511 (a), (b), or (c), whichever is applicable, subject to the provisions thereof limiting the amount of credit or refund in the case of a claim filed, or if no claim was filed, in case of credit or refund allowed, within such applicable period. For the limitations on the allowance of interest for an overpayment where credit or refund is subject to the provisions of this section, see section 6611(f).

(b)(1) *Barred overpayments.* If the allowance of a credit or refund of an overpayment of tax attributable to a net operating loss carryback or capital loss carryback is otherwise prevented by the operation of any law or rule of law (other than section 7122, relating to compromises), such credit or refund may be allowed or made under the provisions of section 6511(d)(2)(B) if a claim therefor is filed within the period provided by section 6511(d)(2)(A) and paragraph (a) of this section for filing a claim for credit or refund of an overpayment attributable to a carryback. Similarly, if the allowance of an application, credit, or refund of a decrease in the tax determined under section 6411(b) is otherwise prevented by the operation of any law or rule of law (other than section 7122), such application, credit, or refund may be allowed or made if an application for a tentative carryback adjustment is filed within the period provided in section 6411(a). Thus, for example, even though the tax liability (not including the net operating loss deduction or capital loss carryback (or the effect of such deduction or carryback)) for a given taxable year has previously been litigated before the Tax Court, credit or refund of an overpayment may be allowed or made despite the provisions of section 6512(a), if claim for such credit or refund is filed within the period provided in section 6511(d)(2)(A) and paragraph (a) of this section. In the case of a claim for credit or refund of an overpayment attributable to a carryback, or in the case of an application for a tentative carryback adjustment, the determination of any court, including the Tax Court, in any proceeding in which the decision of the court has become final, shall be conclusive except with respect to the net operating loss deduction, and the effect of such deduction, or with respect to the determination of a short-term capital loss, and the effect of such short-term capital loss, to the extent that such deduction or short-term capital loss is affected by a carryback which was not in issue in such proceeding.

(2) For purposes of the special period of limitation for filing a claim for credit or refund of an overpayment of tax with respect to a computation year (as defined in section 1302(c)(1)) by an individual who has chosen to compute his tax under sections 1301 through 1305 (relating to income averaging), such claim is determined to relate to an overpayment attributable to a net operating loss carryback when such carryback relates to any base period year (as defined in section 1302(c)(3)). Thus, if (i) an individual has a net operating loss for a taxable year subsequent to a taxable year for which he had chosen the benefits of income averaging, and (ii) such net operating loss carryback is wholly utilized in any one or more of his base period years (which would result in an increased amount of averageable income for such computation year), the special period of limitation with respect to such individual's computation year applies and a timely claim for credit or refund with respect to the computation year may be filed.

[T.D. 7196, 37 FR 13691, July 13, 1972, and T.D. 7301, 39 FR 976, Jan. 4, 1974]

§ 301.6511(d)–3 Special rules applicable to credit against income tax for foreign taxes.

(a) *Period in which claim may be filed.* In the case of an overpayment of income tax resulting from a credit, allowed under the provisions of section 901 or under the provisions of any treaty to which the United States is a party, for taxes paid or accrued to a foreign country or possession of the United States, a claim for credit or refund must be filed by the taxpayer within 10 years from the last date prescribed for filing the return (determined without regard to any extension of time for filing such return) for the taxable year with respect to which the claim is made. Such 10-year period shall be applied in lieu of the 3-year period prescribed in section 6511(a).

(b) *Limit on amount to be credited or refunded.* In the case of a claim described in paragraph (a) of this section, the amount of the credit or refund allowed or made may exceed the portion of the tax paid within the period prescribed in section 6511 (b) or (c), whichever is applicable, to the extent of the amount of the overpayment attributable to the allowance of a credit against income tax referred to in paragraph (a) of this section.

§ 301.6511(d)–4 Overpayment of income tax on account of investment credit carryback.

(a) *Special period of limitation.* (1) If the claim for credit or refund relates to an overpayment of income tax attributable to an investment credit carryback, provided in section 46(b), then in lieu of the 3-year period from the time the return was filed in which the claim may be filed or credit or refund allowed, as prescribed in section 6511 (a) or (b), the period shall be whichever of the following 2 periods expires later:

(i) The period which ends with the expiration of the 15th day of the 40th month (or 39th month, in the case of a corporation) following the end of the taxable year of the unused investment credit which resulted in the carryback (or, with respect to any portion of an investment credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, the period which ends with the expiration of the 15th day of the 40th month (or 39th month, in the case of a corporation) following the end of such subsequent taxable year); or

(ii) The period which ends with the expiration of the period prescribed in section 6511(c) within which a claim for credit or refund may be filed with respect to the taxable year of the unused investment credit which resulted in the carryback.

(2) In the case of a claim for credit or refund involving an investment credit carryback described in subparagraph (1) of this paragraph, the amount of the credit or refund may exceed the portion of the tax paid within the period provided in section 6511 (b)(2) or (c), whichever is applicable, to the extent of the amount of the overpayment attributable to the carryback. If the claim involves an overpayment based not only on an investment credit carryback described in subparagraph (1) of this paragraph (a), but based also on other items, the credit or refund cannot exceed the sum of the following:

(i) The amount of the overpayment which is attributable to the investment credit carryback, and

(ii) The balance of such overpayment up to a limit of the portion, if any, of the tax paid within the period provided in section 6511 (b)(2) or (c), or within the period provided in any other applicable provision of law.

(3) If the claim involves an overpayment based not only on an investment credit carryback described in subparagraph (1) of this paragraph (a), but based also on other items, and if the claim with respect to any items is barred by the expiration of any applicable period of limitation, the portion of the overpayment attributable to the items not so barred shall be determined by treating the allowance of such items as the first adjustment to be made in computing such overpayment. If a claim for credit or refund is not filed, and if credit or refund is not allowed, within the period prescribed in this paragraph, then credit or refund may be allowed or made only if claim therefor is filed, or if such credit or refund is allowed, within the period prescribed in section 6511 (a), (b), or (c), whichever is applicable, subject to the provisions thereof limiting the amount of credit or refund in the case of a claim filed, or if no claim was filed, in case of credit or refund allowed, within such applicable period. For the limitations on the allowance of interest for an overpayment where credit or refund is subject to the provisions of this section, see section 6611(f).

(b) *Barred overpayments.* If the allowance of a credit or refund of an overpayment of tax attributable to an investment credit carryback is otherwise prevented by the operation of any law or rule of law (other than section 7122, relating to compromises), such credit or refund may be allowed or made under the provisions of section 6511(d)(4)(B) if a claim therefor is filed within the period provided by section 6511(d)(4)(A) and paragraph (a) of this section for filing a claim for credit or refund of an overpayment attributable to a carryback. In the case of a claim for credit or refund of an overpayment attributable to a carryback, the determination of any court, including the Tax Court, in any proceeding in which the decision of the court has become final, shall not be conclusive with respect to the investment credit, and the effect of such credit, to the extent that such credit is affected by a carryback which was not in issue in such proceeding.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7301, 39 FR 977, Jan. 4, 1974]

§ 301.6511(e)–1 Special rules applicable to manufactured sugar.

(a) *Use as livestock feed and for distillation of alcohol.* No payment shall be allowed or made under section 6418 (a) unless within 2 years after the date the right to such payment has accrued a claim therefor is filed by the person entitled thereto. Such right accrues as of the date the manufactured sugar, or article manufactured therefrom, is used for a purpose for which payment is allowable under section 6418(a).

(b) *Exportation.* No payment shall be allowed or made under section 6418 (b) unless within 2 years after the date the right to such payment has accrued a claim therefor is filed by the person entitled thereto. Such right accrues as of the date the articles are exported.

§ 301.6511(f)–1 Special rules for chapter 42 taxes.

(a) *In general.* Claims for credit or refund of an overpayment of any tax imposed by chapter 42 shall be filed by the taxpayer within 3 years from the time a return was filed by the private foundation or trust (as the case may be) with respect to such tax, or within 2 years from the time the tax was paid, whichever of such periods expire the later.

(b) *Examples.* This section may be illustrated by the following examples:

Example 1. In 1972, D, an individual taxpayer who was a disqualified person under the provisions of section 4946(a)(1), participated in an act of self-dealing with a private foundation and incurred a tax under section 4941(a)(1). The private foundation files a Form 990–PF on May 15, 1973, and discloses thereon that it has engaged in an act of self-dealing with D. D files a Form 4720 on July 2, 1973, and pays the amount of tax imposed by section 4941(a) with respect to such act of self-dealing. For purposes of this section, the return was filed on May 15, 1973, and any claim for credit or refund by D must be filed

by May 17, 1976 (May 15, 1976, was a Saturday).

Example 2. Assume the same facts as in example 1 except that D filed a Form 4720 on July 1, 1974, and pays the tax on that date. D must then file any claim for credit or refund by July 1, 1976.

[T.D. 7838, 47 FR 44252, Oct. 7, 1982]

§ 301.6512–1 Limitations in case of petition to Tax Court.

(a) *Effect of petition to Tax Court*—(1) *General rule.* If a person having a right to file a petition with the Tax Court with respect to a deficiency in income, estate, gift, or excise tax imposed by subtitle A or B, or chapter 41, 42, 43, or 44 of the Code has filed such petition within the time prescribed in section 6213(a), no credit or refund of income tax for the same taxable year, of gift tax for the same calendar year or calendar quarter, of estate tax in respect of the taxable estate of the same decedent, or of tax imposed by chapter 41, 42, 43, or 44 with respect to any act (or failure to act) to which such petition relates, in respect of which a district director or director of a service center (or a regional director of appeals) has determined the deficiency, shall be allowed or made, and no suit in any court for the recovery of any part of such tax shall be instituted by the taxpayer, except as to items set forth in paragraph (a)(2) of this section.

(2) *Exceptions.* The exceptions to the rule stated in subparagraph (1) of this paragraph (a), are as follows:

(i) An overpayment determined by a decision of the Tax Court which has become final;

(ii) Any amount collected in excess of an amount computed in accordance with the decision of the Tax Court which has become final; and

(iii) Any amount collected after the expiration of the period of limitation upon levying or beginning a proceeding in court for collection.

(b) *Overpayment determined by Tax Court.* If the Tax Court finds that there is no deficiency and further finds that the taxpayer has made an overpayment of income tax for the same taxable year, of gift tax for the same calendar year or calendar quarter, of estate tax in respect of the taxable estate of the same decedent, or of tax imposed by chapter 41, 42, 43, or 44 with respect to any act (or failure to act) to which such petition relates, in respect of which a district director, or director of a service center (or a regional director of appeals) has determined the deficiency, or finds that there is a deficiency but that the taxpayer has made an overpayment of such tax, the overpayment determined by the Tax Court shall be credited or refunded to the taxpayer when the decision of the Tax Court has become final. (See section 7481, relating to the date when a Tax Court decision becomes final.) No such credit or refund shall be allowed or made of any portion of the tax unless the Tax Court determines as part of its decision that such portion was paid—

(1) After the mailing of the notice of deficiency, or

(2) Within the period which would be applicable under section 6511(b)(2), (c), (d) or (g) (see §§ 301.6511(b)–1. 301.6511(c)–1, 301.6511(d)–1, 301.6511(d)–2, and 301.6511(d)–3), if on the date of the mailing of the notice of deficiency a claim had been filed (whether or not filed) stating the grounds upon which the Tax Court finds that there is an overpayment.

(c) *Jeopardy assessments.* In the case of a jeopardy assessment made under section 6861(a), if the amount which should have been assessed as determined by a decision of the Tax Court which has become final is less than the amount already collected, the excess payment shall be credited or refunded subject to a determination being made by the Tax Court with respect to the time of payment as stated in paragraph (b) of this section.

(d) *Disallowance of deficiency by reviewing court.* If the amount of the deficiency determined by the Tax Court (in a case where collection has not been stayed by the filing of a bond) is disallowed in whole or in part by the reviewing court, then the overpayment resulting from such disallowance shall be credited or refunded without the making of claim therefor, subject to a determination being made by the Tax Court with respect to the time of payment as stated in paragraph (b) of this section. (See section 7481, relating to date Tax Court decision becomes final.)

(e) *Collection in excess of amount determined by Tax Court.* Where the amount

collected is in excess of the amount computed in accordance with the decision of the Tax Court which has become final, the excess payment shall be credited or refunded within the period of limitation provided in section 6511.

(f) *Collection after expiration of statutory period.* Where an amount is collected after the statutory period of limitation upon the beginning of levy or a proceeding in court for collection has expired (see section 6502, relating to collection after assessment), the taxpayer may file a claim for refund of the amount so collected within the period of limitation provided in section 6511. In any such case, the decision of the Tax Court as to whether the statutory period upon collection of the tax expired before notice of the deficiency was mailed shall, when the decision becomes final, be conclusive.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7838, 47 FR 44252, Oct. 7, 1982]

§ 301.6513–1 Time return deemed filed and tax considered paid.

(a) *Early return or advance payment of tax.* For purposes of section 6511, a return filed before the last day prescribed by law or regulations for the filing thereof shall be considered as filed on such last day. For purposes of section 6511 (b)(2) and (c) and section 6512, payment of any portion of the tax made before the last day prescribed for payment shall be considered made on such last day. An extension of time for filing a return or for paying any tax, or an election to pay any tax in installments, shall not be given any effect in determining under this section the last day prescribed for filing a return or paying any tax.

(b) *Prepaid income tax.* For purposes of section 6511 (relating to limitations on credit or refund) or section 6512 (relating to limitations in case of petition to Tax Court)—

(1) Any tax actually deducted and withheld at the source during any calendar year under chapter 24 of the Code (relating to collection of income tax at source on wages) shall, in respect of the recipient of the income, be deemed to have been paid by him on the 15th day of the fourth month following the close of his taxable year with respect to which such tax is allowable as a credit under section 31 (relating to tax withheld on wages),

(2) Any amount paid as estimated income tax for any taxable year shall be deemed to have been paid on the last day prescribed for filing the income tax return under section 6012 for such taxable year (determined without regard to any extension of time for filing such return), and

(3) Any tax withheld at the source on or after November 13, 1966, under chapter 3 of the Code (relating to tax withheld on nonresident aliens and foreign corporations and tax-free covenant bonds) shall, in respect of the recipient of the income, be deemed to have been paid by such recipient on the last day prescribed for filing his income tax return under section 6012 for the taxable year (determined without regard to any extension of time for filing such return) with respect to which such tax is allowable as a credit under section 1462 (relating to withheld tax as credit to recipient of income).

Subparagraph (3) of this paragraph (b), shall apply even though the recipient of the income has been granted under section 6012 and the regulations thereunder an exemption from the requirement of making an income tax return for the taxable year.

(c) *Return and payment of social security taxes and income tax withholding.* Notwithstanding paragraph (a) of this section, if a return (or payment) on or after November 13, 1966, of tax imposed by chapter 3 of the Code (relating to withholding of tax on nonresident aliens and foreign corporations and tax-free covenant bonds), or if a return (or payment) of tax imposed by chapter 21 of the Code (relating to the Federal Insurance Contributions Act) or by chapter 24 of the Code (relating to the collection of income tax at source on wages), for any period ending with or within a calendar year is filed or paid before April 15 of the succeeding calendar year, for purposes of section 6511 (relating to limitations on credit or refund) the return shall be considered filed, or the tax considered paid, on April 15 of such succeeding calendar year.

(d) *Overpayment of income tax credited to estimated tax.* If a taxpayer elects under the provisions of section 6402(b)

to credit an overpayment of income tax for a taxable year against estimated tax for the succeeding taxable year, the amount so credited shall be considered a payment of income tax for such succeeding taxable year (whether or not claimed as a credit on the estimated tax return for such succeeding taxable year). If the treatment of such amount as a payment of income tax for the succeeding taxable year results in an overpayment for such succeeding taxable year, the period of limitations applicable to such overpayment is determined by reference to that taxable year. An election so to credit an overpayment of income tax precludes the allowance of a claim for credit or refund of such overpayment for the taxable year in which the overpayment arises.

§ 301.6514(a)–1 Credits or refunds after period of limitation.

(a) A refund of any portion of any internal revenue tax (or any interest, additional amount, addition to the tax, or assessable penalty) shall be considered erroneous and a credit of any such portion shall be considered void:

(1) If made after the expiration of the period of limitation prescribed by section 6511 for filing claim therefor, unless prior to the expiration of such period claim was filed, or

(2) In the case of a timely claim, if the credit or refund was made after the expiration of the period of limitation prescribed by section 6532(a) for the filing of suit, unless prior to the expiration of such period suit was begun.

(b) For procedure by the United States to recover erroneous refunds, see sections 6532(b) and 7405.

§ 301.6514(b)–1 Credit against barred liability.

Any credit against a liability in respect of any taxable year shall be void if the collection of such liability would be barred by the applicable statute of limitations at the time such credit is made.

MITIGATION OF EFFECT OF PERIOD OF LIMITATIONS

§ 301.6521–1 Mitigation of effect of limitation in case of related employee social security tax and self-employment tax.

(a) Section 6521 may be applied in the correction of a certain type of error involving both the tax on self-employment income under section 1401 and the employee tax under section 3101 if the correction of the error as to one tax is, on the date the correction is authorized, prevented in whole or in part by the operation of any law or rule of law other than section 7122, relating to compromises. Examples of such law are sections 6212(c), 6401(a), 6501, 6511, 6512(a), 6514, 6532, 6901 (c), (d) and (e), 7121, and 7459(e).

(b) If the liability for either tax with respect to which the error was made has been compromised under section 7122, the provisions of section 6521 limiting the correction with respect to the other tax do not apply.

(c) Section 6521 is not applicable if, on the date of the authorization, correction of the effect of the error is permissible as to both taxes without recourse to such section.

(d) If, because an amount of wages, as defined in section 3121(a), is erroneously treated as self-employment income, as defined in section 1402(b), or an amount of self-employment income is erroneously treated as wages, it is necessary in correcting the error to assess the correct tax and give a credit or refund for the amount of the tax erroneously paid, and if either, but not both, of such adjustments is prevented by any law or rule of law (other than section 7122), the amount of the assessment, or the amount of the credit or refund, authorized shall reflect the adjustment which would be made in respect of the other tax (either the tax on self-employment income under section 1401 or the employee tax under section 3101) but for the operation of such law or rule of law. For example, assume that during 1955 A paid $10 as tax on an amount erroneously treated as ''wages'', when such amount was actually self-employment income, and that credit or refund of the $10 is not

barred. A should have paid a self-employment tax of $15 on the amount. If the assessment of the correct tax, that is, $15, is barred by the statute of limitations, no credit or refund of the $10 shall be made without offsetting against such $10 the $15, assessment of which is barred. Thus, no credit or refund in respect of the $10 can be made.

(e) As another example, assume that during 1955 a taxpayer reports wages of $4,200 and net earnings from self-employment of $900. By reason of the limitations of section 1402(b) he shows no self-employment income. Assume further that by reason of a final decision by the Tax Court of the United States, further adjustments to the taxpayer's income tax liability are barred. The question of the amount of his wages, as defined in section 3121, was not in issue in the Tax Court litigation, but it is subsequently determined (within the period of limitations applicable under the Federal Insurance Contributions Act) that $700 of the $4,200 reported as wages was not for employment as defined in section 3121(b). Therefore, the taxpayer is entitled to the allowance of a refund of the $14 tax paid on such remuneration under section 3101. The reduction of his wages from $4,200 to $3,500 would result in the determination of $700 self-employment income, the tax on which is $21 for the year. Under section 6521, the overpayment of $14 would be offset by the barred deficiency of $21, thus eliminating the refund otherwise allowable. If the facts were changed so that the taxpayer erroneously paid tax on self-employment income of $700, having been taxed on only $3,500 as wages, and within the period of limitations applicable under the Federal Insurance Contributions Act, it is determined that his wages were $4,200, the tax of $14 under section 3101, otherwise collectible, would be eliminated by offsetting under section 6521 the barred overpayment of $21. The balance of the barred overpayment, $7, cannot be credited or refunded.

(f) Another illustration of the operation of section 6521 is the case of a taxpayer who, for 1955, is erroneously taxed on $2,500 as wages, the tax on which is $50, and who reports no self-employment income. After the period of limitations has run on the refund of the tax under the Federal Insurance Contributions Act, it is determined that the amount treated as wages should have been reported as net earnings from self-employment. The taxpayer's self-employment income would then be $2,500 and the tax thereon would be $75. Assume that the period of limitations applicable to subtitle A of the Code has not expired, and that a notice of deficiency may properly be issued. Under section 6521, the amount of the deficiency of $75 must be reduced by the barred overpayment of $50.

§ 301.6521–2 Law applicable in determination of error.

The question of whether there was an erroneous treatment of self-employment income or of wages is determined under the provisions of law and regulations applicable with respect to the year or other taxable period as to which the error was made. The fact that the error was in pursuance of an interpretation, either judicial or administrative, accorded such provisions of law and regulations at the time the action involved was taken is not necessarily determinative of this question. For example, if a later judicial decision authoritatively alters such interpretation so that such action is contrary to the applicable provisions of the law and regulations as later interpreted, the error comes within the scope of section 6521.

PERIODS OF LIMITATION IN JUDICIAL PROCEEDINGS

§ 301.6532–1 Periods of limitation on suits by taxpayers.

(a) No suit or proceeding under section 7422(a) for the recovery of any internal revenue tax, penalty, or other sum shall be begun until whichever of the following first occurs:

(1) The expiration of 6 months from the date of the filing of the claim for credit or refund, or

(2) A decision is rendered on such claim prior to the expiration of 6 months after the filing thereof.

Except as provided in paragraph (b) of this section, no suit or proceeding for the recovery of any internal revenue tax, penalty, or other sum may be brought after the expiration of 2 years

from the date of mailing by registered mail prior to September 3, 1958, or by either registered or certified mail on or after September 3, 1958, by a district director, a director of an internal revenue service center, or an assistant regional commissioner to a taxpayer of a notice of disallowance of the part of the claim to which the suit or proceeding relates.

(b) The 2-year period described in paragraph (a) of this section may be extended if an agreement to extend the running of the period of limitations is executed. The agreement must be signed by the taxpayer or by an attorney, agent, trustee, or other fiduciary on behalf of the taxpayer. If the agreement is signed by a person other than the taxpayer, it shall be accompanied by an authenticated copy of the power of attorney or other legal evidence of the authority of such person to act on behalf of the taxpayer. If the taxpayer is a corporation, the agreement should be signed with the corporate name followed by the signature of a duly authorized officer of the corporation. The agreement will not be effective until signed by a district director, a director of an internal revenue service center, or an assistant regional commissioner.

(c) The taxpayer may sign a waiver of the requirement that he be mailed a notice of disallowance. Such waiver is irrevocable and will commence the running of the 2-year period described in paragraph (a) of this section on the date the waiver is filed. The waiver shall set forth:

(1) The type of tax and the taxable period covered by the taxpayer's claim for refund;

(2) The amount of the claim;

(3) The amount of the claim disallowed;

(4) A statement that the taxpayer agrees the filing of the waiver will commence the running of the 2-year period provided for in section 6532(a)(1) as if a notice of disallowance had been sent the taxpayer by either registered or certified mail.

The filing of such a waiver prior to the expiration of 6 months from the date the claim was filed does not permit the filing of a suit for refund prior to the time specified in section 6532(a)(1) and paragraph (a) of this section.

(d) Any consideration, reconsideration, or other action with respect to a claim after the mailing by registered mail prior to September 3, 1958, or by either registered or certified mail on or after September 3, 1958, of a notice of disallowance or after the execution of a waiver referred to in paragraph (c) of this section, shall not extend the period for bringing suit or other proceeding under section 7422(a).

§ 301.6532–2 Periods of limitation on suits by the United States.

The United States may not recover any erroneous refund by civil action under section 7405 unless such action is begun within 2 years after the making of such refund. However, if any part of the refund was induced by fraud or misrepresentation of a material fact, the action to recover the erroneous refund may be brought at any time within 5 years from the date the refund was made.

§ 301.6532–3 Periods of limitation on suits by persons other than taxpayers.

(a) *General rule.* No suit or proceeding, except as otherwise provided in section 6532(c)(2) and paragraph (b) of this section, under section 7426 and § 301.7426–1 relating to civil actions by persons other than taxpayers, shall be begun after the expiration of 9 months from the date of levy or agreement under section 6325(b)(3) giving rise to such action.

(b) *Period when claim is filed.* The 9-month period prescribed in section 6532(c)(1) and paragraph (a) of this section shall be extended to the shorter of,

(1) 12 months from the date of filing by a third party of a written request under § 301.6343–1(b)(2) for the return of property wrongfully levied upon, or

(2) 6 months from the date of mailing by registered or certified mail by the district director to the party claimant of a notice of disallowance of the part of the request to which the action relates. A request which, under § 301.6343–1(b)(3), is not considered adequate does not extend the 9-month period described in paragraph (a) of this section.

(c) *Examples.* The provisions of this section may be illustrated by the following examples:

Example 1. On June 1, 1970, a tax is assessed against A with respect to his delinquent tax liability. On July 19, 1970, a levy is wrongfully made upon certain tangible personal property of B's which is in A's possession at that time. On July 20, 1970, notice of seizure is given to A. Thus, under section 6502(b), July 20, 1970, is the date on which the levy is considered to be made. Unless a request for the return of property is sooner made to extend the 9-month period, no suit or proceeding under section 7426 may be begun by B after April 20, 1971, which is 9 months from the date of levy.

Example 2. Assume the same facts as in the preceding example except that, on August 3, 1970, B properly files a request for the return of his property wrongfully levied upon. Assume further that the district director mails, on March 1, 1971, a notice of disallowance of B's request for the return of the property. No suit or proceeding under section 7426 may be begun by B after August 3, 1971, which is 12 months from the date of filing a request for the return of property wrongfully levied upon.

Example 3. Assume the same facts as in the preceding example except that the notice of disallowance of B's request for the return of property wrongfully levied upon is mailed to B on November 12, 1970. Since the 6-month period from the mailing of the notice of disallowance expires before the 12-month period from the date of filing the request for the return of property which ends on August 3, 1971, no suit or proceeding under section 7426 may be begun by B after May 12, 1971, which is 6 months from the date of mailing the notice of disallowance.

[T.D. 7305, 39 FR 9950, Mar. 15, 1974]

Interest

INTEREST ON UNDERPAYMENTS

§ 301.6601–1 Interest on underpayments.

(a) *General rule.* (1) Interest at the annual rate referred to in the regulations under section 6621 shall be paid on any unpaid amount of tax from the last date prescribed for payment of the tax (determined without regard to any extension of time for payment) to the date on which payment is received.

(2) For provisions requiring the payment of interest during the period occurring before July 1, 1975, see section 6601(a) prior to its amendment by section 7 of the Act of Jan. 3, 1975 (Pub. L. 93–625, 88 Stat. 2115).

(b) *Satisfaction by credits made after December 31, 1957*—(1) *In general.* If any portion of a tax is satisfied by the credit of an overpayment after December 31, 1957, interest shall not be imposed under section 6601 on such portion of the tax for any period during which interest on the overpayment would have been allowable if the overpayment had been refunded.

(2) *Examples.* The provisions of this paragraph may be illustrated by the following examples:

Example 1. An examination of A's income tax returns for the calendar years 1955 and 1956 discloses an underpayment of $800 for 1955 and an overpayment of $500 for 1956. Interest under section 6601(a) ordinarily accrues on the underpayment of $800 from April 15, 1956, to the date of payment. However, the 1956 overpayment of $500 is credited after December 31, 1957, against the underpayment in accordance with the provisions of section 6402(a) and § 301.6402–1. Under such circumstances interest on the $800 underpayment runs from April 15, 1956, the last date prescribed for payment of the 1955 tax, to April 15, 1957, the date the overpayment of $500 was made. Since interest would have been allowed on the overpayment, if refunded, from April 15, 1957, to a date not more than 30 days prior to the date of the refund check, no interest is imposed after April 15, 1957, on $500, the portion of the underpayment satisfied by credit. Interest continues to run, however, on $300 (the $800 underpayment for 1955 less the $500 overpayment for 1956) to the date of payment.

Example 2. An examination of A's income tax returns for the calendar years 1956 and 1957 discloses an overpayment, occurring on April 15, 1957, of $700 for 1956 and an underpayment of $400 for 1957. After April 15, 1958, the last date prescribed for payment of the 1957 tax, the district director credits $400 of the overpayment against the underpayment. In such a case, interest will accrue upon the overpayment of $700 from April 15, 1957, to April 15, 1958, the due date of the amount against which the credit is taken. Interest will also accrue under section 6611 upon $300 ($700 overpayment less $400 underpayment) from April 15, 1958, to a date not more than 30 days prior to the date of the refund check. Since a refund of the portion of the overpayment credited against the underpayment would have resulted in interest running upon such portion from April 15, 1958, to a date not more than 30 days prior to the date of the refund check, no interest is imposed upon the underpayment.

(c) *Last date prescribed for payment.* (1) In determining the last date prescribed for payment, any extension of time granted for payment of tax (including

any postponement elected under section 6163(a)) shall be disregarded. The granting of an extension of time for the payment of tax does not relieve the taxpayer from liability for the payment of interest thereon during the period of the extension. Thus, except as provided in paragraph (b) of this section, interest at the annual rate referred to in the regulations under section 6621 is payable on any unpaid portion of the tax for the period during which such portion remains unpaid by reason of an extension of time for the payment thereof.

(2)(i) If a tax or portion thereof is payable in installments in accordance with an election made under section 6152(a) or 6156(a), the last date prescribed for payment of any installment of such tax or portion thereof shall be determined under the provisions of section 6152(b) or 6156(b), as the case may be, and interest shall run on any unpaid installment from such last date to the date on which payment is received. However, in the event installment privileges are terminated for failure to pay an installment when due as provided by section 6152(d) and the time for the payment of any remaining installment is accelerated by the issuance of a notice and demand therefor, interest shall run on such unpaid installment from the date of the notice and demand to the date on which payment is received. But see section 6601(e)(4).

(ii) If the tax shown on a return is payable in installments, interest will run on any tax not shown on the return from the last date prescribed for payment of the first installment. If a deficiency is prorated to any unpaid installments, in accordance with section 6152(c), interest shall run on such prorated amounts from the date prescribed for the payment of the first installment to the date on which payment is received.

(3) If, by reason of jeopardy, a notice and demand for payment of any tax is issued before the last date otherwise prescribed for payment, such last date shall nevertheless be used for the purpose of the interest computation, and no interest shall be imposed for the period commencing with the date of the issuance of the notice and demand and ending on such last date. If the tax is not paid on or before such last date, interest will automatically accrue from such last date to the date on which payment is received.

(4) In the case of taxes payable by stamp and in all other cases where the last date for payment of the tax is not otherwise prescribed, such last date for the purpose of the interest computation shall be deemed to be the date on which the liability for the tax arose. However, such last date shall in no event be later than the date of issuance of a notice and demand for the tax.

(d) *Suspension of interest; waiver of restrictions on assessment.* In the case of a deficiency determined by a district director (or an assistant regional commissioner, appellate) with respect to any income, estate, gift, or chapter 41, 42, 43, or 44 tax, if the taxpayer files with such internal revenue officer an agreement waiving the restrictions on assessment of such deficiency, and if notice and demand for payment of such deficiency is not made within 30 days after the filing of such waiver, no interest shall be imposed on the deficiency for the period beginning immediately after such 30th day and ending on the date notice and demand is made. In the case of an agreement with respect to a portion of the deficiency, the rules as set forth in this paragraph are applicable only to that portion of the deficiency to which the agreement relates.

(e) *Income tax reduced by carryback.* (1) The carryback of a net operating loss, net capital loss, investment credit, or a work incentive program (WIN) credit shall not affect the computation of interest on any income tax for the period commencing with the last day prescribed for the payment of such tax and ending with the last day of the taxable year in which the loss or credit arises. For example, if the carryback of a net operating loss, a net capital loss, an investment credit, or a WIN credit to a prior taxable period eliminates or reduces a deficiency in income tax for that period, the full amount of the deficiency will nevertheless bear interest at the annual rate referred to in the regulations under section 6621 from the last date prescribed for payment of

such tax until the last day of the taxable year in which the loss or credit arose. Interest will continue to run beyond such last day on any portion of the deficiency which is not eliminated by the carryback. With respect to any portion of an investment credit carryback or a WIN credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such investment credit carryback or WIN credit carryback shall not affect the computation of interest on any income tax for the period commencing with the last day prescribed for the payment of such tax and ending with the last day of such subsequent taxable year.

(2) Where an extension of time for payment of income tax has been granted under section 6164 to a corporation expecting a net operating loss carryback or a net capital loss carryback, interest is payable at the annual rate established under section 6621 on the amount of such unpaid tax from the last date prescribed for payment thereof without regard to such extension.

(3) Where there has been an allowance of an overpayment attributable to a net operating loss carryback, a capital loss carryback, an investment credit carryback, or a WIN credit carryback and all or part of such allowance is later determined to be excessive, interest shall be computed on the excessive amount from the last day of the year in which the net operating loss, net capital loss, investment credit, or WIN credit arose until the date on which the repayment of such excessive amount is received. Where there has been an allowance of an overpayment with respect to any portion of an investment credit carryback or a WIN credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year and all or part of such allowance is later determined to be excessive, interest shall be computed on the excessive amount from the last day of such subsequent taxable year until the date on which the repayment of such excessive amount is received.

(f) *Applicable rules.* (1) Any interest prescribed by section 6601 shall be assessed and collected in the same manner as tax and shall be paid upon notice and demand by the district director or the director of the regional service center. Any reference in the Code (except in subchapter B, chapter 63, relating to deficiency procedures) to any tax imposed by the Code shall be deemed also to refer to the interest imposed by section 6601 on such tax. Interest on a tax may be assessed and collected at any time within the period of limitation on collection after assessment of the tax to which it relates. For rules relating to the period of limitation on collection after assessment, see section 6502.

(2) No interest under section 6601 shall be payable on any interest provided by such section. This paragraph (f)(2) shall not apply after December 31, 1982, with respect to interest accruing after such date, or accrued but unpaid on such date. See § 301.6622–1.

(3) Interest will not be imposed on any assessable penalty, addition to the tax (other than an addition to tax described in section 6601(e)(2)(B)), or additional amount if the amount is paid within 21 calendar days (10 business days if the amount assessed and shown on the notice and demand equals or exceeds $100,000) from the date of the notice and demand. If interest is imposed, it will be imposed only for the period from the date of the notice and demand to the date on which payment is received. This paragraph (f)(3) is applicable with respect to any notice and demand made after December 31, 1996.

(4) If notice and demand is made after December 31, 1996, for any amount and the amount is paid within 21 calendar days (10 business days if the amount assessed and shown on the notice and demand equals or exceeds $100,000) from the date of the notice and demand, interest will not be imposed for the period after the date of the notice and demand.

(5) For purposes of paragraphs (f)(3) and (4) of this section—

(i) The term *business day* means any day other than a Saturday, Sunday, legal holiday in the District of Columbia, or a statewide legal holiday in the state where the taxpayer resides or where the taxpayer's principal place of

business is located. With respect to the tenth business day (after taking into account the first sentence of this paragraph (f)(5)(i)), see section 7503 relating to time for performance of acts where the last day falls on a statewide legal holiday in the state where the act is required to be performed.

(ii) The term *calendar day* means any day. With respect to the twenty-first calendar day, see section 7503 relating to time for performance of acts where the last day falls on a Saturday, Sunday, or legal holiday.

(6) No interest shall be imposed for failure to pay estimated tax as required by section 59 of the Internal Revenue Code of 1939 or section 6153 or 6154 of the Internal Revenue Code of 1954.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7238, 37 FR 28742, Dec. 29, 1972; T.D. 7301, 39 FR 978, Jan. 4, 1974; T.D. 7384, 40 FR 49324, Oct. 22, 1975; T.D. 7838, 47 FR 44252, Oct. 7, 1982; T.D. 7907, 48 FR 38230, Aug. 23, 1983; T.D. 8725, 62 FR 39117, July 22, 1997]

§ 301.6602–1 Interest on erroneous refund recoverable by suit.

Any portion of an internal revenue tax (or any interest, assessable penalty, additional amount, or addition to tax) which has been erroneously refunded, and which is recoverable by a civil action pursuant to section 7405, shall bear interest at the annual rate referred to in the regulations under section 6621 from the date of the payment of the refund.

[T.D. 7384, 40 FR 49324, Oct. 22, 1975]

INTEREST ON OVERPAYMENTS

§ 301.6611–1 Interest on overpayments.

(a) *General rule*. Except as otherwise provided, interest shall be allowed on any overpayment of any tax at the annual rate referred to in the regulations under section 6621 from the date of overpayment of the tax.

(b) *Date of overpayment*. Except as provided in section 6401(a), relating to assessment and collection after the expiration of the applicable period of limitation, there can be no overpayment of tax until the entire tax liability has been satisfied. Therefore, the dates of overpayment of any tax are the date of payment of the first amount which (when added to previous payments) is in excess of the tax liability (including any interest, addition to the tax, or additional amount) and the dates of payment of all amounts subsequently paid with respect to such tax liability. For rules relating to the determination of the date of payment in the case of an advance payment of tax, a payment of estimated tax, and a credit for income tax withholding, see paragraph (d) of this section.

(c) *Examples*. The application of paragraph (b) may be illustrated by the following examples:

Example 1. Corporation X files an income tax return on March 15, 1955, for the calendar year 1954 disclosing a tax liability of $1,000 and elects to pay the tax in installments. Subsequent to payment of the final installment, the correct tax liability is determined to be $900.

Tax liability	
Assessed	$1,000
Correct liability	900
Overassessment	100

Record of payments	
Mar. 15, 1955	$500
June 15, 1955	500

Since the correct liability in this case is $900, the payment of $500 made on March 15, 1955, and $400 of the payment made on June 15, 1955, are applied in satisfaction of the tax liability. The balance of the payment made on June 15, 1955 ($100) constitutes the amount of the overpayment, and the date on which such payment was made would be the date of the overpayment from which interest would be computed.

Example 2. Corporation Y files an income tax return for the calendar year 1954 on March 15, 1955, disclosing a tax liability of $50,000, and elects to pay the tax in installments. On October 15, 1956, a deficiency in the amount of $10,000 is assessed and is paid in equal amounts on November 15 and November 26, 1956. On April 15, 1957, it is determined that the correct tax liability of the taxpayer for 1954 is only $35,000.

Tax liability	
Original assessment	$50,000
Deficiency assessment	10,000
Total assessed	60,000
Correct liability	35,000
Overassessment	25,000

Record of payments	
Mar. 15, 1955	$25,000
June 15, 1955	25,000
Nov. 15, 1956	5,000
Nov. 26, 1956	5,000

Since the correct liability in this case is $35,000, the entire payment of $25,000 made on March 15, 1955, and $10,000 of the payment made on June 15, 1955, are applied in satisfaction of the tax liability. The balance of the payment made on June 15, 1955 ($15,000), plus the amounts paid on November 15 ($5,000), and November 26, 1956 ($5,000), constitute the amount of the overpayment. The dates of the overpayments from which interest would be computed are as follows:

Date	Amount of overpayment
June 15, 1955	$15,000
Nov. 15, 1956	5,000
Nov. 26, 1956	5,000

The amount of any interest paid with respect to the deficiency of $10,000 is also an overpayment.

(d) *Advance payment of tax, payment of estimated tax, and credit for income tax withholding.* In the case of an advance payment of tax, a payment of estimated income tax, or a credit for income tax withholding, the provisions of section 6513 (except the provisions of subsection (c) thereof), applicable in determining the date of payment of tax for purposes of the period of limitations on credit or refund, shall apply in determining the date of overpayment for purposes of computing interest thereon.

(e) *Refund of income tax caused by carryback.* If any overpayment of tax imposed by subtitle A of the Code results from the carryback of a net operating loss, a net capital loss, an investment credit, or a work incentive (WIN) credit, such overpayment, for purposes of this section, shall be deemed not to have been made prior to the end of the taxable year in which the loss or credit arises, or, with respect to any portion of an investment credit carryback or a WIN credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such overpayment shall be deemed not to have been made prior to the close of such subsequent taxable year.

(f) *Refund of income tax caused by carryback of foreign taxes.* For purposes of paragraph (a) of this section, any overpayment of tax resulting from a carryback of tax paid or accrued to foreign countries or possessions of the United States shall be deemed not to have been paid or accrued before the close of the taxable year under subtitle F of the Code in which such taxes were in fact paid or accrued.

(g) *Period for which interest allowable in case of refunds.* If an overpayment of tax is refunded, interest shall be allowed from the date of the overpayment to a date determined by the district director or the director of the regional service center, which shall be not more than 30 days prior to the date of the refund check. The acceptance of a refund check shall not deprive the taxpayer of the right to make a claim for any additional overpayment and interest thereon, provided the claim is made within the applicable period of limitation. However, if a taxpayer does not accept a refund check, no additional interest on the amount of the overpayment included in such check shall be allowed.

(h) *Period for which interest allowable in case of credits*—(1) *General rule.* If an overpayment of tax is credited, interest shall be allowed from the date of overpayment to the due date (as determined under subparagraph (2) of this paragraph (h)) of the amount against which such overpayment is credited.

(2) *Determination of due date*—(i) *In general.* The term ''due date'', as used in this section, means the last day fixed by law or regulations for the payment of the tax (determined without regard to any extension of time), and not the date on which the district director or the director of the regional service center makes demand for the payment of the tax. Therefore, the due date of a tax (other than an additional assessment subject to the special rule provided by subdivision (iv) of this subparagraph) is the date fixed for the payment of the tax or the several installments thereof.

(ii) *Tax payable in installments—(a) In general.* In the case of a credit against a tax, where the taxpayer had properly elected to pay the tax in installments, the due date is the date prescribed for the payment of the installment against which the credit is applied.

(*b*) *Delinquent installment.* If the taxpayer is delinquent in payment of an

installment of tax and a notice and demand has been issued for the payment of the delinquent installment and the remaining installments, the due date of each remaining installment shall then be the date of such notice and demand.

(iii) *Tax or installment not yet due.* If a taxpayer agrees to the crediting of an overpayment against tax or an installment of tax and the schedule of allowance is signed prior to the date on which such tax or installment would otherwise become due, then the due date of such tax or installment shall be the date on which such schedule is signed.

(iv) *Additional assessment satisfied by credit before January 1, 1958.* In the case of a credit made before January 1, 1958, against an additional assessment, the due date of the tax satisfied by the credit is the date the additional assessment was made. For purposes of this subdivision, the term ''additional assessment'' means a further assessment of a tax of the same character previously paid in part, and includes the assessment of a deficiency as defined in section 6211.

(v) *Interest.* In the case of a credit against interest that accrues for any period ending prior to January 1, 1983, the due date is the earlier of the date of assessment of such interest or December 31, 1982. In the case of a credit against interest that accrues for any period beginning on or after December 31, 1982, such interest is due as it economically accrues on a daily basis, rather than when it is assessed.

(vi) *Additional amount, addition to the tax, or assessable penalty.* In the case of a credit against an additional amount, addition to the tax, or assessable penalty, the due date is the earlier of the date of assessment or the date from which such amount would bear interest if not satisfied by payment or credit.

(vii) *Estimated income tax for succeeding year.* If the taxpayer elects to have all or part of the overpayment shown by his return applied to his estimated tax for his succeeding taxable year, no interest shall be allowed on such portion of the overpayment credited and such amount shall be applied as a payment on account of the estimated tax for such year or the installments thereof.

(i) [Reserved]

(j) *Refund of overpayment.* No interest shall be allowed on any overpayment of tax imposed by subtitle A of the Code if such overpayment is refunded—

(1) In the case of a return filed on or before the last date prescribed for filing the return of such tax (determined without regard to any extension of time for filing such return), within 45 days after such last date, or

(2) After December 17, 1966, in the case of a return filed after the last day prescribed for filing the return, within 45 days after the date on which the return is filed.

However, in the case of any overpayment of tax by an individual (other than an estate or trust and other than a nonresident alien individual) for a taxable year beginning in 1974, ''60 days'' shall be substituted for ''45 days'' each place it appears in this paragraph.

(k) *Effective date.* Paragraphs (h)(2)(v) and (h)(2)(vi) of this section are effective for credits made on or after August 25, 1992.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7301, 39 FR 979, Jan. 4, 1974; T.D. 7384, 40 FR 49325, Oct. 22, 1975; T.D. 7415, 41 FR 14369, Apr. 5, 1976; T.D. 8524, 59 FR 10076, Mar. 3, 1994]

DETERMINATION OF INTEREST RATE

§ 301.6621–1 Interest rate.

(a) *In general.* The interest rate established under section 6621 shall be—

(1) On amounts outstanding before July 1, 1975, 6 percent per annum (or 4 percent in the case of certain extensions of time for payment of taxes as provided in sections 6601 (b) and (j) prior to amendment by section 7(b) of the Act of Jan. 3, 1975 (Pub. L. 93–625, 88 Stat. 2115), and certain overpayments of the unrelated business income tax as provided in section 514(b)(3)(D), prior to its amendment by such Act).

(2) On amounts outstanding—

After	And before	Rate per annum (percent)
June 30, 1975	Feb. 1, 1976	9
Jan. 31, 1976	Feb. 1, 1978	7
Jan. 31, 1978	Feb. 1, 1980	6
Jan. 31, 1980	Feb. 1, 1982	12
Jan. 31, 1982	Jan. 1, 1983	20

(3) On amounts outstanding after December 31, 1982, the adjusted rate established by the Commissioner under section 6621(b). This adjusted rate shall be published by the Commissioner in a Revenue Ruling. See § 301.6622–1 for application of daily compounding in determining interest accruing after December 31, 1982. Because interest accruing after December 31, 1982, accrues at the prescribed rate per annum compounded daily, the effective annual percentage rate of interest will exceed the prescribed rate of interest.

(b) [Reserved]

(c) *Applicability of interest rate*—(1) *Computation*. Interest and additions to tax on any amount outstanding on a specific day shall be computed at the annual rate applicable on such day.

(2) *Additions to tax*. Additions to tax under any section of the Code that refers to the annual rate established under this section, including sections 644(a)(2)(B), 4497(c)(2), 6654(a), and 6655 (a) and (g), shall be computed at the same rate per annum as the interest rate set forth under paragraph (a) of this section.

(3) *Interest*. Interest provided for under any section of the Code that refers to the annual rate established under this section, including sections 47(d)(3)(G), 167(q), 6332(c)(1), 6343(c), 6601(a), 6602, 6611(a), 7426(g), and section 1961(c)(1) or 2411 of title 28 of the United States Code, shall be computed at the rate per annum set forth under paragraph (a) of this section.

(d) *Examples*. The provisions of this section may be illustrated by the following examples. Example 6 illustrates the computation of interest for interest accuring after December 31, 1982.

Example 1. A, an individual, files an income tax return for the calendar year 1974 on April 15, 1975, showing a tax due of $1,000. A pays the $1,000 on September 1, 1975. Pursuant to section 6601(a), interest on the underpayment of $1,000 is computed at the rate of 6 percent per annum from April 15, 1975, to June 30, 1975, a total of 76 days. Interest for 63 days, from June 30, 1975, to September 1, 1975, shall be computed at the rate of 9 percent per annum.

Example 2. An executor of an estate is granted, in accordance with section 6161(a)(2)(A), a two-year extension of time for payment of the estate tax shown on the estate tax return, which tax was otherwise due on January 15, 1974. The tax is paid on January 15, 1976. Interest on the underpayment shall be computed at the rate of 4 percent per annum from January 15, 1974, to June 30, 1975, and at the rate of 9 percent per annum from June 30, 1975, to January 15, 1976.

Example 3. X, a corporation, files its 1973 corporate income tax return on March 15, 1974, and pays the balance of tax due shown thereon. On August 1, 1975, an assessment of a deficiency is made against X with respect to such tax. The deficiency is paid on October 1, 1975. Interest at the rate of 6 percent per annum is due on the deficiency from March 15, 1974, the due date of the return, to June 30, 1975, and at the rate of 9 percent per annum from June 30, 1975, to October 1, 1975.

Example 4. Y, an individual, files an amended individual income tax return on October 1, 1975, for the refund of an overpayment of income tax Y made on April 15, 1975. Interest is allowed on the overpayment to December 1, 1975. Pursuant to section 6611(a), interest is computed at the rate of 6 percent per annum from April 15, 1975, the date of overpayment, to June 30, 1975. Interest from June 30, 1975, to December 1, 1975, shall be computed at the rate of 9 percent per annum.

Example 5. A, an individual, is liable for an addition to tax under section 6654 for the underpayment of estimated tax from April 15, 1975 until January 15, 1976. The addition to tax shall be computed at the annual rate of 6 percent per annum from April 15, 1975, to June 30, 1975, and at the annual rate of 9 percent per annum from June 30, 1975, to January 15, 1976.

Example 6. B, an individual, files an income tax return for calendar year 1980 on April 15, 1981, showing a tax due of $1,000. B pays the $1,000 on March 1, 1983. Under section 6601 (a), interest on the $1,000 underpayment is due from April 15, 1981, to March 1, 1983. Such interest is computed at the rate of 12 percent per annum, simple interest from April 15, 1981, to January 31, 1982, and at the rate of 20 percent per annum, simple interest from January 31, 1982, to December 31, 1982, and at the rate of 16 percent per annum, compounded daily, from December 31, 1982, to March 1, 1983. The total simple interest accrued but unpaid at the end of December 31, 1982, is combined with the $1,000 underpayment for purposes of determining the amount of daily compounded interest to be charged from December 31, 1982, to March 1, 1983.

[T.D. 7907, 48 FR 38230, Aug. 23, 1983; 48 FR 41018, Sept. 13, 1983; 48 FR 41581, Sept. 16, 1983]

§ 301.6621–2T Questions and answers relating to the increased rate of interest on substantial underpayments attributable to certain tax motivated transactions (temporary).

The following questions and answers relate to the increased rate of interest on substantial underpayments attributable to certain tax motivated transactions as provided in section 6621(d) of the Internal Revenue Code of 1954, as added by section 144 of the Tax Reform Act of 1984 (Pub. L. 98–369, 98 Stat. 682):

Q-1. What is the annual interest rate under section 6621 for purposes of computing the amount of interest that must be paid under section 6601 (relating to interest on underpayments)?

A-1. In general, the annual interest rate for purposes of section 6601 is the adjusted rate of interest established under section 6621 (b) § 301.6621–1 (''adjusted rate''). If, however, a tax motivated underpayment (as defined in A-2 of this section) for a taxable year is substantial (as defined in A-7 of this section), section 6621(d) provides that the annual rate of interest with respect to the tax motivated underpayment is 120 percent of the adjusted rate (''120 percent rate''), rounded to the nearest tenth of a percent.

Q-2. What is a tax motivated underpayment?

A-2. A tax motivated underpayment is the portion of a deficiency (as defined in section 6211) of tax imposed by subtitle A (income taxes) that is attributable to any of the following tax motivated transactions:

(1) Any instance in which the value of any property, or the adjusted basis of any property, claimed on a return is 150 percent or more of the amount determined to be the correct amount of such valuation or adjusted basis (*i.e.*, a valuation overstatement within the meaning of section 6659(c)(1));

(2) Any loss disallowed for any period by reason of section 465(a) or any amount included in gross income by reason of section 465(e);

(3) Any credit disallowed for any period by reason of section 46(c)(8) or section 48(d)(6);

(4) Any loss disallowed for any period with respect to a straddle, as defined in section 1092(c), but without regard to sections 1092 (d) and (e);

(5) Any use of an accounting method that may result in a substantial distortion of income for any period (see A-3 of this section); and

(6) Any deduction disallowed with respect to any other tax motivated transactions (see A-4 of this section).

Q-3. What accounting methods may result in a substantial distortion of income for any period under A-2(5) of this section?

A-3. A deduction or credit disallowed, or income included, in any of the circumstances listed below shall be treated as attributable to the use of an accounting method that may result in a substantial distortion of income and shall thus be a tax motivated transaction that results in a tax motivated underpayment:

(1) Any deduction disallowed for any period by reason of section 464 or section 278(b), relating to certain expenses of farming syndicates;

(2) In the case of a taxpayer who computes taxable income using the cash receipts and disbursements method of accounting, any interest deduction disallowed for any period by reason of section 461(g), relating to prepaid interest, provided the interest is not paid with respect to indebtedness incurred in connection with (i) the purchase, refinancing, or improvement of the principal residence of the taxpayer, or (ii) the purchase of consumer goods by the taxpayer;

(3) Any interest deduction disallowed for any period because the amount of the claimed deduction was computed using a method resulting in an amount of interest for a period that exceeds the true cost of the indebtedness for the period computed by applying the effective rate of interest on the loan to the unpaid balance of the loan for the period (*i.e.*, the economic accrual of interest for the period), provided the interest is not accrued with respect to indebtedness incurred in connection with (i) the purchase, refinancing, or improvement of the principal residence of the taxpayer, or (ii) the purchase of consumer goods by the taxpayer (see Rev. Rul. 83–84, 1983–1 C.B. 97, and sections 163(e), 446(b), and 483);

(4) Any deduction disallowed for any period under section 709, relating to organization or syndication expenditures of a partnership;

(5) In the case of any expenditure described in section 248(b) that was incurred by an S corporation, any deduction disallowed because it exceeds the amount allowable under section 248, relating to organizational expenditures;

(6) Any deduction disallowed for any period under section 267(a), relating to transactions between related taxpayers;

(7) Any deduction disallowed for any period, or any income required to be included for any period, under section 467, relating to certain payments for the use of property or services;

(8) Any deduction disallowed for any period under section 461(i), relating to certain deductions of tax shelters; and

(9) In the case of a taxpayer who computes taxable income using the cash receipts and disbursements method of accounting, any deduction disallowed for any period because (i) the expenditure resulting in the deduction was a deposit rather than a payment, (ii) the expenditure was prepaid for tax avoidance purposes and not for a business purpose, or (iii) the deduction resulted in a material distortion of income (see, e.g., Rev. Rul. 79–229, 1979–2 C.B. 210).

Q-4. Are any transaction other than those specified in A-2 of this section and those involving the use of accounting methods under circumstances specified in A-3 of this section considered tax motivated transactions under A-2(6) of this section?

A-4. Yes. Deductions disallowed under the following provisions are considered to be attributable to tax motivated transactions:

(1) Any deduction disallowed for any period under section 183, relatiing to an activity engaged in by an individual or an S corporation that is not engaged in for profit, and

(2) Any deduction disallowed for any period under section 165(c)(2), relating to any transaction not entered into for profit.

Q-5. How is the amount of a tax motivated underpayment determined?

A-5. Except as provided in A-6 of this section, the amount of a tax motivated underpayment is determined in the following manner:

(1) Calculate the amount of the tax liability for the taxable year as if all items of income, gain, loss, deduction, or credit, had been reported properly on the income tax return of the taxpayer (''total tax liability''); and

(2) Without taking into account any adjustments to items of income, gain, loss, deduction, or credit that are attributable to tax motivated transactions (as defined in A-2 through A-4 of this section), calculate the amount of the tax liability for the taxable year as if all other items of income, gain loss, deduction, or credit had been reported properly on the income tax return of the taxpayer (''tax liability without regard to tax motivated transactions'').

(3) The difference between the total tax liability and the tax liability without regard to tax motivated transactions is the amount of the tax motivated underpayment.

Example. Taxpayer A, a calendar year taxpayer, files his 1984 income tax return reporting $70,000 of taxable income and $23,171 of tax liability. On January 20, 1986, A enters into a closing agreement with the Internal Revenue Service that includes the following adjustments;

Section 162 deduction disallowed (not tax motivated)	$7,500
Loss disallowed under section 465 (tax motivated—see A-2(2) of this section)	5,000
Section 170 deduction disallowed because of a valuation overstatement (tax motivated—see A-2(1) of this section)	10,000
Loss disallowed with respect to a straddle as defined in section 1092(c) (tax motivated—see A-2(4) of this section)	7,000
Other adjustments (none of which are tax motivated)	4,000
1. Reported taxable income	70,000
(Add all adjustments to items of income, gain, loss, deduction, or credit (including tax motivated transactions subject to section 6621(d)))	+ 33,500
Tax = $39,685 (''total tax liability'')	103,500
2. Reported taxable income	70,000
(Add adjustments to items of income, gain, loss, deduction, or credit other than those with respect to items that are tax motivated)	+ 11,500
Tax = $28,691 (''tax liability without regard to tax motivated transactions'')	81,500

The tax motivated underpayment (*i.e.*, the underpayment attributable to tax motivated transactions) is $10,994 ($39,685 − $28,691). Accordingly, the interest on $10,994 would be computed at the 120 percent rate.

The remainder of the underpayment (*i.e.*, the underpayment not attributable to tax motivated transactions) is $5,520 ($28,691 (tax liability without regard to tax motivated items) − $23,171 (tax paid with return)). The interest on $5,520 would be computed at the adjusted rate.

Q-6: How are the amounts of the tax motivated underpayment and the underpayment attributable to fraud or negligence determined if all or a portion of the taxpayer's underpayment is attributable to one or more tax motivated transactions and all or a portion is subject to the addition to tax imposed by section 6653(a)(2) (in the case of an underpayment attributable to negligence or intentional disregard) or section 6653(b)(2) (in the case of an underpayment attributable to fraud)?

A-6: If all or a portion of the taxpayer's underpayment is attributable to tax motivated transactions, and all or a portion is attributable to fraudulent or negligent items (*i.e.*, items that result in an underpayment subject to the addition to tax imposed by section 6653 (a)(2) or (b)(2)), the amount of the tax motivated underpayment and the underpayment attributable to fraud or negligence is determined in the following manner:

(1) Determine the following amounts;

(i) The tax liability for the taxable year of the taxpayer as if all items of income, gain, loss, deduction, or credit had been reported properly on the income tax return of the taxpayer (''total tax liability'');

(ii) The tax liability for the taxable year of the taxpayer as if all items of income, gain, loss, deduction, or credit without taking into account adjustments to items of income, gain, loss, deduction, or credit that are both (a) attributable to tax motivated transactions and (b) subject to section 6653(a)(2) or section 6653(b)(2), had been reported properly on the income tax return of the taxpayer (''tax liability without regard to fraudulent or negligent tax motivated items'');

(iii) The tax liability for the taxable year of the taxpayer as if all items of income, gain, loss, deduction, or credit, without taking into account adjustments to items of income, gain, loss, deduction, or credit that are subject to section 6653(a)(2) or section 6653(b)(2), had been reported properly on the income tax return of the taxpayer (''tax liability without regard to fraudulent or negligent items'');

(iv) The tax liability for the taxable year of the taxpayer as if all items of income, gain, loss, deduction, or credit, without taking into account adjustments to items of income, gain, loss, deduction, or credit that are either subject to section 6653(a)(2) or section 6653(b)(2) or attributable to tax motivated transactions, had been reported properly on the income tax return of the taxpayer (''tax liability without regard to tax motivated or fraudulent or negligent items'').

(2) The tax motivated underpayment attributable to fraudulent or negligent items is the excess of the total tax liability over the tax liability determined without regard to fraudulent or negligent tax motivated items ((i)–(ii)).

(3) The tax motivated underpayment is the sum of (a) the tax motivated underpayment attributable to fraudulent or negligent items ((i)–(ii)) plus (b) the excess of the tax liability without regard to fraudulent or negligent items over the tax liability without regard to tax motivated or fraudulent or negligent items ((iii)–(iv)). Interest on this underpayment is computed at the 120 percent rate.

(4) The underpayment attributable to fraudulent or negligent items is the excess of the total tax liability over the tax liability without regard to fraudulent or negligent items ((i)–(iii)). The section 6653 addition to tax is 50 percent of the interest on this underpayment computed at the 120 percent rate on an amount equal to the tax motivated underpayment attributable to fraudulent or negligent items (computed in (2)) and at the adjusted rate on the remainder.

Example. Taxpayer A, a calendar year taxpayer, files his 1984 income tax return reporting $70,000 of taxable income and $23,171 of tax liability. On January 20, 1986, A enters into a closing agreement with the Internal Revenue Service that includes the following adjustments:

Section 162 deduction disallowed (not tax motivated but fraudulent or negligent)	$7,500
Loss disallowed under section 465(a) (tax motivated—see A-2(2) of this section—and fraudulent or negligent)	5,000

Section 170 deduction disallowed because of a valuation overstatement (tax motivated—see A-2(1) of this section—but not fraudulent or negligent	10,000
Loss disallowed with respect to a straddle as defined in section 1092(c) (tax motivated—see A-2(4) of this section but not fraudulent or negligent)	7,000
Other adjustments (none of which are tax motivated or fraudulent or negligent)	4,000

The tax motivated underpayment is determined in the following manner:

(1)(i) Reported taxable income	$70,000
(Add all adjustment	+ 33,500
Tax = $39,685 ("total tax liability")	103,500
(ii) Reported taxable income	70,000
All adjustments other than those with respect to items that are both tax motivated and fraudulent or negligent	+ 28,500
Tax = $37,185 ("tax liability without regard to fraudulent or negligent, tax motivated items")	98,500
(iii) Reported taxable income	70,000
(All adjustments other than those with respect to items that are fraudulent or negligent)	+ 21,000
Tax = $33,435 ("tax liability without regard fraudulent or negligent items")	91,000
(iv) Reported taxable income	70,000
(All adjustments other than those with respect to items that are either tax motivated or fraudulent or negligent)	+ 4,000
Tax = $25,091 ("tax liability without regard to tax motivated or fraudulent or negligent items")	74,000

(2) The tax motivated underpayment attributable to fraudulent or negligent items is $2,500 ((i))–(ii) or $39,685 – $37,185).

(3) The tax motivated underpayment is $10,844 ((2) + ((iii)–(iv)) or $2,500 + ($33,435 – $25,091)). Interest on $10,844 is computed at the 120 percent rate.

(4) The underpayment attributable to fraudulent or negligent items is $6,250 ((i)–(iii) or $39,685 – $33,435). The section 6653 addition to tax is 50 percent of the interest on $6,250, computed at the 120 percent rate on an amount equal to the tax motivated underpayment attributable to fraudulent or negligent items ($2,500) and at the adjusted rate on the remainder ($3,750).

(5) In summary, therefore, the total underpayment is $16,514 (total tax liability ($39,685) less reported tax liability ($23,171)) of which $10,844 accrues interest at the 120 percent rate and $5,670 ($16,514 – $10,844) accrues interest at the adjusted rate. In addition, $6,250 of the underpayment is subject to the section 6653(a)(2) or section 6653(b)(2) addition to tax. The underlying interest, upon which the addition to tax is based, is computed using the 120 percent rate for the portion of the underpayment subject to section 6621(d) ($2,500) and the adjusted rate for the portion that is not subject to section 6621(d) ($3,750).

Q-7. Does the 120 percent rate apply to all tax motivated underpayments?

A-7. No. The 120 percent rate applies only if the tax motivated underpayment for the taxable year is substantial. A tax motivated underpayment is substantial only if it exceeds $1,000. If, for example, a taxpayer has a $600 underpayment attributable to a valuation overstatement (within the meaning of section 6659(c)(1)) and a $500 underpayment attributable to a loss disallowed under section 465(a), the amount of the tax motivated underpayment is $1,100. Because the amount of the tax motivated underpayment is thus substantial the 120 percent rate applies.

Q-8. How do carryovers affect the amount of the tax motivated underpayment and the amount of the underpayment attributable to fraudulent or negligent items?

A-8. For purposes of A-5 and A-6 of this section, a net operating loss carryover, capital loss carryover, or credit carryover is treated as a deduction or credit in the year in which taken into account. In any computation of tax liability required under A-5 or A-6 of this section (*i.e.*, total tax liability, tax liability without regard to tax motivated transactions, etc.), the amount of such deduction or credit is the amount of the carryover determined as if the taxpayer had properly reported in each taxable year all items of income, gain, loss, deduction, or credit affecting the amount of the carryover other than adjustments of a type not taken into account in such computation of tax liability. A net operating loss carryback, capital loss carryback, or credit carryback is not taken into account, however, in determining the amount of the tax motivated underpayment or the amount of the underpayment attributable to fraud or negligence for periods before the last date prescribed for filing the income tax return for the taxable year in which the

carryback arises (determined without regard to extensions).

Q-9. What amount is subject to the 120 percent rate if the amount of a taxpayer's unpaid tax for a year is less than the taxpayer's substantial tax motivated underpayment?

A-9. The 120 percent rate applies with respect to the lesser of—

(1) The amount of unpaid tax for the taxable year determined in accordance with § 301.6601–1; or

(2) The substantial tax motivated underpayment for the taxable year.

Q-10. What is the effective date for the 120 percent rate?

A-10. The 120 percent rate applies to interest accruing on a deficiency attributable to a substantial tax motivated underpayment after December 31, 1984, including interest accruing with respect to transactions described in A-3 and A-4 of this section, regardless of the date prescribed for payment of the tax.

Example. Taxpayer A files his income tax return on April 15, 1983 (the last date prescribed for payment of tax for taxable year 1982 under section 6601). In January 1985, Taxpayer A files a petition in the Tax Court in response to a statutory notice of deficiency for taxable year 1982, which includes a tax motivated underpayment of $10,000. In September 1986, the Tax Court enters a decision for the Internal Revenue Service. Under section 6601, interest accrues at the adjusted rate, compounded daily, on tax motivated underpayments outstanding before January 1, 1985, and at the 120 percent rate, compounded daily, on amounts outstanding after December 31, 1984. The underpayment that is subject to the 120 percent rate includes both the $10,000 tax motivated underpayment and the interest that accrued on the underpayment at the adjusted rate from April 16, 1983, through December 31, 1984.

Q-11. Can a taxpayer stop the running of interest on a tax motivated underpayment by application of a remittance?

A-11. Yes. The running of interest on a tax liability stops on the date the remittance (either a payment of tax or a deposit in the nature of a cash bond) is received by the Internal Revenue Service, regardless of when the liability is assessed or the remittance is actually applied against the taxpayer's account. A taxpayer must make a remittance for both the tax liability and the interest that has accrued as of the date of remittance to stop the running of interest on both the tax liability and the accrued interest with respect to the liability. (See Rev. Proc. 84–58.) Taxpayer cannot make partial remittances applicable only to tax motivated underpayments. Under A-9 of this section, the 120 percent rate applies to the amount of unpaid tax to the extent that amount does not exceed the tax motivated underpayment. Therefore, a partial remittance is applied first to any tax due that is not attributable to a tax motivated underpayment. The excess of the partial remittance over tax that is not attributable to a tax motivated underpayment, if any, will then be applied to tax due that is attributable to a tax motivated underpayment.

Q-12. Does the 120 percent rate apply to interest accruing on interest, penalties, additional amounts, or additions to tax as provided in section 6601(e)(2)?

A-12. The 120 percent rate applies only to taxes imposed by subtitle A (income taxes) and to interest accrued with respect to such taxes. The penalties, additional amounts, and additions to tax specified in section 6601(e)(2) are not imposed by subtitle A and are not, therefore, included in the amount of a tax motivated underpayment. They are, however, included in the amount of unpaid tax for purposes of A-9 of this section.

Example. Taxpayer A, for taxable year 1984, has a $10,000 tax motivated underpayment and a $2,000 addition to tax for a total unpaid tax of $12,000. If A makes a $5,000 payment of tax, he will still have a $10,000 tax motivated underpayment but will now have only $7,000 of unpaid tax. Pursuant to A-9 of this section, therefore, the 120 percent rate would apply to the $7,000 of unpaid tax.

(Secs. 6621(d) and 7805, Internal Revenue Code of 1954 (98 Stat. 682, 26 U.S.C. 6621(d); 68A Stat. 917, 26 U.S.C. 7805))

[T.D. 7998, 49 FR 50391, Dec. 28, 1984]

§ 301.6621–3 Higher interest rate payable on large corporate underpayments.

(a) *In general*. Section 6621 establishes the interest rate for purposes of computing the amount of interest that must be paid under section 6601, relating to interest on underpayments of tax. Section 6621(a)(2) provides that the

underpayment rate is the sum of the Federal short-term rate (determined under section 6621(b)) plus 3 percentage points. That underpayment rate is referred to hereinafter as the ''section 6621(a)(2) rate.'' Section 6621(c) and this section, however, provide that the underpayment rate on any large corporate underpayment is the sum of the Federal short-term rate (determined under section 6621(b)) plus 5 percentage points. This higher underpayment rate is referred to hereinafter as the ''section 6621(c) rate.'' The section 6621(c) rate applies only for periods after the applicable date (as determined in paragraph (c) of this section).

(b) *Large corporate underpayment*—(1) *Defined*. For purposes of section 6621(c) and this section, ''large corporate underpayment'' means any underpayment of a tax by a C corporation for any taxable period if the amount of the threshold underpayment of the tax (as defined in paragraph (b)(2)(ii) of this section) for that taxable period exceeds $100,000.

(2) *Underpayment of a tax*—(i) *In general*. As used in section 6621(c) and this section, ''underpayment of a tax'' means the excess of a tax imposed by the Internal Revenue Code over the amount of such tax paid on or before the last date prescribed for payment. Except as provided in paragraph (b)(2)(ii) of this section, ''tax'' for such purposes includes interest, penalties, additional amounts, and additions to tax. See sections 6601(e)(1), 6665(a), and 6671(a). Thus, the section 6621(c) rate generally applies to any interest, penalties, additional amounts, and additions to tax, as well as to the underlying tax with respect to which such amounts are imposed.

(ii) *Threshold underpayment of a tax*. Solely for purposes of this section and not for any other purpose under section 6621(c) or elsewhere in the interpretation or administration of the federal tax laws, a ''threshold underpayment of a tax'' is the 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. Thus, any payments made after the last date prescribed for payment (for example, by way of an amended return) will not affect the existence of a threshold underpayment. In determining whether there is a threshold underpayment, different types of taxes (such as income tax and FICA tax) and amounts that relate to different taxable periods are not added together.

(iii) *When determined*—(A) *In general*. The existence of a threshold underpayment of a tax and the amount of a large corporate underpayment are generally determined only when an assessment is made with respect to the taxable period. Thus, the amount of a deficiency or proposed deficiency set forth in a letter or notice pursuant to which the applicable date is determined (under paragraph (c) of this section) does not determine whether there is a large corporate underpayment.

(B) *Judicial determinations*. Notwithstanding any prior assessment made with respect to a taxable period, the section 6621(c) rate does not apply if, after a federal court determines the taxpayer's liability for a period, the threshold underpayment for that taxable period does not exceed $100,000. See Example 3 in paragraph (d) of this section.

(iv) *Special rule*. The section 6621(c) rate is not used to compute the interest charges that a taxpayer timely assesses against itself in return for using a method of tax accounting or reporting that defers the payment of tax, such as the interest charges relating to passive foreign investment companies under section 1291(c) and installment obligations of nondealers under section 453A(c). However, to the extent such charges are not paid on or before the last date prescribed for payment and therefore become part of an underpayment of a tax, the section 6621(c) rate will apply to such amounts for periods after the applicable date (as determined in paragraph (c) of this section).

(3) *C corporation defined*. For purposes of section 6621(c)(3)(A) and this section, ''C corporation'' means, with respect to any taxable period, a corporation that is a C corporation during any part of the taxable period. Interest on a large corporate underpayment for a taxable period continues to be imposed at the

section 6621(c) rate even if during or after the taxable period—

(i) The taxpayer ceases to be a C corporation; or

(ii) The underpayment becomes the liability of a successor or transferee that is not a C corporation.

(4) *Taxable period.* For purposes of section 6621(c) and this section, the ''taxable period'' is the taxable year in the case of any tax imposed by subtitle A of the Internal Revenue Code. In the case of any other tax, the ''taxable period'' is the period to which the underpayment relates. For example, the taxable period for an underpayment of FICA taxes is the calendar quarter. If the underpayment does not relate to a particular period (for example, in the case of certain transactional excise taxes), the ''taxable period'' is the period covered by a return on which the tax is required to be shown.

(5) *Last date prescribed for payment.* For purposes of this section, the ''last date prescribed for payment'' means the last date prescribed for payment as determined, without regard to any extension of time, under section 6601(b).

(c) *Applicable date*—(1) *In general.* The section 6621(c) rate applies only to periods after the applicable date. Pursuant to the effective date of section 6621(c) and paragraph (e) of this section, however, the section 6621(c) rate will not apply prior to January 1, 1991, even if the applicable date is prior to December 31, 1990. A letter or notice relating to a particular type of tax creates an applicable date only for that type of tax. For example, a letter or notice with respect to FUTA tax will not create an applicable date with respect to income tax for the same taxable year.

(2) *When deficiency procedures apply.* The applicable date, in the case of any underpayment of a tax to which the deficiency procedures of subchapter B of chapter 63 of the Internal Revenue Code apply, is the 30th day after the earlier of—

(i) The date on which the Service sends the taxpayer the first letter of proposed deficiency that allows the taxpayer an opportunity for administrative review in the Service's Office of Appeals (commonly called a ''30-day letter''); or

(ii) The date on which the Service sends a deficiency notice under section 6212 of the Internal Revenue Code (commonly called a ''90-day letter'').

(3) *When deficiency procedures do not apply.* The applicable date, in the case of any underpayment of a tax to which the deficiency procedures do not apply, is the 30th day after the date on which the Service sends the first letter or notice that notifies the taxpayer of an assessment or proposed assessment of the tax. In the case of income taxes, for example, the deficiency procedures do not apply to amounts shown as due on the taxpayer's return if the taxpayer fails to remit the full amount on or before the last date prescribed for payment, and to amounts attributable to mathematical or clerical errors on a return (unless a request for abatement is filed by the taxpayer under section 6213(b)). Because no 30-day letter or 90-day letter is issued to the taxpayer in such cases, the applicable date is the 30th day after the date on which an assessment notice under section 6303 of the Internal Revenue Code is sent.

(4) *Partnership items.* For purposes of section 6621(c) and this paragraph (c), 60-day letters and the notices described in sections 6223(a)(1) and 6223(a)(2) (relating to administrative proceedings at the partnership level) are not treated as letters of proposed deficiency that allow the taxpayer an opportunity for administrative review in the Service's Office of Appeals, deficiency notices under section 6212 of the Internal Revenue Code, or letters or notices that notify the taxpayer of an assessment or proposed assessment of the tax. Thus, in the absence of any other letter or notice described in paragraph (c)(2) or (c)(3) of this section that establishes an earlier applicable date, the applicable date in the case of any underpayment of a tax attributable, in whole or in part, to a partnership item (as defined in section 6231(a)(3)) is the 30th day after the date on which the Service sends the first letter or notice that notifies the taxpayer of an assessment of the tax.

(5) *Exception of payment of amount shown as due*—(i) *In general.* A letter of notice will be disregarded for purposes of determining the applicable date if the taxpayer makes a payment equal

to the amount shown as due in the letter or notice within 30 days from the date that the Service sends the letter or notice.

(ii) *Special transition rule.* A letter or notice sent by the Service prior to January 1, 1991, will be disregarded by the Service for purposes of determining the applicable date if the taxpayer makes a payment on or before January 31, 1991, equal to the amount shown as due in the letter or notice plus a reasonable estimate of the interest payable on such amount computed by applying the section 6621(a)(2) rate. If the taxpayer has received two or more letters or notices with respect to the same tax for the same taxable period and pays the amount shown as due in the last letter or notice sent prior to December 19, 1990, (plus a reasonable estimate of the interest), all of the prior letters and notices with respect to the same tax for the same taxable period will be disregarded under this paragraph (c)(5)(ii). In the case of an assessment notice, the payment of the amount of interest shown as due on the last assessment notice sent to the taxpayer prior to December 19, 1990, will be treated as a payment of a reasonable estimate of the interest payable on the amount shown in that assessment notice or in any prior assessment notice sent with respect to the same tax for the same taxable period. The special transition rule in this paragraph (c)(5)(ii) applies even if the payment is not made within 30 days of the date on which the Service sent the letter or notice.

(iii) *Amount shown as due.* For purposes of section 6621(c)(2)(B)(ii) and this paragraph (c)(5), the ''amount shown as due'' in any letter or notice means the total amount of tax, as well as any interest, penalties, additional amounts, and additions to tax that are set forth in the letter or notice. A deposit in the nature of a cash bond will not be considered a payment of the amount shown as due.

(6) *Exception for withdrawn letters and notices*—(i) *Letters of proposed deficiency.* A letter of proposed deficiency will be disregarded for purposes of determining the applicable date if the letter of proposed deficiency is issued as a result of an administrative error either to the wrong taxpayer or for the wrong taxable period.

(ii) *Deficiency notices.* A deficiency notice under section 6212 of the Internal Revenue Code will be disregarded for purposes of determining the applicable date if the deficiency notice is rescinded under section 6212(d).

(iii) *Assessment letters and notices.* A letter or notice that notifies the taxpayer of an assessment or proposed assessment of tax will be disregarded for purposes of determining the applicable date if the full amount of tax assessed is subsequently abated.

(d) *Examples.* The application of this section may be illustrated by the following examples.

Example 1. V, a C corporation, timely files Form 941 on January 31, 1991, for the fourth quarter of 1990. On September 1, 1992, the Service sends V a section 6303 notice and demand reflecting an additional FICA tax liability for that quarter of $90,000. Interest computed at the section 6621(a)(2) rate totals $15,000 as of September 1, 1992. Accordingly, V's underpayment of FICA tax for the fourth quarter of 1990 exceeds $100,000. However, V's $90,000 threshold underpayment of FICA tax for that taxable period is less than $100,000, so that the section 6621(c) rate will not apply to the underpayment for that taxable period.

Example 2. (i) W, a C corporation, timely files its 1990 income tax return on March 15, 1991, showing a liability of $95,000, of which W pays only $35,000 with the return. On June 1, 1991, the Service sends W an assessment notice reflecting the balance due of $60,000 plus interest computed at the section 6621(a)(2) rate. W pays all amounts due on August 1, 1991. On July 1, 1993, the Service sends W a 90-day letter (without having sent a 30-day letter) reflecting an additional income tax deficiency of $85,000 for the taxable year 1990. W files a petition in the Tax Court within 90 days. In 1995, the Tax Court determines a $50,000 income tax deficiency (exclusive of interest, penalties, additional amounts, and additions to tax) for 1990, which the Service promptly assesses against W.

(ii) As a result of the combination of the failure to timely pay the $60,000 of income tax reported as due on the return and the Tax Court's determination of an additional deficiency of $50,000, W's threshold underpayment of income tax for 1990 is $110,000. Because W is a C corporation and the threshold underpayment for 1990 exceeds $100,000, the section 6621(c) rate applies to W's 1990 large corporate underpayment for periods after the applicable date.

(iii) The applicable date is July 1, 1991, the 30th day after the date on which the Service sent W the first assessment notice.

(iv) From March 16, 1991, through July 1, 1991, interest on W's 1990 underpayment of income tax (including any interest, penalties, additional amounts, and additions to tax) is computed at the section 6621(a)(2) rate. From July 2, 1991, such interest is computed at the section 6621(c) rate.

(v) If W had paid the amount shown as due on the June 1, 1991, assessment notice on or before June 30, 1991, instead of on August 1, 1991, the applicable date would have been July 31, 1993.

(vi) Assume that W had paid the amount shown as due on the June 1, 1991, assessment notice on or before June 30, 1991. If W had made a $40,000 deposit in the nature of a cash bond on July 15, 1993, the applicable date would be July 31, 1993. Moreover, the deposit would have no effect on the existence or amount of W's threshold underpayment or large corporate underpayment for 1990. In such a case, however, when the Service assesses the amount due from W in 1995, the deposit would be treated as a payment made as of July 15, 1993, for purposes of computing interest due after that date. As a result, interest would accrue after July 15, 1993, (at the section 6621(c) rate) only on the portion of W's 1990 underpayment that exceeds the $40,000 deposit amount.

Example 3. (i) X, a C corporation, filed its 1989 income tax return ,on September 17, 1990, pursuant to an automatic extension. X enclosed payment of the $7,500 balance reported on the return as due (plus interest). On January 1, 1992, the Service sends X a written notification that X's 1989 income tax return is being examined. This written notification also contains a request that X provide supplemental information with respect to particular deductions totalling $1.5 million. On July 1, 1993, the Service sends X a 30-day letter proposing a $450,000 deficiency (without any reference to penalties, additional amounts, additions to tax, and interest) with respect to 1989. On December 15, 1993, the Service sends X a 90-day letter asserting a deficiency of $300,000 (excluding penalties, additional amounts, additions to tax, and other interest). X does not file a Tax Court petition and the Service assesses the $300,000 (plus interest and penalties) on April 1, 1994. On April 5, 1994, X pays the full amount assessed. Thereafter, X timely files an administrative claim for refund and a refund suit in federal district court for the amounts assessed on April 1, 1994. On September 30, 1995, the federal district court determines that, exclusive of interest and penalties, X overpaid its 1989 income tax by $250,000.

(ii) The April 1, 1994, assessment establishes at that time that X's threshold underpayment of income tax for 1989 is $300,000. Because X is a C corporation and the threshold underpayment for 1989 exceeds $100,000, X's underpayment of income tax for 1989 is a large corporate underpayment to which the section 6621(c) rate applies for periods after the applicable date. X's decision to file a refund claim does not affect, in and of itself, either the existence of a threshold underpayment or the amount of X's large corporate underpayment.

(iii) For purposes of determining the amount of interest to assess on April 1, 1994, the applicable date is July 31, 1993, the 30th day after the date on which the Service sent X a 30-day letter. The January 1, 1992, notice of examination and request for additional information has no effect on the applicable date. Similarly, the September 30, 1995, federal district court decision has no effect on the applicable date.

(iv) From March 16, 1990, through July 31, 1993, interest on X's 1989 underpayment of income tax (including any interest, penalties, additional amounts, and additions to tax) is computed at the section 6621(a)(2) rate. From August 1, 1993, through April 5, 1994, such interest is computed at the section 6621(c) rate.

(v) Because of the federal district court's decision that X's underpayment, exclusive of interest and penalties, was only $50,000, X does not have a large corporate underpayment of income tax for 1989. Thus, the interest X paid with respect to the remaining $250,000 in taxes (exclusive of interest and penalties) becomes part of the overpayment and will be refunded. In addition, any interest computed at the section 6621(c) rate for the period from August 1, 1993, through April 5, 1994, should be recomputed at the section 6621(a)(2) rate and the difference refunded.

Example 4. (i) Y, a C corporation, timely filed its 1989 income tax return on March 15, 1990, and enclosed payment of the amount reported on the return as due. On May 1, 1990, the Service sent to Y an assessment notice for $1,000 resulting from a math error on Y's return. Y did not request an abatement of the assessment pursuant to section 6213(b). Instead, Y paid the $1,000, plus interest, on July 31, 1990. On March 31, 1992, the Service sends Y a 90-day letter showing an income tax deficiency for 1989 of $125,000 (exclusive of interest, penalties, additional amounts, and additions to tax). No 30-day letter had been issued previously to Y in connection with its 1989 taxable year. Y does not file a petition with the Tax Court, but files an amended return for 1989 on April 15, 1992, showing $30,000 of tax due. Y pays this amount (plus interest from March 15, 1990, computed at the section 6621(a)(2) rate) with the amended return. Shortly thereafter, the Service assesses the $125,000 deficiency (plus interest) and credits the April 15, 1992, payment against the assessment.

(ii) Y's threshold underpayment for 1989 is $125,000 notwithstanding Y's April 15, 1992,

payment of $30,000. Because Y is a C corporation and the threshold underpayment for 1989 exceeds $100,000, Y has a large corporate underpayment of income tax for the taxable period 1989 to which the section 6621(c) rate applies for periods after the applicable date.

(iii) Because Y paid the $1,000 amount shown as due on the math error assessment notice (plus interest) on or before January 31, 1991, the applicable date is April 30, 1992, the 30th day after the 90-day letter is sent.

(iv) From March 16, 1990, through April 30, 1992, interest is computed on Y's underpayment of income tax (including any interest, penalties, additional amounts, and additions to tax) at the section 6621(a)(2) rate. From May 1, 1992, such interest is computed at the section 6621(c) rate.

(v) If Y had not paid the $1,000 amount shown as due on the math error assessment notice (plus interest) on or before January 31, 1991, the applicable date would have been May 31, 1990, and interest would be computed at the section 6621(c) rate beginning on January 1, 1991. If, however, Y had timely requested an abatement of the assessment under section 6213(b), the applicable date would be April 30, 1992.

Example 5. (i) Effective January 1, 1993, Y converts from a C corporation to an S corporation. On January 31, 1993 Y files its 1992 FUTA tax return and encloses a payment equal to the amount reported as due on the return. On March 15, 1993, Y files its 1992 income tax return and encloses a payment equal to the amount reported as due on the return. On August 1, 1993, the Service sends to Y an assessment notice for $150,000 of FUTA tax, plus interest, with respect to calendar year 1992. Y pays the full amount shown as due in the assessment notice on August 7, 1993. On January 1, 1995, Y files an amended income tax return for 1992 showing $15,000 of tax due. Y pays this amount with the amended return. On February 10, 1995, the Service sends Y an assessment notice for the interest payable on the $15,000. Y pays this interest on February 13, 1995.

(ii) Y's threshold underpayment of FUTA tax for 1992 is $150,000. Because Y was a C corporation in 1992 and the threshold underpayment of FUTA tax for 1992 exceeds $100,000, Y has a large corporate underpayment of FUTA tax. However, Y's threshold underpayment of income tax for the same taxable period (*i.e.*, calendar 1992) is $15,000, so that Y does not have a large corporate underpayment of income tax for that year.

(iii) Because Y pays within 30 days the amount shown as due on the August 1, 1993, assessment notice, there is no applicable date with respect to the large corporate underpayment of FUTA tax for 1992.

(iv) All of the interest payable with respect to the 1992 underpayments of FUTA and income taxes is computed at the section 6621(a)(2) rate.

(v) If Y had not paid the amount shown as due on the August 1, 1993, FUTA tax assessment notice within 30 days, the applicable date would have been August 31, 1993, (the 30th day after the assessment notice is sent). Thus, interest would have been computed at the section 6621(c) rate after that date, even though Y is not at that time a C corporation.

(vi) If the amended 1992 income tax return Y files on January 1, 1995, had shown $115,000 of tax due instead of $15,000, Y's threshold underpayment of income tax for 1992 would have been $115,000. Because Y was a C corporation in 1992 and the threshold underpayment of income tax for that year would have exceeded $100,000, Y would have a large corporate underpayment of income tax for that year. However, because Y would have paid the amount shown as due in the February 10, 1995, assessment notice within 30 days of when that assessment notice was sent, there would have been no applicable date with respect to that large corporate underpayment and the section 6621(c) rate would have not applied.

Example 6. (i) On August 1, 1990, the Service sent to Z, a C corporation, an assessment notice for $200,000 of income tax, plus $30,000 in interest and penalties, with respect to calendar year 1988. Subsequent assessment notices were sent to Z on September 12, 1990, October 10, 1990, and November 14, 1990, each including additional interest. The November 14, 1990, assessment notice provided that the total amount of tax, interest and penalties due was $242,000. On December 31, 1990, Z pays $230,000. On February 13, 1991, the Service sends Z an assessment notice for the remaining balance (plus additional interest thereon). On December 31, 1991, Z pays all amounts owed as of that date in connection with its 1988 income tax liability.

(ii) Z's threshold underpayment of income tax for 1988 is $200,000. Because Z is a C corporation and its threshold underpayment of income tax for 1988 exceeds $100,000, Z has a large corporate underpayment for 1988 to which the section 6621(c) rate applies for periods after the applicable date.

(iii) Notwithstanding Z's payment of $230,000 on December 31, 1990, the applicable date with respect to the large corporate underpayment of 1988 income tax is August 31, 1990, the 30th day after the date on which the Service sent the first assessment notice.

(iv) From March 16, 1989, to December 31, 1990, interest is computed on Z's underpayment of income tax (including any interest, penalties, additional amounts and additions to tax) at the section 6621(a)(2) rate. From January 1, 1991, through December 31, 1991, interest is computed on that underpayment at the section 6621(c) rate.

(v) If Z had paid on or before January 31, 1991, the full $242,000 shown as due on the November 14, 1990, assessment notice, the applicable date with respect to any remaining unpaid interest would have been March 15, 1991, the 30th day after the Service sent the February 13, 1991, assessment notice.

(vi) The same result as in paragraph (v) of this *Example 6* would apply if the November 14, 1990, assessment notice had provided that only $150,000 was due with respect to calendar year 1988 (as a result of a correction by the Service of an error in its original August 1, 1990, assessment, and not as a result of any payment by Z), and if Z had paid that $150,000 on or before January 31, 1991.

(e) *Effective date*. Section 6621(c) and this section are effective for determining interest for periods after December 31, 1990, regardless of the taxable period to which the underlying tax may relate and even if the applicable date is prior to December 31, 1990.

[T.D. 8447, 57 FR 53554, Nov. 12, 1992; 57 FR 60846, Dec. 22, 1992]

§ 301.6622–1 Interest compounded daily.

(a) *General rule*. Effective for interest accruing after December 31, 1982, in computing the amount of any interest required to be paid under the Internal Revenue Code of 1954 or sections 1961(c)(1) or 2411 of title 28, United States Code, by the Commissioner or by the taxpayer, or in computing any other amount determined by reference to such amount of interest, or by reference to the interest rate established under section 6621, such interest or such other amount shall be compounded daily by dividing such rate of interest by 365 (366 in a leap year) and compounding such daily interest rate each day.

(b) *Exception*. Paragraph (a) of this section shall not apply for purposes of determining the amount of any addition to tax under sections 6654 or 6655 (relating to failure to pay estimated income tax).

(c) *Applicability to unpaid amounts on December 31, 1982*—(1) *In general*. The unpaid interest (or other amount) that shall be compounded daily includes the interest (or other amount) accrued but unpaid on December 31, 1982.

(2) *Illustration*. The provisions of this (c) may be illustrated by the following example.

Example. Individual A files a tax return for calendar year 1981 on April 15, 1982, showing a tax due of $10,000. A pays $10,000 on December 31, 1982, but A does not pay any interest with respect to this underpayment until March 1, 1983, on which date A paid all amounts of interest with respect to the $10,000 underpayment of tax. On December 31, 1982, A's unsatisfied interest liability was $1,424.66 ($10,000 × 20 percent × 260/365 days). Interest, compounded daily, accrues on this unsatisfied interest obligation beginning on January 1, 1983, until March 1, 1983, the date the total interest obligation is satisfied. On March 1, 1983, the total interest obligation is $1,462.62, computed as follows:

Item	Amount
Unpaid tax at December 31, 1982	0
Unpaid interest at December 31, 1982	$1,424.66
Total unsatisfied obligation at December 31, 1982	1,424.66
Interest from December 31, 1982, to March 1, 1983, at 16 percent per year compounded daily	37.96
Total due, March 1, 1983	1,462.62

[T.D. 7907, 48 FR 38231, Aug. 23, 1983]

Additions to the Tax, Additional Amounts, and Assessable Penalties

ADDITIONS TO THE TAX AND ADDITIONAL AMOUNTS

§ 301.6651–1 Failure to file tax return or to pay tax.

(a) *Addition to the tax*—(1) *Failure to file tax return*. In case of failure to file a return required under authority of—

(i) Subchapter A, chapter 61 of the Code, relating to returns and records (other than sections 6015 and 6016, relating to declarations of estimated tax, and part III thereof, relating to information returns);

(ii) Subchapter A, chapter 51 of the Code, relating to distilled spirits, wines, and beer;

(iii) Subchapter A, chapter 52 of the Code, relating to cigars, cigarettes, and cigarette papers and tubes; or

(iv) Subchapter A, chapter 53 of the Code, relating to machine guns, destructive devices, and certain other firearms; and

The regulations thereunder, on or before the date prescribed for filing (determined with regard to any extension

of time for such filing), there shall be added to the tax required to be shown on the return the amount specified below unless the failure to file the return within the prescribed time is shown to the satisfaction of the district director or the director of the service center to be due to reasonable cause and not to willful neglect. The amount to be added to the tax is 5 percent thereof if the failure is for not more than 1 month, with an additional 5 percent for each additional month or fraction thereof during which the failure continues, but not to exceed 25 percent in the aggregate. The amount of any addition under this subparagraph shall be reduced by the amount of the addition under subparagraph (2) of this paragraph for any month to which an addition to tax applies under both subparagraphs (1) and (2) of this paragraph (a).

(2) *Failure to pay tax shown on return.* In case of failure to pay the amount shown as tax on any return (required to be filed after December 31, 1969, without regard to any extension of time for filing thereof) specified in subparagraph (1) of this paragraph (a), on or before the date prescribed for payment of such tax (determined with regard to any extension of time for payment), there shall be added to the tax shown on the return the amount specified below unless the failure to pay the tax within the prescribed time is shown to the satisfaction of the district director, or, as provided in paragraph (a) of this section, the Assistant Regional Commissioner (Alcohol, Tobacco and Firearms), the director of the service center, to be due to reasonable cause and not to willful neglect. Except as provided in paragraph (a)(4) of this section, the amount to be added to the tax is 0.5 percent of the amount of tax shown on the return if the failure is for not more than 1 month, with an additional 0.5 percent for each additional month or fraction thereof during which the failure continues, but not to exceed 25 percent in the aggregate.

(3) *Failure to pay tax not shown on return.* In the case of failure to pay any amount of any tax required to be shown on a return specified in paragraph (a)(1) of this section that is not so shown (including an assessment made pursuant to section 6213(b)) within 21 calendar days from the date of the notice and demand (10 business days if the amount assessed and shown on the notice and demand equals or exceeds $100,000) with respect to any notice and demand made after December 31, 1996, there will be added to the amount stated in the notice and demand the amount specified below unless the failure to pay the tax within the prescribed time is shown to the satisfaction of the district director or the director of the service center to be due to reasonable cause and not to willful neglect. Except as provided in paragraph (a)(4) of this section, the amount to be added to the tax is 0.5 percent of the amount stated in the notice and demand if the failure is for not more than 1 month, with an additional 0.5 percent for each additional month or fraction thereof during which the failure continues, but not to exceed 25 percent in the aggregate. For purposes of this paragraph (a)(3), see § 301.6601–1(f)(5) for the definition of *calendar day* and *business day*.

(4) *Reduction of failure to pay penalty during the period an installment agreement is in effect*—(i) *In general.* In the case of a return filed by an individual on or before the due date for the return (including extensions)—

(A) The amount added to tax for a month or fraction thereof is determined by using 0.25 percent instead of 0.5 percent under paragraph (a)(2) of this section if at any time during the month an installment agreement under section 6159 is in effect for the payment of such tax; and

(B) The amount added to tax for a month or fraction thereof is determined by using 0.25 percent instead of 0.5 percent under paragraph (a)(3) of this section if at any time during the month an installment agreement under section 6159 is in effect for the payment of such tax.

(ii) *Effective date.* This paragraph (a)(4) applies for purposes of determining additions to tax for months beginning after December 31, 1999.

(b) *Month defined.* (1) If the date prescribed for filing the return or paying tax is the last day of a calendar month, each succeeding calendar month or

fraction thereof during which the failure to file or pay tax continues shall constitute a month for purposes of section 6651.

(2) If the date prescribed for filing the return or paying tax is a date other than the last day of a calendar month, the period which terminates with the date numerically corresponding thereto in the succeeding calendar month and each such successive period shall constitute a month for purposes of section 6651. If, in the month of February, there is no date corresponding to the date prescribed for filing the return or paying tax, the period from such date in January through the last day of February shall constitute a month for purposes of section 6651. Thus, if a return is due on January 30, the first month shall end on February 28 (or 29 if a leap year), and the succeeding months shall end on March 30, April 30, etc.

(3) If a return is not timely filed or tax is not timely paid, the fact that the date prescribed for filing the return or paying tax, or the corresponding date in any succeeding calendar month, falls on a Saturday, Sunday, or a legal holiday is immaterial in determining the number of months for which the addition to the tax under section 6651 applies.

(c) *Showing of reasonable cause.* (1) Except as provided in subparagraphs (3) and (4) of this paragraph (b), a taxpayer who wishes to avoid the addition to the tax for failure to file a tax return or pay tax must make an affirmative showing of all facts alleged as a reasonable cause for his failure to file such return or pay such tax on time in the form of a written statement containing a declaration that it is made under penalties of perjury. Such statement should be filed with the district director or the director of the service center with whom the return is required to be filed; *Provided*, That where special tax returns of liquor dealers are delivered to an alcohol, tobacco and firearms officer working under the supervision of the Regional Director, Bureau of Alcohol, Tobacco and Firearms, such statement may be delivered with the return. If the district director, the director of the service center, or, where applicable, the Regional Director, Bureau of Alcohol, Tobacco and Firearms, determines that the delinquency was due to a reasonable cause and not to willful neglect, the addition to the tax will not be assessed. If the taxpayer exercised ordinary business care and prudence and was nevertheless unable to file the return within the prescribed time, then the delay is due to a reasonable cause. A failure to pay will be considered to be due to reasonable cause to the extent that the taxpayer has made a satisfactory showing that he exercised ordinary business care and prudence in providing for payment of his tax liability and was nevertheless either unable to pay the tax or would suffer an undue hardship (as described in § 1.6161–1(b) of this chapter) if he paid on the due date. In determining whether the taxpayer was unable to pay the tax in spite of the exercise of ordinary business care and prudence in providing for payment of his tax liability, consideration will be given to all the facts and circumstances of the taxpayer's financial situation, including the amount and nature of the taxpayer's expenditures in light of the income (or other amounts) he could, at the time of such expenditures, reasonably expect to receive prior to the date prescribed for the payment of the tax. Thus, for example, a taxpayer who incurs lavish or extravagant living expenses in an amount such that the remainder of his assets and anticipated income will be insufficient to pay his tax, has not exercised ordinary business care and prudence in providing for the payment of his tax liability. Further, a taxpayer who invests funds in speculative or illiquid assets has not exercised ordinary business care and prudence in providing for the payment of his tax liability unless, at the time of the investment, the remainder of the taxpayer's assets and estimated income will be sufficient to pay his tax or it can be reasonably foreseen that the speculative or illiquid investment made by the taxpayer can be utilized (by sale or as security for a loan) to realize sufficient funds to satisfy the tax liability. A taxpayer will be considered to have exercised ordinary business care and prudence if he made reasonable efforts to conserve sufficient assets in marketable form to satisfy his

tax liability and nevertheless was unable to pay all or a portion of the tax when it became due.

(2) In determining if the taxpayer exercised ordinary business care and prudence in providing for the payment of his tax liability, consideration will be given to the nature of the tax which the taxpayer has failed to pay. Thus, for example, facts and circumstances which, because of the taxpayer's efforts to conserve assets in marketable form, may constitute reasonable cause for nonpayment of income taxes may not constitute reasonable cause for failure to pay over taxes described in section 7501 that are collected or withheld from any other person.

(3) If, for a taxable year ending on or after December 31, 1995, an individual taxpayer satisfies the requirement of §1.6081–4(a) of this chapter (relating to automatic extension of time for filing an individual income tax return), reasonable cause will be presumed, for the period of the extension of time to file, with respect to any underpayment of tax if—

(i) The excess of the amount of tax shown on the individual income tax return over the amount of tax paid on or before the regular due date of the return (by virtue of tax withheld by the employer, estimated tax payments, and any payment with an application for extension of time to file pursuant to §1.6081–4 of this chapter) is no greater than 10 percent of the amount of tax shown on the individual income tax return; and

(ii) Any balance due shown on the individual income tax return is remitted with the return.

(4) If, for a taxable year ending on or after December 31, 1972, a corporate taxpayer satisfies the requirements of §1.6081–3 (a) (relating to an automatic extension of time for filing a corporation income tax return), reasonable cause shall be presumed, for the period of the extension of time to file, with respect to any underpayment of tax if—

(i) The amount of tax (determined without regard to any prepayment thereof) shown on Form 7004, or the amount of tax paid on or before the regular due date of the return, is at least 90 percent of the amount of tax shown on the taxpayer's Form 1120, and

(ii) Any balance due shown on the Form 1120 is paid on, or before the due date of the return, including any extensions of time for filing.

(d) *Penalty imposed on net amount due*—(1) *Credits against the tax.* The amount of tax required to be shown on the return for purposes of section 6651(a)(1) and the amount shown as tax on the return for purposes of section 6651(a)(2) shall be reduced by the amount of any part of the tax which is paid on or before the date prescribed for payment of the tax and by the amount of any credit against the tax which may be claimed on the return.

(2) *Partial payments.* (i) The amount of tax required to be shown on the return for purposes of section 6651(a)(2) shall, for the purpose of computing the addition for any month, be reduced by the amount of any part of the tax which is paid after the date prescribed for payment and on or before the first day of such month.

(ii) The amount of tax stated in the notice and demand for purposes of section 6651(a)(3) shall, for the purpose of computing the addition for any month, be reduced by the amount of any part of the tax which is paid before the first day of such month.

(e) *No addition to tax if fraud penalty assessed.* No addition to the tax under section 6651 shall be assessed with respect to an underpayment of tax if a 50-percent addition to the tax for fraud is assessed with respect to the same underpayment under section 6653(b). See section 6653(d).

(f) *Examples.* The provisions of this section may be illustrated by the following examples:

Example 1. (a) Under section 6072(a), income tax returns of individuals on a calendar year basis must be filed on or before the 15th day of April following the close of the calendar year. Assume an individual filed his income tax return for the calendar year 1969 on July 20, 1970, and the failure to file on or before the prescribed date is not due to reasonable cause. The tax shown on the return is $800 and a deficiency of $200 is subsequently assessed, making the tax required to be shown on the return, $1,000. Of this amount, $300 has been paid by withholding from wages and $400 has been paid as estimated tax. The balance due as shown on the return of $100 ($800 shown as tax on the return less $700 previously paid) is paid on August 21, 1970. The failure to pay on or before the prescribed

date is not due to reasonable cause. There will be imposed, in addition to interest, an additional amount under section 6651(a)(2) of $2.50, which is 2.5 percent (2% for the 4 months from April 16 through August 15, and 0.5% for the fractional part of the month from August 16 through August 21) of the net amount due as shown on the return of $100 ($800 shown on the return less $700 paid on or before April 15). There will also be imposed an additional amount under section 6651(a)(1) of $58, determined as follows:

20 percent (5% per month for the 3 months from April 16 through July 15 and 5% for the fractional part of the month from July 16 through July 20) of the net amount due of $300 ($1,000 required to be shown on the return less $700 paid on or before April 15)	$60
Reduced by the amount of the addition imposed under section 6651(a)(2) for those months	2
Addition to tax under section 6651(a)(1)	$50

(b) A notice and demand for the $200 deficiency is issued on January 8, 1971, but the taxpayer does not pay the deficiency until December 23, 1971. In addition to interest there will be imposed an additional amount under section 6651(a)(3) of $10, determined as follows:

Addition computed without regard to limitation:	
6 percent (5½% for the 11 months from January 19, 1971, through December 18, 1971, and 0.5% for the fractional part of the month from December 19 through December 23) of the amount stated in the notice and demand ($200)	$12
Limitation on addition:	
25 percent of the amount stated in the notice and demand ($200)	$50
Reduced by the part of the addition under section 6651(a)(1) for failure to file attributable to the $200 deficiency (20% of $200)	$40
Maximum amount of the addition under section 6651(a)(3)	$10

Example 2. An individual files his income tax return for the calendar year 1969 on December 2, 1970, and such delinquency is not due to reasonable cause. The balance due, as shown on the return, of $500 is paid when the return is filed on December 2, 1970. In addition to interest and the addition for failure to pay under section 6651(a)(2) of $20 (8 months at 0.5% per month, 4%), there will also be imposed an additional amount under section 6651(a)(1) of $112.50, determined as follows:

Penalty at 5 percent for maximum of 5 months, 25 percent of $500	$125.00
Less reduction for the amount of the addition under section 6651(a)(2):	
Amount imposed under section 6651(a)(2) for the months in which there is also an addition for failure to file—2½ percent for the 5 months April 16 through September 15 of the net amount due ($500)	12.50
Addition to tax under section 6651(a)(1)	$112.50

(g) *Treatment of returns prepared by the Secretary*—(1) *In general.* A return prepared by the Secretary under section 6020(b) will be disregarded for purposes of determining the amount of the addition to tax for failure to file any return pursuant to paragraph (a)(1) of this section. However, the return prepared by the Secretary will be treated as a return filed by the taxpayer for purposes of determining the amount of the addition to tax for failure to pay the tax shown on any return and for failure to pay the tax required to be shown on a return that is not so shown pursuant to paragraphs (a)(2) and (3) of this section, respectively.

(2) *Effective date.* This paragraph (g) applies to returns the due date for which (determined without regard to extensions) is after July 30, 1996.

[T.D. 7133, 36 FR 13594, July 22, 1971, as amended by T.D. 7160, 37 FR 2507, Feb. 2, 1972; T.D. 7260, 38 FR 4259, Feb. 12, 1973; T.D. 8651, 61 FR 262, Jan. 4, 1996; T.D. 8703, 61 FR 69031, Dec. 31, 1996; T.D. 8725, 62 FR 39117, July 22, 1997; T.D. 8895, 65 FR 50408, Aug. 18, 2000; T.D. 9163, 69 FR 70550, Dec. 7, 2004]

§ 301.6652–1 Failure to file certain information returns.

(a) *Returns with respect to payments made in calendar years after 1962*—(1) *Payments of dividends, interest, or patronage dividends aggregating $10 or more.* In the case of each failure to file a statement required by—

(i) Section 6042(a)(1), relating to information returns with respect to payments of dividends aggregating $10 or more in a calendar year, in effect with respect to payments made after December 31, 1962,

(ii) Section 6044(a)(1), relating to information returns with respect to certain payments by cooperatives aggregating $10 or more in a calendar year, in effect with respect to payments made on or after the first day of the first taxable year of the cooperative beginning after December 31, 1962, with respect to patronage occurring on or after such first day, or

(iii) Section 6049(a)(1), relating to information returns with respect to payments of interest aggregating $10 or more in a calendar year, in effect with respect to payments made after December 31, 1962, and the regulations

under such section, within the time prescribed for filing such statement (determined with regard to any extension of time for filing), there shall be paid by the person failing to so file the statement $10 for each such statement not so filed. However, the total amount imposed on the delinquent person for all such failures under section 6652(a) and this section during any calendar year shall not exceed $25,000.

(2) *Other payments; statements with respect to tips.* In the case of each failure—

(i) To file a statement of a payment made to another person required under authority of section 6041, relating to information returns with respect to certain information at source, or section 6051(d), relating to information returns with respect to payments of wages as defined in section 3401(a), or section 6050(a), relating to information returns with respect to remuneration of certain crew members defined in section 3121(b)(20), or

(ii) To furnish a statement required under authority of section 6053(b), relating to statements furnished by employers with respect to tips, or section 6050A(b), relating to statements furnished by fishing boat operators with respect to remuneration of certain crew members, within the time prescribed by regulations under those sections for filing such statements (determined with regard to any extension of time for filing),

There shall be paid by the person failing to so file the statement $1 for each such statement not so filed. However, the total amount imposed on the delinquent person for all such failures during any calendar year shall not exceed $1,000.

(b) *Returns with respect to payments made in calendar years before 1963 and to certain payments by cooperatives after 1962.* In the case of each failure to file a statement, with respect to a payment to another person, required under authority of—

(1) Section 6041, relating to information returns with respect to certain information at source, in effect with respect to payments made before 1963,

(2) Section 6042(1), relating to information returns with respect to payments of corporate dividends, in effect with respect to payments made before 1963,

(3) Section 6044, relating to information returns with respect to payments of patronage dividends, in effect with respect to payments made by a cooperative with respect to patronage occurring before the first day of the first taxable year of the cooperative beginning after December 31, 1962, or

(4) Section 6051(d), relating to information returns with respect to payments of wages as defined in section 3401(a), in effect with respect to payments made before 1963,

and the regulations under such section, within the time prescribed for filing such statement (determined with regard to any extension of time for filing), there shall be paid by the person failing to so file such statement $1 for each such statement not so filed. However, the total amount imposed on the delinquent person for all such failures during any calendar year shall not exceed $1,000.

(c) *Returns with respect to reporting payments of wages in the form of group-term life insurance provided in a calendar year after December 31, 1963.* In the case of each failure to file a return required by section 6052(a), relating to reporting payment of wages in the form of group-term life insurance provided for any employee on his life in a calendar year after December 31, 1963, and the regulations under such section, within the time prescribed for filing such return (determined with regard to any extension of time for filing), there shall be paid by the person failing to so file such return $10 for each such return not so filed. However, the total amount imposed on the delinquent person for all such failures under section 6652(a) and this section during any calendar year shall not exceed $25,000.

(d) *Returns with respect to transfer of stock or record title thereto pursuant to options exercised on or after January 1, 1964.* In the case of each failure to file a statement of the transfer of stock or of record title thereto as required by section 6039(a) and the regulations under such section within the time prescribed for filing such statement (determined with regard to any extension of time for filing), there shall be paid by the corporation failing to so file

such statement, $10 for each such statement not so filed. However, the total amount imposed on the delinquent corporation for all such failures under section 6652(a) and this section during any calendar year shall not exceed $25,000.

(e) *Manner of payment.* The amount imposed under subsection (a), (b), or (c) of section 6652 and this section on any person shall be paid in the same manner as tax upon the issuance of a notice and demand therefor.

(f) *Showing of reasonable cause.* The amount imposed by subsection (a), (b), or (c) of section 6652 shall not apply with respect to a failure to file a statement within the time prescribed if it is established to the satisfaction of the district director or the director of the Internal Revenue Service Center that such failure was due to reasonable cause and not to willful neglect. An affirmative showing of reasonable cause must be made in the form of a written statement, containing a declaration that it is made under the penalties of perjury, setting forth all the facts alleged as a reasonable cause.

(g) *Alcohol and tobacco taxes.* For penalties for failure to file certain information returns with respect to alcohol and tobacco taxes, see, generally, subtitle E of the Code.

(h) *Tips.* For regulations under section 6652(c) in respect of failure to report tips, see § 31.6652–1 of this chapter (Employment Tax Regulations).

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7001, 34 FR 1006, Jan. 23, 1969; T.D. 7127, 36 FR 11503, June 15, 1971; T.D. 7716, 45 FR 57124, Aug. 27, 1980]

§ 301.6652–2 Failure by exempt organizations and certain nonexempt organizations to file certain returns or to comply with section 6104(d) for taxable years beginning after December 31, 1969.

(a) *Exempt organization or trust.* In the case of a failure to file a return required by—

(1) Section 6033, relating to returns by exempt organizations, trusts described in section 4947(a)(1) and nonexempt private foundations,

(2) Section 6034, relating to returns by certain trusts, or

(3) Section 6043(b), relating to returns regarding the liquidation, dissolution, termination, or substantial contraction of an exempt organization,

within the time and in the manner prescribed for filing such return (determined with regard to any extension of time for filing), unless it is shown that such failure is due to reasonable cause, there shall be paid by the exempt organization or trust failing to file such return $10 for each day during which such failure continues. However, the total amount imposed on any exempt organization or trust under this paragraph for such failure with regard to any one return shall not exceed $5,000.

(b) *Managers.* If an exempt organization or trust fails to file under section 6652(d)(1), the Commissioner may, by written demand, request that such organization or trust file the delinquent return within 90 days after the date of mailing of such demand, or within such additional period as the Commissioner shall determine is reasonable under the circumstances. If such organization or trust does not so file on or before the date specified in such demand, there shall be paid by the person or persons responsible for such failure to file $10 for each day after such date during which such failure continues, unless it is shown that such failure is due to reasonable cause. However, the total amount imposed under this paragraph on all persons responsible for such failure with regard to any one return shall not exceed $5,000.

(c) *Public inspection of private foundations' annual returns*—(1) *In general.* In the case of a failure to comply with the requirements of section 6104(d), relating to public inspection of private foundations' annual returns, within the time and in the manner prescribed for complying with section 6104(d), unless it is shown that such failure is due to reasonable cause, there shall be paid by the person or persons responsible for failing to comply with section 6104(d) $10 for each day during which such failure continues. However, the total amount imposed under this subparagraph on all persons responsible for any such failure with regard to any one annual return shall not exceed $5,000.

(2) *Amount imposed.* The amount imposed under section 6652(d)(3) is $10 per day for a failure to comply with section 6104(d). For example, assume that

an annual return must be filed by private foundation X on or before May 15, 1982, for the calendar year 1981. The foundation without reasonable cause does not comply with section 6104(d) by publishing notice of the availability of the annual return until July 30, 1982. In this case, the person failing to comply with section 6104(d) within the prescribed time is required to pay $760 for complying with section 6104(d) 76 days late.

(3) *Cross reference.* For the penalty for willful failure to comply with section 6104(d), see § 301.6685–1.

(d) *Special rules.* For purposes of section 6652(d) and this section—

(1) *Person.* The term ''person'' means any officer, director, trustee, employee, member, or other individual whose duty it is to perform the act in respect of which the violation occurs.

(2) *Liability.* If more than one person (as defined in subparagraph (1) of this paragraph (d)) is liable for a failure to file or to comply with section 6652(d)(2) or (3), all such persons shall be jointly and severally liable with respect to such failure.

(e) *Manner of payment.* The amount imposed under section 6652(d) and this section on any exempt organization, trust, or person (as defined in paragraph (d)(1) of this section) shall be paid in the same manner as tax upon the issuance of a notice and demand therefor.

(f) *Showing of reasonable cause.* No amount imposed by section 6652(d) shall apply with respect to a failure to file or comply under this section if it is established to the satisfaction of the district director or director of the internal revenue service center that such failure was due to reasonable cause. An affirmative showing of reasonable cause must be made in the form of a written statement containing a declaration by the appropriate person (as defined in paragraph (d)(1) of this section), or in his absence, by any officer, director, or trustee of the organization, that the statement is made under the penalties of perjury, setting forth all the facts alleged as reasonable cause.

(g) *Group returns.* If a central organization is authorized to file a group return on behalf of two or more of its local organizations for the taxable year in accordance with paragraph (d) of § 1.6033–2 (Income Tax Regulations), the responsibility for timely filing of such a return is placed upon the central organization for purposes of this section. Consequently, the amount imposed by section 6652(d)(1) for failure to file the group return shall be paid by the central organization and the amount imposed by section 6652(d)(2) for failure to file the group return within the time prescribed by the Commissioner shall be paid by the person or persons responsible for filing the group return.

(h) *Effective date.* This section shall apply for taxable years beginning after December 31, 1969.

[T.D. 7127, 36 FR 11503, June 15, 1971, as amended by T.D. 8026, 50 FR 20758, May 20, 1985]

§ 301.6652–3 Failure to file information with respect to employee retirement benefit plan.

(a) *Amount imposed*—(1) *Annual registration statement.* The plan administrator (within the meaning of section 414(g)) of an employee retirement benefit plan defined in § 301.6057–1(a)(3) is liable for the amount imposed by section 6652(e)(1) in each case in which there is a failure to file information relating to the deferred vested retirement benefit of a plan participant, as required by section 6057(a) and § 301.6057–1, at the time and place and in the manner prescribed therefor (determined without regard to any extension of time for filing). The amount imposed by section 6652(e)(1) on the plan administrator is $1 for each participant with respect to whom there is a failure to file the required information, multiplied by the number of days during which the failure continues. However, the total amount imposed by section 6652(e)(1) on the plan administrator with respect to a failure to file on behalf of a plan for a plan year shall not exceed $5,000.

(2) *Notification of change in status.* The plan administrator (within the meaning of section 414(g)) of an employee retirement benefit plan defined in § 301.6057–1(a)(3) is liable for the amount imposed by section 6652(e)(2) in each case in which there is a failure to file a notification of a change in plan status, as described in section 6057(b) and

§ 301.6057–2, at the time and place and in the manner prescribed therefor (determined without regard to any extension of time for filing). The amount imposed by section 6652(e)(2) on the plan administrator is $1 for each day during which the failure to so file a notification of a change in plan status continues. However, the total amount imposed by section 6652(e)(2) on the plan administrator with respect to a failure to file a notification of a change in plan status shall not exceed $1,000.

(3) *Annual return of funded plan of deferred compensation.* Under section 6652(f) the amount described in this subparagraph is imposed in each case in which there is a failure to file the annual return described in section 6058(a) on behalf of a plan described in § 301.6058–1(a) at the time and in the manner prescribed therefor (determined with regard to any extension of time for filing). The employer maintaining the plan is liable for the amount imposed with respect to a failure to so file the annual return in each case in which the employer must file the return under § 301.6058–1(a). The plan administrator (within the meaning of section 414(g)) is liable for the amount imposed in each case in which the plan administrator must file the return under § 301.6058–1(a). In the case of an individual retirement account or annuity described in section 408, the individual described in § 301.6058–1(d)(2) who must file the annual return under § 301.6058–1(d) is liable for the amount imposed with respect to a failure to so file the annual return. The amount imposed is $10 for each day during which the failure to file the annual return on behalf of a plan for a year continues. However, the total amount imposed with respect to a failure to file on behalf of a plan for any year shall not exceed $5,000.

(4) *Actuarial statement in case of mergers.* The plan administrator (within the meaning of section 414(g)) is liable for an amount imposed by section 6652(f) in each case in which there is a failure to file the actuarial statement described in section 6058(b) at the time and in the manner prescribed therefor (determined with regard to any extension of time for filing). The amount imposed by section 6652(f) on the plan administrator is $10 for each day during which the failure to file the statement with respect to a merger, consolidation or transfer of assets or liabilities continues. However, the amount imposed by section 6652(f) on the plan administrator with respect to a failure to file the statement with respect to a merger, consolidation or transfer shall not exceed $5,000.

(5) *Information relating to certain trusts and annuity and bond purchase plans.* Under section 6652(f) the amount described in this subparagraph is imposed in each case in which there is a failure to file a return or statement required by section 6047 at the time and in the manner prescribed therefor in § 1.6047–1 (determined with regard to any extension of time for filing). The amount is imposed upon the trustee of a trust described in section 401(a), custodian of a custodial account or issuer of an annuity contract, as the case may be (see § 1.6047–1(a)(1) (i) and (ii)). The amount imposed by section 6652(f) is $10 for each day during which the failure to file with respect to a payee for a calendar year continues. However, the amount imposed with respect to a failure to file with respect to a payee for a calendar year shall not exceed $5,000.

(b) *Showing of reasonable cause.* (1) No amount imposed by section 6652(e) shall apply with respect to a failure to file information relating to the deferred vested retirement benefit of a plan participant under section 6057(a), or a failure to give notice of a change in plan status under section 6057(b), if it is established to the satisfaction of the director of the internal revenue service center at which the information or notice is required to be filed that the failure was due to reasonable cause.

(2) No amount imposed by section 6652(f) shall apply with respect to a failure to file a return or statement required by section 6058 or 6047, or a failure to provide material items of information called for on such a return or statement, if it is established to the satisfaction of the appropriate district director or the director of the internal revenue service center at which the return or statement is required to be filed that the failure was due to reasonable cause.

(3) An affirmative showing of reasonable cause must be made in the form of a written statement setting forth all the facts alleged as reasonable cause. The statement must contain a declaration by the appropriate individual that the statement is made under the penalties of perjury.

(c) *Joint liability*. If more than one person is responsible for a failure to comply with sections 6057 (a) or (b) or section 6058 (a) or (b) or section 6047, all such persons shall be jointly and severally liable with respect to the failure.

(d) *Manner of payment*. An amount imposed under section 6652 (e) or (f) and this section shall be paid in the same manner as a tax upon the issuance of notice and demand therefor.

(e) *Effective dates*—(1) *Annual registration statement*. With respect to the annual registration statement described in section 6057(a), this section is effective—

(i) In the case of a plan to which only one employer contributes, for plan years beginning after December 31, 1975, with respect to participants who separate from service covered by the plan in plan years beginning after that date, and

(ii) In the case of a plan to which more than one employer contributes, for plan years beginning after December 31, 1977, and with respect to participants who complete two consecutive 1-year breaks in service under the plan in service computation periods beginning after December 31, 1974.

(2) *Notification of change in status*. With respect to the notification of change in plan status required by section 6057(b), this section is effective with respect to a change in status occurring within plan years beginning after December 31, 1975.

(3) *Annual return of employee benefit plan*. With respect to the annual return of employee benefit plan required by section 6058(a), this section is effective for plan years beginning after September 2, 1974.

(4) *Actuarial statement in case of mergers*. With respect to the actuarial statement required by section 6058(b), this section is effective with respect to mergers, consolidations or transfers of assets or liabilities occurring after September 2, 1974.

(5) *Information relating to certain trusts and annuity and bond purchase plans*. With respect to reports or statements required to be filed by section 6047 and the regulations thereunder, this section is effective with respect to calendar years ending after September 2, 1974.

[T.D. 7551, 43 FR 29293, July 7, 1978, and T.D. 7561, 43 FR 38006, Aug. 25, 1978; 44 FR 24285, Apr. 25, 1979]

§ 301.6653–1 Failure to pay tax.

(a) *Negligence or intentional disregard of rules and regulations with respect to income or gift taxes*. If any part of any underpayment, as defined in section 6653(c)(1) and paragraph (c)(1) of this section, of any income tax imposed by subtitle A of the Code, or gift tax imposed by chapter 12, subtitle B, of the Code, is due to negligence or intentional disregard of rules and regulations, but without intent to defraud, there shall be added to the tax an amount equal to 5 percent of the underpayment.

(b) *Fraud*. (1) If any part of any underpayment of tax, as defined in section 6653(c) and paragraph (c) of this section, required to be shown on a return is due to fraud, there shall be added to the tax an amount equal to 50 percent of the underpayment.

(2) If a 50 percent addition to the tax for fraud is assessed under section 6653(b) with respect to an underpayment—

(i) The addition to the tax under section 6651, relating to failure to file a tax return, will not be assessed with respect to the same underpayment, and

(ii) In the case of the income taxes imposed by subtitle A and the gift tax imposed by chapter 12 of subtitle B, the 5 percent addition to the tax under section 6653(a), relating to negligence and intentional disregard of rules and regulations, will not be assessed with respect to the same underpayment.

(c) *Definition of underpayment*—(1) *Income, estate, gift, and chapter 41, 42, 43, and 44 taxes*. In the case of income, estate, gift, and chapter 41, 42, 43, and 44 taxes, an underpayment for purposes of section 6653 and this section is—

(i) The total amount of all deficiencies as defined in section 6211, if a return was filed on or before the last date (determined with regard to any extension of time) prescribed for filing such return, or

(ii) The amount of the tax imposed by subtitle A or B, or chapter 41, 42, 43, or 44, as the case may be, if a return was not filed on or before the last date (determined with regard to any extension of time) prescribed for filing such return.

However, for purposes of paragraph (c)(1)(i) of this section, any amount of additional tax shown on the amended return, so called, filed after the due date of the return is a deficiency.

(2) *Other taxes*. In the case of any tax other than an income, estate, gift or chapter 41, 42, 43, or 44 tax, an underpayment for purposes of section 6653 and this section is the amount by which the tax imposed exceeds—

(i) In the case of any tax with respect to which the taxpayer is required to file a return, the sum of (*a*) the amount shown as tax by the taxpayer upon his return filed in respect of such tax, but only if the return is filed on or before the last date (determined with regard to any extension of time) prescribed for filing such return, plus (*b*) any amount not shown on a return filed by the taxpayer which is paid in respect of such tax prior to the date prescribed for filing the return. The ''amount shown as tax by the taxpayer upon his return'' for the purposes of this subparagraph shall be determined without regard to any credit for an overpayment for any prior tax return period, and without regard to any adjustment made under section 6205(a), or section 6413(a), relating to special rules applicable to certain employment taxes.

(ii) In the case of any tax payable by stamp, the amount paid (on or before the date prescribed for payment) in respect of such tax.

The amounts specified in subdivisions (i) and (ii) of this subparagraph shall be reduced, for purposes of determining the amount of the underpayment, by the amount of any rebates made. For purposes of this subparagraph, the term ''rebates'' means so much of an abatement, credit, refund, or other repayment as was made on the ground that the tax imposed was less than the excess of the amount specified in subdivision (i) or (ii) of this subparagraph, whichever is applicable, over any rebates previously made.

(d) *No delinquency penalty if fraud assessed*. See paragraph (b)(2) of this section.

(e) *Failure to pay stamp tax*. Any person (as defined in section 6671(b)) who willfully fails to pay any tax payable by stamp, coupons, tickets, books or other devices or methods prescribed by the Code or regulations promulgated thereunder, or willfully attempts in any manner to evade or defeat any such tax or the payment thereof, shall, in addition to other penalties provided by law, be liable to a penalty of 50 percent of the total amount of the underpayment of the tax.

(f) *Joint returns*. No person filing a joint return shall be held liable for a fraud penalty except for his own personal fraudulent conduct. Thus, for the fraud penalty to apply to a taxpayer who files a joint return some part of the underpayment in such return must be due to the fraud of such taxpayer. A taxpayer shall not be subject to the fraud penalty solely by reason of the fraud of a spouse and his filing of a joint return with such spouse.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7320, 39 FR 28279, Aug. 6, 1974; 39 FR 29353, Aug. 15, 1974; T.D. 7838, 47 FR 44252, Oct. 7, 1982]

§ 301.6654–1 Failure by individual to pay estimated income tax.

For regulations under section 6654, see §§ 1.6654–1 to 1.6654–5, inclusive, of this chapter (Income Tax Regulations).

[T.D. 7282, 38 FR 19029, July 19, 1973]

§ 301.6655–1 Failure by corporation to pay estimated income tax.

(a) For regulations under section 6655, see §§ 1.6655–1 through 1.6655–7 of this chapter.

(b) *Effective/applicability date:* This section applies to taxable years beginning after September 6, 2007.

[T.D. 9347, 72 FR 44366, Aug. 7, 2007]

§ 301.6656–1 Abatement of penalty.

(a) *Exception for first time depositors of employment taxes*—(1) *Waiver*. The Secretary will generally waive the penalty imposed by section 6656(a) on a person's failure to deposit any employment tax under subtitle C of the Internal Revenue Code if—

(i) The failure is inadvertent;

(ii) The person meets the requirements referred to in section 7430(c)(4)(A)(ii) (relating to the net worth requirements applicable for awards of attorney's fees);

(iii) The failure occurs during the first quarter that the person is required to deposit any employment tax; and

(iv) The return of the tax is filed on or before the due date.

(2) *Inadvertent failure*. For purposes of paragraph (a)(1)(i) of this section, the Secretary will determine if a failure to deposit is inadvertent based on all the facts and circumstances.

(b) *Deposit sent to Secretary*. The Secretary may abate the penalty imposed by section 6656(a) if the first time a taxpayer is required to make a deposit, the amount required to be deposited is inadvertently sent to the Secretary rather than deposited by electronic funds transfer.

(c) *Effective/applicability date*. This section applies to deposits and payments made after December 31, 2010.

[T.D. 8725, 62 FR 39118, July 22, 1997. Redesignated by T.D. 8947, 66 FR 32542, June 15, 2001; T.D. 9507, 75 FR 75904, Dec. 7, 2010]

§ 301.6657–1 Bad checks.

(a) *In general*. Except as provided in paragraph (b) of this section, if a check or money order is tendered in the payment of any amount receivable under the Code, and such check or money order is not paid upon presentment, a penalty of one percent of the amount of the check or money order, in addition to any other penalties provided by law shall be paid by the person who tendered such check or money order. If, however, the amount of the check or money order is less than $500, the penalty shall be $5 or the amount of the check or money order, whichever amount is the lesser. Such penalty shall be paid in the same manner as tax upon the issuance of a notice and demand therefor.

(b) *Reasonable cause*. If payment is refused upon presentment of any check or money order and the person who tendered such check or money order establishes to the satisfaction of the district director that it was tendered in good faith with reasonable cause to believe that it would be duly paid, the penalty set forth in paragraph (a) of this section shall not apply.

§ 301.6658–1 Addition to tax in case of jeopardy.

Upon a finding by the district director that any taxpayer violated, or attempted to violate, section 6851 (relating to termination of taxable year) there shall, in addition to all other penalties, be added as part of the tax 25 percent of the total amount of the tax or deficiency in the tax.

§ 301.6659–1 Applicable rules.

(a) *Additions treated as tax*. Except as otherwise provided in the Code, any reference in the Code to ''tax'' shall be deemed also to be a reference to any addition to the tax, additional amount, or penalty imposed by chapter 68 of the Code with respect to such tax. Such additions to the tax, additional amounts, and penalties shall become payable upon notice and demand therefor and shall be assessed, collected, and paid in the same manner as taxes.

(b) *Additions to tax for failure to file return or pay tax*. Any addition under section 6651 or section 6653 to a tax shall be considered a part of such tax for the purpose of the assessment and collection of such tax. For applicability of deficiency procedures to additions to the tax, see paragraph (c) of this section.

(c) *Deficiency procedures*—(1) *Addition to the tax for failure to file tax return*. (i) Subchapter B, chapter 63, of the Code (deficiency procedures) applies to the additions to the income estate, gift, and chapter 41, 42, 43, and 44 taxes imposed by section 6651 for failure to file a tax return to the same extent that it applies to such taxes. Accordingly, if there is a deficiency (as defined in section 6211) in the tax (apart from the addition to the tax) where a return has

not been timely filed, deficiency procedures apply to the addition to the tax under section 6651. If there is no deficiency in the tax where a return has not been timely filed, the addition to the tax under section 6651 may be assessed and collected without deficiency procedures.

(ii) The provisions of paragraph (c)(1)(i) of this section may be illustrated by the following examples:

Example 1. A filed his income tax return for the calendar year 1955 on May 15, 1956, not having been granted an extension of time for such filing. His failure to file on time was not due to reasonable cause. The return showed a liability of $1,000 and it was determined that A is liable under section 6651 for an addition to such tax of $50 (5 percent a month for 1 month). The provisions of subchapter B of chapter 63 (deficiency procedures) do not apply to the assessment and collection of the addition to the tax since such provisions are not applicable to the tax with respect to which such addition was asserted, there being no statutory deficiency for purposes of section 6211.

Example 2. Assume the same facts as in example 1 and assume further that a deficiency of $500 in tax and a further $25 addition to the tax under section 6651 is asserted against A for the calendar year 1955. Thus, the total addition to the tax under section 6651 is $75. Since the provisions of subchapter B of chapter 63 are applicable to the $500 deficiency, they likewise apply to the $25 addition to the tax asserted with respect to such deficiency (but not to the $50 addition to the tax under example 1).

(2) *Additions to the tax for negligence or fraud.* Subchapter B of chapter 63 (deficiency procedures) applies to all additions to the income, estate, gift, and chapter 41, 42, 43, and 44 taxes imposed by section 6653 (a) and (b) for negligence and fraud.

(3) *Additions to tax for failure to pay estimated income taxes*—(i) *Return filed by taxpayer.* The addition to the tax for underpayment of estimated income tax imposed by section 6654 (relating to failure by individuals to pay estimated income tax) or section 6655 (relating to failure by corporations to pay estimated income tax) is determined by reference to the tax shown on the return if a return is filed. Therefore, such addition may be assessed and collected without regard to the provisions of subchapter B of chapter 63 (deficiency procedures) if a return is filed since such provisions are not applicable to the assessment of the tax shown on the return. Further, since the additions to the tax imposed by section 6654 or 6655 are determined solely by reference to the amount of tax shown on the return if a return is filed, the assertion of a deficiency with respect to any tax not shown on such return will not make the provisions of subchapter B of chapter 63 (deficiency procedures) apply to the assessment and collection of any additions to the tax under section 6654 or 6655.

(ii) *No return filed by taxpayer.* If the taxpayer has not filed a return and his entire income tax liability is asserted as a deficiency to which the provisions of subchapter B of chapter 63 apply, such provisions likewise will apply to any addition to such tax imposed by section 6654 or 6655.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7838, 47 FR 44252, Oct. 7, 1982]

ASSESSABLE PENALTIES

§ 301.6671–1 Rules for application of assessable penalties.

(a) *Penalty assessed as tax.* The penalties and liabilities provided by subchapter B, chapter 68, of the Code (sections 6671 to 6675, inclusive) shall be paid upon notice and demand by the district director or the director of the regional service center and shall be assessed and collected in the same manner as taxes. Except as otherwise provided, any reference in the Code to ''tax'' imposed thereunder shall also be deemed to refer to the penalties and liabilities provided by subchapter B of chapter 68.

(b) *Person defined.* For purposes of subchapter B of chapter 68, the term ''person'' includes an officer or employee of a corporation, or a member or employee of a partnership, who as such officer, employee, or member is under a duty to perform the act in respect of which the violation occurs.

§ 301.6672–1 Failure to collect and pay over tax, or attempt to evade or defeat tax.

Any person required to collect, truthfully account for, and pay over any tax imposed by the Code who willfully fails

to collect such tax, or truthfully account for and pay over such tax, or willfully attempts in any manner to evade or defeat any such tax or the payment thereof, shall, in addition to other penalties, be liable to a penalty equal to the total amount of the tax evaded, or not collected, or not accounted for and paid over. The penalty imposed by section 6672 applies only to the collection, accounting for, or payment over of taxes imposed on a person other than the person who is required to collect, account for, and pay over such taxes. No penalty under section 6653, relating to failure to pay tax, shall be imposed for any offense to which this section is applicable. For further guidance regarding the determination of the proper address for mailing the notice required under section 6672(b)(1), see § 301.6212–2.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 8939, 66 FR 2821, Jan. 12, 2001]

§ 301.6673–1 Damages assessable for instituting proceedings before the Tax Court merely for delay.

Any damages awarded to the United States by the Tax Court under section 6673 against a taxpayer for instituting proceedings before the Tax Court merely for delay shall be assessed at the same time at the deficiency and shall be paid upon notice and demand from the district director or the director of the regional service center and shall be collected as a part of the tax.

§ 301.6674–1 Fraudulent statement or failure to furnish statement to employee.

For regulations under section 6674, see § 31.6674–1 of this chapter (Employment Tax Regulations).

§ 301.6678–1 Failure to furnish statements to payees.

(a) *In general.* In the case of each failure to furnish a statement required—

(1) Under section 6042(c) and § 1.6042–4 to a person with respect to whom a return has been made under section 6042(a)(1), relating to information returns with respect to payment of dividends aggregating $10 or more in a calendar year,

(2) Under section 6044(e) and § 1.6044–5 to a person with respect to whom a return has been made under section 6044(a)(1), relating to information returns with respect to certain payments by cooperatives aggregating $10 or more in a calendar year,

(3) Under section 6049(c) and § 1.6049–3 to a person with respect to whom a return has been made under section 6049(a)(1), relating to information returns with respect to payments of interest aggregating $10 or more in a calendar year,

(4) Under section 6039(b) and § 1.6039–2 to a person with respect to whom a return has been made under section 6039(a), relating to information returns with respect to certain stock option transactions occurring in a calendar year, or

(5) Under section 6052(b) and § 1.6052–2 to a person with respect to whom a return has been made under section 6052(a), relating to information returns with respect to payment of wages in the form of group-term life insurance provided for an employee on his life, within the time prescribed for furnishing such statement (determined with regard to any extension of time for furnishing), there shall be paid by the person failing to so furnish the statement $10 for each such statement not so furnished. However, the total amount imposed on the delinquent person for all such failures during a calendar year shall not exceed $25,000.

(b) *Manner of payment.* The penalty imposed under section 6678 and this section on any person shall be paid in the same manner as tax upon the issuance of a notice and demand therefor.

(c) *Showing of reasonable cause.* The penalty imposed by section 6678 shall not apply with respect to a failure to furnish a statement within the time prescribed if it is established to the satisfaction of the district director or the director of the regional service center that such failure was due to reasonable cause and not to willful neglect. An affirmative showing of reasonable cause must be made in the form of a written statement, containing a declaration that it is made under the penalties of perjury, setting forth all the facts alleged as a reasonable cause.

§ 301.6679–1 Failure to file returns, etc. with respect to foreign corporations or foreign partnerships for taxable years beginning after September 3, 1982.

(a) *Civil penalty*—(1) *In general*. In addition to any criminal penalty provided by law, each U.S. citizen, resident, or person filing a separate or joint information return or on whose behalf a return is filed, pursuant to sections 6035, 6046, or 6046A, and the regulations thereunder, who fails to file such a return within the time provided, or who files a return which does not show the required information, shall pay a penalty of $1,000, unless such failure is shown to be due to reasonable cause.

(2) *Joint return*. The penalty imposed by section 6679 and this section shall apply to each U.S. citizen, resident, or person filing a joint return pursuant to the provisions of section 6035, 6046, or 6046A, which does not show the required information.

(3) *Showing of reasonable cause*. The district director, the director of the Internal Revenue service center, and the director of International Operations are authorized to make the determination that such failure was due to a reasonable cause and that, accordingly, the penalty imposed by section 6679 shall not apply. An affirmative showing of reasonable cause must be made in the form of a written statement, containing a declaration that it is made under the penalties of perjury, setting forth all the facts alleged as a reasonable cause. If the taxpayer exercises ordinary business care and prudence and is nevertheless unable to furnish any item of information required under section 6035, 6046, or 6046A and the regulations thereunder, such failure shall be considered due to a reasonable cause. In determining the extent of a taxpayer's ability to obtain information, the percentage of stock owned by such taxpayer and the nature of the other interests in the foreign corporation will be considered.

(b) *Deficiency procedures not to apply*. The penalty imposed by section 6679 may be assessed and collected without regard to the deficiency procedures provided by subchapter B of chapter 63 of the Code.

[32 FR 15421, Nov. 3, 1967, as amended by T.D. 7288, 38 FR 27215, Oct. 1, 1973; T.D. 7542, 43 FR 18552, May 1, 1978; T.D. 8028, 50 FR 23409, June 4, 1985]

§ 301.6682–1 False information with respect to withholding allowances based on itemized deductions.

For regulations under section 6682, see § 31.6682–1 of this chapter (Employment Tax Regulations).

[T.D. 7109, 35 FR 16544, Oct. 23, 1970]

§ 301.6684–1 Assessable penalties with respect to liability for tax under chapter 42.

(a) *In general*. If any person (as defined in section 7701(a)(1)) becomes liable for tax under any section of chapter 42 (other than section 4940 or 4948(a)), relating to private foundations, by reason of any act or failure to act which is not due to reasonable cause and either—

(1) Such person has theretofore (at any time) been liable for tax under any section of such chapter (other than section 4940 or 4948(a)), or

(2) Such act or failure to act is both willful and flagrant,

then such person shall be liable for a penalty equal to the amount of such tax.

(b) *Showing of reasonable cause*. The penalty imposed by section 6684 shall not apply to any person with respect to a violation of any section of chapter 42 if it is established to the satisfaction of the district director or director of the internal revenue service center that such violation was due to reasonable cause. An affirmative showing of reasonable cause must be made in the form of a written statement, containing a declaration by such person that it is made under the penalties of perjury, setting forth all the facts alleged as reasonable cause.

(c) *Willful and flagrant*. For purposes of this section, the term ''willful and flagrant'' has the same meaning as such term possesses in section 507(a)(2)(A) and the regulations thereunder.

(d) *Effective date.* This section shall take effect on January 1, 1970.

[T.D. 7127, 36 FR 11504, June 15, 1971]

§ 301.6685–1 Assessable penalties with respect to private foundations' failure to comply with section 6104(d).

(a) *In general.* In addition to the penalty imposed by section 7207, relating to fraudulent returns, statements, or other documents, any person (as defined in paragraph (b) of this section) who is required to comply with the requirements of section 6104(d), relating to public inspection of private foundations' annual returns, and who fails so to comply, if such failure is willful, shall pay a penalty of $1,000 with respect to each such return with respect to which there is a failure so to comply.

(b) *Person.* For purposes of this section, the term ''person'' means any officer, director, trustee, employee, member, or other individual whose duty it is to perform the act in respect of which the failure occurs.

(c) *Effective date.* This section shall take effect on January 1, 1970.

(d) *Cross reference.* For the amount imposed for failure to comply with section 6104(d), see paragraph (c) of § 301.6652–2.

[T.D. 7127, 36 FR 11505, June 15, 1971, as amended by T.D. 8026, 50 FR 20758, May 20, 1985]

§ 301.6686–1 Failure of DISC to file returns.

(a) *In general.* In addition to the penalty imposed by section 7203 (relating to willful failure to file a return, supply information, or pay tax) any person who is required to supply informatin or to file a return under section 6011(c) (relating to records and returns of DISC's) and who fails to supply such information of file such return at the time prescribed in sections 6072(b) and 1.6072–2(e) shall pay a penalty of $100 for each failure to supply information (provided that the total amount imposed on the delinquent person for all such failures during a calendar year shall not exceed $25,000) and a penalty of $1,000 with respect to each failure to file a return, unless it is shown that such failure is due to a reasonable cause.

(b) *Showing of reasonable cause.* The penalty imposed by section 6686 shall not apply to any person with respect to a failure to supply information, or to file a return, under section 6011(c) if it is established to the satisfaction of the district director or director of the Internal Revenue Service Center that such failure was due to reasonable cause. An affirmative showing of reasonable cause must be made in the form of a written statement, which contains a declaration by such person that the statement is made under the penalties of perjury, and sets forth all the facts alleged as reasonable cause.

[T.D. 7533, 43 FR 6604, Feb. 15, 1978]

§ 301.6688–1 Assessable penalties with respect to information required to be furnished with respect to possessions.

(a) *In general.* Each individual described in section 7654(a) who is subject to an information reporting requirement promulgated under the authority of section 937(c) or 7654 and who fails to fully satisfy such requirement within the time prescribed for reporting such information must, in addition to any criminal penalty provided by law, pay a penalty of $1000 for each such failure. Information reporting requirements promulgated under the authority of sections 937(c) and 7654(e) include the requirement for an individual to file Form 8898, ''Statement for Individuals who Begin or End Bona Fide Residence in a U.S. Possession,'' under § 1.937–1(h) of this chapter, to report that he or she became or ceased to be a bona fide resident of a possession.

(b) *Manner of payment.* The penalty set forth in paragraph (a) of this section must be paid in the same manner as tax upon the issuance of a notice and demand for the penalty.

(c) *Reasonable cause*—(1) The penalty set forth in paragraph (a) of this section will not apply if it is established to the satisfaction of the *Commissioner* that the failure to file the information return or furnish the information within the prescribed time was due to reasonable cause and not to willful neglect. An individual who wishes to avoid the penalty must make an affirmative showing of all facts alleged as a reasonable cause for failure to file

the information return on time, or furnish the information on time, in the form of a written statement containing a declaration that it is made under penalties of perjury. This statement must be filed with Internal Revenue Service Center where Form 8898 must be filed. In determining whether there was reasonable cause for failure to furnish the required information, account will be taken of the fact that the individual was unable to furnish the required information in spite of the exercise of ordinary business care and prudence in his effort to furnish the information. An individual will be considered to have exercised ordinary business care and prudence in his effort to furnish the required information if he made reasonable efforts to furnish the information but was unable to do so because of a lack of sufficient facts on which to make a proper determination.

(d) *Effective/applicability date.* This section applies to taxable years ending after April 9, 2008.

[T.D. 9391, 73 FR 19376, Apr. 9, 2008; 73 FR 27728, May 14, 2008]

§ 301.6689–1 Failure to file notice of redetermination of foreign income taxes.

(a) *Application of civil penalty.* If a foreign tax redetermination occurs, and the taxpayer failed to notify the Internal Revenue Service (IRS) on or before the date and in the manner prescribed in § 1.905–4 of this chapter, or as required under section 404A(g)(2), for giving notice of a foreign tax redetermination, then, unless paragraph (d) of this section applies, there is added to the deficiency (or the imputed underpayment as determined under section 6225) attributable to such redetermination an amount determined under paragraph (b) of this section. Subchapter B of chapter 63 of the Internal Revenue Code (relating to deficiency proceedings) does not apply with respect to the assessment of the amount of the penalty.

(b) *Amount of the penalty.* The amount of the penalty shall be equal to—

(1) Five percent of the deficiency (or imputed underpayment) if the failure is for not more than one month; plus

(2) An additional five percent of the deficiency (or imputed underpayment) for each month (or fraction thereof) during which the failure continues, but not to exceed in the aggregate twenty-five percent of the deficiency (or imputed underpayment).

(c) *Foreign tax redetermination defined.* For purposes of this section, a foreign tax redetermination is any redetermination for which a notice is required under sections 905(c) or 404A(g)(2). See §§ 1.905–3 through 1.905–5 of this chapter for rules relating to the notice requirement under section 905(c).

(d) *Reasonable cause.* The penalty set forth in this section shall not apply if it is established to the satisfaction of the IRS that the failure to file the notification within the prescribed time was due to reasonable cause and not due to willful neglect. An affirmative showing of reasonable cause must be made in the form of a written statement that sets forth all the facts alleged as reasonable cause for the failure to file the notification on time and that contains a declaration by the taxpayer that the statement is made under the penalties of perjury. This statement must be filed with the Internal Revenue Service Center in which the notification was required to be filed. The taxpayer must file this statement with the notice required under section 905(c) or 404A(g)(2). If the taxpayer exercised ordinary business care and prudence and was nevertheless unable to file the notification within the prescribed time, then the delay will be considered to be due to reasonable cause and not willful neglect.

(e) *Applicability date.* This section applies to foreign tax redeterminations occurring in taxable years ending on or after December 16, 2019, and to foreign tax redeterminations of foreign corporations occurring in taxable years that end with or within a taxable year of a United States shareholder ending on or after December 16, 2019.

[T.D. 9922, 85 FR 72074, Nov. 12, 2020]

§ 301.6690–1 Penalty for fraudulent statement or failure to furnish statement to plan participant.

(a) *Penalty.* Any plan administrator required by section 6057(e) and § 301.6057–1(e) to furnish a statement of deferred vested retirement benefit to a plan participant is subject to a penalty

of $50 in each case in which the administrator (1) willfully fails to furnish the statement to the participant in the manner, at the time, and showing the information required by section 6057(e) and § 301.6057–1(e), or (2) willfully furnishes a false or fraudulent statement to the participant. The penalty shall be assessed and collected in the same manner as the tax imposed on employers under the Federal Insurance Contributions Act.

(b) *Effective date.* This section shall take effect on September 2, 1974.

[T.D. 7561, 43 FR 38007, Aug. 25, 1978]

§ 301.6692–1 Failure to file actuarial report.

(a) *Penalty.* In each case in which the plan administrator (within the meaning of section 414(g)) of a defined benefit plan to which the minimum funding standards of section 412 apply fails to file the actuarial report described in section 6059 and § 301.6059–1 within the time prescribed, the plan administrator shall pay a penalty of $1,000. A failure to provide a material item of information called for in the actuarial report is considered a failure to file the report. For this purpose, the signature of an enrolled actuary (see § 301.6059–1(d)) is considered a material item of information.

Further, for any report filed for a plan year ending after January 25, 1982, if the actuary seeks to materially qualify a statement required by § 301.6059–1(c) (4) or (5) there is a failure to provide a material item of information called for in the report. For rules relating to statements not considered as materially qualifying the required statements, see § 301.6059–1(d).

(b) *Failure to make actuarial valuation.* Section 412(c)(9) and the regulations thereunder prescribe the time for making an actuarial valuation of a defined benefit plan. For purposes of this section, the failure to base information called for in the actuarial report upon an actuarial valuation of the plan which is made within the time prescribed by section 412(c)(9) and the regulations thereunder is considered a failure to file the actuarial report.

(c) *Showing of reasonable cause.* The penalty imposed by this section does not apply if it is established to the satisfaction of the appropriate district director or the director of the Internal Revenue Service Center at which the actuarial report is required to be filed that the failure to file the report was due to reasonable cause. An affirmative showing of reasonable cause must be made in the form of a written statement setting forth all the facts alleged as reasonable cause. The statement must contain a declaration by the appropriate individual that the statement is made under the penalties of perjury.

(d) *Joint liability.* If more than one person is responsible as a plan administrator for a failure to file the actuarial report, all such persons are jointly and severally liable with respect to the failure.

(e) *Manner of payment.* The penalty imposed for the failure to file an actuarial report shall be paid in the same manner as a tax upon the issuance of notice and demand therefor.

(f) *Effective dates.* In the case of a plan in existence on January 1, 1974, this section is effective beginning with the first plan year beginning after December 31, 1975, for which the minimum funding standards of section 412 apply to the plan. In the case of a plan not in existence on January 1, 1974, this section is effective beginning with the first plan year beginning after September 2, 1974, for which the minimum funding standards apply to the plan.

(Secs. 6059 and 7805 of the Internal Revenue Code of 1954 (88 Stat. 947, 68A Stat. 917; 26 U.S.C. 6059, 7805))

[T.D. 7798, 46 FR 57484, Nov. 24, 1981]

§ 301.6693–1 Penalty for failure to provide reports and documents concerning individual retirement accounts or annuities.

(a) *In general*—(1) *Annual reports, etc.* The trustee of an individual retirement account described in section 408(a), or the issuer of an individual retirement annuity described in section 408(b), who fails to furnish or file a report or any other document required under section 408(i) and § 1.408–5 within the time and in the manner prescribed for furnishing or filing such item shall pay a penalty of $10 for each failure unless it is shown that such failure is due to reasonable cause.

(2) *Disclosure statements.* The trustee of an individual retirement account described in section 408(a), or the issuer of an individual retirement annuity described in section 408(b), who fails to furnish or file a disclosure statement, a governing instrument, an amendment to either, or any other document required under section 408(i) and § 1.408–6, within the time and in the manner prescribed for furnishing or filing such item, shall pay a penalty of $10 for each failure unless it is shown that such failure is due to reasonable cause.

(b) *Showing of reasonable cause.* The penalty imposed by section 6693 shall not apply to any person with respect to a failure to furnish or file a report, statement, or other document within the time and in the manner prescribed if it is established to the satisfaction of the district director that such failure was due to reasonable cause. An affirmative showing of reasonable cause must be made in the form of a written statement, containing a declaration by such person that it is made under the penalties of perjury and setting forth all the facts alleged to constitute reasonable cause.

(c) *Deficiency procedures not to apply.* The penalty imposed by section 6693 may be assessed and collected without regard to the deficiency procedures provided by subchapter B of chapter 63 of the Code.

(d) *Other penalties.* The penalties of section 6693 and this section are in lieu of any penalty imposed by section 6652(f) for violation of section 6047(d), with respect to any failure to furnish or file described in this section.

(e) *Effective date.* This section shall take effect on January 1, 1975.

[T.D. 7730, 45 FR 72652, Nov. 3, 1980]

§ 301.6707–1 Failure to furnish information regarding reportable transactions.

(a)(1) *In general.* A material advisor who is required to file a return under section 6111(a) of the Internal Revenue Code (Code) with respect to any reportable transaction who fails to file a timely return in accordance with § 301.6111–3(e) or who files a return with false or incomplete information with respect to the reportable transaction will be subject to a penalty. A material advisor who fails to file a timely return or who files a false or incomplete return with respect to more than one reportable transaction will be subject to a separate section 6707 penalty for each transaction.

(i) *Reportable transactions.* The amount of the penalty for failing to timely file a return under section 6111(a), or filing the return with false or incomplete information with respect to any reportable transaction other than a listed transaction is $50,000.

(ii) *Listed transactions.* (A) *In general.* The amount of the penalty for failing to timely file a return under section 6111(a), or filing the return with false or incomplete information with respect to a listed transaction is the greater of $200,000 or 50 percent of the gross income derived by the material advisor with respect to aid, assistance, or advice that is provided with respect to the listed transaction before the date the return is filed under section 6111.

(B) *Intentional action or failure.* If the failure or action subject to the penalty is with respect to a listed transaction and is intentional, the penalty is the greater of $200,000 or 75 percent of the gross income derived by the material advisor with respect to aid, assistance, or advice that is provided with respect to the listed transaction before the date the return is filed under section 6111.

(C) *Transaction that is both a listed transaction and reportable transaction other than a listed transaction.* In the case of a penalty imposed under section 6707 with respect to a transaction that is both a listed transaction and a reportable transaction other than a listed transaction, the penalty under this paragraph (a)(1)(ii), and not the penalty under paragraph (a)(1)(i) of this section, will apply.

(2) *Gross income derived by the material advisor.* For purposes of calculating the amount of the penalty with respect to a listed transaction, the gross income derived by the material advisor will be determined in accordance with § 301.6111–3(b)(3)(ii) of this chapter. If a person is a material advisor with regard to more than one type of listed transaction, the gross income derived from each type of listed transaction will be considered separately and will

not be aggregated to determine the amount of any section 6707 penalty for failing to make a proper return under section 6111(a). Further, only gross income derived from listed transactions for which the advisor is a material advisor under section 6111 is taken into account for purposes of computing the penalty.

(b) *Definitions*—(1) *Derive*. The term ''derive'' is defined in § 301.6111–3(c)(3).

(2) *False information*. For purposes of this section, the term ''false information'' means information provided on a Form 8918, ''Material Advisor Disclosure Statement'' (or successor form), filed with the Internal Revenue Service (IRS) that is untrue or incorrect when the Form 8918 (or successor form) was filed. False information does not include information provided on a Form 8918 (or successor form) filed with the IRS that is immaterial or that is untrue or incorrect due to a mistake or accident after the exercise of reasonable care.

(3) *Incomplete information*. For purposes of this section, the term ''incomplete information'' means a Form 8918 (or successor form) filed with the IRS that does not provide the information required under § 301.6111–3(d). A Form 8918 (or successor form) filed with the IRS will not be considered incomplete when the information not provided on the form is immaterial or was not provided due to mistake or accident after the exercise of reasonable care. Whether information is immaterial will be determined based upon the facts and circumstances surrounding each failure to file or filing of an incomplete return. A material advisor who completes the form to the best of the material advisor's ability and knowledge after the exercise of reasonable effort to obtain the information will not be considered to have filed incomplete information within the meaning of this section. A Form 8918 (or successor form) will be considered to provide incomplete information when it omits information required to be provided under § 301.6111–3(d) or contains a statement that the omitted information will be provided upon request.

(4) *Intentional*. For purposes of this section, the failure to timely file a return or the submission of a return with false or incomplete information is intentional if—

(i) The material advisor knew of the obligation to file a return and knowingly did not timely file a return with the IRS; or

(ii) The material advisor filed a return knowing that it was false or incomplete.

(5) *Listed transaction*. The term ''listed transaction'' is defined in section 6707A(c)(2) of the Code and § 1.6011–4(b)(2) of this chapter.

(6) *Material Advisor*. The term ''material advisor'' is defined in section 6111(b)(1) of the Code and § 301.6111–3(b).

(7) *Reportable transaction*. The term ''reportable transaction'' is defined in section 6707A(c)(1) of the Code and § 1.6011–4(b)(1) of this chapter.

(c) *Assessment of penalty*—(1) *Intentional failure determined based on all the facts and circumstances*. Whether a material advisor intentionally failed to timely file a return or intentionally filed a false or incomplete return will be determined based upon all the facts and circumstances surrounding the non-filing or filing of a false and/or incomplete return. The higher penalty under the flush language of section 6707(b)(2) will not apply to any material advisor whose failure to timely file or whose furnishing of false or incomplete information was unintentional. The failure to timely file a return, or filing a return with false or incomplete information, will be considered unintentional if the material advisor subsequently files a true and complete return prior to the earlier of the date that any taxpayer files a Form 8886, ''Reportable Transaction Disclosure Statement'' (or successor form) identifying the material advisor with respect to the reportable transaction in question, or the date the IRS contacts the material advisor concerning the reportable transaction.

(2) *Individual liability in the case of more than one material advisor*. If there is more than one material advisor who is responsible for filing a return under section 6111 with respect to the same reportable transaction, a separate penalty under section 6707 may be assessed against each material advisor who fails to timely file or files a return with false or incomplete information. The

determination of whether the failure or action subject to the penalty is intentional will be made individually for each material advisor.

(3) *Designation agreements*. A material advisor who is required to file a return under section 6111 and who is a party to a designation agreement within the meaning of § 301.6111–3(f) is subject to a penalty under section 6707 if the designated material advisor fails to file a return timely or files a return with false or incomplete information. In the case of a listed transaction, if the designated material advisor fails to file a return timely, or files a return with false or incomplete information, the nondesignated material advisor who is a party to the designation agreement will not be treated as intentionally failing to file the return, or intentionally filing a return with false or incomplete information, unless the nondesignated material advisor knew or should have known that the designated material advisor would fail to file a true and complete return timely.

(d) *Examples*. The rules of paragraphs (a) through (c) of this section are illustrated by the following examples:

Example 1. Advisor A becomes a material advisor as defined under section 6111(b)(1) and § 301.6111–3(b) in the fourth quarter of 2014 with respect to a reportable transaction other than a listed transaction, and Advisor B also becomes a material advisor in the same quarter with respect to the same reportable transaction. Advisors A and B fail to timely file the Form 8918 with respect to the reportable transaction. Under paragraph (a)(1)(ii) of this section, the penalty for failure by a material advisor to timely disclose a reportable transaction other than a listed transaction is $50,000. Because the section 6707 penalty applies to each material advisor independently under paragraph (c)(2) of this section, Advisors A and B each are subject to a section 6707 penalty of $50,000.

Example 2. Same as *Example 1*, except that Advisor B timely files the Form 8918. Advisors A and B did not enter into a designation agreement. Accordingly, paragraph (c)(3) of this section does not apply and only Advisor A is subject to a $50,000 section 6707 penalty.

Example 3. Advisor C becomes a material advisor to Client X on January 5, 2015, with respect to a listed transaction. Advisor C derives $400,000 in gross income from his advice to Client X because he expects to receive that amount from Client X, even though he has not yet received that amount. On January 5, 2016, Advisor C becomes a material advisor to Client Y with respect to the same type of listed transaction. Advisor C derives $100,000 in gross income from his advice to Client Y because he expects to receive that amount from Client Y, even though he has not yet received that amount. At no time did Advisor C file a Form 8918 to disclose the listed transaction. For purposes of this example, assume that Advisor C's failure to file a Form 8918 was unintentional. Therefore, under paragraph (c)(2) of this section, Advisor C is subject to a section 6707 penalty based on the gross income derived from Client X and Client Y. Accordingly, Advisor C is subject to a penalty of $250,000 (50 percent of $500,000, the gross income derived from Clients X and Y).

Example 4. Same as *Example 3*, except that the gross income Advisor C expects to receive from his advice to Client Y (a C corporation) is $20,000. Because the material advisor fee threshold is not satisfied with respect to Client Y, Advisor C is not a material advisor to Client Y with respect to the listed transaction. Advisor C is, however, a material advisor with respect to Client X with respect to the same listed transaction. Therefore, Advisor C is subject to a section 6707 penalty with respect to the failure to timely file a Form 8918 disclosing the listed transaction. Although Advisor C provided advice with respect to two transactions that are the same type of listed transaction, Advisor C was only a material advisor with respect to advice provided to Client X. Therefore, under paragraph (c)(2) of this section Advisor C is subject to a section 6707 penalty based only on the gross income derived from Client X. Accordingly, Advisor C is subject to a penalty of $200,000 (50 percent of $400,000, the gross income derived from Client X).

Example 5. Same as *Example 3*, except that Advisor C files a Form 8918 disclosing the listed transaction on November 16, 2015. Because Advisor C becomes a material advisor to Client X on January 5, 2015, the Form 8918 is required to be filed on or before April 30, 2015 (the last day of the month that follows the end of the calendar quarter in which the advisor became a material advisor with regard to the reportable transaction). See § 301.6111–3(e). Therefore, Advisor C did not timely file the Form 8918. Advisor C is subject to a $200,000 penalty under section 6707 for his unintentional failure because, as of the date he filed the Form 8918, the gross income Advisor C had received or expected to receive with respect to advice relating to a listed transaction that was not disclosed only included $400,000 of gross income for advice to Client X. By the time that Advisor C provides advice to Client Y on January 5, 2016, Advisor C has disclosed the listed transaction.

Example 6. Same as *Example 3*, except that Advisor C files the Form 8918 on February 16,

2016, disclosing the listed transaction. Because Advisor C first becomes a material advisor with respect to the listed transaction on January 5, 2015, the Form 8918 is required to be filed on or before April 30, 2015 regardless of the fact that Advisor C is also a material advisor to a second client, Client Y, with respect to the same listed transaction. This is because under the facts of *Example 3,* Advisor C ''becomes'' a material advisor on January 5, 2015. The date on which a material advisor ''becomes'' a material advisor is determinative of the due date for the Form 8918 under § 301.6111–3(e). Therefore, when Advisor C files the Form 8918 on February 16, 2016, the form is not timely filed under section 6111. Under paragraph (c)(2) of this section, Advisor C is subject to a penalty under section 6707 of $250,000 (50 percent of $500,000) because, as of the date that the Form 8918 was filed, the gross income that Advisor C received or expected to receive as a material advisor with respect to a listed transaction that was not disclosed included gross income for advice to both Client X ($400,000) and Client Y ($100,000).

Example 7. Advisor D becomes a material advisor as defined under section 6111(b)(1) and § 301.6111–3(b) in the first quarter of 2016 with respect to a reportable transaction other than a listed transaction. Advisor D does not file a Form 8918 by April 30, 2016. The transaction is then identified as a listed transaction in published guidance on July 7, 2016. Advisor D knew that he had a new obligation to file a Form 8918 by October 31, 2016, and intentionally fails to file the Form 8918. Advisor D is subject to only one penalty, in the amount of the greater of $200,000, or 75 percent of the gross income he derived from the transaction, for intentionally failing to disclose the listed transaction in accordance with § 301.6111–3(d)(1) and (e).

Example 8. Same as *Example 7,* except that Advisor D filed a Form 8918 disclosing the listed transaction on October 15, 2016. As a result of that disclosure, Advisor D is not subject to the section 6707 penalty amount described in § 301.6707–1(a)(1)(ii). However, because Advisor D did not timely file a Form 8918 by April 30, 2016, the due date for the Form 8918 with respect to the reportable transaction for which Advisor D became a material advisor in the first quarter of 2016, Advisor D is subject to a section 6707 penalty of $50,000 as described in § 301.6707–1(a)(1)(i). The disclosure of the listed transaction does not correct Advisor D's initial failure to disclose the reportable transaction by April 30, 2016.

(e) *Rescission authority*—(1) *In general.* The Commissioner (or the Commissioner's delegate) may rescind the section 6707 penalty if—

(i) The violation relates to a reportable transaction that is not a listed transaction; and

(ii) Rescinding the penalty would promote compliance with the requirements of the Code and effective tax administration.

(2) *Requesting rescission.* The Secretary may prescribe the procedures for a material advisor to request rescission of a section 6707 penalty by guidance published in the Internal Revenue Bulletin.

(3) *Factors that weigh in favor of granting rescission.* In determining whether rescission would promote compliance with the requirements of the Code and effective tax administration, the Commissioner (or the Commissioner's delegate) will take into account the following list of factors that weigh in favor of granting rescission. This is not an exclusive list, and no single factor will be determinative of whether to grant rescission in any particular case. Rather, the Commissioner (or the Commissioner's delegate) will consider and weigh all relevant factors, regardless of whether the factor is included in this list.

(i) The material advisor, upon becoming aware of the failure to disclose a reportable transaction in accordance with section 6111 and the regulations thereunder, filed a complete and proper, albeit untimely, Form 8918 (or successor form). This factor weighs in favor of rescission if circumstances suggest that the material advisor did not delay in filing an untimely but properly completed Form 8918 (or successor form) until after the IRS had taken steps to identify the person as a material advisor with respect to the reportable transaction. For instance, this factor will weigh strongly in favor of rescission if the material advisor files the Form 8918 (or successor form) prior to the date the IRS contacts the material advisor concerning the reportable transaction. However, this factor will not weigh in favor of rescission if the facts and circumstances indicate that the material advisor delayed filing the Form 8918 (or successor form) until after a taxpayer files a Form 8886 (or successor form) identifying the material advisor with respect to the reportable transaction in question.

(ii) The material advisor's failure to disclose the reportable transaction properly was due to an unintentional mistake of fact that existed despite the material advisor's reasonable attempts to ascertain the correct facts with respect to the transaction.

(iii) The material advisor has an established history of properly disclosing other reportable transactions and complying with other tax laws, including compliance with any requests made by the IRS under section 6112, if applicable.

(iv) The material advisor demonstrates that the failure to include on any return or statement any information required to be disclosed under section 6111 arose from events beyond the material advisor's control.

(v) The material advisor cooperates with the IRS by providing timely information with respect to the transaction at issue that the Commissioner (or the Commissioner's delegate) may request in consideration of the rescission request. In considering whether a material advisor cooperates with the IRS, the Commissioner (or the Commissioner's delegate) will take into account whether the material advisor meets the deadlines described in guidance published in the Internal Revenue Bulletin for complying with requests for additional information.

(vi) Assessment of the penalty weighs against equity and good conscience, including whether the material advisor demonstrates that there was reasonable cause for, and the material advisor acted in good faith with respect to, the failure to timely file or to include on any return any information required to be disclosed under section 6111. An important factor in determining reasonable cause and good faith is the extent of the material advisor's efforts to determine whether there was a requirement to file the return required under section 6111. The presence of reasonable cause, however, will not necessarily be determinative of whether to grant rescission.

(4) *Absence of favorable factors weighs against rescission.* The absence of facts establishing the factors described in paragraph (e)(3) of this section weighs against granting rescission. The presence or absence of any one of these factors, however, will not necessarily be determinative of whether to grant rescission; rather the determination will be made in consideration of all of the factors and any other facts and circumstances.

(5) *Factors not considered.* In determining whether to grant rescission, the Commissioner (or the Commissioner's delegate) will not consider doubt as to collectability of, or liability for, the penalties (except that the Commissioner (or the Commissioner's delegate) may consider doubt as to liability to the extent it is a factor in the determination of reasonable cause and good faith).

(f) *Effective/applicability date.* The rules of this section apply to returns the due date for which is after July 31, 2014.

[T.D. 9686, 79 FR 44283, July 31, 2014]

§ 301.6707A–1 Failure to include on any return or statement any information required to be disclosed under section 6011 with respect to a reportable transaction.

(a) *In general.* Any person who fails to include on any return or statement any information required to be disclosed under section 6011 with respect to a reportable transaction may be subject to a monetary penalty. Subject to maximum and minimum limits, the penalty for failure to include information with respect to any reportable transaction is 75 percent of the decrease in tax shown on the return as a result of the transaction or the decrease that would have resulted from the transaction if it were respected for Federal tax purposes. The penalty for failure to include information with respect to a listed transaction shall not exceed $100,000 for a natural person and $200,000 for all other persons. The penalty for failure to include information with respect to any other reportable transaction shall not exceed $10,000 for a natural person and $50,000 for all other persons. The penalty with respect to any reportable transaction shall not be less than $5,000 for a natural person and $10,000 for all other persons. The section 6707A penalty is in addition to any other penalty that may be imposed.

(b) *Definitions*—(1) *Reportable transaction*. The term ''reportable transaction'' is defined in section 6707A(c)(1) of the Code and §1.6011–4(b)(1) of this chapter.

(2) *Listed transaction*. The term ''listed transaction'' is defined in section 6707A(c)(2) of the Code and §1.6011–4(b)(2) of this chapter.

(3) *Return*. For purposes of this section, the term *return* means an original return, amended return, or application for tentative refund, except where otherwise indicated. As used in examples, the term *return* means an original return, except where otherwise indicated.

(c) *Assessment of the penalty*—(1) *In general*. The Internal Revenue Service may assess a penalty under section 6707A with respect to each failure to disclose a reportable transaction within the time and in the form and manner provided by §§1.6011–4(d) and 1.6011–4(e) of this chapter or pursuant to the time, form, and manner stated in other published guidance. Section 1.6011–4(e) provides, in part, that a taxpayer must attach a disclosure statement to the taxpayer's return for each taxable year for which the taxpayer participates in a reportable transaction. A taxpayer also must attach a disclosure statement to each amended return that reflects the taxpayer's participation in a reportable transaction and, if a reportable transaction results in a loss that is carried back to a prior year, a taxpayer must attach a disclosure statement to the taxpayer's application for tentative refund or amended return for that prior year. In addition, a copy of the disclosure statement must be sent to the IRS Office of Tax Shelter Analysis (OTSA) at the same time that any disclosure statement is first filed by the taxpayer pertaining to a particular reportable transaction. Nonetheless, a taxpayer who is required to disclose a transaction by filing Form 8886, ''Reportable Transaction Disclosure Statement,'' (or successor form) with a return and who is also required to disclose the transaction by filing that form with OTSA, is subject to only a single section 6707A penalty for failure to make either one or both of those disclosures. If section 6011 and the regulations thereunder require a disclosure statement to be filed at the time that a return is filed, the disclosure statement is considered to be timely filed if it is filed at the same time as the return, even if the return is filed untimely after its due date (including extensions).

(2) *Examples*. The rules of paragraph (c)(1) of this section are illustrated by the following examples:

Example 1. Taxpayer T is required to attach a Form 8886 to its return for the 2008 taxable year and to send a copy of the Form 8886 to OTSA at the time it files its return. Taxpayer T fails to attach the Form 8886 to its return and fails to send a copy of the Form 8886 to OTSA. Taxpayer T is subject to a single penalty under section 6707A for failure to disclose because Taxpayer T failed to comply with the disclosure requirements of section 6011 as described in §§1.6011–4(d) and 1.6011–4(e) of this chapter. A penalty under section 6707A also would apply if Taxpayer T had failed to comply with only one of the two requirements.

Example 2. Same as *Example 1*, except that Taxpayer T also subsequently files an amended return for 2008 that reflects Taxpayer T's participation in the reportable transaction described in *Example 1*. Taxpayer T fails to attach a Form 8886 to the amended return as required by §1.6011–4(e)(1) of this chapter. Taxpayer T is subject to an additional penalty under section 6707A for failing to disclose a reportable transaction on the amended return for 2008.

Example 3. In November 2009, Taxpayer U participates in a reportable transaction resulting in a loss. On March 15, 2010, Taxpayer U files its 2009 return, on which it reports the loss and to which it fails to attach a Form 8886. One month later, Taxpayer U files an amended return for 2008, on which it carries back the loss and to which it fails to attach a Form 8886. Section 1.6011–4(e)(1) of this chapter requires Taxpayer U to attach a Form 8886 to its amended return for the 2008 taxable year. Taxpayer U is subject to two penalties under section 6707A: one for the failure to attach Form 8886 to its amended return for 2008 and another for the failure to attach Form 8886 to its 2009 return.

Example 4. Taxpayer V participates in a nonlisted reportable transaction and is required to attach a Form 8886 to its return for the 2009 taxable year that is due on March 15, 2010. Taxpayer V timely files its return but fails to attach the Form 8886 to its return. After the due date of Taxpayer V's return and without an extension of time to file, Taxpayer V files an amended return relating to the 2009 taxable year to which Taxpayer V attaches the Form 8886. Taxpayer V is subject to a penalty under section 6707A for failure to disclose because Taxpayer V failed to comply with the disclosure requirements of

section 6011 (described in §1.6011–4(e)(1) of this chapter) by not attaching a Form 8886 to its original return for the 2009 taxable year that was timely filed on or before the due date of March 15, 2010. An additional penalty under section 6707A would apply if Taxpayer V had failed to attach a Form 8886 to its amended return.

Example 5. Shareholder W, a shareholder in an S Corporation, receives a timely Schedule K–1, ''Shareholder's Share of Income, Deductions, Credits, *etc.,*'' on April 10, 2009, and determines that she is required to attach a Form 8886 to her individual income tax return for the 2008 taxable year. Shareholder W fails to attach the Form 8886 to her 2008 individual income tax return but files a proper and complete Form 8886 with OTSA on June 12, 2009. Section 1.6011–4(e)(1) of this chapter provides that if a taxpayer who is a partner in a partnership, a shareholder in an S corporation, or a beneficiary of a trust receives a timely Schedule K–1 less than 10 calendar days before the due date of the taxpayer's return (including extensions) and, based on receipt of the timely Schedule K–1, the taxpayer determines that the taxpayer participated in a reportable transaction, the disclosure statement will not be considered late if the taxpayer discloses the reportable transaction by filing a disclosure statement with OTSA within 60 calendar days after the due date of the taxpayer's return (including extensions). Accordingly, Shareholder W is not subject to a penalty under section 6707A for failure to disclose.

Example 6. In July 2008, Taxpayer X participates in Transaction Z, a transaction that is not reportable as of April 15, 2009, the date Taxpayer X files his individual income tax return for 2008. On July 15, 2009, Transaction Z is identified as a transaction of interest. Section 1.6011–4(e)(2)(i) of this chapter provides that if a transaction that is not otherwise a reportable transaction becomes a listed transaction or a transaction of interest after the taxpayer has filed a tax return (including an amended return) reflecting the taxpayer's participation in the listed transaction or transaction of interest and before the end of the period of limitations for assessment of tax for any taxable year in which the taxpayer participated in the listed transaction or transaction of interest, then a disclosure statement must be filed with OTSA within 90 calendar days after the date on which the transaction became a listed transaction or transaction of interest, regardless of whether the taxpayer participated in the transaction in the year the transaction became a listed transaction or a transaction of interest. Taxpayer X fails to file a Form 8886 with OTSA by October 13, 2009, 90 calendar days after the date that the transaction was identified as a transaction of interest. Accordingly, Taxpayer X is subject to a penalty under section 6707A.

Example 7. Taxpayer Y is required to attach a Form 8886 to its return for the 2008 taxable year with respect to participation in a listed transaction. Taxpayer Y attaches the Form 8886 to its timely filed return. The Form 8886, however, does not describe all of the potential tax benefits expected to result from this transaction and states that information will be provided upon request. Because the Form 8886 does not describe all of the potential tax benefits expected to result from the transaction and merely provides that the information will be provided upon request, the Form 8886 filed by Taxpayer Y is incomplete and does not satisfy the requirements set forth in §1.6011–4(d) of this chapter. Taxpayer Y is subject to a penalty under section 6707A for failure to disclose in the appropriate manner.

(d) *Calculation of the penalty*—(1) *Decrease in tax*—(i) *In general.* (A) As used in this section, the phrase *decrease in tax shown on the return as a result of the transaction or the decrease that would have resulted from the transaction if it were respected for Federal tax purposes* means the sum of:

(*1*) The excess of the amount of the tax that would have been shown on the return if the return did not reflect the taxpayer's participation in the reportable transaction over the tax actually reported on the return reflecting participation in the reportable transaction; and

(*2*) Any other tax that results from participation in the reportable transaction but was not reported on the taxpayer's return.

(B) The amount of tax that would have been shown on the return if it did not reflect the taxpayer's participation in the reportable transaction includes adjustments that result mechanically from backing out the reportable transaction, such as tax items affected by an increase in adjusted gross income resulting from not participating in the transaction. The calculation of the penalty is unaffected by whether a taxpayer's tax liability is ultimately settled with the IRS for a different amount or whether the taxpayer subsequently reports a different amount of tax on an amended return, because these amounts do not enter into the calculation of the decrease in tax shown on the return (or returns) to which the penalty relates.

(ii) *Subsequently identified transactions.* If the taxpayer fails to file, as

required by § 1.6011–4(a) of this chapter, a complete and proper disclosure statement disclosing participation in a listed transaction or transaction of interest with respect to more than one return in the time prescribed under § 1.6011–4(e)(2)(i) of this chapter, the amount of the penalty will be computed by aggregating the decrease in tax shown on each return for which the period of limitations on assessment remains open.

(iii) *Penalty for failure to report to the SEC.* In the case of a penalty imposed under section 6707A(e) for failure to disclose liability for certain penalties in reports to the Securities and Exchange Commission (SEC), the amount of the penalty will be determined under section 6707A(b) and this paragraph (d), regardless of whether the penalty that the taxpayer failed to disclose is imposed under section 6707A, 6662A, or 6662(h).

(iv) *Minimum and maximum amount of the penalty.* The limitations on the minimum and maximum penalty amounts described in paragraph (a) of this section apply separately to each failure to disclose that is subject to a penalty.

(2) *No tax required to be shown on return.* For returns with respect to which disclosure is required but on which no tax is required to be shown (for example, returns of passthrough entities), the minimum penalty amount will be imposed for the failure to disclose.

(3) *Examples.* The rules in paragraphs (d)(1) and (2) of this section are illustrated by the following examples:

(i) *Example 1.* Taxpayer X, a natural person, participated in a listed transaction involving a Roth IRA and filed a return reflecting participation in the transaction. X failed to disclose participation in the listed transaction as required by the regulations under section 6011. As a result of the transaction, X was liable under section 4973 for a $10,000 excise tax for excess contributions to X's Roth IRA. On X's return reflecting participation in the listed transaction, X correctly reported $25,000 of income tax, none of which was attributable to the listed transaction, but failed to report the excise tax. If X had not participated in the listed transaction, the excise tax under section 4973 would not have applied and X's income tax would have remained $25,000. There would, therefore, be no difference between the tax on the return as filed and the tax on the return if it did not reflect participation in the transaction. The excise tax, however, is another tax that resulted from participation in the transaction but was not reported on X's return, as described in paragraph (d)(1)(i)(B) of this section. Therefore, under paragraph (d)(1) of this section, the decrease in tax resulting from the listed transaction is $10,000. This amount is determined by adding zero (the excess of the amount of tax that would have been shown on X's return if the return did not reflect X's participation in the transaction over the tax X actually reported on the return reflecting X's participation in the transaction) and $10,000 (the amount of excise tax that resulted from participation in the transaction but was not reported on the return). The amount of the penalty under section 6707A is $7,500, which amount is 75 percent of the $10,000 decrease in tax.

(ii) *Example 2.* Taxpayer X participated in a listed transaction that resulted in a $40,000 decrease in the tax shown on the return reflecting participation in the transaction. X failed to disclose its participation in the transaction as required by the regulations under section 6011 and is, therefore, subject to a penalty under section 6707A. After weighing litigating hazards and other costs of litigation, the IRS Office of Appeals agreed to settle X's deficiency for $20,000. For purposes of calculating the amount of the penalty under paragraph (d)(1) of this section, the settlement does not affect the decrease in tax shown on X's return as a result of the listed transaction which remains $40,000. The amount of X's penalty under section 6707A is $30,000, which amount is 75 percent of the $40,000 decrease in tax.

(iii) *Example 3.* For the 2018 tax year, Taxpayer X, a natural person, failed to disclose participation in a reportable transaction that is not a listed transaction and, therefore, is subject to a penalty under section 6707A. After offsetting gross income with the losses generated in the reportable transaction, X's return reported adjusted

gross income of $100,000. The return also reported $12,000 of medical expenses, $4,500 of which were deductible after applying the 7.5 percent floor in section 213(a) and (f). If X's return had not reflected participation in the reportable transaction, X's adjusted gross income would have been $140,000 and the deductible medical expenses would be limited to $1,500 ($3,000 less than the deductible amount claimed). Under paragraph (d)(1) of this section, the decrease in tax shown on X's return as a result of X's participation in the reportable transaction takes into account both the tax on the additional $40,000 in adjusted gross income had X not participated in the reportable transaction and the tax on the $3,000 adjustment to X's deductible medical expenses caused by the increase in adjusted gross income.

(iv) *Example 4.* Taxpayer X, a natural person, timely filed X's 2019 return and reported income tax of $40,000. X did not participate in a reportable transaction in 2019. X participated in a listed transaction in 2020, but failed to file a complete and proper disclosure statement with X's 2020 return as required by the regulations under section 6011. As filed, the 2020 return reports that X owes no tax and has a loss of $10,000. If the tax consequences of the listed transaction were not reflected on the 2020 return, the return would show income tax of $15,000 and no loss. X files an amended return for the 2019 tax year on which the only amendment is to carry back the $10,000 loss reported on the 2020 tax return to the 2019 tax year. The loss carryback reduces X's tax liability for 2019 by $3,000 to $37,000. X fails to file a complete and proper disclosure statement with the 2019 amended return as required by the regulations under section 6011. Two penalties under section 6707A apply: one for X's failure to disclose participation in a listed transaction reflected on the 2020 return and another for the failure to disclose participation in the same listed transaction reflected on the 2019 amended return. Under paragraph (d)(1) of this section, the decrease in tax on the 2020 return resulting from the listed transaction is $15,000, which is the excess of the amount of tax that would have been shown on X's 2020 return if that return did not reflect X's participation in the listed transaction over the tax X actually reported on the 2020 return. The amount of the section 6707A penalty with respect to the 2020 return is $11,250, which amount is 75 percent of the decrease in tax. Under paragraph (d)(1) of this section, the decrease in tax on the 2019 amended return that results from the listed transaction is $3,000. This amount is computed by determining the excess of the amount of tax that would have been shown on X's 2019 amended return if that return did not reflect X's participation in the listed transaction over the tax X actually reported on the 2019 amended return reflecting the loss carryback resulting from X's participation in the listed transaction in 2020. *See* paragraph (c) of this section. However, because X is a natural person, and because 75 percent of the $3,000 decrease in tax is less than $5,000, which is the minimum penalty under paragraph (a) of this section and section 6707A(b)(3), the section 6707A penalty with respect to the failure to disclose the listed transaction with respect to the 2019 amended return is $5,000. Accordingly, X is subject to a $11,250 section 6707A penalty for failure to disclose participation in a listed transaction reflected on the 2020 return and a $5,000 section 6707A penalty for failure to disclose participation in a listed transaction reflected on the 2019 amended return.

(v) *Example 5.* Taxpayer X, a corporation, timely files its 2019, 2020, and 2021 returns, each of which reflects participation in the same transaction. In 2023, the transaction becomes a listed transaction. When the transaction at issue became listed, the periods of limitations on assessment on X's 2020 and 2021 tax year were open, but the period of limitations on assessment on X's 2019 tax year was closed. Pursuant to § 1.6011–4(a) and (e)(2)(i) of this chapter, X is required to file a single disclosure statement reflecting its participation in the listed transaction 90 calendar days after the date on which the transaction becomes a listed transaction. X failed to file a disclosure statement as required. Pursuant to paragraph (d)(1)(ii) of this section, the section

6707A penalty is computed by aggregating the decrease in tax shown on the 2020 return and the decrease in tax shown on the 2021 return. Because the period of limitations on assessment for X's 2019 tax year was closed at the time the transaction became listed, the decrease in tax shown on the 2019 return as a result of X's participation in the listed transaction is not taken into account in computing the amount of the penalty. The decreases in tax shown on the returns as a result of X's participation in the transaction are $265,000 in tax year 2020 and $7,000 in tax year 2021. Under paragraph (d)(1) of this section, the total decrease in tax shown is computed by adding the decrease in tax for 2020 and the decrease in tax for 2021, which is $272,000. Seventy-five percent of that amount is $204,000. Because X is a corporation, the maximum penalty amount is $200,000 under paragraph (a) of this section and section 6707A(b)(2)(A). Accordingly, X is subject to a section 6707A penalty of $200,000, rather than $204,000.

(vi) *Example 6*. Taxpayer X, a natural person, files X's 2019 return reflecting participation in a reportable transaction that is not a listed transaction, but fails to disclose the transaction as required by the regulations under section 6011. The decrease in tax with respect to X's 2019 return as a result of participation in the reportable transaction is $20,000. X files an amended 2019 return to include a net operating loss carried forward from a prior year, which X inadvertently failed to include when filing the original 2019 return. The amended return reflects participation in the same reportable transaction, but X again fails to disclose the transaction as required by the regulations under section 6011. The decrease in tax with respect to the amended 2019 return as a result of participation in the transaction is also $20,000. X is subject to two separate 6707A penalties: one for the failure to disclose the reportable transaction with respect to the tax benefits from the reportable transaction reflected on the original 2019 return and one for the failure to disclose the reportable transaction with respect to the tax benefits from the reportable transaction reflected on the amended 2019 return. Seventy-five percent of the $20,000 decrease in tax shown on the original 2019 return is $15,000 and on the amended 2019 return is another $15,000. However, because X is a natural person, the amount of the penalty for failure to disclose is limited to the maximum amount of $10,000 under § 301.6707A–1(a) and section 6707A(b)(2)(B). Accordingly, the amount of the section 6707A penalty for the 2019 original return is $10,000 and the amount of the section 6707A penalty for the 2019 amended return is also $10,000, for a total penalty of $20,000.

(vii) *Example 7*. Taxpayer X, a natural person, timely files X's 2019 return on April 15, 2020, reflecting participation in a transaction that was not identified as a reportable transaction when X filed the return, the only year X participated in the transaction. In early 2021, the IRS identifies the transaction as a listed transaction. X fails to disclose the listed transaction as required by the regulations under section 6011. In late 2021, X files an amended 2019 income tax return to claim deductions that had been omitted from the originally filed 2019 return. The amended 2019 return reflects X's participation in the listed transaction. X does not disclose the listed transaction when filing the amended 2019 return. The decrease in tax resulting from X's participation in the transaction is $100,000 with respect to the original 2019 return and $80,000 with respect to the 2019 amended return. Pursuant to § 1.6011–4(e)(2)(i) of this chapter, X was required to file a disclosure statement reflecting X's participation in the listed transaction if the period of limitations on assessment of tax remained open for any taxable year in which the taxpayer participated in the listed transaction. When the transaction at issue became listed, the period of limitations on assessment on X's 2019 tax year was open. Pursuant to § 1.6011–4(e)(1) of this chapter, X was also required to disclose participation in the transaction when the 2019 amended return was filed because the transaction was a listed transaction at that time. X is subject to two penalties under section 6707A: one for the failure to disclose participation in a listed transaction reflected on X's original 2019 return within 90 calendar days of

the date the transaction became a listed transaction as required by § 1.6011–4(e)(2)(i) of this chapter and another for the failure to disclose participation in the same listed transaction reflected on the 2019 amended return. Seventy-five percent of this decrease in tax with respect to the original 2019 return is $75,000 (75 percent of $100,000) and with respect to the 2019 amended return is $60,000 (75 percent of $80,000). Pursuant to paragraph (d)(1)(iv) of this section, because X is subject to two separate penalties, the maximum penalty amount of $100,000 under § 301.6707A–1(a) and section 6707A(b)(2)(A) applies separately to each penalty and does not operate to reduce the amount of the X's 6707A penalties.

(viii) *Example 8*. Under § 1.6011–4 of this chapter, Partnership M is required to attach a disclosure statement to its Form 1065, U.S. Return of Partnership Income, for the 2020 taxable year. M fails to do so and is, therefore, subject to a penalty under section 6707A. No tax is required to be shown on M's Form 1065. Pursuant to § 301.6707A–1(d)(2), M is subject to the minimum section 6707A penalty of $10,000. The partners of Partnership M may have separate disclosure obligations as required by the regulations under section 6011 and would be subject to separate section 6707A penalties if they fail to comply with the disclosure requirements.

(ix) *Example 9*. In tax year 2019, Taxpayer X participated in a listed transaction that resulted in a $150,000 deduction. X's gross income for 2019 before the listed transaction deduction is $100,000. X uses $100,000 of the deduction resulting in zero tax liability for 2019. X carried over to tax year 2020 the remaining $50,000 net operating loss that was not used in 2019. X's gross income for tax year 2020 is $200,000 but as a result of the $50,000 net operating loss carryover, X reports $150,000 adjusted gross income. Pursuant to § 1.6011–4 of this chapter, X is required to disclose participation in the listed transaction for both 2019 and 2020, but X fails to make the required disclosures and is therefore subject to the section 6707A penalty for each failure. The decrease in tax on the 2019 return is the amount of tax on $100,000 because that is the difference between the amount of tax that would have been shown on the return if it did not reflect participation in the listed transaction and the tax actually reported. No other tax resulted from X's participation in the listed transaction. The amount of the penalty with respect to X's failure to disclose with respect to 2019 will be 75 percent of the decrease in tax. The decrease in tax on the 2020 return is the difference between the tax shown on the return as filed and the tax that would be shown if the $50,000 net operating loss was not used, including any changes to the amount of tax that are only indirectly connected with the listed transaction. The amount of the penalty with respect to X's failure to disclose with respect to 2020 will be 75 percent of the decrease in tax, subject to the minimum and maximum penalty amount limitations.

(x) *Example 10*. In tax year 2020, Taxpayer X, a natural person, participated in a listed transaction that resulted in a $50,000 deduction. X also has a net operating loss carryover of $150,000 from 2019. X uses the deduction of $50,000 and a portion of the net operating loss carryover resulting in zero tax liability for 2020. X carries over the remaining net operating loss to tax year 2021. X's gross income for 2021 is $250,000, but as a result of the net operating loss carryover, X reports reduced adjusted gross income of $150,000. Pursuant to § 1.6011–4 of this chapter, X is required to disclose participation in the listed transaction for both 2020 and 2021, but X fails to make the required disclosures and is subject to the section 6707A penalty for each failure. The decrease in tax on the 2020 return that results from the reportable transaction is zero. Because X has $150,000 of a net operating loss carryover not attributable to the reportable transaction, X's tax without the benefits of the reportable transaction is the same as the tax shown on the 2020 return as filed. Because X is a natural person, the minimum penalty of $5,000 under § 301.6707A–1(a) and section 6707A(b)(3) will apply for the failure to disclose the listed transaction with the 2020 return. The decrease in tax on the 2021 return is the difference between the tax shown on the return as filed and the tax that would be shown

if X had only $50,000 of net operating loss to carry over to 2021 (*i.e.*, if X had not offset $50,000 of its 2020 gross income with the deduction resulting from the reportable transaction and thus had used $100,000 of its net operating loss carryover in 2020), including any changes to the amount of tax that are only indirectly connected with the listed transaction. The amount of the penalty with respect to the disclosure relating to 2021 will be 75 percent of this decrease in tax, subject to the minimum and maximum penalty amount limitations.

(xi) *Example 11.* Taxpayer X, a public corporation required to file periodic reports under section 13 or 15(d) of the Securities Exchange Act of 1934, timely filed its 2019 return reflecting tax benefits from a reportable transaction that is not a listed transaction and properly disclosed the transaction in accordance with the regulations under section 6011. In 2023, as a result of an examination of X's 2019 return, the IRS imposes a penalty under section 6662A with respect to the reportable transaction. The decrease in tax for purposes of paragraph (d)(1) of this section is $190,000. As a person who is required to file periodic reports under section 13 or 15(d) of the Securities Exchange Act of 1934, X is required, pursuant to section 6707A(e), to disclose the penalty imposed under section 6662A to the Securities and Exchange Commission in 2023, which X failed to do. X's failure to disclose the section 6662A penalty is treated as a failure to disclose to which section 6707A(b) applies. Thus, X is subject to a penalty under section 6707A(e), which equals 75 percent of the decrease in tax resulting from the transaction. The decrease in tax resulting from the reportable transaction was $190,000, 75 percent of which is $142,500. Because X is a corporation and the transaction is not a listed transaction, the amount of the penalty is limited to $50,000 under paragraph (a) of this section and section 6707A(b)(2)(B). Therefore, rather than $142,500, X is subject to a $50,000 section 6707A penalty for failure to disclose the section 6662A penalty to the SEC.

(e) *Rescission authority*—(1) *In general.* The Commissioner (or the Commissioner's delegate) may rescind the section 6707A penalty if—

(i) The violation relates to a reportable transaction that is not a listed transaction; and

(ii) Rescinding the penalty would promote compliance with the requirements of the Code and effective tax administration.

(2) *Requesting rescission.* The Secretary may prescribe the procedures for a taxpayer to request rescission of a section 6707A penalty with respect to a reportable transaction other than a listed transaction by publishing a revenue procedure or other guidance in the Internal Revenue Bulletin.

(3) *Factors that weigh in favor of granting rescission.* In determining whether rescission would promote compliance with the requirements of the Internal Revenue Code and effective tax administration, the Commissioner (or the Commissioner's delegate) will take into account the following list of factors that weigh in favor of granting rescission. This is not an exclusive list and no single factor will be determinative of whether to grant rescission in any particular case. Rather, the Commissioner (or the Commissioner's delegate) will consider and weigh all relevant factors, regardless of whether the factor is included in this list.

(i) The taxpayer, upon becoming aware that it failed, in whole or in part, to disclose a reportable transaction in accordance with the requirements of § 1.6011–4 of this chapter, filed a complete and proper, albeit untimely, Form 8886 (or successor form), as required by § 1.6011–4. If the penalty is due to the taxpayer's failure to file Form 8886 (or successor form) with a return, in order for an untimely disclosure to weigh in favor of rescission, the taxpayer must file an amended return with the appropriate Service Center and attach a complete and proper Form 8886 (or successor form) to that amended return. The amended return filed with the untimely Form 8886 (or successor form) must not reflect any other changes to the return that it amends, and the taxpayer must, in the space provided for an explanation of changes on the amended return, state the reason for filing the amended return. If the penalty is due to the taxpayer's failure to file Form 8886 (or successor

form) with OTSA, in order for an untimely disclosure to weigh in favor of rescission, the taxpayer must file a complete and proper Form 8886 (or successor form) with OTSA. If the taxpayer fails to file a complete and proper Form 8886 (or successor form) with the return and also fails to file a copy of the complete and proper Form 8886 (or successor form) with OTSA, incurring one penalty for both failures, then the taxpayer must, in the manner prescribed in this paragraph (e)(3)(i), file complete and proper Forms 8886 with both the Service Center and OTSA in order for the untimely disclosures to weigh in favor of rescission. This factor will weigh heavily in favor of rescission provided that—

(A) The taxpayer files the Form 8886 prior to the date the IRS first contacts the taxpayer (including contacts by the IRS with any partnership in which the taxpayer is a partner, any S corporation in which the taxpayer is a shareholder, or any trust in which the taxpayer is a beneficiary) concerning a tax examination for the tax period in which the taxpayer participated in the reportable transaction; and

(B) Other circumstances suggest that the taxpayer did not delay filing an untimely but properly completed Form 8886 until after the IRS had taken steps to identify the taxpayer's participation in the reportable transaction in question.

(ii) The failure, in whole or in part, to disclose in accordance with the requirements of § 1.6011–4 of this chapter was due to an unintentional mistake of fact that existed despite the taxpayer's reasonable attempts to ascertain the correct facts with respect to the transaction.

(iii) The taxpayer has an established history of properly disclosing other reportable transactions and complying with other tax laws.

(iv) The taxpayer demonstrates that the failure to include on any return or statement any information required to be disclosed under section 6011 arose from events beyond the taxpayer's control.

(v) The taxpayer cooperates with the IRS by providing timely information with respect to the transaction at issue that the Commissioner (or the Commissioner's delegate) may request in consideration of the rescission request. In considering whether a taxpayer cooperates with the IRS, the Commissioner (or the Commissioner's delegate) will take into account whether the taxpayer meets the deadlines described in Rev. Proc. 2007–21 (2007–1 CB 613) (or successor document) (see § 601.601(d)(2)(ii)(*b*) of this chapter) for complying with requests for additional information.

(vi) Assessment of the penalty weighs against equity and good conscience, including whether the taxpayer demonstrates that there was reasonable cause for, and the taxpayer acted in good faith with respect to, the failure to timely file or to include on any return any information required to be disclosed under section 6011. An important factor in determining reasonable cause and good faith is the extent of the taxpayer's efforts to ensure that persons who prepared the taxpayer's return were informed of the taxpayer's participation in the reportable transactions; this factor will be disregarded, however, if the persons who prepared the taxpayer's return were material advisors with respect to the reportable transaction. The presence of reasonable cause, however, will not necessarily be determinative of whether to grant rescission.

(4) *Absence of favorable factors weighs against rescission.* The absence of facts establishing the factors described in paragraph (e)(3) of this section weighs against granting rescission. The absence of any one of these factors, however, will not necessarily be determinative of whether to grant rescission.

(5) *Factors not considered.* In determining whether to grant rescission, the Commissioner (or the Commissioner's delegate) will not consider collectability of, or doubt as to liability for, the penalties (except that the Commissioner may consider doubt as to liability to the extent it is a factor in the determination of reasonable cause and good faith).

(6) *Example.* The following example illustrates the rules of paragraph (e)(3) of this section:

Example. In 2008, Taxpayer Z participated in a nonlisted reportable transaction for the

first time. Under §1.6011–4(e)(1) of this chapter, he was required to attach a complete and proper Form 8886 to his 2008 return, due on April 15, 2009, and to file a copy of the Form 8886 with OTSA. Taxpayer Z timely filed his 2008 return but failed to attach a Form 8886 to his return or file a Form 8886 with OTSA. On June 1, 2009, Taxpayer Z discovered his error. On June 8, 2009, Taxpayer Z filed an amended return for tax year 2008 and attached a complete and proper Form 8886 that disclosed his participation in the reportable transaction. The amended return reflected no changes from the original return and explained that the sole purpose of the amended return was to correct Taxpayer Z's failure to file a Form 8886 with his original return. On June 8, 2009, Taxpayer Z also filed a copy of the complete and proper Form 8886 with OTSA. The IRS later notified Taxpayer Z that he was subject to a penalty under section 6707A because he failed to comply with the disclosure requirements of section 6011 by not attaching Form 8886 to his return for the 2008 taxable year. The IRS properly assessed the penalty under section 6707A and, on October 15, 2010, issued notice and demand. On November 1, 2010, in accordance with Rev. Proc. 2007–21, Taxpayer Z submitted a written request for rescission of the assessed penalty. The fact that Taxpayer Z filed an untimely Form 8886 shortly after discovery of his error but before the IRS first contacted him concerning his return for the 2008 taxable year will weigh heavily in favor of rescission.

(f) *Reports to the Securities and Exchange Commission (SEC)*—(1) *In general.* Under section 6707A(e), a taxpayer who is required to file periodic reports under section 13 or section 15(d) of the Securities Exchange Act of 1934 (or is required to be consolidated with another person for purposes of these reports) must disclose in certain reports, as provided in revenue procedures or other guidance published pursuant to paragraph (f)(2) of this section, the requirement to pay each of the following penalties:

(i) The penalty imposed by section 6707A(a) for failure to disclose a listed transaction.

(ii) The accuracy-related penalty imposed by section 6662A(a) at the 30- percent rate determined under section 6662A(c) for a reportable transaction understatement with respect to which the relevant facts affecting the tax treatment of the reportable transaction were not adequately disclosed in accordance with regulations prescribed under section 6011.

(iii) The accuracy-related penalty imposed by section 6662(a) at the 40-percent rate determined under section 6662(h) for a gross valuation misstatement, if the taxpayer (but for the exclusionary rule of section 6662A(e)(2)(C)(ii)) would have been subject to the accuracy-related penalty under section 6662A(a) at the 30-percent rate determined under section 6662A(c).

(iv) The penalty described in paragraph (f)(3) of this section for failure to disclose in periodic reports filed with the SEC the requirement to pay any of the penalties described in paragraphs (f)(1)(i) through (f)(1)(iii) or paragraph (f)(3) of this section.

(2) *Manner and content of disclosure.* The Secretary may, by publishing a revenue procedure or other guidance in the Internal Revenue Bulletin, prescribe the manner in which the disclosure under paragraph (f)(1) of this section must be made, including identification of the specific SEC form and section thereof in which the taxpayer must make the disclosure as well as specification of the timing and contents of the disclosure.

(3) *Penalty for failure to disclose in SEC filings.* Any taxpayer who is required to file periodic reports under section 13 or section 15(d) of the Securities Exchange Act of 1934 (or is required to file consolidated reports with another person) may be subject to a penalty under section 6707A(b) for each failure to disclose the requirement to pay a penalty identified in paragraphs (f)(1)(i) through (f)(1)(iii) of this section in the manner specified by revenue procedure or other guidance published in the Internal Revenue Bulletin. The taxpayer also may be subject to an additional penalty under section 6707A(b) for each failure to disclose a penalty arising under this section in the manner specified by revenue procedure or other guidance published in the Internal Revenue Bulletin. The penalty provided by this paragraph (f)(3) will be rescinded if the IRS rescinds in full the penalty for failing to disclose under section 6011 the reportable transaction underlying the penalty provided by this section. Otherwise, the penalty provided by this paragraph (f)(3) is not subject to rescission.

(g) *Applicability date.* (1) This section applies to penalties assessed after *March 26, 2019.*

(2) For penalties assessed before *March 26, 2019,* § 301.6707A–1 (as contained in 26 CFR part 1, revised April 2018) shall apply.

[T.D. 9550, 76 FR 55258, Sept. 7, 2011, as amended by T.D. 9853, 84 FR 11219, Mar. 26, 2019]

§ 301.6708–1 Failure to maintain lists of advisees with respect to reportable transactions.

(a) *In general.* Any person who is required to maintain a list under section 6112 who, upon written request for the list, fails to make the list available to the Secretary within 20 business days after the date of the request shall be subject to a penalty in the amount of $10,000 for each subsequent calendar day on which the person fails to furnish a list containing the information and in the form required by section 6112 and its corresponding regulations. The penalty will not be imposed on any particular day or days for which the person establishes that the failure to comply on that day is due to reasonable cause.

(b) *Calculation of the 20-business-day period.* The 20-business-day period shall begin on the first business day after the earliest of the date that the IRS—

(1) Mails a request for the list required to be maintained under section 6112(a) by certified or registered mail to the person required to maintain the list;

(2) Hand delivers the written request to the person required to maintain the list; or

(3) Leaves the written request with an individual 18 years old or older at the usual place of business of the person required to maintain the list.

(c) *Making a list available.* (1) A person who is required to maintain a list required by section 6112 may make the list available by mailing or delivering it to the IRS within 20 business days after the date of the list request. Section 7502 and the regulations thereunder shall apply to this section.

(2) A person who is required to maintain a list required by section 6112 may also make the list available to the IRS by making it available for inspection and copying during normal business hours, as provided by section 6112, or by another agreed-upon method, on an agreed-upon date that falls within the 20-business-day period following the list request.

(3) *Extension*—(i) *In general.* Upon a showing of good cause by the person prior to the expiration of the 20-business-day period following a list request, the IRS may, in its discretion, agree to extend the period within which to make all or part of the list available. For purposes of this paragraph, ''good cause'' is shown if the person establishes that the 20-business-day deadline cannot reasonably be met despite diligent efforts by the person to maintain the materials constituting a list and to make that list available to the IRS in the time and manner required by the Secretary under section 6112.

(ii) *Requesting an extension.* Any request for an extension of the 20-business-day period must be made in writing to the person at the IRS who requested the list. The person requesting an extension must briefly describe the information and documents that comprise the list as required by section 6112; explain the circumstances that would warrant additional time; propose a schedule to complete the production of the list; state that to the best of the person's knowledge, as of the date of the list request, all information and records relating to the list under the person's possession, custody, or control had been maintained in accordance with procedures and policies that are consistent with sections 6001 and 6112 of the Internal Revenue Code; and state that the extension request is not being made to avoid the person's list maintenance obligations imposed by section 6112 and its corresponding regulations. The IRS may, in its discretion, grant the person's extension request in full or in part. The IRS will consider whether granting an extension may impair its ability to make a timely assessment against any of the participants in the transaction associated with the requested list. The IRS will not grant an extension if it determines that a significant reason for the extension request is to delay producing the list. A pending extension request by

itself does not constitute reasonable cause for purposes of section 6708.

(4) *Examples*. The following examples illustrate paragraph (c)(3)(i) and (ii) of this section. These examples are intended to illustrate how the facts and circumstances in paragraph (c)(3)(i) and (ii) of this section may apply; in any given case, however, all of the facts and circumstances must be analyzed.

Example 1. (i) Firm A is a large law firm that is a material advisor. Firm A conducts annual sessions to educate its professionals about reportable transactions and the firm's obligations related to those reportable transactions. Firm A instructs its professionals to provide information on tax engagements that involve reportable transactions and to provide the documents required to be maintained under sections 6001 and 6112 to Firm A's compliance officer for list maintenance purposes. Firm A's policy provides that, for each engagement involving a reportable transaction, one firm professional will send an email to the firm's compliance officer about the engagement and then direct a subordinate to send the documents required to be maintained to the firm's compliance officer. Firm A has policies and procedures in place to monitor compliance with these rules and to address non-compliance.

(ii) Firm A receives a request from the IRS for a section 6112 list. In compiling its list to turn over to the IRS during the 20-business-day period following the list request, Firm A discovers that, with respect to one reportable transaction, a subordinate did not provide the documentation required by Firm A's policy. In addition, Firm A experiences difficulty locating the required documents as both the professional and the subordinate who worked on the matter are no longer employed by Firm A, requiring the firm to undertake an extensive search for the information responsive to the list request. Firm A also seeks the information from the firm's clients. Despite these efforts, Firm A reasonably determined that it will not be able to respond timely to the request. Within the 20-business-day period, Firm A notifies the IRS, in writing, of the difficulties it is experiencing and requests an additional 10 business days to locate and produce the information for this one transaction. Within the 20-business-day period, Firm A makes all other required list information available to the IRS, together with a description of the information that is being searched for, all statements required by these regulations, and a proposed schedule to produce the missing information.

(iii) Under these circumstances, Firm A demonstrated that it could not reasonably make the portion of the list relating to the one transaction available within the 20-business-day period and thus qualified for an extension. Firm A had established policies and procedures reasonably designed and implemented to ensure and monitor compliance with the requirements of section 6112 and address non-compliance. Because the facts and circumstances indicate that Firm A made diligent efforts to maintain the materials constituting the list in a readily accessible form and as otherwise required under section 6112, the requested 10-business-day extension with respect to the portion of the list relating to the one transaction where records were not maintained in accordance with the firm's policies and procedures should be granted.

Example 2. (i) Assume the same facts set forth in example one, except that, in the process of compiling the list to comply with the list maintenance request, Firm A first becomes aware that a firm professional did not send an email to the firm's compliance officer about a transaction subject to the list maintenance request and did not direct a subordinate to send to the firm's compliance officer the information required to be maintained with respect to the transaction. Assume further that Firm A had a robust section 6112 compliance monitoring program in place and despite this, the firm did not know that the professional did not follow firm policies and procedures with respect to this transaction. The professional who worked on the matter is no longer employed by Firm A, causing Firm A difficulty in locating the required information and in ascertaining whether the professional in question failed to comply with Firm A's list maintenance policies with respect to any other reportable transactions. Firm A is searching its records to locate information responsive to the list request and to ensure that no other reportable transactions were omitted from the list. Firm A estimates that it will take an additional 20 business days after the 20th business day to retrieve the missing information and provide IRS with the additional information responsive to the list request. Within the 20-business-day period, Firm A notifies the IRS, in writing, of the difficulties it is experiencing and requests an additional 20 business days to locate and produce the information for this one transaction and for any other reportable transactions omitted from the list as a result of the inaction by the professional in question. Within the 20-business-day period, Firm A makes all other required list information available to the IRS, together with a description of the information that is being searched for, all statements required by these regulations, and a proposed schedule to produce the missing documents.

(ii) Under these facts and circumstances, Firm A demonstrated that it could not reasonably, within the 20-business-day period,

make available the portion of the list relating to one or possibly more transactions omitted from the list because of the inaction of the professional in question. Firm A therefore qualifies for an extension. Firm A had established policies and procedures reasonably designed and implemented to ensure and monitor compliance with the requirements of section 6112 and address non-compliance. Because the facts and circumstances indicate that Firm A made diligent efforts to maintain the materials constituting the list in a readily accessible form and as otherwise required under section 6112, the requested 20-business-day extension with respect to the portion of the list relating to the one known omitted transaction and to any other omitted reportable transactions resulting from the inaction of the professional in question should be granted.

(d) *Failure to make list available.* A failure to make the list available includes any failure to furnish the requested list to the IRS in a timely manner and in the form required under section 6112 and its corresponding regulations. Examples of failures to make a list available include instances in which a person fails to furnish any list; furnishes an incomplete list; or furnishes a list, whether or not complete, after the time required by this section.

(e) *Computation of penalty*—(1) *In general.* The penalty imposed by section 6708 accrues daily, beginning on the first calendar day after the expiration of the 20-business-day period following a written list request, and continues for each calendar day thereafter until the person's failure to furnish a list in the form required by section 6112 and its corresponding regulations ends. If the list is delivered or mailed to the IRS outside of the 20-business-day period, the penalty shall not apply on the day the list is delivered to the IRS or, if the list is mailed, the day the list is received by the IRS.

(2) *Computation of penalty after grant of extension.* If the IRS grants an extension of the 20-business-day period pursuant to paragraph (c)(3) of this section, the penalty imposed by section 6708 accrues daily, beginning on the first calendar day after the extension period expires, and continues for each calendar day thereafter until the person's failure to furnish a list in the form required by section 6112 and its corresponding regulations ends. If the list is delivered or mailed to the IRS outside of the period of extension, the penalty shall not apply on the day the list is delivered to the IRS or, if the list is mailed, the day the list is received by the IRS.

(3) *Designation agreements and concurrent application of penalty.* If material advisors with respect to the same reportable transaction enter into a designation agreement pursuant to section 6112(b)(2) and § 301.6112–1(f), separate penalties will be imposed on designated material advisors and nondesignated material advisors who are parties to the designation agreement for their respective periods of failure or noncompliance with a list request. A penalty will continue to accrue against a material advisor who is a party to a designation agreement until such time when a list complying with the requirements of section 6112 and its corresponding regulations is furnished by that material advisor or any other material advisor who is a party to the designation agreement.

(4) *Example.* The following example illustrates paragraph (e) of this section.

Example. The IRS hand delivers a written request for the list required to be maintained under section 6112 to Firm B, a material advisor, on Friday, March 10, 2017. Firm B must make the list available to the IRS on or before Friday, April 7, 2017, the 20th business day after the request was hand delivered. If Firm B fails to make the list available to the IRS by that day, absent reasonable cause or the IRS's grant of an extension of the response time, the $10,000-per-day penalty begins on Saturday, April 8, 2017. The $10,000 per day penalty will continue for each subsequent calendar day until Firm B makes the complete list available, except for those days for which Firm B demonstrates reasonable cause. If Firm B hand delivers a complete copy of the requested list to the IRS on the morning of Tuesday, April 11, 2017, absent reasonable cause or the IRS's prior grant of an extension for the response time, a penalty of $30,000 will be imposed upon Firm B (for April 8, 9, and 10). See paragraphs (g) and (h) of this section for an explanation of reasonable cause.

(f) *Definitions.* For purposes of this section, the following definitions apply:

(1) *Material advisor* means a person described in section 6111 and § 301.6111–3(b).

(2) *Business day* means every calendar day other than a Saturday, Sunday, or

legal holiday within the meaning of section 7503.

(3) *Reportable transaction* means a transaction described in section 6707A(c)(1) and section 1.6011–4(b)(1).

(4) *Listed transaction* means a transaction described in section 6707A(c)(2) and § 1.6011–4(b)(2) of this chapter.

(g) *Reasonable cause—general applicability*—(1) *Overview*. The section 6708 penalty will not be imposed for any day or days for which the person shows that the failure to make a complete list available to the IRS was due to reasonable cause. The determination of whether a person had reasonable cause is made on a case-by-case and day-by-day basis, taking into account all the relevant facts and circumstances. Facts and circumstances relevant to a material advisor's reasonable cause for failing to make available the list on a specific day include facts and circumstances arising after the request for the list. The person's showing of reasonable cause should relate to each specific day or days for which the person failed to make available the requested list. Factors establishing reasonable cause include, but are not limited to, factors identified in paragraphs (g) and (h) of this section.

(2) *Good-faith factors*. The most important factors to establish reasonable cause are those that reflect the extent of the person's good-faith efforts to comply with section 6112. The following factors, which are not exclusive, will be considered in determining whether a person has made a good-faith effort to comply with the section 6112 requirements:

(i) The person's efforts to determine or assess its status as a material advisor as defined by section 6111;

(ii) The person's efforts to determine the information and documentation required to be maintained under section 6112;

(iii) The person's efforts to meet its obligations to maintain a readily producible list as required by section 6112;

(iv) The person's efforts, upon receiving the list request, to make the list available to the IRS within the 20-business-day period (or extended period) under paragraphs (a), (b), and (c)(3) of this section; and

(v) The person's efforts to ensure that the list furnished to the IRS is accurate and complete.

(3) *Ordinary business care*. The exercise of ordinary business care may constitute reasonable cause. To show ordinary business care, the person may, for example, show that the person established, and adhered to, procedures reasonably designed and implemented to ensure compliance with the section 6112 requirements. In all instances when ordinary business care is claimed as constituting reasonable cause, a person must show that the person took immediate steps, upon discovering any failure relating to the list, to correct the failure. A person's failure to take immediate steps to correct a failure related to the list upon discovering the failure is a factor weighing against a conclusion that the person exercised ordinary business care. Notwithstanding the occurrence of an isolated and inadvertent failure, a person still may be able to demonstrate that the person exercised ordinary business care, considering all the relevant facts and circumstances, but only if the person had established and adhered to procedures reasonably designed and implemented to ensure compliance with the section 6112 requirements.

(4) *Supervening events*. A person may establish reasonable cause for one or more days for which, considering all the relevant facts and circumstances, the failure to timely furnish the list required by section 6112 was due solely to a supervening event beyond the person's control. Events beyond a person's control may include fire, flood, storm, or other casualty; illness; theft; or other similarly unexpected event that damages or impairs the person's relevant business records or system for processing and providing these records, or that affects the person's ability to maintain the section 6112 list or make it available to the IRS. Reasonable cause may be established only for the period that a person who exercised ordinary business care would need to provide the list from alternative records in existence, or make the list available, under the specific facts and circumstances.

(5) *Reliance on opinion or advice*—(i) *In general*. A person may rely on an independent tax professional's advice to establish reasonable cause. The reliance, however, must be reasonable and in good faith, in light of all the other facts and circumstances. For a person to be considered to have relied on the advice, the advice must have been received by the person before the date the list is required to be made available to the IRS. If the person received advice from an independent tax professional, the person's reliance on that advice will be considered reasonable only if the independent tax professional reasonably believed that it is more likely than not that the person does not have an obligation imposed by section 6112. For example, this advice may conclude that the person is not a material advisor; that the transaction upon which the person provided material aid, assistance, or advice is not a reportable transaction for which a list was required to be maintained as of the date of the advice; that the information and documents to be produced constitute the required list; or that the information or documents withheld by the person are not required to be produced. The advice must also take into account and consider all relevant facts and circumstances, not rely on unreasonable legal or factual assumptions, not rely on or take into account the possibility that a list request may not be made, and not rely on unreasonable representations or statements of the person seeking the advice. Advice from a tax professional who is not independent may be considered in determining reasonable cause if, in light of and in relation to all the other facts and circumstances, taking into account such advice is reasonable. However, by itself, advice from a tax professional who is not independent is not sufficient to establish reasonable cause. Independent tax professional advice is not required to establish reasonable cause and the failure to obtain advice from an independent tax professional does not preclude a finding of reasonable cause if, based on the totality of all of the relevant facts and circumstances, reasonable cause has been established.

(ii) *Independent tax professional*. For purposes of this section, an independent tax professional is a person who is knowledgeable in the relevant aspects of Federal tax law and who is not a material advisor with respect to the specific transaction that is the subject of the list request. For advice related to a listed transaction, a person who is a material advisor with respect to any transaction that is the same as or substantially similar to the type of transaction that is the subject of the list request will not be considered an independent tax professional.

(6) *Examples*. The following examples illustrate this paragraph (g). These examples are intended to illustrate how the facts and circumstances in paragraphs (g)(2) through (g)(5) of this section may apply; in any given case, however, all of the facts and circumstances must be analyzed.

Example 1. On August 11, 2017, the IRS sends a list request via certified mail to Firm C, a material advisor. Firm C consists of a sole practitioner, X, who is away from the office on vacation on this date. X has arranged for a colleague, Y, to review Firm C's mail, email, and telephone messages daily during his absence. X returns to the office the day after his vacation ends, on September 5, 2017, and immediately contacts the IRS to notify it of his absence. Firm C makes a complete list available to the IRS on September 19, 2017, 10 business days after he has returned from vacation. Firm C establishes that X was on vacation at the time the list request was sent to Firm C, and Firm C promptly furnished the requested list in a manner and time period reflecting ordinary business care and prudence upon X's return to the office. Under these circumstances, Firm C is considered to have made a good-faith effort to comply with the section 6112 requirements. Firm C has established reasonable cause for the entire period between the expiration of the 20-business-day period following the list request and the date the list was made available to the IRS. See paragraphs (g)(2) and (3) of this section.

Example 2. On March 3, 2017, the IRS hand delivers to Firm D, a material advisor, a list request related to a transaction believed by the IRS to have been implemented in November 2008 by a group of Firm D's clients (the advisees). Firm D's involvement in the transaction included implementing the transaction on behalf of some but not all of the advisees. Firm D timely makes the requested list available to the IRS. Upon review, the IRS determines that the information furnished by Firm D appears to be accurate, but the IRS believes that some of the information is incomplete because it does

not contain information about certain individuals who were identified through other investigative means as Firm D's clients who may have engaged in the transaction. In response to a follow-up inquiry by the IRS, Firm D establishes, however, that it is not a material advisor with respect to these taxpayers. Under these circumstances, Firm D has furnished the list as required by section 6112. Because the list was complete when furnished, Firm D need not make a showing of reasonable cause. See paragraph (g)(1) of this section.

Example 3. The IRS sends a list request by certified mail to Firm E, a material advisor. Firm E maintains the materials responsive to the list request on a portable data storage device. Under Firm E's established procedures for maintaining section 6112 lists, once the transaction is completed, paper documents are scanned and saved electronically according to Firm E's records management procedures. Under Firm E's records management procedures, after the scanning process is completed, Firm E sends the paper documents to an off-site storage facility. Three days before the 20th business day following the date of the written request, the electronic data is permanently destroyed. Firm E contacts the IRS representative listed as a contact person on the section 6112 list request to advise him that the relevant data was permanently destroyed. Firm E establishes that it exercised ordinary business care but that the data was nevertheless destroyed due to circumstances outside of its control. Under these circumstances, Firm E has reasonable cause for the period of time that Firm E cannot respond to the list request due to circumstances out of Firm E's control. The reasonable cause exception, however, will only be available to Firm E for the period of time that a person who exercises ordinary business care would need to obtain the materials that are part of the list, including in this case paper documents from the off-site storage facility, and furnish the list to the IRS. See paragraphs (g)(3) and (4) of section.

Example 4. On February 2, 2017, the IRS hand delivers a list request to Firm F, a material advisor. Firm F filed with the IRS the disclosure statement required by section 6111 for the reportable transaction that is the subject of the list request but did not maintain the section 6112 list documentation in a readily accessible format after filing the section 6111 statement. On March 3, 2017, the 20th business day (due to the Presidents' Day holiday) after the list request is delivered to Firm F, Firm F contacts the IRS to ask for additional time to comply with the list request, stating that it could not gather the list information together in 20 business days. Because Firm F is not able to show that it made diligent efforts to maintain the materials constituting the list in a readily accessible form, the IRS should not grant Firm F an extension of time. See paragraph (c)(3) of this section. Further, Firm F does not have reasonable cause because it has failed to demonstrate a good-faith effort to comply with the section 6112 requirements and ordinary business care. See paragraphs (g)(2) and (3) of this section.

Example 5. On August 11, 2017, the IRS sends a list request, via certified mail, to Firm G, a material advisor. Firm G consists of a sole practitioner, P. Firm G maintains the materials responsive to the list request electronically. Generally, under Firm G's records management procedures, once a transaction is completed, the documents related to that transaction are scanned and then saved electronically consistent with IRS guidance on maintaining books and records in electronic form. P is aware of the list request but ignores it. On September 24, 2017, the 13th calendar day after the 20-business-day period following the list request (due to the Labor Day holiday), P suffers a temporary but debilitating illness that lasts 22 days. Following the illness, P immediately returns to work. After returning to work, P continues to ignore the list request. In this situation, the facts and circumstances indicate that Firm G does not have reasonable cause for any day in which there was a failure to make the list available to the IRS, including the 22 days due to the intervening event, because the failure was not due solely to the supervening event occurring on September 24, 2017. Firm G did not make a good-faith effort to make the list available to the IRS before or after the supervening event occurred. Firm G is liable for the $10,000 per day penalty from the first day following the expiration of the 20-business-day period until but not including the day that Firm G furnishes the list to the IRS. See paragraphs (g)(2) and (4) of this section.

Example 6. On August 11, 2017, the IRS sends a list request, via certified mail, to Firm H, a material advisor. Firm H, consists of a sole practitioner, P. Firm H maintains the materials responsive to the list request electronically. Generally, under Firm H's records management procedures, once the transaction is completed, the documents are scanned and then saved electronically consistent with IRS guidance on maintaining books and records in electronic form. P is aware of the list request and begins compiling the documents to respond to the IRS within the 20-business-day period ending on September 11, 2017 (due to the Labor Day holiday). Before responding to the list request, P suffers a temporary but debilitating illness on September 3, 2017, that lasts through September 19, 2017. Upon returning to work on September 20, 2017, P contacts the IRS to explain that P experienced a temporary but debilitating illness from September 3, 2017, through September 19, 2017,

and that P has returned to the office and intends to furnish the list to the IRS within a short period of time. Firm H furnishes the list to the IRS on September 22, 2017. In this situation, the facts and circumstances indicate that Firm H has reasonable cause for the period from September 12, 2017 until September 21, 2017, attributable to P's illness. The failure to furnish the list in a timely fashion was solely attributable to the supervening event occurring on September 3, 2017, and Firm H promptly furnished the requested list in a manner and time period reflecting ordinary business care upon P's return to the office. Firm H is considered to have made a good-faith effort to comply with the section 6112 requirements. Firm H has established reasonable cause for the entire period between the expiration of the 20-business-day period following the list request and the date Firm H furnished the list to the IRS. See paragraphs (g)(2) and (4) of this section.

Example 7. Firm I receives a list request for transactions that are the same or substantially similar to the listed transaction described in Notice 2002–21, 2002–1 CB 730. Firm I will be considered a material advisor with respect to a particular transaction for which it provided advice if the transaction is the same as or substantially similar to the transaction described in Notice 2002–21. Firm I, however, is unsure whether the transaction is the same as or substantially similar to the transaction described in this Notice. Firm I obtains an opinion from Firm L, a law firm, on this issue. P, a partner in Firm L, provided tax advice to clients who invested in other Notice 2002–21 transactions, including how to report the purported tax benefits from the transaction on their income tax returns, and Firm L is a material advisor with respect to those transactions. Because Firm L is a material advisor with respect to the type of transaction that is the same as or substantially similar to the transaction described in Notice 2002–21, Firm L is not considered an independent tax professional under paragraph (g)(5)(ii) of this section. Therefore, Firm I cannot rely on advice provided by Firm L to establish reasonable cause under this paragraph (g). The IRS may consider Firm L's advice in determining reasonable cause in light of other facts and circumstances, but Firm L's advice, without more, is not sufficient to establish reasonable cause because P is not an independent tax professional under paragraph (g)(5)(ii) of this section.

Example 8. Firm J, a law firm, provides advice to various clients of the firm regarding the potential tax benefits of a reportable transaction under §1.6011–4(b)(5) of this chapter (involving a section 165 loss) and is a material advisor with respect to that transaction. Firm J also provides advice to Firm M, an accounting firm, regarding the same transaction. Firm M then advises various Firm M clients regarding this same transaction, and is a material advisor. The transaction is not a listed transaction. Firm N, a law firm that is not associated with Firm J and has not provided advice with respect to the same transaction to Firm M, has provided advice to its own clients regarding other transactions subject to §1.6011–4(b)(5) of this chapter, but not the particular transaction that was the subject of Firm J's advice to Firm M. The IRS hand delivers a list request to Firm M, the subject of which is the transaction regarding which Firm J provided advice to Firm M. Before the expiration of the 20-business-day period, Firm M seeks advice from Firm J and Firm N about the propriety of withholding certain documents related to the transaction. Because Firm J provided advice with respect to the particular transaction that is the subject of the list request, Firm J is not an independent tax professional under paragraph (g)(5)(ii) of this section. Although Firm N has provided advice on a transaction that is considered a reportable transaction under §1.6011–4(b)(5) of this chapter, Firm N is considered to be an independent tax professional under paragraph (g)(5)(ii) of this section because Firm N did not provide material assistance with respect to the particular transaction that is the subject of the list request.

(h) *Reasonable cause—special considerations*—(1) *Material advisor no longer in existence.* If a material advisor has dissolved, been liquidated, or otherwise is no longer in existence, the person required by section 6112 to maintain the list (the ''responsible person'') is subject to the penalty for failing to make the list available. In considering whether a responsible person or successor in interest has reasonable cause for any failure to timely make the list available to the IRS, the IRS will consider all of the facts and circumstances, including those facts and circumstances relating to the dissolution, liquidation, and winding up of the original material advisor's business and any efforts the original material advisor made to comply with the section 6112 requirements before the dissolution or liquidation. When appropriate or applicable, due diligence, if any, performed by a responsible person or successor in interest will be considered, and due consideration will be given for acts taken by that person to minimize the potential for violating the section 6112 requirements.

(2) *Review by IRS*. Whether reasonable cause exists for a period of time will be determined based on all the relevant facts and circumstances, including facts and circumstances arising after the request for the list. If a material advisor establishes that, in its efforts to comply with the provisions of section 6112 and its corresponding regulations, it acted in good faith, as defined in paragraph (g)(2) of this section, the material advisor will be deemed to have reasonable cause for the periods of time the IRS takes to review a furnished list for compliance with the section 6112 requirements and to inform the material advisor of any identified failures in the list. If the material advisor does not establish that it acted in good faith the IRS will not consider the time it takes to review the list or inform the material advisor of identified failures as a factor in determining whether the material advisor has reasonable cause for that period.

(3) *Examples*. The following examples illustrate paragraph (h)(2) of this section.

Example 1. On February 2, 2017, the IRS hand delivers a list request to Firm O, a material advisor. On March 3, 2017, the 20th business day (due to the Presidents' Day holiday) after the list request is delivered to Firm O, Firm O sends a list to the IRS that was contemporaneously prepared after Firm O issued advice with respect to the reportable transaction and continuously maintained in accordance with the requirements of section 6112 and the related regulations. Before sending the list, a supervisor at Firm O carefully reviewed the list to verify that it was comprehensive and accurate. The IRS completes its review on March 23, 2017, and determines that the list is not complete because Firm O furnished a draft copy of the tax opinion, rather than the final document, which Firm O had mistakenly misfiled. After Firm O is notified of the missing information, Firm O immediately furnishes a complete copy of the final version of the tax opinion. Firm O made a good-faith effort to comply with the section 6112 requirements, including its efforts to ensure that the list that was furnished to the IRS was accurate and complete. Firm O has reasonable cause for the entire period between the expiration of the 20-business-day period following the list request and the date it furnished the complete list to the IRS.

Example 2. On February 2, 2017, the IRS hand delivers a list request to Firm P, a material advisor. Firm P's involvement in the reportable transaction included implementing the transaction on behalf of some but not all of Firm P's clients. On March 3, 2017, the 20th business day (due to the Presidents' Day holiday) after the list request is delivered to Firm P, Firm P sends the list to the IRS. The IRS completes its review on March 23, 2017. The IRS believes the client list is incomplete because it does not contain information about certain individuals who were identified through other investigative means as clients of Firm P who may have engaged in the transaction. On March 27, 2017, in response to a follow-up inquiry by the IRS, Firm P establishes that it is not a material advisor with respect to these taxpayers. Therefore, the March 3, 2017 list was complete and accurate when first furnished. Under these circumstances, Firm P has timely furnished the list as required by section 6112. Because Firm P complied with the requirements of section 6112 no penalty applies, and Firm P does not need to establish reasonable cause for the period from March 4, 2017, through March 27, 2017, when the IRS was reviewing the list.

Example 3. On February 2, 2017, the IRS hand delivers a list request to Firm Q, a material advisor. On March 3, 2017, the 20th business day (due to the Presidents' Day holiday) after the list request is delivered to Firm Q, Firm Q sends the list to the IRS. Firm Q had not maintained a list contemporaneously after issuing the advice with respect to the reportable transaction, and created the list during the 20 business days before providing the list to the IRS. To meet the 20-business-day deadline, a supervisor did not review the final list before sending it to the IRS. The IRS completes its review on March 23, 2017, and determines that the list is not complete because it does not include 15 persons for whom Firm Q acted as a material advisor with respect to the reportable transaction. Firm Q furnishes the additional information on March 27, 2017. Because Firm Q is not able to show that it made diligent efforts to maintain the materials constituting the list in a readily accessible form and that it made a reasonable effort to ensure that the list that was furnished to the IRS was accurate and complete, Firm Q cannot establish that it exhibited a good-faith effort to comply with the section 6112 requirements. Firm Q does not have reasonable cause for its failure to furnish the complete list from March 4, 2017, through March 26, 2017.

Example 4. Within the 20-business-day period following a list request, Firm R sends four boxes of documents comprising the required list to the IRS using a commercial delivery service. The IRS receives only three of the boxes because box 4 was erroneously self-addressed using Firm R's office address. Box 4 arrives at Firm R's office on January 6, 2017, the 2nd calendar day after the 20th business day after the list request was made.

Firm R immediately recognizes its clerical error, promptly contacts the IRS, and resends the original and unopened box 4, properly addressed, to the IRS together with documentation supporting the error. The IRS receives box 4 on January 9, 2017. Under these circumstances, Firm R has reasonable cause for the late delivery of box 4 because it made a good-faith attempt to timely comply with the list request and immediately corrected an inadvertent error upon its discovery. As a result, no penalty will be imposed based on the delay in providing box 4. If, after inspection, the IRS determines that, even with the contents of box 4, the list is incomplete or defective, Firm R must establish reasonable cause for the incomplete nature of the list or the defect to avoid imposition of a penalty for the period beginning January 5, 2017, until but not including the day that Firm R furnishes the list to the IRS.

Example 5. (i) Firm S is a large law firm that is a material advisor. Firm S conducts annual sessions to educate its professionals about reportable transactions and the firm's obligations related to those reportable transactions. Firm S instructs its professionals to provide information on tax engagements that involve reportable transactions and to provide the documents required to be maintained under section 6112 to Firm S's compliance officer for list maintenance purposes. Firm S's policy provides that, for each engagement involving a reportable transaction, one firm professional will send an email to the firm's compliance officer about the engagement and then direct a subordinate to send to the firm's compliance officer the documents required to be maintained.

(ii) Firm S receives a request from the IRS for a section 6112 list. In compiling its list to turn over to the IRS during the 20-business-day period, Firm S asks all professionals to ensure that they have reported all engagements involving a reportable transaction to the firm's compliance officer. Before submission to the IRS, a Firm S supervisor reviews the list to ensure completeness. Firm S has no reason to know of any deficiencies, and in compiling its list, Firm S discovers no deficiencies.

(iii) Upon review of the list, the IRS determines that the information furnished by Firm S appears to be accurate, but the IRS believes that some of the information is incomplete because it does not contain information about an individual who may have engaged in the transaction and who was identified through other investigative means as Firm S's client. In response to a follow-up inquiry by the IRS, Firm S immediately reviews its files and discovers that a former Firm S professional, who is no longer employed by Firm S, provided material advice to the individual with respect to carrying out a reportable transaction, but did not send an email to the firm's compliance officer about the transaction or direct a subordinate to send the documents required to be maintained to the firm's compliance officer. Firm S immediately furnishes the missing information and documents related to the identified omission to the IRS.

(iv) Firm S establishes that the professional in question ordinarily complied with Firm S's list maintenance procedures and that Firm S had no reason to know of this one omission or to suspect that the professional had failed to report any reportable transactions to the firm's compliance officer in accordance with the firm's policies. Firm S also immediately undertakes a thorough search of its electronic and paper files to locate any additional reportable transactions relating to the professional in question that may have been omitted from the list. Under these circumstances, Firm S has demonstrated that it has acted in good faith in its efforts to comply with section 6112 and is deemed to have reasonable cause for the period of time the IRS took to review the furnished list and to inform the material advisor of the identified failure in the list. See paragraph (h)(2) of this section. The reasonable cause exception, however, will only be available to Firm S with respect to the omission identified by the IRS for the period of time that a person who exercises ordinary business care would need to obtain the information and documents related to the identified omission. See paragraph (g)(3) of this section. With respect to any other omissions related to the same professional and not identified by the IRS, the reasonable cause exception will only be available to Firm S for the period of time that a person who exercises ordinary business care would need to ascertain whether any other reportable transactions were omitted from the list and to obtain the information and documents related to any such omissions. See paragraph (g)(3) of this section.

(i) *Effective/applicability date.* This section applies to all requests for lists required to be maintained under section 6112, including lists that persons were required to maintain under section 6112(a) as in effect before October 22, 2004, made on or after April 28, 2016.

[T.D. 9764, 81 FR 25334, Apr. 28, 2016]

§ 301.6708–1T Failure to maintain list of investors in potentially abusive tax shelters (temporary).

The following questions and answers issued under section 6708 of the Internal Revenue Code of 1954, as added by section 142 of the Tax Reform Act of 1984 (Pub. L. 98–369; 98 Stat. 683), relate to the penalty for failure to maintain a

list of investors in potentially abusive tax shelters.

Q-1: What penalties are provided with respect to the failure properly to maintain a list of persons who acquire interests in potentially abusive tax shelters?

A-1: Any organizer (as defined in A-5 of § 301.6112–1T) of a tax shelter (as defined in A-3 of § 301.6112–1T) or seller (as defined in A-6 of § 301.6112–1T) of interests in a tax shelter who fails to meet any requirement imposed by section 6112 regarding the requirement to maintain a list of persons who have acquired interests in a tax shelter shall pay a penalty of $50 for each investor with respect to whom there is such a failure, unless it is shown that the failure is due to reasonable cause and not due to willful neglect. For example, if an organizer who is required to maintain a list identifying each of 100 persons who acquired interests in a tax shelter fails to maintain the list, the organizer will be liable for a penalty of $5,000 ($50 × 100 persons), unless the organizer can show the failure was due to reasonable cause and not due to willful neglect. As another example, if a seller is required to maintain a list identifying each of 100 persons who acquired interests in a tax shelter from the seller and fails properly to maintain such list by omitting the TIN of each person, the seller will be liable for a penalty of $5,000 ($50 × 100 persons), unless the seller can show the failure was due to reasonable cause and not due to willful neglect.

Q-2: If an organizer or seller properly maintains a list, but fails to make the list available to the Internal Revenue Service upon request, will the organizer or seller be subject to a penalty?

A-2: Yes. A penalty applies if an organizer or seller fails to meet any requirement imposed by section 6112, including the requirement, upon request, to make the list available to the Internal Revenue Service as soon as practicable, but in any event within 10 calendar days. (See A-21 of § 301.6112–1T). The amount of the penalty is $50 for each person required to be on the list at the time of the request by the Internal Revenue Service. Assume, for example, that an organizer of a tax shelter properly maintains a list of 200 persons who have acquired interests in a tax shelter and that the Internal Revenue Service requests the organizer to provide the list. If the organizer fails to provide the list to the Internal Revenue Service as soon as practicable (as required by A-21 of § 301.6112–1T), or in a form that enables the Internal Revenue Service to obtain the required information without undue delay or difficulty (as required by A-16 of § 301.6112–1T), the organizer will be liable for a penalty of $10,000 ($50 × 200 persons), unless the organizer can show that the failure to provide the list was due to reasonable cause and not to willful neglect.

Q-3: If an organizer or seller is required to maintain lists for more than one tax shelter in which the same person has acquired interests, how does the penalty apply if the organizer or seller fails to identify the person on each of the lists?

A-3: A separate $50 penalty applies with respect to the list for each tax shelter on which the person who acquired interests is not identified.

Q-4: Is there a limitation on the amount of the penalty imposed on a seller or organizer required to maintain a list of persons who have acquired interests in a tax shelter?

A-4: Yes. The maximum penalty that may be imposed on a person for any calendar year may not exceed $50,000.

Q-5: How does the calendar year limitation apply?

A-5: A separate $50,000 limitation applies to each calendar year in which a failure occurs, and to each tax shelter for which a list is required to be maintained. See A-6 of this section for special rules for determining how the $50,000 limitation applies to a designated person who fails properly to maintain a list of investors.

Example 1. Assume that A, an organizer of a tax shelter, fails to maintain and to provide to the Internal Revenue Service a list of 900 persons who acquired interests in the tax shelter in 1986. In addition, assume that A again fails to maintain and to provide the list of 900 investors upon request in 1987. A is subject to a penalty of $45,000 (900 persons × $50) for each calendar year in which there is a failure to comply with the requirements of section 6112. Thus, A is subject to $45,000 in penalties for the failures to maintain and to

provide the list in 1986, and $45,000 in penalties for the failures to maintain and to provide the list in 1987, unless A can show reasonable cause for the failures.

Example 2. Assume that B, an organizer of Tax Shelter I, fails to provide a list of 1,500 persons who acquired interests in the tax shelter to the Internal Revenue Service upon request in 1987. Assume also that B, an organizer of Tax Shelter II, fails to provide a list of 2,000 persons who acquired interests in Tax Shelter II to the Internal Revenue Service upon request in 1987. Because the $50,000 calendar year limitation applies separately with respect to each tax shelter for which a list must be maintained, B is subject to a penalty of $50,000 for failing to provide the list for Tax Shelter I in 1987 and a $50,000 penalty for failing to provide the list for Tax Shelter II in 1987.

Q-6: How does the penalty apply to a designated person?

A-6: Separate penalties, each with its own $50,000 calendar year limitation, apply with respect to the portion of the list kept by the designated person in that person's capacity as organizer and to each portion of the list kept by the designated person in that person's capacity as the designated person with respect to each organizer and seller who signed the agreement under A-12 of § 301.6112–1T and for whom the designated person is responsible for complying with the requirements of section 6112.

Example. Assume that X, an organizer and seller, sells interests in a tax shelter directly to 750 investors in 1985. In addition, assume that A, an agent of X, negotiates for X sales of interests in the tax shelter to an additional 500 persons in 1985. If no agreement to designate X is made pursuant to A-11 of § 301.6112–1T, X would be required to maintain a list of the 1,250 investors who acquired interests in the tax shelter (see paragraph (a) of A-8 of § 301.6112–1T) and A would be required to maintain a list of the 500 persons who acquired interests through A (see A-10 of § 301.6112–1T). If, therefore, neither X nor A complied with the requirements of section 6112 in 1985, X would be liable for $50,000 in penalties ($50 × 1,250 investors, subject to the $50,000 maximum) and A would be liable for $25,000 in penalties $50 × 500 investors). Assume, however, that X and A enter into a written agreement to designate X to maintain the list for the tax shelter. Pursuant to that agreement, A submits to X all of the required information regarding the sales to the 500 persons otherwise required to be maintained on A's list and provides the notice required by A-13 of § 301.6112–1T to each person. In 1986, X fails to provide any list of investors to the Internal Revenue Service upon request. For calendar year 1986, X is liable for penalties of $50,000 in X's capacity as an organizer ($50 × 1,250 persons, subject to the $50,000 maximum). In addition, X, as the person designated to maintain the list for A, is liable for penalties of $25,000 for failing properly to maintain A's list of investors ($50 × 500 persons). A would not be liable for any penalties.

Q-7: If an organizer or seller is subject to a penalty with respect to a tax shelter under section 6708, may the organizer or seller also be liable for other fines or penalties with respect to the tax shelter?

A-7: Yes. The penalty imposed by section 6708 is in addition to any other penalty provided by law. If, for example, an organizer of a tax shelter is subject to a penalty under section 6700 for promoting an abusive tax shelter, the organizer also would be liable for any applicable penalties for failing properly to maintain a list for the tax shelter. Similarly, if an organizer or seller fails to furnish a list upon request by the Internal Revenue Service, the organizer or seller may be subject both to the fine under section 7203 for the willful failure to supply information, and to the penalty for failing properly to maintain a list for the tax shelter.

Q-8: When is the penalty under section 6708 effective?

A-8: The penalty under section 6708 applies with respect to any interest in a tax shelter which is required to be included on a list under section 6112. See A-22 of § 301.6112–1T.

(Secs. 6112 and 7805, Internal Revenue Code of 1954 (98 Stat. 681; 68A Stat. 917; 26 U.S.C. 6112 and 7805))

[T.D. 7969, 49 FR 34204, Aug. 29, 1984]

§ 301.6712–1 Failure to disclose treaty-based return positions.

(a) *Penalty imposed.* A taxpayer who fails in a material way to disclose one or more positions taken for a taxable year, as required by section 6114 and the regulations thereunder, is subject to a separate penalty for each failure to disclose a position taken with respect to each separate payment or separate income item in the amount of—

(1) For a corporation taxable as such under the Code $10,000; or

(2) For all other taxpayers, $1,000.

The penalty imposed by this section may be imposed more than once for a single taxable year if a taxpayer has failed to disclose one or more positions taken with respect to more than one separate payment or separate income item and may be imposed in addition to any other penalty imposed by law. For this purpose, separate payments or income items of the same type (e.g., interest payments) received from the same ultimate payor (e.g., the obligor on the note) will be treated as separate payments or income items (and not aggregated). However, for purposes of determining the number of separate penalties to be imposed under this section, the District Director shall have the discretion to aggregate separate payments or income items, in whole or in part, in accordance with the rules for aggregation of such items for purposes of reporting, as described in § 301.6114–1(d).

(b) *Penalty waived*. Pursuant to the authority contained in section 6712(b) of the Code, the penalty imposed by paragraph (a) of this section may be waived, in whole or in part, if it is established to the satisfaction of the Assistant Commissioner (International), the District Director or the Director of the Internal Revenue Service Center that the taxpayer's failure to disclose the required information was not due to willful neglect. An affirmative showing of lack of willful neglect must be made in the form of a written statement that sets forth all the facts alleged to show lack of willful neglect and contains a declaration by such person that the statement is made under the penalties of perjury.

(c) *Manner of payment*. The penalty set forth in paragraph (a) of this section shall be paid in the same manner as tax upon the issuance of a notice and demand thereof.

(d) *Effective date*. This section is effective for taxable years of the taxpayer for which the due date for filing returns (without extension) occurs after December 31, 1988.

[T.D. 8292, 55 FR 9441, Mar. 14, 1990]

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In order to facilitate the use of §§ 301.6721–1 through 6724–1, this § 301.6721–0 lists the paragraph headings contained in these sections.

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[T.D. 8386, 56 FR 67182, Dec. 30, 1991, as amended by T.D. 8734, 62 FR 53496, Oct. 14, 1997]

§ 301.6721–1 Failure to file correct information returns.

(a) *Imposition of penalty*—(1) *General rule*. A penalty of $50 is imposed for each information return (as defined in section 6724(d)(1) and paragraph (g) of this section) with respect to which a failure (as defined in section 6721(a)(2) and paragraph (a)(2) of this section) occurs. No more than one penalty will be imposed under this paragraph (a)(1) with respect to a single information return even though there may be more than one failure with respect to such return. The total amount imposed on any person for all failures during any calendar year with respect to all information returns shall not exceed $250,000. See paragraph (b) of this section for a reduction in the penalty when the failures are corrected within specified periods. See paragraph (c) of this section for an exception to the penalty for inconsequential errors or omissions. See paragraph (d) of this section for an exception to the penalty for a *de minimis* number of failures. See paragraph (e) of this section for lower limitations to the $250,000 maximum penalty. See paragraph (f) of this section for higher penalties when a failure is due to intentional disregard of the

requirement to file timely correct information returns. See paragraph (a)(1) of § 301.6724–1 for waiver of the penalty for a failure that is due to reasonable cause.

(2) *Failures subject to the penalty*. The failures to which section 6721(a) and paragraph (a)(1) of this section apply are—

(i) A failure to file an information return on or before the required filing date (''failure to file timely''), and

(ii) A failure to include all of the information required to be shown on the return or the inclusion of incorrect information (''failure to include correct information''). A failure to file timely includes a failure to file in the required manner, for example, on magnetic media or in other machine-readable form as provided under section 6011(e). However, no penalty is imposed under paragraph (a)(1) of this section solely by reason of any failure to comply with the requirements of section 6011(e)(2), except to the extent that such a failure occurs with respect to more than 250 information returns (the 250-threshold requirement) or in the case of a partnership with more than 100 partners, more than 100 information returns (the 100-threshold requirement) (collectively, the threshold requirements). Each Schedule K–1 considered in applying the 100-threshold requirement will be treated as a separate information return. These threshold requirements apply separately to each type of information return required to be filed. Further, these threshold requirements apply separately to original and corrected returns. Thus, for example, if a filer files 300 returns on Form 1099–DIV and later files 70 corrected returns on Form 1099–DIV, the corrected returns may be filed either on the prescribed paper form (because they fall below the 250-threshold requirement) or on magnetic media or other machine-readable form. Filers who are required to file information returns on magnetic media and who file such information returns electronically are considered to have satisfied the magnetic media filing requirement. Except as provided in paragraph (c)(1) of this section, a failure to include correct information encompasses a failure to include the information required by applicable information reporting statutes or by any administrative pronouncements issued thereunder (such as regulations, revenue rulings, revenue procedures, or information reporting forms and form instructions). A failure to include information in the correct format may be either a failure to file timely an information return or a failure to include correct information on an information return. For example, an error on a magnetic media submission to the Internal Revenue Service that prevents processing by the Internal Revenue Service may constitute a failure to file timely. However, if information is set forth on the wrong field of the magnetic media submission, such an error may constitute a failure to file timely or a failure to include correct information, depending upon the extent of the failure.

(b) *Reduction in the penalty when a correction is made within specified periods*—(1) *Correction within 30 days*. The penalty imposed under section 6721(a) for a failure to file timely or for a failure to include correct information shall be $15 in lieu of $50 if the failure is corrected on or before the 30th day after the required filing date (''within 30 days''). The total amount imposed on a person for all failures during any calendar year that are corrected within 30 days shall not exceed $75,000.

(2) *Correction after 30 days but on or before August 1*. The penalty imposed under section 6721(a) for a failure to file timely or for a failure to include correct information shall be $30 in lieu of $50 if the failure is corrected after the 30-day period described in paragraph (b)(1) of this section but on or before August 1 of the year in which the required filing date occurs (''after 30 days but on or before August 1''). (See paragraph (b)(6) of this section for an exception to the provisions of this paragraph (b)(2) for returns that are not due on February 28 or March 15.) The total amount imposed on a person for all failures during any calendar year corrected after 30 days but on or before August 1 shall not exceed $150,000.

(3) *Required filing date defined*. The term ''required filing date'' means the date prescribed for filing an information return with the Internal Revenue

Service (or the Social Security Administration in the case of Forms W-2) determined with regard to any extension of time for filing.

(4) *Penalty amount for return with multiple failures.* If a return is subject to a penalty for more than one failure, and the penalty amounts for the failures differ, the higher penalty amount will be imposed.

(5) *Examples.* The provisions of paragraphs (a) and (b) (1) through (4) of this section may be illustrated by the following examples. These examples do not take into account any possible application of the *de minimis* exception under paragraph (d) of this section, the lower small business limitations under paragraph (e) of this section, the penalty for intentional disregard under paragraph (f) of this section, or the reasonable cause waiver under paragraph (a) of § 301.6724–1:

Example 1. Corporation R fails to file timely 11,000 Forms 1099–MISC (relating to miscellaneous income) for the 1990 calendar year. Five thousand of these returns are filed with correct information within 30 days, and 6,000 after 30 days but on or before August 1, 1991. For the same year R fails to file timely 400 Forms 1099–INT (relating to payments of interest) which R eventually files on September 28, 1991, after the period for reduction of the penalty has elapsed. R is subject to a penalty of $20,000 for the 400 forms which were not filed by August 1 ($50 × 400 = $20,000), $150,000 for the 6,000 forms filed after 30 days ($30 × 6,000 = $180,000, limited to $150,000 under paragraph (b)(2) of this section), and $75,000 for the 5,000 forms filed within 30 days ($15 × 5,000 = $75,000), for a total penalty of $245,000.

Example 2. Corporation T fails to file timely 6,000 Forms 1099–MISC for the 1990 calendar year. T files the 6000 Forms 1099–MISC on September 1, 1991. Because T does not correct the failure by August 1, 1991, T is subject to a penalty of $250,000, the maximum penalty under paragraph (a) of this section. Without the limitation of paragraph (a), T would be subject to a $300,000 penalty ($50 × 6,000 = $300,000).

Example 3. Corporation U files timely 300 Forms 1099–MISC on paper for the 1990 calendar year with correct information. Under section 6011(e)(2) a person required to file at least 250 returns during a calendar year must file those returns on magnetic media. U does not correct its failures to file these returns on magnetic media by August 1, 1991. It is therefore subject to a penalty for a failure to file timely under paragraph (a)(2) of this section. However, pursuant to section 6724(c) and paragraph (a)(2) of this section, the penalty for a failure to file timely on magnetic media applies only to the extent the number of returns exceeds 250. As U was required to file 300 returns on magnetic media, U is subject to a penalty of $2,500 for 50 returns ($50 × 50 = $2,500).

Example 4. Corporation V files 300 Forms 1099–MISC on paper for the 1990 calendar year. The forms were filed on March 15, 1991, rather than on the required filing date of February 28, 1991. Under section 6011(e)(2), a person required to file at least 250 returns during a calendar year must file those returns on magnetic media. V does not correctly file these returns on magnetic media by August 1, 1991. V is subject to a penalty of $3,750 for filing 250 of the returns late ($15 × 250) and $2,500 for failing to file 50 returns on magnetic media ($50 × 50) for a total penalty of $6,250.

(6) *Application to returns not due on February 28, or March 15.* For returns that are not due on February 28 or March 15 (for example, Forms 8300 reporting certain cash payments of $10,000 or more), the penalty is $15 if the failure is corrected within 30 days. If the failure is corrected after 30 days, the penalty is $50 rather than $30. There is no period during which the penalty is reduced to $30 under paragraph (b)(2) of this section.

(c) *Exception for inconsequential errors or omissions*—(1) *In general.* An inconsequential error or omission is not considered a failure to include correct information. For purposes of this paragraph (c)(1), the term ''inconsequential error or omission'' means any failure that does not prevent or hinder the Internal Revenue Service from processing the return, from correlating the information required to be shown on the return with the information shown on the payee's tax return, or from otherwise putting the return to its intended use. See paragraph (g)(5) of this section for the definition of ''payee.''

(2) *Errors or omissions that are never inconsequential.* Errors or omissions relating to the following are never inconsequential—

(i) A taxpayer identification number;

(ii) A surname of a payee (*i.e.,* the person required to be furnished a copy of the information set forth on an information return); and

(iii) Any monetary amounts. The Internal Revenue Service may, by administrative pronouncement, specify other

types of errors or omissions that are never inconsequential.

(3) *Examples.* The provisions of this paragraph (c) may be illustrated by the following examples, which do not take into account any possible application of the penalty for intentional disregard under paragraph (f) of this section or the reasonable cause waiver under paragraph (a) of § 301.6724–1:

Example 1. A filer files a Form 1099–MISC (relating to miscellaneous income) with the Internal Revenue Service. The Form 1099–MISC is complete and correct except that the word ''street'' is misspelled in the payee's address. The error does not prevent or hinder the Internal Revenue Service from processing the return, from correlating the information required to be shown on the return with the information shown on the payee's tax return, or from otherwise putting the return to its intended use. Therefore, no penalty is imposed under paragraph (a) of this section.

Example 2. A filer files a Form 1099–MISC with the Internal Revenue Service. The Form 1099–MISC is complete and correct except that the payee's first name, William, is misspelled as ''Willaim.'' the error does not prevent or hinder the Internal Revenue Service from processing the return, from correlating the information required to be shown on the return with the information shown on the payee's tax return, or from otherwise putting the return to its intended use. See paragraph (c)(2) of this section. Therefore, no penalty is imposed under paragraph (a) of this section.

Example 3. A filer files a Form 1099–MISC with the Internal Revenue Service. The Form 1099–MISC is complete and correct except that the payee's name, ''John Doe,'' is misspelled as ''John Ode.'' Under paragraph (c)(2) of this section, supplying an incorrect surname for a payee is never considered an inconsequential error. Therefore, a penalty is imposed under paragraph (a) of this section.

(d) *Exception for a de minimis number of failures*—(1) *Requirements.* The penalty under paragraph (a) of this section is not imposed for a *de minimis* number of failures to include correct information if the filer corrects such failures on or before August 1 of the year in which the required filing date occurs. (See paragraph (d)(4) of this section for special rules relating to returns that are not due on February 28 or March 15.)

(2) *Calculation of the de minimis exception.* The number of returns to which the *de minimis* exception applies for any calendar year shall not exceed the greater of 10 or one-half of one percent of the total number of all information returns the filer is required to file during the year. If the number of returns on which the filer fails to include correct information exceeds the number of returns to which the *de minimis* exception applies, the *de minimis* exception applies to those returns that will afford the filer the greatest reduction in penalty. The *de minimis* exception applies to failures to include correct information that exist after the application (if any) of the waiver for reasonable cause under section 6724(a) and § 301.6724–1. Returns to which the *de minimis* exception applies are treated as having been originally filed with correct information.

(3) *Examples.* The provisions of this paragraph (d) may be illustrated by the following examples. In each of the examples, the failures to file and to include correct information are subject to penalty under paragraph (a) of this section. The examples do not take into account any possible application of paragraph (f) of this section or the reasonable cause waiver under paragraph (a) of § 301.6724–1 of this section.

Example 1. Corporation T files timely 10,000 Forms 1099–INT (relating to payments of interest) for 1990 by February 28, 1991. The 10,000 returns are all the information returns that T is required to file during the 1991 calendar year. Of the returns filed, 70 contained incorrect information. T corrects the failures on July 12, 1991. No penalty is imposed for 50 of the failures (*i.e.*, the greater of 10 or $.005 \times 10{,}000 = 50$) even though the total failures, 70, exceed the number to which the *de minimis* exception may apply. The $30 penalty under paragraph (b)(2) of this section is imposed, in lieu of $50, for the remaining 20 failures, which were corrected after 30 days but on or before August 1, resulting in a total penalty of $600 ($30 × 20 = $600).

Example 2. Corporation U files timely 9,500 Forms 1099–INT for 1990 by February 28, 1991, the required filing date. Fifty of these returns contain incorrect information with respect to which U files correct information on August 1, 1991. U also files 500 Forms 1099–INT for 1990 on August 30, 1991, after the required filing date. The 10,000 returns are all the information returns that U is required to file during the 1991 calendar year. The calculation of the *de minimis* exception is based on the 10,000 returns required to be filed during the 1991 calendar year even though 500 of

the returns filed during the year were not filed timely. Therefore, the number of failures for which the *de minimis* exception applies is 50, and accordingly no penalty is imposed for the 50 Forms 1099–INT that were corrected on August 1, 1991. However, the $50 penalty under paragraph (a)(1) of this section is imposed for each failure to file timely, resulting in a total penalty of $25,000 ($50 × 500 = $25,000).

Example 3. Corporation V files timely 9,950 Forms 1099–INT for 1990 by February 28, 1991. However, V fails to file timely 50 of its Forms 1099–INT. The 10,000 returns are all the information returns that V is required to file during the 1991 calendar year. Upon discovering the error, V files the 50 returns within 30 days of February 28, 1991. The 50 returns are complete and correct except that V fails to include the taxpayer identification numbers of the payees on the returns. V files corrected returns on August 1, 1991. Absent application of the *de minimis* exception, the penalty imposed for the failure to include correct information would be $1,500 ($30 × 50 = $1,500). Because the incorrect returns are corrected on August 1, the 50 forms are treated under the *de minimis* exception as originally filed with correct information, and therefore no penalty is imposed under paragraph (a) of this section for the failure to include correct information. Nevertheless, the penalty under paragraph (a) of this section is imposed for the failure to file timely the 50 returns because the *de minimis* exception does not apply to the penalty for the failure to file timely. Hence, a penalty of $750 ($15 × 50 = $750) is imposed.

Example 4. Corporation W files timely 100 Forms 1099–DIV and files an additional 50 Forms 1099–DIV late, but within 30 days of February 28, 1991. These are all the information returns that W was required to file during the 1991 calendar year. W discovers errors on 10 of the returns that were filed timely, and on 5 of the returns that were filed late. W corrects all the errors on August 1. The *de minimis* exception applies to 10 of the corrected returns. The exception will be allocated to the 10 returns that were filed timely with incorrect information, because that allocation is most favorable to W (*i.e.*, applying the exception to a return filed late with incorrect information would save W $15, by reducing the penalty on that return from $30 to $15, but applying the exception to a return filed timely would save W $30, by reducing the penalty on that return from $30 to $0). (See paragraph (b)(4) of this section.)

(4) *Nonapplication to returns not due on February 28 or March 15.* The exception for a *de minimis* number of failures provided in paragraph (d)(1) of this section does not apply to failures with respect to returns that are not due on February 28 or March 15 (for example, Forms 8300 reporting certain cash payments of $10,000 or more). Nevertheless, the returns that are not due on February 28 or March 15 are included in the total number of all information returns that the filer is required to file during a year for purposes of calculating the number of the returns subject to the *de minimis* exception under paragraph (d)(2) of this section.

(e) *Lower limitations on the $250,000 maximum penalty amount with respect to persons with gross receipts of not more than $5,000,000*—(1) *In general.* If a person meets the gross receipts test (as defined in paragraph (e)(2) of this section) for any calendar year, the total amount of the penalty imposed on such person for all failures described in section 6721(a)(2) and paragraph (a)(2) of this section during such calendar year shall not exceed $100,000. The total amount of the penalty imposed under paragraph (b)(1) of this section for failures corrected within 30 days shall not exceed $25,000 for such calendar year. The total amount of the penalty imposed under paragraph (b)(2) of this section for failures corrected after 30 days but on or before August 1 shall not exceed $50,000 for such calendar year.

(2) *Gross receipts test.* A person meets the gross receipts test for any calendar year if the average annual gross receipts for such person for the three most recent taxable years ending before such calendar year do not exceed $5,000,000. For purposes of determining the amount of gross receipts during the three most recent taxable years, the rules of section 448(c) (2) and (3) shall apply.

(f) *Higher penalty for intentional disregard of requirement to file timely correct information returns*—(1) *Application of section 6721(e).* If a failure is due to intentional disregard of the requirement to file timely or to include correct information on a return as described in paragraph (g) of this section, the amount of the penalty imposed under paragraph (a) of this section shall be determined under paragraph (f)(4) of this section.

(2) *Meaning of ''intentional disregard.''* A failure is due to intentional disregard if it is a knowing or willful—

(i) Failure to file timely, or

(ii) Failure to include correct information. Whether a person knowingly or willfully fails to file timely or fails to include correct information is determined on the basis of all the facts and circumstances in the particular case.

(3) *Facts and circumstances considered.* The facts and circumstances that are considered in determining whether a failure is due to intentional disregard include, but are not limited to—

(i) Whether the failure to file timely or the failure to include correct information is part of a pattern of conduct by the person who filed the return of repeatedly failing to file timely or repeatedly failing to include correct information;

(ii) Whether correction was promptly made upon discovery of the failure;

(iii) Whether the filer corrects a failure to file or a failure to include correct information within 30 days after the date of any written request from the Internal Revenue Service to file or to correct; and

(iv) Whether the amount of the information reporting penalties is less than the cost of complying with the requirement to file timely or to include correct information on an information return.

(4) *Amount of the penalty.* If one or more failures to file timely or to include correct information are due to intentional disregard of the requirement to file timely or to include correct information, then, with respect to each such failure determined under this paragraph (f)—

(i) Paragraphs (b), (d), and (e) of this section shall not apply;

(ii) The $250,000 limitation under paragraph (a) of this section shall not apply, and the penalty under this paragraph (f) shall not be taken into account in applying the $250,000 limitation (or any similar limitation under paragraph (b) or (e) of this section) to penalties not determined under this paragraph (f);

(iii) The penalty imposed under paragraph (a) of this section shall be $100 or, if greater, the statutory percentage; and

(iv) The term ''statutory percentage'' means—

(A) In the case of a return other than a return required under section 6045(a), 6041A(b), 6050H, 6050I (for amounts received after November 5, 1990), 6050J, 6050K, or 6050L, 10 percent of the aggregate dollar amount of the items required to be reported correctly,

(B) In the case of a return required to be filed by section 6045(a), 6050K, or 6050L, 5 percent of the aggregate dollar amount of the items required to be reported correctly, or

(C) In the case of a return required to be filed under section 6050I(a) with respect to amounts received after November 5, 1990, for any transaction (or related transactions), the greater of $25,000 or the amount of cash (within the meaning of section 6050I(d)) received in such transaction to the extent the amount of such cash does not exceed $100,000.

(5) *Computation of the penalty; aggregate dollar amount of the items required to be reported correctly.* The aggregate dollar amount used in computing the penalty under this paragraph (f) is the amount that is not reported or is reported incorrectly. If the intentional disregard relates to a dollar amount, the statutory percentage is applied to the difference between the dollar amount reported and the amount required to be reported correctly. If the intentional disregard relates to any other item on the return, the statutory percentage is applied to the aggregate amount of items required to be reported correctly. In determining the aggregate amount of items required to be reported correctly, no item shall be taken into account more than once. For example, if a filer willfully fails to file a Form 1099–INT on which $800 of interest and $160 of Federal income tax withheld (*i.e.*, backup withholding) is required to be reported, only the $800 amount is taken into account in computing the penalty.

(6) *Examples.* The provisions of this paragraph (f) may be illustrated by the following examples:

Example 1. On December 1, 1990, Automobile dealer P receives $55,000 from an individual for the purchase of an automobile in a transaction subject to reporting under section 6050I. The individual presents documents to P that identify him as ''John Doe.'' However, P completes the Form 8300 (relating to cash received in a trade or business)

and reflects the name of a cartoon character as the payor. Because P knew at the time of filing the Form 8300 that the payor's name was not the name of the cartoon character, he willfully failed to include correct information as described under paragraph (f)(2) of this section. Therefore, the penalty under paragraph (f)(4) of this section is imposed for the intentional disregard of the requirement to include correct information. The amount used in computing the penalty under paragraph (f)(5) of this section is $55,000 (*i.e.*, the amount required to be reported on the return with respect to which the payee is not correctly identified). The amount of the penalty determined under paragraph (f)(4)(ii)(C) of this section is $55,000 (*i.e.*, the greater of $25,000 or the amount of cash received in the transaction up to $100,000).

Example 2. On December 1, 1990, Individual B contacts his agent, F, to act as his intermediary in the purchase of an automobile. B gives F $20,000 and requests F to purchase the automobile in F's name, which F does. F prepares the Form 8300 as required under section 6050I, but in the area designated for the name of the payor, F writes ''confidential.'' Because F knew at the time the return was filed that it contained incomplete information, the penalty under paragraph (f)(4) of this section is imposed for the intentional disregard of the requirement to include correct information. The amount used in computing the penalty under paragraph (f)(5) of this section is $20,000 (*i.e.*, the amount required to be reported on the return with respect to which the payee is not correctly identified). The amount of the penalty determined under paragraph (f)(4)(ii)(C) of this section is $25,000 (*i.e.*, the greater of $25,000 or the amount of cash received in the transaction up to $100,000).

Example 3. Corporation M deliberately does not include $5,000 of dividends on a Form 1099–DIV (relating to payments of dividends) on which a total of $200,000 (including the $5,000 dividends) is required to be reported under section 6042(a). Because the failure was deliberate, Corporation M's failure is due to intentional disregard of the requirement to include correct information. Accordingly, the amount of the penalty imposed under paragraph (a) is determined under paragraph (f)(4) of this section. Because the Form 1099–DIV is required to be filed under section 6042(a), under paragraph (f)(4)(ii)(A) the amount of the penalty with respect to such failure is 10 percent of the aggregate dollar amount of the items that were required to be but that were not reported correctly. Under paragraph (f)(5) of this section, $5,000 is the difference between the dollar amount reported and the amount required to be reported correctly. Therefore, the amount of the penalty is $500 ($5,000 × .10 = $500).

Example 4. Form 8027 requires certain large food and beverage establishments to report certain information with respect to tips. The form requires (among other things) that the establishment report its gross receipts from food and beverage operations. Establishment A, in intentional disregard of the information reporting requirement, reported gross receipts of $1,000,000, when the correct amount was $1,500,000. The significance of the gross receipts reporting requirement is that section 6053(c)(3)(A) requires an establishment to allocate as tips among its employees the excess of 8 percent of its gross receipts over the aggregate amount reported by employees to the establishment as tips under section 6053(a). A's misstatement of its gross receipts caused A to show $80,000 on the Form 8027 as 8 percent of its gross receipts, rather than the correct amount of $120,000. A correctly reported the amount of tips reported to it by employees under section 6053(a) as $80,000. Thus A reported the excess of 8 percent of its gross receipts over tips reported to it as zero, rather than as the correct amount of $40,000. The requirement of reporting gross receipts is considered merely a step in the computation of the excess of 8 percent of gross receipts over tips reported to A under section 6053(a), so that the penalty for intentional disregard will be $4,000 (*i.e.*, 10 percent of the difference between the $40,000 required to be reported as the excess of 8 percent of gross receipts over tips reported under section 6053(a), and the zero amount actually reported).

(g) *Definitions*—(1) *Information return.* For purposes of this section the term ''information return'' means any statement described in paragraph (g)(2) of this section, any return described in paragraph (g)(3) of this section, and any other items described in paragraph (g)(4) of this section.

(2) *Statements.* The statements subject to this section are the statements required by—

(i) Section 6041(a) or (b) (relating to certain information at source, generally reported on Form 1099–MISC, ''Miscellaneous Income''; Form W–2, ''Wage and Tax Statement''; Form W–2G, ''Certain Gambling Winnings''; and Form 1099–INT, ''Interest Income'');

(ii) Section 6042(a)(1) (relating to payments of dividends, generally reported on Form 1099–DIV, ''Dividends and Distributions'');

(iii) Section 6044(a)(1) (relating to payments of patronage dividends, generally reported on Form 1099–PATR, ''Taxable Distributions Received From Cooperatives'');

(iv) Section 6049(a) (relating to payments of interest, generally reported

on Form 1099–INT or Form 1099–OID, ''Original Issue Discount'');

(v) Section 6050A(a) (relating to reporting requirements of certain fishing boat operators, generally reported on Form 1099–MISC);

(vi) Section 6050N(a) (relating to payments of royalties, generally reported on Form 1099–MISC);

(vii) Section 6051(d) (relating to information returns with respect to income tax withheld, generally reported on Form W–2);

(viii) Section 6050R (relating to returns relating to certain purchases of fish, generally reported on Form 1099–MISC);

(ix) Section 110(d) (relating to qualified lessee construction allowances for short-term leases, generally reported by attaching a statement to an income tax return);

(x) Section 408(i) (relating to reports with respect to individual retirement accounts or annuities on Form 1099–R, ''Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.''); or

(xi) Section 6047(d) (relating to reports by employers, plan administrators, etc., on Form 1099–R).

(3) *Returns*. The returns subject to this section are the returns required by—

(i) Section 6041A(a) or (b) (relating to returns of direct sellers, generally reported on Form 1099–MISC);

(ii) Section 6043A(a) (relating to returns relating to taxable mergers and acquisitions);

(iii) Section 6045(a) or (d) (relating to returns of brokers, generally reported on Form 1099–B, ''Proceeds From Broker and Barter Exchange Transactions,'' for broker transactions; Form 1099–S, ''Proceeds From Real Estate Transactions,'' for gross proceeds from the sale or exchange of real estate; and Form 1099–MISC for certain substitute payments and payments to attorneys);

(iv) Section 6045B(a) (relating to returns relating to actions affecting basis of specified securities);

(v) Section 6050H(a) or (h)(1) (relating to mortgage interest received in trade or business from individuals, generally reported on Form 1098, ''Mortgage Interest Statement'');

(vi) Section 6050I(a) or (g)(1) (relating to cash received in trade or business, etc., generally reported on Form 8300, ''Report of Cash Payments Over $10,000 Received In a Trade or Business'');

(vii) Section 6050J(a) (relating to foreclosures and abandonments of security, generally reported on Form 1099–A, ''Acquisition or Abandonment of Secured Property'');

(viii) Section 6050K(a) (relating to exchanges of certain partnership interests, generally reported on Form 8308, ''Report of a Sale or Exchange of Certain Partnership Interests'');

(ix) Section 6050L(a) (relating to returns relating to certain dispositions of donated property, generally reported on Form 8282, ''Donee Information Return'');

(x) Section 6050P (relating to returns relating to the cancellation of indebtedness by certain financial entities, generally reported on Form 1099–C, ''Cancellation of Debt'');

(xi) Section 6050Q (relating to certain long-term care benefits, generally reported on Form 1099–LTC, ''Long-Term Care and Accelerated Death Benefits'');

(xii) Section 6050S (relating to returns relating to payments for qualified tuition and related expenses, generally reported on Form 1098–E, ''Student Loan Interest Statement,'' or Form 1098–T, ''Tuition Statement'');

(xiii) Section 6050T (relating to returns relating to credit for health insurance costs of eligible individuals, generally reported on Form 1099–H, ''Health Coverage Tax Credit (HCTC) Advance Payments'');

(xiv) Section 6052(a) (relating to reporting payment of wages in the form of group-life insurance, generally reported on Form W–2);

(xv) Section 6050V (relating to returns relating to applicable insurance contracts in which certain exempt organizations hold interests, generally reported on Form 8921, ''Applicable Insurance Contract Information Return'');

(xvi) Section 6053(c)(1) (relating to reporting with respect to certain tips, generally reported on Form 8027, ''Employer's Annual Information Return of Tip Income and Allocated Tips'');

(xvii) Section 1060(b) (relating to reporting requirements of transferors and transferees in certain asset acquisitions, generally reported on Form 8594, ''Asset Acquisition Statement''), or section 1060(e) (relating to information required in the case of certain transfers of interests in entities (effective for acquisitions after October 9, 1990, except any acquisition pursuant to a written binding contract in effect on October 9, 1990, and at all times thereafter before such acquisition));

(xviii) Section 4101(d) (relating to information reporting with respect to fuel oils (effective for information returns required to be filed after November 30, 1990));

(xix) Section 338(h)(10)(C) (relating to information required to be furnished to the Secretary in case of elective recognition of gain or loss (effective for acquisitions after October 9, 1990, except any acquisition pursuant to a written binding contract in effect on October 9, 1990, and at all times thereafter before such acquisition));

(xx) Section 264(f)(5)(A)(iv) (relating to reporting with respect to certain life insurance and annuity contracts);

(xxi) Section 6050U (relating to charges or payments for qualified long-term care insurance contracts under combined arrangements, generally reported on Form 1099–R);

(xxii) Section 6039(a) (relating to returns required with respect to certain options);

(xxiii) Section 6050W (relating to information returns with respect to payments made in settlement of payment card and third party network transactions);

(xxiv) Section 6055 (relating to information returns reporting minimum essential coverage); or

(xxv) Section 6056 (relating to information returns reporting on offers of health insurance coverage by applicable large employer members).

(4) *Other items*. The term *information return* also includes any form, statement, or schedule required to be filed with the Internal Revenue Service with respect to any amount from which tax is required to be deducted and withheld under chapter 3 of the Internal Revenue Code (or from which tax would be required to be so deducted and withheld but for an exemption under the Internal Revenue Code or any treaty obligation of the United States), generally Forms 1042–S, ''Foreign Person's U.S. Source Income Subject to Withholding,'' and 8805, ''Foreign Partner's Information Statement of Section 1446 Withholding Tax.'' The provisions of this paragraph (g)(4) referring to Form 8805, shall apply to partnership taxable years beginning after May 18, 2005, or such earlier time as the regulations under §§ 1.1446–1 through 1.1446–5 of this chapter apply by reason of an election under § 1.1446–7 of this chapter.

(5) *Payee*. For purposes of section 6721 the term ''payee'' means any person who is required to receive a copy of the information set forth on an information return by the filer of the return as defined in section 6724(d)(1).

(6) *Filer*. For purposes of this section the term ''filer'' means a person that is required to file an information return as defined in paragraph (g)(1) of this section under the applicable information reporting section described in paragraph (g) (2) through (4) of this section.

[T.D. 8386, 56 FR 67182, Dec. 30, 1991, as amended by T.D. 8843, 64 FR 61504, Nov. 12, 1999; T.D. 9200, 70 FR 28742, May 18, 2005; T.D. 9496, 75 FR 49836, Aug. 16, 2010; T.D. 9504, 75 FR 64103, Oct. 18, 2010; T.D. 9660, 79 FR 13231, Mar. 10, 2014]

§ 301.6722–1 Failure to furnish correct payee statements.

(a) *Imposition of penalty*—(1) *General rule*. A penalty of $50 is imposed for each payee statement (as defined in section 6724(d)(2)) with respect to which a failure (as defined in section 6722(a) and paragraph (a)(2) of this section) occurs. No more than one penalty will be imposed under this paragraph (a) with respect to a single payee statement even though there may be more than one failure with respect to such statement. However, the penalty shall apply to failures on composite substitute payee statements as though each type of payment and other required information were furnished on separate statements. A ''composite substitute payee statement'' is a single document created by a filer to reflect several types of payments made to the same payee. The total amount imposed on

any person for all failures during any calendar year with respect to all payee statements shall not exceed $100,000. See section 6722(c) and paragraph (c) of this section for higher penalties when a failure is due to intentional disregard of the requirement to furnish timely correct payee statements. See paragraph (a)(1) of § 301.6724–1 for a waiver of the penalty for a failure that is due to reasonable cause.

(2) *Failures subject to the penalty*. The failures to which section 6722(a) and paragraph (a)(1) of this section apply are—

(i) A failure to furnish a payee statement on or before the prescribed date therefore to the person to whom such statement is required to be furnished (''failure to furnish timely''), and

(ii) A failure to include all of the information required to be shown on a payee statement or the inclusion of incorrect information (''failure to include correct information''). A failure to furnish timely includes a failure to furnish a written statement to the payee in a statement mailing as required under sections 6042(c), 6044(e), 6049(c), and 6050N(b), as well as a failure to furnish the statement on a form acceptable to the Internal Revenue Service. Except as provided in paragraph (b) of this section, a failure to include correct information encompasses a failure to include the information required by applicable information reporting statutes or by any administrative pronouncements issued thereunder (such as regulations, revenue rulings, revenue procedures, or information reporting forms).

(b) *Exception for inconsequential errors or omissions*—(1) *In general*. An inconsequential error or omission is not considered a failure to include correct information. For purposes of this paragraph (b), the term ''inconsequential error or omission'' means any failure that cannot reasonably be expected to prevent or hinder the payee from timely receiving correct information and reporting it on his or her return or from otherwise putting the statement to its intended use.

(2) *Errors or omissions that are never inconsequential*. Errors or omissions relating to the following are never inconsequential:

(i) A dollar amount,

(ii) The significant items in the address of a payee, which is the address provided by the payee to the filer,

(iii) The appropriate form for the information provided (*i.e.*, whether or not the form is an acceptable substitute for an official form of the Internal Revenue Service), and

(iv) The manner of furnishing a statement required under sections 6042(c), 6044(e), 6049(e), and 6050N(b). The Internal Revenue Service may, by administrative pronouncement, specify other types of errors or omissions that are never inconsequential.

(3) *Examples*. The provisions of this paragraph (b) may be illustrated by the following examples which do not take into account any possible application of the penalty for intentional disregard under paragraph (c) of this section or the reasonable cause waiver under paragraph (a) of § 301.6724–1:

Example 1. A payor furnishes a statement with respect to a Form 1099–MISC (relating to miscellaneous income). The payee statement is complete and correct, except the word ''boulevard'' is misspelled in the payee's address. The error cannot reasonably be expected to prevent or hinder the payee from timely receiving correct information and reporting it on his or her tax return or from otherwise putting the statement to its intended use. Therefore, no penalty is imposed under paragraph (a) of this section.

Example 2. Assume the same facts in *Example 1*, except that the only error on the payee statement is that the payee's street address, 4821 Grant Boulevard, is reported incorrectly as 8421 Grant Boulevard. A penalty is imposed under paragraph (a) of this section with respect to the payee statement because the error can reasonably be expected to prevent or hinder the payee from timely receiving correct information and reporting it on his or her tax return or from otherwise putting the statement to its intended use.

(c) *Higher penalty for intentional disregard of requirement to furnish timely correct payee statements*—(1) *Application of section 6722(c)*. If a failure is due to intentional disregard of the requirement to furnish timely correct payee statements, the amount of the penalty shall be determined under paragraph (c)(2) of this section. Whether a failure is due to intentional disregard of the requirement to furnish timely correct payee statements is based upon the facts and circumstances surrounding

the failure. The facts and circumstances considered include those under § 301.6721–1(f)(3), which shall apply in determining whether a failure under this section is due to intentional disregard.

(2) *Amount of the penalty*. If one or more failures under paragraph (a) of this section are due to intentional disregard of the requirement to furnish timely payee statements or of the requirement to include correct information, then, with respect to each such failure determined under this paragraph (c)(2)—

(i) The $100,000 limitation under paragraph (a) of this section shall not apply and the penalty under this paragraph (c)(2) shall not be taken into account in applying the $100,000 limitation to penalties not determined under this paragraph (c)(2);

(ii) The penalty imposed under paragraph (a) of this section shall be $100 or, if greater, the statutory percentage; and

(iii) The term ''statutory percentage'' means—

(A) In the case of a payee statement other than a statement required under section 6045(b), 6041A(e) (in respect of a return required under section 6041A(b)), 6050H(d), 6050J(e), 6050K(b), or 6060L(c), 10 percent of the aggregate dollar amount of the items required to be reported correctly, or

(B) In the case of a payee statement required under section 6045(b), 6050K(b), or 6050L(c), 5 percent of the aggregate dollar amount of the items required to be reported correctly.

(3) *Computation of the penalty; aggregate dollar amount of items required to be shown correctly*. The aggregate dollar amount used in computing the penalty under this paragraph (c) is the amount that is not reported or is reported incorrectly. If the intentional disregard relates to a dollar amount, the statutory percentage is applied to the difference between the dollar amount reported and the amount required to be reported correctly. If the intentional disregard relates to any other item on the return, the statutory percentage is applied to the aggregate amount of items required to be reported correctly. In determining such amount the same item shall be counted only once. For example, if a filer willfully fails to furnish a Form 1099–INT on which $800 of interest and $160 of Federal income tax withheld (*i.e.*, backup withholding) is required to be shown, only the $800 amount is taken into account in computing the penalty.

(d) *Definitions*—(1) *Payee*. See § 301.6721–1(g)(5) for the definition of ''payee.''

(2) *Payee statement*. The term *payee statement* means any statement required to be furnished under—

(i) Section 6031(b) or (c), 6034A, or 6037(b) (relating to statements furnished by certain pass-thru entities, generally a Schedule K–1 (Form 1065), ''Partner's Share of Income, Deductions, Credits, etc.,'' for section 6031(b) or (c), a copy of the Schedule K–1 (Form 1041), ''Beneficiary's Share of Income, Deductions, Credits, etc.,'' for section 6034A, and a copy of Schedule K–1 (Form 1120S), ''Shareholder's Share of Income, Deductions, Credits, etc.,'' for section 6037(b));

(ii) Section 6039(b) (relating to information required in connection with certain options);

(iii) Section 6041(d) (relating to information at source, generally the recipient copy of Form 1099–MISC, ''Miscellaneous Income''; Form W–2, ''Wage and Tax Statement''; Form 1099–INT, ''Interest Income''; and the winner's copies of Form W–2G, ''Certain Gambling Winnings'');

(iv) Section 6041A(e) (relating to returns regarding payments of remuneration for services and direct sales, generally the recipient copy of Form 1099–MISC);

(v) Section 6042(c) (relating to returns regarding payments of dividends and corporate earnings and profits, generally the recipient copy of Form 1099–DIV, ''Dividends and Distributions'');

(vi) Section 6043A(b) or (d) (relating to returns relating to taxable mergers and acquisitions);

(vii) Section 6044(e) (relating to returns regarding payments of patronage dividends, generally the recipient copy of Form 1099–PATR, ''Taxable Distributions Received From Cooperatives'');

(viii) Section 6045(b) or (d) (relating to returns of brokers, generally the recipient copy of Form 1099–B, ''Proceeds

From Broker and Barter Exchange Transactions,'' for broker transactions; the transferor copy of Form 1099–S, ''Proceeds From Real Estate Transactions,'' for reporting proceeds from real estate transactions; and the recipient copy of Form 1099–MISC for certain substitute payments and payments to attorneys);

(ix) Section 6045A (relating to information required in connection with transfers of covered securities to brokers);

(x) Section 6045B(c) or (e) (relating to returns relating to actions affecting basis of specified securities);

(xi) Section 6049(c) (relating to returns regarding payments of interest, generally the recipient copy of Form 1099–INT or Form 1099–OID, ''Original Issue Discount'');

(xii) Section 6050A(b) (relating to reporting requirements of certain fishing boat operators, generally the recipient copy of Form 1099–MISC);

(xiii) Section 6050H(d) or (h)(2) (relating to returns relating to mortgage interest received in trade or business from individuals, generally the payor copy of Form 1098, ''Mortgage Interest Statement'');

(xiv) Section 6050I(e), (g)(4), or (g)(5) (relating to returns relating to cash received in trade or business, etc., generally a copy of Form 8300, ''Report of Cash Payments Over $10,000 Received In a Trade or Business'');

(xv) Section 6050J(e) (relating to returns relating to foreclosures and abandonments of security, generally the borrower copy of Form 1099–A, ''Acquisition or Abandonment of Secured Property'');

(xvi) Section 6050K(b) (relating to returns relating to exchanges of certain partnership interests, generally a copy of Form 8308, ''Report of a Sale or Exchange of Certain Partnership Interests'');

(xvii) Section 6050L(c) (relating to returns relating to certain dispositions of donated property, generally a copy of Form 8282, ''Donee Information Return'');

(xviii) Section 6050N(b) (relating to returns regarding payments of royalties, generally the recipient copy of Form 1099–MISC);

(xix) Section 6050P(d) (relating to returns relating to the cancellation of indebtedness by certain financial entities, generally the recipient copy of Form 1099–C, ''Cancellation of Debt'');

(xx) Section 6050Q(b) (relating to certain long-term care benefits, generally the policyholder and insured copies of Form 1099–LTC, ''Long-Term Care and Accelerated Death Benefits'');

(xxi) Section 6050R(c) (relating to returns relating to certain purchases of fish, generally the recipient copy of Form 1099–MISC);

(xxii) Section 6051 (relating to receipts for employees, generally the employee copy of Form W–2);

(xxiii) Section 6052(b) (relating to returns regarding payment of wages in the form of group-term life insurance, generally the employee copy of Form W–2);

(xxiv) Section 6053(b) or (c) (relating to reports of tips, generally the employee copy of Form W–2);

(xxv) Section 6048(b)(1)(B) (relating to foreign trust reporting requirements, generally copies of the owner and beneficiary statements of Form 3520–A, ''Annual Information Return of Foreign Trust With a U.S. Owner'');

(xxvi) Section 408(i) (relating to reports with respect to individual retirement plans on the recipient copies of Form 1099–R, ''Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.'');

(xxvii) Section 6047(d) (relating to reports by plan administrators on the recipient copies of Form 1099–R);

(xxviii) Section 6050S(d) (relating to returns relating to qualified tuition and related expenses, generally the borrower copy of Form 1098–E, ''Student Loan Interest Statement,'' or the student copy of Form 1098–T, ''Tuition Statement'');

(xxix) Section 264(f)(5)(A)(iv) (relating to reporting with respect to certain life insurance and annuity contracts);

(xxx) Section 6050T (relating to returns relating to credit for health insurance costs of eligible individuals, generally the recipient copy of Form 1099–H, ''Health Coverage Tax Credit (HCTC) Advance Payments'');

(xxxi) Section 6050U (relating to charges or payments for qualified long-

term care insurance contracts under combined arrangements, generally the recipient copy of Form 1099–R);

(xxxii) Section 6050W (relating to information returns with respect to payments made in settlement of payment card and third party network transactions);

(xxxiii) Section 6055 (relating to information returns reporting minimum essential coverage); or

(xxxiv) Section 6056 (relating to information returns reporting on offers of health insurance coverage by applicable large employer members).

(3) *Other items*. The term *payee statement* also includes any form, statement, or schedule required to be furnished to the recipient of any amount from which tax is required to be deducted and withheld under chapter 3 of the Internal Revenue Code (or from which tax would be required to be so deducted and withheld but for an exemption under the Internal Revenue Code or any treaty obligation of the United States) (generally the recipient copy of Form 1042–S, ''Foreign Person's U.S. Source Income subject to Withholding,'' or Form 8805, ''Foreign Partner's Information Statement of Section 1446 Withholding Tax.'')

(e) *Effective/Applicability date*. The reference in paragraph (d)(3) of this section to Form 8805 shall apply to partnership taxable years beginning after *April 29, 2008*.

[T.D. 8386, 56 FR 67182, Dec. 30, 1991, as amended by T.D. 9394, 73 FR 23086, Apr. 29, 2008; T.D. 9496, 75 FR 49836, Aug. 16, 2010; T.D. 9504, 75 FR 64104, Oct. 18, 2010; T.D. 9660, 79 FR 13231, Mar. 10, 2014]

§ 301.6723–1 Failure to comply with other information reporting requirements.

(a) *Imposition of penalty*—(1) *General rule*. A penalty of $50 is imposed for each failure to comply timely with a specified information reporting requirement (as defined in paragraph (a)(4) of this section) or for each failure to include correct specified information. Multiple penalties are imposed with respect to a document with failures to comply with more than one of the requirements set forth in paragraph (a)(4) of this section or multiple instances of failures to comply with any one of these requirements. Nonetheless, if a failure that occurs with respect to any requirement defined in paragraph (a)(4) of this section would be subject to a penalty under both paragraph (a)(2)(i) and paragraph (a)(2)(ii) of this section, no more than one penalty is imposed for such failure. The total amount imposed on any person for all failures during any calendar year with respect to all specified information reporting requirements shall not exceed $100,000. See paragraph (a) of § 301.6724–1 for the waiver of the penalty for a failure that is due to reasonable cause.

(2) *Failures subject to the penalty*. The failures to which paragraph (a)(1) of this section apply are—

(i) A failure to comply timely with a specified information reporting requirement on or before the date prescribed therefor (''failure to comply timely''), and

(ii) A failure to include all the information required by a specified information reporting requirement or the inclusion of incorrect information (''failure to include correct information'').

(3) *Exception for inconsequential errors or omissions*. An inconsequential error or omission is not considered a failure to comply with a specified information reporting requirement. For purposes of paragraph (a)(3) of this section, an error or omission is considered inconsequential if it does not frustrate the purpose or use for which the information is intended.

(4) *Specified information reporting requirement defined*. For purposes of section 6723 and this section, a ''specified information reporting requirement'' means—

(i) The requirement to provide the notice under section 6050K(c)(1) (relating to the requirement that a transferor notify the partnership of an exchange of a partnership interest);

(ii) Any requirement contained in the regulations under section 6109 that a person—

(A) Include his or her taxpayer identification number (''TIN'') on any return, statement, or other document (other than an information return or payee statement),

(B) Include on any return, statement, or other document (other than an information return or payee statement) made with respect to another person the TIN of such person, or

(C) Furnish his or her TIN to another person;

(iii) Any requirement contained in the regulations under section 215 that a person—

(A) Furnish his or her TIN to another person, or

(B) Include on his or her return the TIN of another person; and

(iv) The requirement under section 6109(e) that a person include the TIN of any dependent on his or her return.

(b) *Examples*. The provisions of paragraph (a) of this section may be illustrated by the following examples which do not take into account the reasonable cause waiver under section 6724(a) and paragraph (a)(1) of § 301.6724–1.

Example 1. Individual A, who has two dependents ages 7 and 9, files his 1990 Form 1040 in 1991. The Form 1040 requires him to provide the TINs of his two dependents, which A fails to do. Because A fails to comply timely with two requirements to include on his return the TIN of another person, a $50 penalty under paragraph (a) of this section is imposed on A for each of the two failures, for a total penalty of $100.

Example 2. In 1991 Individual B opens with Bank X an account which pays reportable interest under section 6049. When B opens the account, Bank X requests that B provide his TIN on a Form W–9. B does not provide his TIN as required by § 301.6109–1(b). As a result B fails to comply timely with a specified information reporting requirement under paragraph (a) of this section for furnishing his TIN to another person. Therefore, a $50 penalty is imposed on B under paragraph (a) of this section for the failure. See section 6721(a) for the penalty to which X may be subject if X files a Form 1099–INT (relating to payments of interest) for calendar year 1991 without B's TIN. See section 3406(a)(1)(A) which requires X to impose backup withholding on reportable payments of interest to B's account.

Example 3. In 1991 Individual C is a nonresident alien with an account inside the U.S. with Bank Z. The account pays interest that would be reportable under section 6049 but for the fact that it is paid to a nonresident alien. Under section 6109 and § 301.6109–1(b), Bank Z is required to request the TIN from C. C claims that he is a nonresident alien and that his account is not subject to information reporting under section 6049. Because of this, C contends he is not required to provide any TIN information. As a result of this discussion, Bank Z then requests C to provide it with a Form W–8 in order for C to certify that he is a nonresident alien which C fails to do. C fails to comply timely with a specified information reporting requirement under paragraph (a) of this section to furnish his TIN to another person. Therefore, a penalty is imposed on C under paragraph (a) of this section for the failure. See section 6721(a) for the penalty that may be imposed on Z if Z files a Form 1099–INT for calendar year 1991 without C's TIN. See section 3406(a)(1)(A) under which Z is required to impose backup withholding on reportable payment of interest to C's account.

Example 4. In 1991 Partnership D opens with Bank Y an account that pays reportable interest under section 6049. When D opens the account, Y requests the partnership's employer identification number (EIN) on a Form W–9 as required under § 301.6109–1(b). The partnership provides its EIN on the Form W–9. Y files an information return with respect to D for the 1991 calendar year. Subsequently, the Internal Revenue Service later notifies Y that D's EIN is incorrect as defined under section 3406 and § 35a.3406–1(a)(6). D fails to comply timely with a specified reporting requirement under paragraph (a) of this section of furnishing its correct EIN to another person. Therefore, a penalty is imposed on D under paragraph (a) of this section for the failure. See section 6721(a) for the penalty to which Y may be subject if Y files a Form 1099–INT for calendar year 1991 without D's correct EIN. See section 3406(a)(1)(B), which requires Y to impose backup withholding on reportable payments of interest to B's account when the Internal Revenue Service or a broker has notified Y that the EIN is incorrect.

[T.D. 8386, 56 FR 67182, Dec. 30, 1991]

§ 301.6724–1 Reasonable cause.

(a) *Waiver of the penalty*—(1) *General rule*. The penalty for a failure relating to an information reporting requirement (as defined in paragraph (j) of this section) is waived if the failure is due to reasonable cause and is not due to willful neglect.

(2) *Reasonable cause defined*. The penalty is waived for reasonable cause only if the filer establishes that either—

(i) There are significant mitigating factors with respect to the failure, as described in paragraph (b) of this section; or

(ii) The failure arose from events beyond the filer's control (''impediment''), as described in paragraph (c) of this section.

Moreover, the filer must establish that the filer acted in a responsible manner, as described in paragraph (d) of this section, both before and after the failure occurred. Thus, if the filer establishes that there are significant mitigating factors for a failure but is unable to establish that the filer acted in a responsible manner, the mitigating factors will not be sufficient to obtain a waiver of the penalty. Similarly, if the filer establishes that a failure arose from an impediment but is unable to establish that the filer acted in a responsible manner, the impediment will not be sufficient to obtain a waiver of the penalty. See paragraph (g) of this section for the reasonable cause safe harbor for persons who exercise due diligence.

(b) *Significant mitigating factors.* In order to establish reasonable cause under this paragraph (b), the filer must satisfy paragraph (d) of this section and must show that there are significant mitigating factors for the failure. The mitigating factors include, but are not limited to—

(1) The fact that prior to the failure the filer was never required to file the particular type of return or furnish the particular type of statement with respect to which the failure occurred, or

(2) The fact that the filer has an established history of complying with the information reporting requirement with respect to which the failure occurred. In determining whether the filer has such an established history, significant consideration is given to—

(i) Whether the filer has incurred any penalty under §§ 301.6721–1, 301.6722–1, or 301.6723–1 in prior years for the failure (or under parallel provisions of prior law), and

(ii) If the filer has incurred any such penalty in prior years, the extent of the filer's success in lessening its error rate from year to year.

A filer may treat as a penalty not incurred any penalty under sections 6721 through 6723 that was self-assessed under section 6724(c)(3) and any penalty under section 6676(b) that was self-assessed under section 6676(d), prior to amendment or repeal by the Omnibus Budget Reconciliation Act of 1989. See paragraph (c)(5) of this section for the application of this paragraph (b) to failures attributable to the actions of a filer's agent.

(c) *Events beyond the filer's control*—(1) *In general.* In order to establish reasonable cause under this paragraph (c)(1), the filer must satisfy paragraph (d) of this section and must show that the failure was due to events beyond the filer's control. Events which are generally considered beyond the filer's control include but are not limited to—

(i) The unavailability of the relevant business records (as described in paragraph (c)(2) of this section),

(ii) An undue economic hardship relating to filing on magnetic media (as described in paragraph (c)(3) of this section),

(iii) Certain actions of the Internal Revenue Service (as described in paragraph (c)(4) of this section),

(iv) Certain actions of an agent (as described in paragraph (c)(5) of this section), and

(v) Certain actions of the payee or any other person providing necessary information with respect to the return or payee statement (as described in paragraph (c)(6) of this section).

(2) *Unavailability of the relevant business records.* In order to establish reasonable cause under paragraph (c)(1) of this section due to the unavailability of the relevant business records, the filer's business records must have been unavailable under such conditions, in such manner, and for such period as to prevent timely compliance (ordinarily at least a 2-week period prior to the due date (with regard to extensions) of the required return or the required date (with regard to extensions) for furnishing the payee statement), and the unavailability must have been caused by a supervening event. A ''supervening event'' includes, but is not limited to—

(i) A fire or other casualty that damages or impairs the filer's relevant business records or the filer's system for processing and filing such records;

(ii) A statutory or regulatory change that has a direct impact upon data processing and that is made so close to the time that the return or payee

statement is required that, for all practical purposes, the change cannot be complied with; or

(iii) The unavoidable absence (e.g., due to death or serious illness) of the person with the sole responsibility for filing a return or furnishing a payee statement.

(3) *Undue economic hardship relating to filing on magnetic media.* In order to establish reasonable cause under paragraph (c)(1) of this section due to an undue economic hardship for filing on magnetic media, the filer must show that it failed to file on magnetic media because the filer lacked the necessary hardware. For purposes of this paragraph (c)(3), the filer will not be considered to have acted in a responsible manner under paragraph (d) of this section unless—

(i) The filer attempted on a timely basis to contract out the magnetic media filing;

(ii) The cost of filing on magnetic media was prohibitive as determined at least 45 days before the due date of the returns (without regard to extensions) (90 days for information returns the due date for which (without regard to extensions) is after December 31, 1989, and by or before February 28, 1991 (March 15, 1991, for Forms 1042S));

(iii) The cost was supported by a minimum of two cost estimates from unrelated parties; and

(iv) The filer filed the returns on paper. Reasonable cause will not ordinarily be established under this paragraph (c)(3) if a filer received a reasonable cause waiver in any prior year under paragraph (c)(1) of this section due to an undue economic hardship relating to filing on magnetic media.

(4) *Actions of the Internal Revenue Service.* In order to establish reasonable cause under paragraph (c)(1) of this section due to certain actions of the Internal Revenue Service, a filer must show that the failure was due to the filer's reasonable reliance on erroneous written information from the Internal Revenue Service. Reasonable reliance means that the filer relied in good faith on the information. The filer shall not be considered to have relied in good faith if the Internal Revenue Service was not aware of all the facts when it provided the information to the filer. In order to substantiate reasonable cause under this paragraph (c)(4), the filer must provide a copy of the written information provided by the Internal Revenue Service and, if applicable, the filer's written request for the information.

(5) *Actions of agent—imputed reasonable cause.* In order to establish reasonable cause under paragraph (c)(1) of this section due to actions of an agent, the filer must show the following:

(i) The filer exercised reasonable business judgment in contracting with the agent to file timely correct returns or furnish timely correct payee statements with respect to which the failure occurred. This includes contracting with the agent and providing the proper information sufficiently in advance of the due date of the return or statement to permit timely filing of correct returns or timely furnishing of correct payee statements; and

(ii) The agent satisfied the reasonable cause criteria set forth in paragraph (b) or one of the reasonable cause criteria set forth in paragraph (c) (2) through (6) of this section.

(6) *Actions of the payee or any other person.* In order to establish reasonable cause under paragraph (c)(1) of this section due to the actions of the payee or any other person, such as a broker as defined in section 6045(c) providing information with respect to the return or payee statement, the filer must show either—

(i) That the failure resulted from the failure of the payee, or any other person required to provide information necessary for the filer to comply with the information reporting requirements (''any other person''), to provide information to the filer, or

(ii) That the failure resulted from incorrect information provided by the payee (or any other person) upon which information the filer relied in good faith. To substantiate reasonable cause under this paragraph (c)(6), the filer must provide documentary evidence upon request of the Internal Revenue Service showing that the failure was attributable to the payee (or any other person). See paragraph (d)(2) of this section for special rules relating to the

availability of a waiver where the filer's failure relates to a taxpayer identification number (TIN), and the failure is attributable to actions of the payee described in paragraph (c)(6) (i) or (ii) of this section.

(d) *Responsible manner*—(1) *In general.* Acting in a responsible manner means—

(i) That the filer exercised reasonable care, which is that standard of care that a reasonably prudent person would use under the circumstances in the course of its business in determining its filing obligations and in handling account information such as account numbers and balances, and

(ii) That the filer undertook significant steps to avoid or mitigate the failure, including, where applicable—

(A) Requesting appropriate extensions of time to file, when practicable, in order to avoid the failure,

(B) Attempting to prevent an impediment or a failure, if it was foreseeable,

(C) Acting to remove an impediment or the cause of a failure, once it occurred, and

(D) Rectifying the failure as promptly as possible once the impediment was removed or the failure was discovered. Ordinarily, a rectification is considered prompt if it is made within 30 days after the date the impediment is removed or the failure is discovered or on the earliest date thereafter on which a regular submission of corrections is made. Submissions will be considered regular only if made at intervals of 30 days or less. A failure may be rectified by filing or correcting the information return, furnishing or correcting the payee statement, or by providing or correcting the information to satisfy the specified information reporting requirement with respect to which the failure occurs. Paragraph (d)(ii)(D) of this section does not apply with respect to information the filer is prohibited from altering under specific information reporting rules. See § 1.6045–4(i)(5) of this chapter.

(2) *Special rule for filers seeking a waiver pursuant to paragraph (c)(6) of this section.* A filer seeking a waiver for reasonable cause pursuant to paragraph (c)(6) of this section with respect to a failure resulting from a missing or an incorrect TIN will be deemed to have acted in a responsible manner in compliance with this paragraph (d) only if the filer satisfies the requirements of paragraph (e) of this section (relating to missing TINs) or paragraph (f) of this section (relating to incorrect TINs), whichever is applicable.

(e) *Acting in a responsible manner—special rules for missing TINs*—(1) *In general.* A filer that is seeking a waiver for reasonable cause under paragraph (c)(6) of this section will satisfy paragraph (d)(2) of this section with respect to establishing that a failure to include a TIN or an information return resulted from the failure of the payee to provide information to the filer (*i.e.*, a missing TIN) only if the filer makes the initial and, if required, the annual solicitations described in this paragraph (e) (required solicitations). For purposes of this section, a number is treated as a ''missing TIN'' if the number does not contain nine digits or includes one or more alpha characters (a character or symbol other than an Arabic numeral) as one of the nine digits. A solicitation means a request by the filer for the payee to furnish a correct TIN. See paragraph (f) of this section for the rules that a filer must follow to establish that the filer acted in a responsible manner with respect to providing incorrect TINs on information returns. See paragraph (e)(1)(vi)(A) of this section for alternative solicitation requirements. See paragraph (g) of this section for the safe harbor due diligence rules. See paragraph (h) of this section for the rule applicable to failures with respect to information returns the due date for which (without regard to extensions) is after December 31, 1989, and on or before April 22, 1991.

(i) *Initial solicitation.* An initial solicitation for a payee's correct TIN must be made at the time an account is opened. The term ''account'' includes accounts, relationships, and other transactions. However, a filer is not required to make an initial solicitation under this paragraph (e)(1)(i) with respect to a new account if the filer has the payee's TIN and uses that TIN for all accounts of the payee. For example, see § 31.3406(h)–3(a) of this chapter. Further, a filer is not required to make an initial solicitation under this paragraph (e)(1)(i) with respect to accounts

for which the filer filed an information return subject to paragraph (h) of this section. For purposes of this section, the initial solicitation requirement is deemed to have been met with respect to accounts opened after December 31, 1989, and on or before April 22, 1991. If the account is opened in person, the initial solicitation may be made by oral or written request, such as on an account creation document. If the account is opened by mail, telephone, or other electronic means, the TIN may be requested through such communications. If the account is opened by the payee's completing and mailing an application furnished by the filer that requests the payee's TIN, the initial solicitation requirement is considered met. If a TIN is not received as a result of an initial solicitation, the filer may be required to make additional solicitations (''annual solicitations'').

(ii) *First annual solicitation.* Except as provided in paragraph (e)(1)(vi) of this section, a filer must undertake an annual solicitation if a TIN is not received as a result of an initial solicitation (or if the filer was not required to make an initial solicitation under paragraph (e)(1)(i) of this section and the filer has not received a payee's TIN). The first annual solicitation must be made on or before December 31 of the year in which the account is opened (for accounts opened before December) or January 31 of the following year (for accounts opened in the preceding December) (''annual solicitation period'').

(iii) *Second annual solicitation.* If the TIN is not received as a result of the first annual solicitation, the filer must undertake a second annual solicitation. The second annual solicitation must be made after the expiration of the annual solicitation period and on or before December 31 of the year immediately succeeding the calendar year in which the account is opened.

(iv) *Additional requirements.* After receiving a TIN, a filer must include that TIN on any information returns the original due date of which (with regard to extensions) is after the date that the filer receives the TIN.

(v) *Failures to which a solicitation relates.* The initial and first annual solicitations relate to failures on returns filed for the year in which an account is opened. The second annual solicitation relates to failures on returns filed for the year immediately following the year in which an account is opened and for succeeding calendar years.

(vi) *Exceptions and limitations.* (A) The solicitation requirements under this paragraph (e) do not apply to the extent an information reporting provision under which a return, as defined in paragraph (g) of § 301.6721–1, is filed provides specific requirements relating to the manner or the time period in which a TIN must be solicited. In that event, the requirements of this paragraph (e) will be satisfied only if the filer complies with the manner and time period requirements of the specific information reporting provision and the provisions of this paragraph (e) to the extent applicable. Also, see section 3406(e) which provides rules on the manner and time period in which a TIN must be provided for certain accounts with respect to interest, dividends, patronage dividends, and amounts subject to broker reporting.

(B) An annual solicitation is not required to be made for a year under this paragraph (e) with respect to an account if no payments are made to the account for such year or if no return as defined in paragraph (g) of § 301.6721–1 is required to be filed for the account for the year.

(C) If a filer fails to make one (or more) of the required solicitations under paragraphs (e)(1) (i), (ii), and (iii) of this section, the filer may satisfy the requirements of this section by—

(*1*) Making two consecutive annual solicitations in subsequent years (''make-up solicitations''), and

(*2*) Satisfying paragraph (e)(1)(iv) of this section.

For example, a filer who has made none of the required solicitations may satisfy the requirements of this section by making two consecutive solicitations. In determining whether a filer has made two consecutive solicitations, years to which paragraph (e)(1)(vi)(B) of this section applies shall be disregarded. If a filer fails to make the initial solicitation under paragraph (e)(1)(i) of this section, the make-up solicitations described in this paragraph (e)(1)(vi)(C) may be made in the years

in which the first and second annual solicitations are required to be made; however, the penalty will apply with respect to the year in which the filer failed to make the initial solicitation. The penalty will apply to failures with respect to years for which a required solicitation is not made and to failures with respect to all subsequent years until the filer conducts its make-up solicitations. The penalty will not apply with respect to the year in which the first make-up solicitation is made (unless it is also the year in which the filer fails to make its initial solicitation) if the second make-up solicitation is made in the following year.

(D) A financial institution is not required to make an annual solicitation by mail on accounts with ''stop-mail'' or ''hold-mail'' instructions, provided the filer furnishes the solicitation material to the payee in the same manner as it furnishes other mail.

(E) A filer is not required to make annual solicitations on accounts with respect to which the filer undertook two consecutive annual mailings by December 31, 1989, under Q/A-5 through Q/A-7B or under Q/A-56 of § 35a.9999–1 of the Temporary Employment Tax Regulations under the Interest and Dividend Tax Compliance Act of 1983, as provided under section 6676(b) (prior to its amendment by the Omnibus Budget Reconciliation Act of 1989).

(F) A filer is not required to make annual solicitations by mail on accounts with respect to which the filer has an undeliverable address, *i.e.*, where other mailings to that address have been returned to the filer because the address was incorrect and no new address has been provided to the filer.

(G) Except as provided in paragraph (e)(1)(vi) (A) and (C) of this section, no more than two annual solicitations are required under this paragraph (e) in order for a filer to establish reasonable cause.

(2) *Manner of making annual solicitations—by mail or telephone*—(i) *By mail*. A mail solicitation must include—

(A) A letter informing the payee that he or she must provide his or her TIN and that he or she is subject to a $50 penalty imposed by the Internal Revenue Service under section 6723 if he or she fails to furnish his or her TIN,

(B) A Form W–9 or an acceptable substitute form, as defined in § 31.3406 (h)–3 (a), (b), or (c) of this chapter, on which the payee may provide the TIN, and

(C) A return envelope for the payee to provide the TIN which may be, but is not required to be, postage prepaid.

(ii) *By telephone*. An annual solicitation may be made by telephone if the solicitation procedure is reasonably designed and carried out in a manner that is conducive to obtaining the TIN. An annual solicitation is made pursuant to this paragraph (e)(2)(ii) for a failure if the filer—

(A) Completes a call to each person with a missing TIN and speaks to an adult member of the household, or to an officer of the business or the organization,

(B) Requests the TIN of the payee,

(C) Informs the payee that he or she is subject to a $50 penalty imposed by the Internal Revenue Service under section 6723 if he or she fails to furnish his or her TIN,

(D) Maintains contemporaneous records showing that the solicitation was properly made, and

(E) Provides such contemporaneous records to the Internal Revenue Service upon request.

(f) *Acting in a responsible manner—special rules for incorrect TINS*—(1) *In general*. A filer that is seeking a waiver for reasonable cause under paragraph (c)(6) of this section will satisfy paragraph (d)(2) of this section with respect to establishing that a failure resulted from incorrect information provided by the payee or any other person (*i.e.*, inclusion of an incorrect TIN) on an information return only if the filer makes the initial and annual solicitations described in this paragraph (f). See paragraph (e)(1) of this section for the definition of the term ''solicitation.'' See paragraph (f)(5)(i) of this section for alternative solicitation requirements. See paragraph (g) of this section for the safe harbor due diligence rules. See paragraph (h) of this section for the rule applicable to failures with respect to information returns the due date for which (without regard to extensions) is after December 31, 1989, and on or before April 22, 1991.

(i) *Initial solicitation.* An initial solicitation for a payee's correct TIN must be made at the time the account is opened. The term ''account'' includes accounts, relationships, and other transactions. However, a filer is not required to make an initial solicitation under this paragraph (f)(1)(i) with respect to a new account if the filer has the payee's TIN and uses that TIN for all accounts of the payee. For example, see § 31.3406(h)–3(a) of this chapter. Further, a filer is not required to make an initial solicitation under this paragraph (f)(1)(i) with respect to accounts for which the filer filed an information return subject to paragraph (h) of this section. For purposes of this section, the initial solicitation requirement is deemed to have been met with respect to accounts opened after December 31, 1989, and on or before April 22, 1991. No additional solicitation is required after the filer receives the TIN unless the Internal Revenue Service or, in some cases, a broker notifies the filer that the TIN is incorrect. Following such notification the filer may be required to make an annual solicitation to obtain the correct TIN as provided in paragraph (f)(1) (ii) and (iii) of this section.

(ii) *First annual solicitation.* Except as provided in paragraph (f)(5) of this section, a filer must undertake an annual solicitation only if the payor has been notified of an incorrect TIN and such account contains the incorrect TIN at the time of the notification. The first annual solicitation must be made as required by paragraph (f) (2) or (3) of this section, whichever applies. An account contains an incorrect TIN at the time of notification if the name and number combination on the account matches the name and number combination set forth on the notice from the Internal Revenue Service or a broker. A filer may be notified of an incorrect TIN by the Internal Revenue Service or by a broker pursuant to section 3406(a)(1)(B) or by a penalty notice issued by the Internal Revenue Service pursuant to section 6721. Except as otherwise provided in this section, the annual solicitation required by this paragraph (f) must be made on or before December 31 of the year in which the filer is notified of the incorrect TIN or by January 31 of the following year if the filer is notified of an incorrect TIN in the preceding December.

(iii) *Second annual solicitation.* A filer must undertake a second annual solicitation as required by paragraph (f) (2) or (3) of this section, whichever applies, if the filer is notified in any year following the year of the notification described in paragraph (f)(1)(ii) of this section that the account of a payee contains an incorrect TIN, as described in paragraph (f)(1)(ii) of this section.

(iv) *Additional requirements.* Upon receipt of a TIN, a filer must include that TIN on any information returns the original due date of which (with regard to extensions) is after the date that the filer receives the TIN.

(2) *Manner of making annual solicitation if notified pursuant to section 6721.* A filer that has been notified of an incorrect TIN by a penalty notice or other notification pursuant to section 6721 may satisfy the solicitation requirement of this paragraph (f) either by mail, in the manner set forth in paragraph (e)(2)(i) of this section; by telephone, in the manner set forth in paragraph (e)(2)(ii) of this section; or by requesting the TIN in person.

(3) *Coordination with solicitations under section 3406(a)(1)(b).* (i) A filer that has been notified of an incorrect TIN pursuant to section 3406(a)(1)(B) (except filers to which § 31.3406(d)-5(b)(4)(i)(A) of this chapter applies) will satisfy the solicitation requirement of this paragraph (f) only if it makes a solicitation in the manner and within the time period required under § 31.3406(d)-5(d)(2)(i) or (g)(1)(ii) of this chapter, whichever applies.

(ii) A filer that has been notified of an incorrect TIN by a notice pursuant to section 6721 (except filers to which § 31.3406(d)-5(b)(4)(i)(A) of this chapter applies) is not required to make the annual solicitation of this paragraph (f) if—

(A) The filer has received an effective notice pursuant to section 3406(a)(1)(B) with respect to the same payee, either during the same calendar year or for information returns filed for the same year; and

(B) The filer makes a solicitation in the manner and within the time period required under § 31.3406(d)-5(d)(2)(i) or

(g)(1)(ii) of this chapter, whichever applies, before the filer is required to make the annual solicitation of this paragraph (f).

(iii) A filer that has been notified of an incorrect TIN by a notice pursuant to section 6721 with respect to a fiduciary or nominee account to which § 31.3406(d)-5(b)(4)(i)(A) of this chapter applies is required to make the annual solicitation of this paragraph (f).

(4) *Failures to which a solicitation relates.* The initial solicitation relates to failures on returns filed for the year an account is opened and for any succeeding year that precedes the year in which the filer receives a notification of an incorrect TIN. The first and second annual solicitations relate to failures on returns filed for the year in which a notification of an incorrect TIN is received. The second solicitation also relates to failures on returns filed for succeeding calendar years.

(5) *Exceptions and limitations.* (i) The solicitation requirements under this paragraph (f) do not apply to the extent that an information reporting provision under which a return, as defined in paragraph (g) of § 301.6721–1, is filed provides specific requirements relating to the manner or the time period in which a TIN must be solicited. In that event, the requirements of this paragraph (f) will be satisfied only if the filer complies with the manner and time period requirement under the specific information reporting provisions and this paragraph (f), to the extent applicable.

(ii) An annual solicitation is not required to be made for a year under this paragraph (f) with respect to an account if no payments are made to the account for such year or if no return as defined in paragraph (g) of § 301.6721–1 is required to be filed for the account for such year.

(iii) If a filer fails to make one (or more) of the required solicitations under paragraph (f)(1) (i), (ii), and (iii) of this section, the filer may satisfy the requirements of this section by:

(A) Making two consecutive annual solicitations in subsequent years (''make-up solicitations''), and

(B) Satisfying paragraph (f)(1)(iv) of this section.

For example, a filer who has made none of the required solicitations may satisfy the requirements of this section by making two consecutive solicitations. In determining whether a filer has made two consecutive solicitations, years to which paragraph (f)(5)(ii) of this section applies are disregarded. If a filer fails to make the initial solicitation under paragraph (f)(1)(i) of this section, the make-up solicitations described in this paragraph (f)(5)(iii) may be made in the years in which the first and second annual solicitations are required to be made; however, the penalty will apply with respect to the year in which the filer failed to make the initial solicitation. The penalty will apply to failures in years in which a required solicitation is not made and to failures with respect to all subsequent years until the filer conducts its make-up solicitations. The penalty will not apply with respect to the year in which the first make-up solicitation is made (unless it is also the year in which the filer fails to make the initial solicitation) if the second make-up solicitation is made in the following year.

(iv) A financial institution is not required to make an annual solicitation by mail on accounts with ''stop-mail'' or ''hold-mail'' instructions, provided the filer furnishes the solicitation material to the payee in the same manner as it furnishes other mail.

(v) A filer is not required to make annual solicitations by mail on accounts with respect to which the filer has an undeliverable address, *i.e.*, where other mailings to that address have been returned to the filer because the address was incorrect and no new address has been provided to the filer.

(vi) In general, except as provided in paragraph (f)(5) (i) and (iii) of this section, no more than two annual solicitations are required under this paragraph (f) in order for a filer to establish reasonable cause. However, a filer who complies with this paragraph (f) during a calendar year after receiving a notice under section 6721 and who later during the same calendar year receives a notice pursuant to section 3406 may be required to undertake additional annual mailings in such calendar year pursuant to section 3406(a)(1)(B) in order to

satisfy the annual solicitation requirement in paragraph (f)(3) of this section.

(g) *Due diligence safe harbor*—(1) *In general*. A filer may establish reasonable cause with respect to a failure relating to an information reporting requirement as described in paragraph (j) of this section if the filer exercises due diligence with respect to failures described in sections 6721 through 6723.

(2) *Special rules relating to TINs*. The following questions and answers provide guidance on the exercise of due diligence for an exception to a penalty under sections 6721 through 6723 for a failure to provide a correct TIN on any information return (as defined in § 301.6721–1(g)), payee statement (as defined in § 301.6722–1(d)), document (as described in § 301.6723–1(a)(4)), or the failure merely to provide a TIN as described in § 301.6723–1(a)(4)(ii).

GENERAL RULE

Q-1. Is a payor subject to a penalty for a failure to provide a correct TIN on an information return with respect to a reportable interest or dividend payment if the payee has certified, under penalties of perjury, that the TIN furnished to the payor is the payee's correct number, the payor provided that number on an information return, and the number is later determined not to be the payee's correct number?

A-1. A payor is not subject to a penalty for failure to provide the payee's correct TIN on an information return, if the payee has certified, under penalties of perjury, that the TIN provided to the payor was his correct number, and the payor included such number on the information return before being notified by the Internal Revenue Service (IRS) (or a broker) that the number is incorrect.

DUE DILIGENCE DEFINED FOR ACCOUNTS OPENED AND INSTRUMENTS ACQUIRED AFTER DECEMBER 31, 1983

Q-2. In order for a payor of a reportable interest or dividend payment (other than in a window transaction) to be considered to have exercised due diligence in furnishing the correct TIN of a payee with respect to an account opened or an instrument acquired after December 31, 1983, what actions must the payor take?

A-2. (1) In general, the payor of an account or instrument that is not a pre-1984 account nor a window transaction must use a TIN provided by the payee under penalties of perjury on information returns filed with the IRS to satisfy the due diligence requirement. Therefore, if a payor permits a payee to open an account without obtaining the payee's TIN under penalties of perjury and files an information return with the IRS with a missing or an incorrect TIN, the payor will be liable for the $50 penalty for the year with respect to which such information return is filed. However, in its administrative discretion, the IRS will not enforce the penalty with respect to a calendar year if the certified TIN is obtained after the account is opened and before December 31 of such year, provided that the payor exercises due diligence in processing such number, *i.e.*, the payor uses the same care in processing the TIN provided by the payee that a reasonably prudent payor would use in the course of the payor's business in handling account information such as account numbers and balances.

(2) Once notified by the IRS (or a broker) that a number is incorrect, a payor is liable for the penalty for all prior years in which an information return was filed with that particular incorrect number if the payor has not exercised due diligence with respect to such years. A pre-existing certified TIN does not constitute an exercise of due diligence after the IRS or a broker notifies the payor that the number is incorrect unless the payor undertakes the actions described in § 31.3406(d)–5(d)(2)(i) of this chapter with respect to accounts receiving reportable payments described in section 3406(b)(1) and reported on information returns described in sections 6724(d)(1)(A) (i) through (iv).

Q-3. Is a payor as described in A-2 liable for the penalty if the payor obtained a certified TIN from a payee but inadvertently processed the name or number incorrectly on the information return?

A-3. Yes. The payor is liable for the penalty unless the payor exercised that degree of care in processing the TIN

and name and in furnishing it on the information return that a reasonably prudent payor would use in the course of the payor's business in handling account information, such as account numbers and account balances.

SPECIAL RULES

Q-4. With respect to an instrument transferred without the assistance of a broker, is a payor liable for the penalty for filing an information return with a missing or an incorrect TIN if the payor records on its books a transfer of a readily tradable instrument in a transaction in which the payor was not a party?

A-4. Generally, a payor as described in Q-4 will be considered to have exercised due diligence with respect to a readily tradable instrument that is not part of a pre-1984 account with the payor if the payor records on its books a transfer in which the payor was not a party. This exception applies until the calendar year in which the payor receives a certified TIN from the payee.

Q-5. Is the payor described in A-4 required to solicit the TIN of a payee of an account with a missing TIN in order to be considered as having exercised due diligence in a subsequent calendar year?

A-5. There is no requirement on the payor to solicit the TIN in order to be considered to have exercised due diligence in a subsequent calendar year under the rule set forth in A-4.

Q-6. Is a payor as described in Q-4 considered to have exercised due diligence if the payee provides a TIN to the payor (whether or not certified), the payor uses that number on the information return filed for the payee, and the number is later determined to be incorrect?

A-6. A payor as described in Q-4 who records on its books a transfer in which it was not a party is considered to have exercised due diligence under the rule set forth in A-4 where the transfer is accompanied with a TIN provided that the payor uses the same care in processing the TIN provided by a payee that a reasonably prudent payor would use in the course of the payor's business in handling account information, such as account numbers and account balances. Thus, a payor will not be liable for the penalty if the payor uses the TIN provided by the payee on information returns that it files, even if the TIN provided by the payee is later determined to be incorrect. However, a payor will not be considered as having exercised due diligence under A-4 after the IRS or a broker notifies the payor that the number is incorrect unless the payor undertakes the required additional actions described in the second paragraph of A-2.

Q-7. Is a payor liable for a penalty for filing an information return with a missing or an incorrect TIN with respect to a post-1983 account or instrument if the payor could have met the due diligence requirements but for the fact that the payor incurred an undue hardship?

A-7. A payor of a post-1983 account or instrument is not liable for a penalty under section 6721(a) for filing an information return with a missing or an incorrect TIN if the IRS determines that the payor could have satisfied the due diligence requirements but for the fact that the payor incurred an undue hardship. An undue hardship is an extraordinary or unexpected event such as the destruction of records or place of business of the payor by fire or other casualty (or the place of business of the payor's agent who under a pre-existing written contract had agreed to fulfill the payor's due diligence obligations with respect to the account subject to the penalty and there was no means for the obligations to be performed by another agent or the payor). Undue hardship will also be found to exist if the payor could have met the due diligence requirements only by incurring an extraordinary cost.

Q-8. How does a payor obtain a determination from the IRS that the payor has met the undue hardship exception to the penalty under section 6721(a) for the failure to include the correct TIN on an information return for the year with respect to which the payor is subject to the penalty?

A-8. A determination of undue hardship may be established only by submitting a written statement to the IRS signed under penalties of perjury that sets forth all the facts and circumstances that make an affirmative

showing that the payor could have satisfied the due diligence requirements but for the occurrence of an undue hardship. Thus, the statement must describe the undue hardship and make an affirmative showing that the payor either was in the process of exercising or stood ready to exercise due diligence when the undue hardship occurred. A payor may request an undue hardship determination from the district director or the director of the Internal Revenue Service Center where the payor is required to remit the penalty under section 6721(a).

Q-9. Is a pre-1984 account or instrument of a payor that is exchanged for an account or instrument of another payor as a result of a merger of the other payor or acquisition of the accounts or instruments of such payor transformed into a post-1983 account or instrument if the merger or acquisition occurs after December 31, 1983?

A-9. No. A pre-1984 account or instrument that is exchanged for another account or instrument pursuant to a statutory merger or the acquisition of accounts or instruments is not transformed into a post-1983 account or instrument because the exchange occurs without the participation of the payee.

Q-10. May the acquiring taxpayer described in A-9 rely upon the business records and past procedures of the merged payor or the payor whose accounts or instruments were acquired in order to establish that due diligence has been exercised on the acquired pre-1984 and post-1983 accounts or instruments?

A-10. Yes. The acquiring payor may rely upon the business records and past procedures of the merged payor or of the payor whose accounts or instruments were acquired in order to establish due diligence to avoid the penalty under section 6721(a) with respect to information returns that have been or will be filed.

Q-11. To what extent may a payor rely on the due diligence rules set forth in §§ 35a.9999–1, 35a.9999–2, and 35a.9999–3 of this chapter in effect prior to January 1, 2001 (see §§ 35a.9999–1, 35a.9999–2, and 35a.9999–3 as contained in 26 CFR part 35a, revised April 1, 1999).

A-11. A payor may rely on the due diligence rules set forth in §§ 35a.9999–1, 35a.9999–2, and 35a.9999–3 of this chapter in effect prior to January 1, 2001 (see §§ 35a.9999–1, 35a.9999–2, and 35a.9999–3 as contained in 26 CFR part 35a, revised April 1, 1999) solely for the definitions of terms or phrases used in this paragraph (g)(2).

(3) *Effective dates.* This paragraph (g) is effective for information returns (as defined in section 6724(d)(1)) required to be filed, payee statements (as defined in section 6724(d)(2)) required to be furnished, and specified information (as described in section 6724(d)(3)) required to be reported after December 31, 2000. See § 301.6724–1(g) in effect prior to January 1, 2001 (see § 301.6724–1(g) as contained in 26 CFR part 301, revised April 1, 1999) for substantially similar rules applicable prior to January 1, 2001.

(h) *Transitional rules for information returns required to be filed (or payee statements required to be furnished) after December 31, 1989 (without regard to extensions), and on or before April 22, 1991*—(1) *In general.* With respect to information returns required to be filed (or payee statements required to be furnished) after December 31, 1989 (without regard to extensions), and on or before April 22, 1991, a filer will be deemed to have satisfied reasonable cause if, with respect to the failure, the filer would have satisfied reasonable cause under sections 6721, 6722, or 6723 (prior to their amendment by the Omnibus Budget Reconciliation Act of 1989) and the regulations thereunder.

(2) *Special rule on TINs.* With respect to information returns required to be filed after December 31, 1989 (without regard to extensions), and on or before April 22, 1991, which contain a missing or an incorrect TIN, a filer will be deemed to have satisfied reasonable cause if, at the time the account was opened, the filer—

(i) Exercised due diligence or fulfilled the requirements of Q/A-56 of § 35a.9999–1 of this chapter, as in effect on December 31, 1989, as provided under section 6676(b) (prior to its repeal by the Omnibus Budget Reconciliation Act of 1989),

(ii) Requested the TIN according to the regulations under the section requiring the filing of the information return, but if none, under section 6109, or

(iii) Would have satisfied reasonable cause under section 6676(a) (prior to its repeal by the Omnibus Budget Reconciliation Act of 1989).

(i) [Reserved]

(j) *Failures to which this section relates.* For purposes of this section, a failure relating to an information reporting requirement means—

(1) A failure described under § 301.6721–1(a)(2) relating to the failure to file timely correct information returns as defined in section 6724(d)(1),

(2) A failure described under § 301.6722–1(a)(2) relating to the failure to furnish timely a correct payee statement as defined in section 6724(d)(2), and

(3) A failure described under § 301.6723–1(a)(2) relating to the failure to timely comply with and to include correct specified information as defined in section 6724(d)(3).

(k) *Examples.* The provisions of this section may be illustrated by the following examples:

Example 1. (i) On August 1, 1991, Individual A, an independent contractor, establishes a relationship (''an account'') with Institution L, which pays A amounts reportable under section 6041. When A opens the account L requests that A supply his TIN on the account creation document. A fails to provide his TIN. On October 1, 1991, L mails a solicitation for A's TIN that satisfies the requirement of paragraph (e)(1)(ii) of this section. A does not provide a TIN to L during 1991. L timely files an information return subject to section 6721, that does not contain A's TIN, for payments made during the 1991 calendar year with respect to A's account. A penalty is imposed on L pursuant to paragraph (a)(2) of § 301.6721–1 for L's failure to file a correct information return because A's TIN was not shown on the return. The penalty will be waived, however, if L establishes that the failure was due to reasonable cause as defined in this section.

(ii) To establish reasonable cause under this section, L must satisfy both paragraphs (c)(6) and (d) of this section. The criteria for obtaining a waiver under these paragraphs are as follows:

(A) L acted in a responsible manner in attempting to satisfy the information reporting requirement as described in paragraph (d) of this section, and

(B) L demonstrates that the failure arose from events beyond L's control, as described in paragraph (c)(6) of this section.

(iii) Pursuant to paragraph (d)(2) of this section, L may demonstrate that it acted in a responsible manner only by complying with paragraph (e) of this section. Paragraph (e) of this section requires a filer to request a TIN at the time the account is opened (the initial solicitation) and, if the filer does not receive the TIN at that time, to solicit the TIN on or before December 31 of the year the account is opened (for accounts opened before December) or January 31 of the following year (for accounts in the preceding December) (the annual solicitation). Because L has performed these solicitations within the time and in the manner prescribed by paragraph (e) of this section, L has acted in a responsible manner as described in paragraph (d) of this section. L satisfies paragraph (c)(6) of this section because under the facts, L can show that the failure was caused by A's failure to provide a TIN, an event beyond L's control. As a result, L has established reasonable cause under paragraph (a)(2) of this section. Therefore, the penalty imposed under paragraph (a)(2) of § 301.6721–1 for the failure on the 1991 information return is waived. See section 3406(a)(1)(A) which requires L to impose backup withholding on reportable payments to A if L has not received A's TIN.

Example 2. (i) On August 1, 1991, Individual B opens an account with Bank M, which pays B interest reportable under section 6049. When B opens the account, M requests that B supply his TIN on the account creation document. B provides his TIN to M. On February 28, 1992, M includes the TIM that B provided on the Form 1099–INT for the 1991 calendar year. In October 1992 the Internal Revenue Service, pursuant to section 3406(a)(1)(B), notifies M that the 1991 return filed for B contains an incorrect TIN. In April 1993 a penalty is imposed on M pursuant to paragraph (a)(2) of § 301.6721–1 for M's failure to file a correct information return for the 1991 calendar year, *i.e.*, the return did not contain B's correct TIN. The penalty will be waived, however, if M establishes that the failure was due to reasonable cause as defined in this section.

(ii) To establish reasonable cause under this section, M must satisfy the criteria in both paragraphs (c)(6) and (d) of this section. Pursuant to paragraph (d)(2) of this section, M can demonstrate that it acted in a responsible manner only if M complies with paragraph (f) of this section. Paragraph (f) of this section requires a filer to request a TIN at the time the account is opened, an initial solicitation. Under paragraph (f)(4) of this section the initial solicitation relates to failures on returns filed for the year an account is opened. Because M performed the initial solicitation in 1991 in the time and manner prescribed in paragraph (f)(1)(i) of this section and reflected the TIM received from B on the 1991 return as required by paragraph (f)(1)(iv) of this section, M has acted in a responsible manner as described in paragraph (d) of this section. M satisfies paragraph

(c)(6) of this section because, under the facts, M can show that the failure was caused by B's failure to provide a correct TIN, an event beyond M's control. As a result, M has established reasonable cause under paragraph (a)(2) of this section. Therefore, the penalty imposed under paragraph (a)(2) of § 301.6721–1 for the failure on the 1991 information return is waived. See section 3406(a)(1)(B) which requires M to impose backup withholding on reportable payments to B if M has not received B's correct TIN.

Example 3. (i) *Table.*

1991	2/92	10/92	2/93
Account opened (solicits TIN).	1991 return	B-notice w/ respect to 1991 return.	1992 return filed.

4/93	10/93	2/94	4/94
6721 penalty notice for 1991 return.	B-notice w/ respect to 1992 return.	1993 return filed.	6721 penalty notice for 1992 return.

(ii) The facts are the same as in *Example 2.* Under § 31.3406(d)–5(d)(2)(i) of this chapter and paragraph (f)(3) of this section, within 15 days of the October 1992 notification of the incorrect TIN from the Internal Revenue Service, M solicits the correct TIN from B. B fails to respond. M timely files the return for 1992 with respect to the account setting forth B's incorrect TIN. In October 1993 the Internal Revenue Service notifies M pursuant to section 3406(a)(1)(B) that the 1992 return contains an incorrect TIN. In April 1994, a penalty is imposed on M pursuant to paragraph (a)(1)(2) of § 301.6721–1 for M's failure to include B's correct TIN on the return for 1992. The penalty will be waived, if M establishes that the failure was due to reasonable cause as defined in this section.

(iii) M must satisfy the reasonable cause criteria in paragraphs (c)(6) and (d) of this section. M may demonstrate that it acted in a responsible manner as required under paragraph (d) of this section only by complying with paragraph (f) of this section. Paragraph (f) of this section requires a filer to make an initial solicitation for a TIN when an account is opened. Further, a filer must make an annual solicitation for a TIN by mail within 15 business days after the date that the Internal Revenue Service notifies the filer of an incorrect TIN pursuant to section 3406(a)(1)(B). M made the initial solicitation for the TIN in 1991 and, after being notified of the incorrect TIN in October 1992, the first annual solicitation within the time and manner prescribed by section 31.3406(d)–5(d)(2)(i) of this chapter and paragraph (f) (1)(ii) and (2) of this section. M acted in a responsible manner. M satisfies paragraph (c)(6) of this section because, under the facts, M can show that the failure was caused by B's failure to provide his correct TIN, an event beyond M's control. As a result M has established reasonable cause under paragraph (a)(2) of this section. Therefore, the penalty imposed under paragraph (a)(2) of § 301.6721–1 for the failure on the 1992 return is waived due to reasonable cause.

Example 4. (i) *Table.*

1991	2/92	10/92	2/93
Account opened (solicits TIN).	1991 return filed.	B-notice w/ respect to 1991 return.	1992 return filed.

4/93	10/93	2/94	4/94
6721 penalty notice for 1991 return.	B-notice w/ respect to 1992 return.	1993 return filed.	6721 penalty notice for 1992 return.

(ii) The facts are the same as in *Example 3.* M timely solicits B's TIN in October 1993, which B fails to provide. M files the return for 1993 with the incorrect TIN. In April 1995 the Internal Revenue Service informs M that the 1993 return contains an incorrect TIN. M does not solicit a TIN from B in 1994 and files a return for 1994 with B's incorrect TIN. M seeks a waiver of the penalty under paragraph (a)(2) of § 301.6721–1 for reasonable cause. M must satisfy the reasonable cause criteria in paragraphs (c)(6) and (d) of this section. Because M made the initial and two annual solicitations as required by paragraph (f) of this section, M has demonstrated that it acted in a responsible manner and is not required to solicit B's TIN in 1994. See paragraph (f)(5)(iv) of this section. M satisfies paragraph (c)(6) of this section because, under the facts, M can show that the failure was caused by B's failure to provide his correct TIN, an event beyond M's control. Therefore, M has established reasonable cause under paragraph (a)(2) of this section.

Example 5. In 1992, Mortgage Finance Company N lends money to C to purchase property in a transaction subject to reporting under section 6050H and to section 6721. As part of the transaction, C gives N a promissory note providing for repayment of principal and the payment of interest. At the time C incurs the obligation N requests C's TIN, as required under § 1.6050H–2(f) of this chapter. C fails to provide the TIN as required by § 1.6050H–2(f) of this chapter. N sends solicitations by mail in 1992 and 1993 for the missing TIN, which C fails to provide. However, for 1994 M fails to send the solicitation required by § 1.6050H–2(f) of this chapter. N files returns for the 1992, 1993, and 1994 calendar years pursuant to section 6050H without C's TIN. Although N made the initial and the first annual solicitations in 1992 and the second annual solicitation in 1993, N did not

solicit the TIN in 1994 as required under section 6050H, which requires continued annual solicitations until the TIN is obtained. Therefore, under paragraph (e)(1)(vi)(A) of this section the penalty imposed under paragraph (a) of § 301.6721–1 for the 1994 information return is not waived.

Example 6. (i) *Table*.

10/91	2/92	10/92	2/93
Account opened. (solicits TIN).	1991 return filed.	B-notice w/ respect to 1991 return.	1992 return filed.

4/93	10/93	02/94	4/94
6721 penalty notice.	B-notice w/ respect to 1992 return.	1993 return filed.	6721 penalty notice for 1992 return.

(ii) On October 1, 1991, Individual E opens an account with Institution R, which pays E amounts reportable under section 6049. When E opens the account, R requests that E supply his TIN on an account creation document, which E does. Pursuant to paragraph (f)(1)(iv) of this section, R uses the TIN furnished by E on the information return filed for the 1991 calendar year. In October 1992 the Internal Revenue Service notifies R pursuant to section 3406(a)(1)(B) that the information return filed for E for the 1991 calendar year contained an incorrect TIN. At the time R receives this notification, E's account contains the incorrect TIN. On December 31, 1992, R telephones E pursuant to paragraphs (f)(2) and (e)(2)(ii) of this section and receives different TIN information from E. R uses this information on the return that it files timely for E for the 1992 calendar year, *i.e.*, in February 1993.

(iii) In April 1993, the Internal Revenue Service notifies R pursuant to paragraph (a)(2) of § 301.6721–1 that the information return filed for the 1991 calendar year contains an incorrect TIN. The penalty will be waived, however, if R establishes the failure was due to reasonable cause as defined in this section.

(iv) To establish reasonable cause under this section, R must satisfy the criteria in both paragraphs (c)(6) and (d)(2) of this section. Pursuant to paragraph (d)(2) of this section, R can demonstrate that it acted in a responsible manner only if it complies with paragraph (f) of this section. R solicited E's TIN at the time the account was opened (initial solicitation). Under paragraphs (d)(2) and (f)(4) of this section, the initial solicitation relates to failures on returns filed for the year in which an account is opened (*i.e.*, 1991) and for subsequent years until the calendar year in which the filer receivers a notification of an incorrect TIN pursuant to section 3406. Because E failed to provide the correct TIN upon request, the failure arose from events beyond R's control as described in paragraph (c)(6) of this section. Therefore, the penalty with respect to the failure on the 1991 calendar year information return is waived due to reasonable cause.

Example 7. (i) The facts are the same as in *Example 6*. In April 1994 the Internal Revenue Service notifies R pursuant to paragraph (a)(2) of § 301.6721–1 that the information return filed for the 1992 calendar year for E contained an incorrect TIN.

(ii) To establish reasonable cause for the failure under this section, R must satisfy the criteria in both paragraphs (c)(6) and (d)(2) of this section. Pursuant to paragraph (d)(2) of this section R may establish that it acted in a responsible manner only by complying with paragraph (f) of this section. Pursuant to paragraph (f)(1)(ii) of this section, R must make an annual solicitation after being notified of an incorrect TIN if the payee's account contains the incorrect TIN at the time of the notification. Paragraph (f)(3) of this section provides that if the filer is notified pursuant to section 3406(a)(1)(B) the time and manner of making an annual solicitation is that required under § 31.3406(d)–5(g)(1)(ii) of this chapter. Section 31.3406(d)–5(g)(1)(ii) of this chapter requires R to notify E by mail within 15 business days after the date of the notice from the Internal Revenue Service, which R failed to do. As a result, R has failed to act in a responsible manner with respect to the failure on the 1992 information return, and the penalty will not be waived due to reasonable cause.

(l) [Reserved]

(m) *Procedure for seeking a waiver*. In seeking an administrative determination that the failure was due to reasonable cause and not willful neglect, the filer must submit a written statement to the district director or the director of the Internal Revenue Service Center where the returns, as defined in section 6724(d), are required to be filed. The statement must—

(1) State the specific provision under which the waiver is being requested, *i.e.*, paragraph (b) or under paragraph (c) (2) through (6),

(2) Set forth all the facts alleged as the basis for reasonable cause,

(3) Contain the signature of the person required to file the return, and

(4) Contain a declaration that it is made under penalties of perjury. See § 1.6061–1 of the Income Tax Regulations for the rules on the signing of returns.

(n) *Manner of payment*. The penalty due under sections 6721 through 6723

shall be paid upon notice and demand by Internal Revenue Service, and in the same manner as a tax liability is paid.

[T.D. 8386, 56 FR 67182, Dec. 30, 1991, and amended by T.D. 8409, 57 FR 13035, Apr. 15, 1992; T.D. 8734, 62 FR 53496, Oct. 14, 1997; T.D. 8804, 63 FR 72189, Dec. 31, 1998; T.D. 8856, 64 FR 73413, Dec. 30, 1999; T.D. 9055, 68 FR 22595, Apr. 29, 2003; T.D. 9136, 69 FR 41943, July 13, 2004; [T.D. 9699, 79 FR 63812, Oct. 27, 2014]

REGULATIONS APPLICABLE TO INFORMATION RETURNS AND PAYEE STATEMENTS THE DUE DATE FOR WHICH (WITHOUT REGARD TO EXTENSIONS) IS AFTER DECEMBER 31, 1986, AND BEFORE JANUARY 1, 1990

General Provisions Relating to Stamps

§ 301.6801–1 Authority for establishment, alteration, and distribution.

(a) *Establishment and alteration.* The Commissioner may establish, and from time to time alter, renew, replace, or change the form, style, character, material, and device of any stamp, mark, or label under any provision of the law relating to internal revenue.

(b) *Preparation and distribution of forms, stamps and dies.* The Commissioner shall prepare and distribute all the instructions, directions, forms, blanks, and stamps; and shall provide proper and sufficient adhesive stamps and other stamps or dies for expressing and denoting the several stamp taxes.

§ 301.6802–1 Supply and distribution.

(a) *Postmaster General.* The Commissioner shall furnish to the Postmaster General, without prepayment, a suitable quantity of adhesive stamps (other than the stamps on playing cards), coupons, tickets, or such other devices as may be prescribed pursuant to section 6302(b) (authorizing a discretionary method for collecting certain specified taxes) or chapter 69 of the Code, to be distributed to, and kept on sale by, the various postmasters in the United States in all post offices of the first and second classes, and such post offices of the third and fourth classes as are located in county seats or Postmaster General as necessary.

(b) *Designated depositary of the United States.* The district director for the district in which any designated depositary of the United States is located shall furnish to such designated depositary, without prepayment, a suitable quantity of adhesive stamps to be kept on sale by the designated depositary.

(c) *State agents.* Any person who is duly appointed and acting as agent of any State for the sale of stock transfer stamps of such State may make application to the district director for the district in which the State agent is located, to be designated for the purpose of being furnished without prepayment, for sale, stamps to be used in payment of the tax imposed by section 4301. The application shall contain the location and post office address of the State agent, and the maximum amount of stamps he desires to maintain on hand. A copy of the agent's appointment as State agent should be attached to the application.

§ 301.6803–1 Accounting and safeguarding.

In cases coming within the provisions of section 6802 (2) and (3) and paragraphs (b) and (c) of § 301.6802–1, the district director may require a bond in such amount as he deems advisable, conditioned for the faithful return, whenever so required, of all quantities or amounts of adhesive stamps undisposed of and for the payment monthly for all quantities or amounts of adhesive stamps sold or not remaining on hand. Such bond shall be furnished in accordance with the provisions contained in section 7101 and § 301.7101–1.

§ 301.6804–1 Attachment and cancellation.

For provisions relating to the attachment and cancellation of specific stamps used with respect to a particular tax, see the regulations relating to such tax.

§ 301.6805–1 Redemption of stamps.

(a) *Authorization.* (1) Upon receipt of satisfactory evidence of the facts by the district director or director of the service center, he may make allowance for or redeem stamps issued under the

authority of any internal revenue law if—

(i) The stamps have been spoiled, destroyed, or rendered useless or unfit for the purpose intended, or

(ii) The owner of the stamps has no use therefor.

(2) If a stamp has been in use for any period of time, it may not be redeemed under section 6805. Similarly, no allowance shall be made for stamps which have been lost or stolen.

(b) *Method and conditions of allowance.* Such allowance or redemption may be made, either by giving other stamps in lieu of the stamps so allowed for or redeemed, or by refunding the amount or value to the owner thereof, deducting therefrom, in case of repayment, the percentage, if any, allowed to the purchaser thereof. Claims for the redemption of or allowance for stamps shall be made on Form 843 and filed with the district director or director of the service center within three years from the date of the purchase of the stamps from the Government. The stamps for which redemption or allowance is claimed shall be submitted with the claim. If the stamps are destroyed or damaged to the extent that they cannot be presented for redemption or allowance, proof satisfactory to the district director or director of the service center that they have been destroyed or so damaged must accompany the claim before allowance or redemption shall be made. In any case where the actual date of purchase of the stamps from the Government cannot be established, it must be definitely shown in the claim whether they were so purchased within three years prior to the date of filing of the claim.

(c) *Time for filing claims.* No claim for the redemption of, or allowance for, stamps shall be allowed under this section unless presented within 3 years after the purchase of such stamps from the Government.

(d) *Finality of decisions.* The findings of fact in and the decision of the district director or director of the service center upon the merits of any claim presented under or authorized by this section, shall in the absence of fraud or mistake in mathematical calculation, be final and not subject to revision by any accounting officer.

[T.D. 7188, 37 FR 12795, June 29, 1972]

§ 301.6806–1 Posting occupational tax stamps.

For provisions relating to the posting of specific stamps used with respect to a particular tax, other than a special tax under subchapter B of chapter 35, subchapter B of chapter 36, or subtitle E, see the regulations relating to such tax. For penalties for failure to post occupational tax stamps, see section 7273.

[T.D. 7188, 37 FR 12795, June 29, 1972]

Jeopardy, Bankruptcy, and Receiverships

JEOPARDY

TERMINATION OF TAXABLE YEAR

§ 301.6851–1 Termination of taxable year.

For regulations under section 6851, see §§ 1.6851–1 to 1.6851–3, inclusive, of this chapter (Income Tax Regulations).

§ 301.6852–1 Termination assessments of tax in the case of flagrant political expenditures of section 501(c)(3) organizations.

(a) *Authority for making.* Any assessment under section 6852 as a result of a flagrant violation by a section 501(c)(3) organization of the prohibition against making political expenditures must be authorized by the District Director.

(b) *Determination of income tax.* An organization shall be subject to an assessment of income tax under section 6852 only if the flagrant violation of the prohibition against making political expenditures results in revocation of the organization's tax exemption under section 501(a) because it is not described in section 501(c)(3). An organization subject to such an assessment is not liable for income taxes for any period prior to the effective date of the revocation of the organization's tax exemption.

(c) *Payment.* Where a District Director has made a determination of income tax under paragraph (b) of this section or of section 4955 excise tax, notwithstanding any other provision of

law, any tax will become immediately due and payable. The taxpayer is required to pay the amount of the assessment within 10 days after the District Director sends the notice and demand for immediate payment regardless of the filing of an administrative appeal or of a court petition. Regardless of filing an administrative appeal or of petitioning a court, enforced collection action may proceed after the 10-day payment period unless the taxpayer posts the bond described in section 6863. For purposes of collection procedures such as section 6331 (regarding levy), assessments under the authority of paragraph (a) of this section do not constitute situations in which the collection of such tax is in jeopardy and, therefore, do not suspend normal collection procedures.

(d) *Effective date.* This section is effective December 5, 1995.

[T.D. 8628, 60 FR 62212, Dec. 5, 1995]

JEOPARDY ASSESSMENTS

§ 301.6861–1 Jeopardy assessments of income, estate, gift, and certain excise taxes.

(a) *Authority for making.* If a district director or director of a service center believes that the assessment or collection of a deficiency in income, estate, gift, or chapter 41, 42, 43, or 44 tax will be jeopardized by delay, then the director is required to assess such deficiency immediately, together with the interest, additional amounts, and additions to the tax provided by law. A district director will make an assessment under this section if collection is determined to be in jeopardy because at least one of the conditions described in § 1.6851–1(a)(1) (i), (ii), or (iii) (relating to termination assessments) exists. A jeopardy assessment may be made before or after the mailing of the notice of deficiency provided by section 6212. However, a jeopardy assessment for a taxable year under section 6861 cannot be made after a decision of the Tax Court with respect to such taxable year has become final (see section 7481) or after the taxpayer has filed a petition for review of the decision of the Tax Court with respect to such taxable year. In the case of a deficiency determined by a decision of the Tax Court which has become final or with respect to which the taxpayer has filed a petition for review and has not filed a bond as provided in section 7485, assessment may be made in accordance with the provisions of section 6215, without regard to section 6861.

(b) *Amount of jeopardy assessment.* If a notice of a deficiency is mailed to the taxpayer before it is discovered that delay would jeopardize the assessment or collection of the tax, a jeopardy assessment may be made in an amount greater or less than that included in the deficiency notice. If a deficiency is assessed on account of jeopardy after the decision of the Tax Court is rendered, the jeopardy assessment may be made only with respect to the deficiency determined by the Tax Court.

(c) *Jurisdiction of Tax Court.* If the jeopardy assessment is made before the notice in respect of the tax to which the jeopardy assessment relates has been mailed pursuant to section 6212(a), the district director shall, within 60 days after the making of the assessment, send the taxpayer a notice of deficiency pursuant to such subsection. The taxpayer may file a petition with the Tax Court for a redetermination of the amount of the deficiency within the time prescribed in section 6213(a). If the petition of the taxpayer is filed with the Tax Court, either before or after the making of the jeopardy assessment, the Commissioner, through his counsel, is required to notify the Tax Court of such assessment or of any abatement thereof, and the Tax Court has jurisdiction to redetermine the amount of the deficiency, together with all other amounts assessed at the same time in connection therewith.

(d) *Payment and collection of jeopardy assessment.* After a jeopardy assessment has been made, the district director is required to send notice and demand to the taxpayer for the amount of the jeopardy assessment. Regardless of whether the taxpayer has filed a petition with the Tax Court, he is required to make payment of the amount of such assessment (to the extent that it has not been abated) within 10 days after the sending of notice and demand by the district director, unless before the expiration of such 10-day period he

files with the district director a bond as provided in section 6863. Section 6331 provides that, if the district director makes a finding that the collection of the tax is in jeopardy, he may make demand for immediate payment of the amount of the jeopardy assessment and, in such case, the taxpayer shall immediately pay such amount or shall immediately file the bond provided in section 6863. If a petition is not filed with the Tax Court within the period prescribed in section 6213(a), the district director will be so advised, and, if collection of the deficiency has been stayed by the timely filing of a bond as provided in section 6863, he should then give notice and make demand for payment of the amount assessed plus interest. After the Tax Court has rendered its decision and such decision has become final, the district director will be notified of the action taken. He will then send notice and demand for payment of the unpaid portion of the amount determined by the Tax Court, the collection of which has been stayed by the bond. If the amount of the jeopardy assessment is less than the amount determined by the Tax Court, the difference will be assessed and collected as part of the tax upon the issuance of a notice and demand therefor. If the amount of the jeopardy assessment is in excess of the amount determined by the Tax Court, the unpaid portion of such excess will be abated. If any part of the excess amount has been paid, it will be credited or refunded to the taxpayer as provided in section 6402, without the filing of claim therefor.

(e) *Abatement of excessive assessment.* The district director or the director of the regional service center may, at any time before the decision of the Tax Court is rendered, abate a jeopardy assessment in whole or in part if the district director believes that such assessment is excessive in amount.

(f) *Abatement if jeopardy does not exist.* (1) The district director or the director of the regional service center may abate a jeopardy assessment in whole or in part, if it is shown to the satisfaction of the district director that jeopardy does not exist. An abatement may not be made under this paragraph after a decision of the Tax Court in respect of the deficiency has been rendered or, if no petition is filed with such court, after the expiration of the period for filing such petition.

(2) After abatement of a jeopardy assessment in whole or in part, a deficiency may be assessed and collected in the manner authorized by law as if the jeopardy assessment or part thereof so abated had not existed. If a notice of deficiency has been sent to the taxpayer before the abatement of the jeopardy assessment in whole or in part, whether such notice was sent before or after the making of the assessment, such abatement will not affect the validity of the notice or of any proceedings for redetermination based thereon. The period of limitation on the making of assessments and the beginning of levy or a proceeding in court for collection in respect of any deficiency shall be determined as if the jeopardy assessment so abated had not been made, except that the running of such period shall in any event be suspended for the period from the date of such jeopardy assessment until the expiration of the tenth day after the date on which such jeopardy assessment is abated in whole or in part. The provisions of this subparagraph may be illustrated by the following example:

Example. On March 18, 1958, 28 days before the last day of the 3-year period of limitations on assessment, a jeopardy assessment is made in respect of a proposed deficiency. On May 2, 1958, before the mailing of the notice of deficiency provided by section 6861(b), this assessment is abated. By virtue of this subparagraph, the last day of the period of limitations for the making of an assessment is June 9, 1958, that is, the 38th day after the date of the abatement. If the notice of deficiency provided for in section 6861(b) has been sent before the abatement, the running of the period of limitations on assessment would have been suspended pursuant to the provisions of the section 6503(a).

(3) See section 7429 with respect to requesting the district director to review the making of the jeopardy assessment.

(g) *Special rules for chapters 42 and 43 taxes.* For purposes of paragraph (a) of this section, the amount of a deficiency with respect to any tax imposed by section 4941(a), 4942(a), 4943(a), 4944(a), 4945(a), 4951(a), 4952(a), 4955(a), 4971(a) or 4975(a) shall include the amount of

additional tax imposed by section 4941(b), 4942(b), 4943(b), 4944(b), 4945(b), 4951(b), 4952(b), 4955(b), 4971(b) or 4975(b) for failure to correct the act (or failure to act) which gave rise to liability for the initial tax.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7575, 43 FR 58817, Dec. 18, 1978; T.D. 7838, 47 FR 44253, Oct. 7, 1982; T.D. 8084, 51 FR 16305, May 2, 1986; T.D. 8628, 60 FR 62213, Dec. 5, 1995]

§ 301.6862–1 Jeopardy assessment of taxes other than income, estate, gift, and certain excise taxes.

(a) If the district director believes that the collection of any tax (other than income, estate, gift, chapter 41, 42, 43, or 44 tax) will be jeopardized by delay, the director shall, whether or not the time otherwise prescribed by law for filing the return or paying such tax has expired, immediately assess such tax, together with all interest, additional amounts and additions to the tax provided by law. A district director will make an assessment under this section if collection is determined to be in jeopardy because at least one of the conditions described in § 1.6851–1(a)(1)(i), (ii), or (iii) (relating to termination assessments) exists. For example, assume that a taxpayer incurs on January 18, 1977, liability for tax imposed by section 4061, that the last day on which return and payment of such tax is required to be made is May 2, 1977, and that on January 18, 1977, the district director determines that collection of such tax would be jeopardized by delay. In such case, the district director shall immediately assess the tax.

(b) The tax, interest, additional amounts, and additions to the tax will, upon assessment, become immediately due and payable, and the district director shall, without delay, issue a notice and demand for payment thereof in full. Upon failure or refusal to pay the amount demanded, collection thereof by levy shall be lawful without regard to the 10-day period provided in section 6331 (a). However, the collection of the whole or any part of the amount of the jeopardy assessment may be stayed by timely filing with the district director a bond as provided in section 6863.

(c) See section 7429 with respect to requesting the district director to review the making of the jeopardy assessment.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7575, 43 FR 58817, Dec. 18, 1978; T.D. 7838, 47 FR 44253, Oct. 7, 1982]

§ 301.6863–1 Stay of collection of jeopardy assessments; bond to stay collection.

(a) *General rule.* (1) The collection of an assessment under section 6851, 6861, or 6862 (referred to as a ''jeopardy assessment'' for purposes of this section), or under section 6852 (referred to as a political assessment for purposes of this section) of any tax may be stayed by filing with the district director a bond on the form to be furnished by the district director upon request.

(2) The bond may be filed—

(i) At any time before the time collection by levy is authorized under section 6331(a), or

(ii) After collection by levy is authorized and before levy is made on any property or rights to property, or

(iii) In the discretion of the district director, after any such levy has been made and before the expiration of the period of limitations on collection.

(3) The bond must be in an amount equal to the portion (including interest thereon to the date of payment as calculated by the district director) of the jeopardy assessment or political assessment collection of which is sought to be stayed. See section 7101 and § 301.7101–1, relating to the form of bond and the sureties thereon. The bond shall be conditioned upon the payment of the amount (together with interest thereon), the collection of which is stayed, at the time at which, but for the making of the jeopardy assessment, such amount would be due.

(4) Upon the filing of a bond in accordance with this section, the collection of so much of the assessment as is covered by the bond will be stayed. The taxpayer may at any time waive the stay of collection of the whole or any part of the amount covered by the bond. If as a result of such waiver any part of the amount covered by the bond is paid, or if any portion of the jeopardy assessment or political assessment is abated by the district director,

then the bond shall be at the request of the taxpayer be proportionately reduced.

(b) *Additional conditions applicable to income, estate, gift, and chapter 41, 42, 43 and 44 tax assessments.* In the case of jeopardy assessment or political assessment of income, estate, gift, chapter 41, 42, 43, or 44 tax, the bond must be conditioned upon the payment of so much of the amount included therein as is not abated by a decision of the Tax Court which has become final, together with the interest on such amount. If the Tax Court determines that the amount assessed is greater than the correct amount of the tax, the bond will be proportionately reduced at the request of the taxpayer after the Tax Court renders its decision. If the bond is given before the taxpayer has filed his petition with the Tax Court, it must contain a further condition that if a petition is not filed before the expiration of the period provided in section 6213(a) for the filing of such petition the amount stayed by the bond will be paid upon notice and demand at any time after the expiration of such period, together with interest thereon at the annual rate referred to in the regulations under section 6621 from the date of the jeopardy (or political assessment) notice and demand to the date of the notice and demand made after the expiration of the period for filing petition with the Tax Court.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7384, 40 FR 49325, Oct. 22, 1975; T.D. 7575, 43 FR 58817, Dec. 18, 1978; T.D. 7838, 47 FR 44253, Oct. 7, 1982; T.D. 8628, 60 FR 62213, Dec. 5, 1995]

§ 301.6863–2 Collection of jeopardy assessment; stay of sale of seized property pending Tax Court decision.

(a) *General rule.* In the case of an assessment under section 6851, 6852, 6861, or 6862, any property seized for the collection of such assessment shall not (except as provided in paragraph (b) of this section) be sold until the latest of the following occurs:

(1) The period provided in section 7429(a)(2) to request the district director to review the action taken expires.

(2) The period provided in section 7429(b)(1) to file an action in U.S. District Court expires if a request for a redetermination is made to the district director.

(3) The U.S. District Court judgment in such action becomes final, if a civil action is begun in accordance with section 7429(b).

(4) In addition to the occurrences described in paragraphs (a), (1), (2), and (3) of this section, in the case of an assessment of income, estate, gift, chapter 41, 42, 43, or 44 excise taxes, until the latest of the following occurs:

(i) The expiration of the period provided in section 6213(a) within which the taxpayer may file a petition with the Tax Court; or

(ii) The decision of the Tax Court becomes final, if a petition for redetermination is filed with the Tax Court (whether before or after the making of the assessment).

However, notwithstanding paragraph (a)(4)(i) of this section, in the case of a termination assessment under section 6851, property seized may be sold after the due date (determined with extensions) of the taxpayer's return if the taxpayer does not file a return by such date. Furthermore, for the purposes of paragraph (a)(4)(ii) of this section, a petition will not operate as a further stay of the sale of the seized property unless the taxpayer files a bond as provided in section 7485.

(b) *Exceptions.* Notwithstanding the provisions of paragraph (a) of this section, any property seized may be sold—

(1) If the taxpayer files with the district director a written consent to the sale, or

(2) If the district director determines that the expenses of conservation and maintenance of the property will greatly reduce the net proceeds from the sale of such property, or

(3) If the property is of a type to which section 6336 (relating to sale of perishable goods) is applicable.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7575, 43 FR 58817, Dec. 18, 1978; T.D. 8628, 60 FR 62213, Dec. 5, 1995]

§ 301.6867–1 Presumptions where owner of large amount of cash is not identified.

(a) *General rule.* For purposes of section 6851 (relating to termination assessments) and section 6861 (relating to

jeopardy assessments), if cash in excess of $10,000 is found in the physical possession of an individual who does not claim either ownership of that cash or ownership by some other person whose identity the Commissioner can readily ascertain and who acknowledges ownership of that cash as of the date the cash was found, then, it shall be presumed that—

(1) The cash represents gross income of an unknown single individual; and

(2) That the collection of tax on that income will be jeopardized by delay.

(b) *Rules for assessment*. The Commissioner may make an assessment pursuant to section 6851 or section 6861, as appropriate, using the rules for assessment specified in this paragraph. In the case of any assessment resulting from the application of paragraph (a) of this section—

(1) The entire amount of cash is treated as taxable income for the taxable year in which the cash is found;

(2) The income is treated as taxable at the highest rate of tax specified in section 1 of the Internal Revenue Code; and

(3) Except as provided in paragraph (c), the possessor of the cash is treated (solely with respect to that cash) as the taxpayer for purposes of chapters 63 and 64 and section 7429(a)(1) of the Internal Revenue Code.

(c) *Effect of later substitution of true owner*—(1) *In general*. If an assessment resulting from the application of paragraph (a) of this section is later abated and replaced by an assessment against the true owner of the cash, the later assessment is treated for purposes of all laws relating to lien, levy, and collection as relating back to the date of the original assessment. Notwithstanding the preceding sentence, any notice and review provided for by section 7429 and the notice of deficiency issued to the true owner relative to the later assessment are to be made within the prescribed time limits, using the actual date of the later assessment against the true owner.

(2) *Example*. The provisions of paragraph (c)(1) of this section may be illustrated by the following example:

Example. On June 5, 1994, A is found in possession of a bag, containing $200,000, which A claims he was holding for a friend whose name A cannot remember. Because A does not claim ownership of the cash and does not provide the name of the true owner so that the Commissioner can identify the true owner and have that person acknowledge ownership of the cash, it is presumed that the cash represents gross income of an individual for calendar year 1994, and that the collection of tax on that gross income will be jeopardized by delay. Accordingly, on June 17, 1994, a termination assessment under section 6851 is made against A, in his capacity as possessor of the cash. On June 21, 1994, the written statement of information provided for by section 7429(a)(1) is given to A. No request for review under section 7429(a)(2) is made by the true owner within 30 days after the day on which A was furnished the written statement provided for in section 7429(a)(1). Subsequently, individual B comes to the Service and states that he is the owner of the cash. On September 2, 1994, the Service determines that B was the true owner of the cash on June 5, 1994. On September 9, 1994, the Service abates the termination assessment made against A solely as possessor of cash and, after determining that jeopardy exists, replaces it with a termination assessment under section 6851 against B. The lien against B that arises under section 6321 is treated as arising on June 17, 1994. However, within 5 days after September 9, 1994, the Service must give B the written statement of information required by section 7429(a)(1) so that B can make a request for review under section 7429(a)(2). In addition, a notice of deficiency must be sent to B within 60 days after the later of the due date or the actual filing of B's tax return for 1994, as required by section 6851(b).

(d) *Rights of possessor of cash*—(1) *Action permitted*. Section 6867 provides that the possessor of cash is treated as the taxpayer for purposes of chapter 63 (relating to assessment) and chapter 64 (relating to collection) of the Internal Revenue Code. Accordingly, the possessor of cash may file a petition with the United States Tax Court, within the applicable time limits, challenging the notice of deficiency issued to the possessor solely in that person's capacity as possessor of cash.

(2) *Actions not permitted*. Section 6867 provides that the possessor of cash is treated as the taxpayer solely for purposes of section 7429(a)(1), and is entitled to the written statement of information provided for by that section. The possessor of cash is not treated as the taxpayer for purposes of sections

7429(a)(2) and 7429(b), relating to administrative and judicial review of termination and jeopardy assessments, and may not maintain an action under section 7429 for such review. The possessor of cash is not treated as the taxpayer for purposes of section 7422, relating to civil actions for refund, or chapter 65 of the Internal Revenue Code, relating to abatements, credits, and refunds, and may not institute a suit for refund in district court after the deficiency has been collected.

(e) *Rights of true owner of cash*—(1) *Actions permitted*. The true owner of cash may request administrative review under section 7429(a)(2) and may maintain a civil action under section 7429(b) for judicial review of an assessment under section 6851 or section 6861 made against the possessor solely in that person's capacity as possessor of cash. Such an action, however, must be preceded by a request for review under section 7429(a)(2) made by the true owner within 30 days after the day on which the possessor is furnished the written statement provided for in section 7429(a)(1). In addition, after the deficiency asserted against the possessor of cash has been levied upon, the true owner of cash may bring an action in federal district court to recover the cash, as provided in section 7426, relating to civil actions by persons other than taxpayers. See, however, section 6532(c), relating to the 9-month statute of limitations for suits under section 7426. In addition, the true owner of cash, with the permission of the court, may appear before the United States Tax Court in any proceeding that may be filed by the possessor of the cash challenging the notice of deficiency issued to the possessor solely in that person's capacity as possessor of the cash.

(2) *Actions not permitted*. The true owner of cash may not file a petition with the United States Tax Court challenging the notice of deficiency issued to the possessor solely in that person's capacity as possessor of cash. Notwithstanding the preceding sentence, the true owner of cash may file a petition with the United States Tax Court challenging any notice of deficiency issued to the true owner following the abatement of the assessment made against the possessor of cash.

(f) *Definitions*. For the purposes of this section and section 6867—

(1) *Cash*. The term *cash* includes any cash equivalents.

(2) *Cash equivalent*—(i) *In general*. The term *cash* equivalent includes foreign currency, any bearer obligation, and any medium of exchange that is of a type that has been frequently used in illegal activities, as listed in paragraph (f)(2)(ii) of this section.

(ii) *Specific cash equivalents*. For purposes of paragraph (f)(2)(i), the following are also cash equivalents—

(A) Coins;

(B) Precious metals;

(C) Jewelry;

(D) Precious stones;

(E) Postage stamps;

(F) Traveler's checks in any form;

(G) Negotiable instruments (including personal checks, business checks, official bank checks, cashier's checks, notes, and money orders) that are either in bearer form, endorsed without restriction, made out to a fictitious payee, or otherwise in such form that title thereto passes upon delivery;

(H) Incomplete instruments (including personal checks, business checks, official bank checks, cashier's checks, notes, and money orders) signed but with the payee's name omitted; and

(I) Securities or stock in bearer form or otherwise in such form that title thereto passes upon delivery.

(iii) *Value of cash equivalents*. A cash equivalent is taken into account at its fair market value except in the case of a bearer obligation, in which case it is taken into account at its face value.

(3) *Possessor of cash*. An individual is considered to be the possessor of cash if the cash is found on that individual's person or in that individual's possession or is found in any object, container, vehicle, or area under that individual's custody or control.

(4) *True owner of the cash*. The true owner of cash is the individual who beneficially owns the cash on the date such cash is found in the physical possession of the individual described in paragraph (f)(3) of this section. An agent, bailee, or other custodian of the cash is not the true owner of cash. A true owner of cash does not include an

individual who, subsequent to the date on which the cash is found in the physical possession of the individual described in paragraph (f)(3) of this section, obtains ownership of the cash by purchase, subrogation, descent, or other means.

(g) *Effective date.* This section is effective with respect to cash found in the physical possession of an individual on or after August 3, 1995.

[T.D. 8605, 60 FR 39654, Aug. 3, 1995]

BANKRUPTCY AND RECEIVERSHIPS

§ 301.6871(a)–1 Immediate assessment of claims for income, estate, and gift taxes in bankruptcy and receivership proceedings.

(a) Upon (1) the adjudication of bankruptcy of any taxpayer in any liquidating proceeding, (2) the filing with a court of competent jurisdiction or (where approval is required by the Bankruptcy Act, 11 U.S.C. Chapters 1–14) the approval of a petition of, or the approval of a petition against, any taxpayer in any other proceeding under the Bankruptcy Act, or (3) the appointment of any receiver for any taxpayer in a receivership proceeding before any court of the United States or of any State or Territory or of the District of Columbia, the district director shall immediately assess any deficiency of income, estate, or gift tax (together with all interest, additional amounts, or additions to the tax provided by law), determined by him, if such deficiency has not heretofore been assessed in accordance with law. Such assessment shall be made immediately, whether or not a notice of deficiency has been issued, and without regard to the restrictions upon assessment under section 6213.

(b) As used in this section and §§ 301.6871(a)–2 to 301.6873–1, inclusive, the term ''proceeding under the Bankruptcy Act'' includes a proceeding under chapters I to VII, inclusive, of the Bankruptcy Act, or under section 75 or 77 (11 U.S.C. 203, 205), or chapters X to XIII, inclusive, of such Act, or any other proceeding under the Act.

§ 301.6871(a)–2 Collection of assessed taxes in bankruptcy and receivership proceedings.

(a) During a proceeding under the Bankruptcy Act (11 U.S.C. chapters 1–14) or a receivership proceeding in either a Federal or State court, generally the assets of the taxpayer are under the control of the court in which such proceeding is pending, and the collection of taxes cannot be made by levying upon such assets. However, any assets which under applicable provisions of law are not under the control of the court may be subject to levy. See paragraph (b) of this section and § 301.6871(b)–1 with respect to claims for such taxes. See section 6873 with respect to collection of unpaid claims.

(b) District directors should, promptly after ascertaining the existence of any outstanding liability against a taxpayer in any proceeding under the Bankruptcy Act or in any receivership proceeding, and in any event within the time limited by the appropriate provisions of the Bankruptcy Act, or by the appropriate orders of the court in which such proceeding is pending, file proof of claim covering such liability in the court in which such proceeding is pending. Such proof of claim should be filed whether the unpaid taxes involved have been assessed or not, except in cases where the instructions of the Commissioner direct otherwise; for example, where the payment of the taxes is secured by a sufficient bond. At the same time proof of claim is filed with the bankruptcy or receivership court, the district director will send notice and demand for payment to the taxpayer, together with a copy of such proof of claim.

(c) Under sections 3466 and 3467 of the Revised Statutes (31 U.S.C. 191, 192) and section 64 of the Bankruptcy Act (11 U.S.C. 104), taxes are entitled to the priority over other claims therein specified, and the trustee, receiver, debtor in possession, or other person designated as in control of the assets of the debtor by the court in which the proceeding under the Bankruptcy Act or receivership proceeding is pending, may be held personally liable for failure on his part to protect the priority of the Government respecting taxes of which he has notice. Sections 75(l),

77(e), 199, 337(2), 455, and 659(6) of the Bankruptcy Act (11 U.S.C. 203(l), 205(e), 599, 737(2), 855, and 1059(6)) also contain provisions with respect to the rights of the United States relative to priority of payment. For the filing of returns by a trustee in bankruptcy or by a receiver, see section 6012(b)(3) and 28 U.S.C. 960. Bankruptcy courts have jurisdiction under the Bankruptcy Act to determine all disputes regarding the amount and validity of taxes claimed in a proceeding under the Bankruptcy Act. A proceeding under the Bankruptcy Act or a receivership proceeding does not discharge any portion of a claim of the United States for taxes except in the case of a proceeding under section 77 or chapter X of the Bankruptcy Act. However, the claim may be settled or compromised as in other cases in court.

(d) For the requirement that a receiver, trustee in bankruptcy, or other like fiduciary give notice as to his qualification as such, see section 6036 and the regulations thereunder.

§ 301.6871(b)–1 Claims for income, estate, and gift taxes in proceedings under the Bankruptcy Act and receivership proceedings; claim filed despite pendency of Tax Court proceedings.

(a) If it is determined that a deficiency is due in respect of income, estate, or gift tax and the taxpayer has filed a petition with the Tax Court before (1) the adjudication of bankruptcy in any liquidating proceeding, (2) the filing with a court of competent jurisdiction or (where approval is required by the Bankruptcy Act, 11 U.S.C. chapters 1–14) the approval of a petition of, or the approval of a petition against, any taxpayer in any other proceeding under the Bankruptcy Act, or (3) the appointment of a receiver, the trustee, receiver, debtor in possession, or other like fiduciary, may, upon his own motion, be made a party to the Tax Court proceeding and thereafter may prosecute the appeal before the Tax Court as to that particular determination. No petition shall be filed with the Tax Court for a redetermination of the deficiency after the adjudication of bankruptcy, the filing or (where approval is required by the Bankruptcy Act) the approval of a petition of, or the approval of a petition against, any taxpayer in any other bankruptcy proceeding, or the appointment of the receiver.

(b) Even though the determination of a deficiency is pending before the Tax Court for redetermination, proof of claim for the amount of such deficiency may be filed with the court in which the proceeding under the Bankruptcy Act or receivership proceeding is pending without awaiting final decision of the Tax Court. In case of a final decision of the Tax Court before the payment or the disallowance of the claim in the proceeding under the Bankruptcy Act or receivership proceeding, a copy of the Tax Court's decision may be filed by the district director with the court in which such proceeding is pending.

(c) While a district director is required by section 6871(a) and paragraph (a) of § 301.6871(a)–1 to make immediate assessment of any deficiency, such assessment is not made as a jeopardy assessment within the meaning of section 6861, and consequently the provisions of that section do not apply to any assessment made under section 6871. Therefore, the notice of deficiency provided in section 6861(b) will not be mailed. Although such notice will not be issued, a letter will be sent to the taxpayer or to the trustee, receiver, debtor in possession, or other like fiduciary, notifying him in detail how the deficiency was computed, that he may furnish evidence showing wherein the deficiency is incorrect, and that upon request he will be granted a conference by the district director with respect to such deficiency. However, such letter will not provide for such a conference where a petition was filed with the Tax Court before (1) the adjudication of bankruptcy in a liquidating proceeding, (2) the filing with a court of competent jurisdiction or (where approval is required by the Bankruptcy Act), the approval of a petition of, or the approval of a petition against, any taxpayer in any other proceeding under the Bankruptcy Act, or (3) the appointment of a receiver.

§ 301.6872–1 Suspension of running of period of limitations on assessment.

If any fiduciary in any proceeding under the Bankruptcy Act (11 U.S.C. chapters 1–14), including a trustee, receiver, or debtor in possession, or a receiver in any other court proceeding is required, pursuant to section 6036, to give notice in writing to the district director of his qualification as such, then the running of the period of limitations on assessment shall be suspended from the date the proceeding is instituted to the date such notice is received by the district director, and for an additional 30 days thereafter. However, the suspension under this section of the running of the period of limitation on assessment shall in no case exceed 2 years.

§ 301.6873–1 Unpaid claims in bankruptcy or receivership proceedings.

(a) If any portion of the claim allowed by the court in a receivership proceeding, or in any proceeding under the Bankruptcy Act (11 U.S.C. chs. 1–14) remains unpaid after the termination of such proceeding, the district director will send notice and demand for payment thereof to the taxpayer. Such unpaid portion with interest as provided in section 6601 may be collected from the taxpayer by levy or proceeding in court within the period of limitation for collection after assessment. For the general rule as to such period of limitation, see section 6502, and for suspension of the running of the period provided in section 6502, see, for example, section 6503. For suspensions under other provisions of law, see, for example, section 11f of the Bankruptcy Act (11 U.S.C. 29(f)). Extension of time for the payment of such unpaid amount may be granted in the same manner and subject to the same provisions and limitations as provided in section 6161(c).

(b) Section 6873 is applicable only where a claim for taxes is allowed in a receivership proceeding or in a proceeding under the Bankruptcy Act. Claims for taxes, interest, additional amounts, or additions to the tax may be collectible in equity or under other provisions of law although no claim was allowed in the proceeding because, for example, such items were not included in a proof of claim filed in the proceeding or no proof of claim was filed. Except in the case of a proceeding under section 77 or chapter X of the Bankruptcy Act, a tax or a liability in respect thereof is not discharged by a proceeding under such act, whether or not a claim is filed in such proceeding, and provisions suspending the running of the period of limitation on the collection of taxes are applicable, whether or not a claim is filed in such proceeding.

Transferees and Fiduciaries

§ 301.6901–1 Procedure in the case of transferred assets.

(a) *Method of collection*—(1) *Income, estate, and gift taxes.* The amount for which a transferee of property of—

(i) A taxpayer, in the case of a tax imposed by subtitle A of the Code (relating to income taxes),

(ii) A decedent, in the case of the estate tax imposed by chapter 11 of the Code, or

(iii) A donor, in the case of the gift tax imposed by chapter 12 of the Code, is liable, at law or

in equity, and the amount of the personal liability of a fiduciary under section 3467 of the Revised Statutes, as amended (31 U.S.C. 192), in respect of the payment of such taxes, whether shown on the return of the taxpayer or determined as a deficiency in the tax, shall be assessed against such transferee or fiduciary and paid and collected in the same manner and subject to the same provisions and limitations as in the case of a deficiency in the tax with respect to which such liability is incurred, except as hereinafter provided.

(2) *Other taxes.* The liability, at law or in equity, of a transferee of property of any person liable in respect of any other tax, in any case where the liability of the transferee arises on the liquidation of a corporation or partnership, or a corporate reorganization within the meaning of section 368(a), shall be assessed against such transferee and paid and collected in the same manner and subject to the same provisions and limitations as in the case of the tax with respect to which

such liability is incurred, except as hereinafter provided.

(3) *Applicable provisions.* The provisions of the Code made applicable by section 6901(a) to the liability of a transferee or fiduciary referred to in subparagraphs (1) and (2) of this paragraph (a), include the provisions relating to:

(i) Delinquency in payment after notice and demand and the amount of interest attaching because of such delinquency;

(ii) The authorization of distraint and proceedings in court for collection;

(iii) The prohibition of claims and suits for refund; and

(iv) In any instance in which the liability of a transferee or fiduciary is one referred to in subparagraph (1) of this paragraph (a), the filing of a petition with the Tax Court of the United States and the filing of a petition for review of the Tax Court's decision.

For detailed provisions relating to assessments, collections, and refunds, see chapters 63, 64, and 65 of the Code, respectively.

(b) *Definition of transferee.* As used in this section, the term ''transferee'' includes an heir, legatee, devisee, distributee of an estate of a deceased person, the shareholder of a dissolved corporation, the assignee or donee of an insolvent person, the successor of a corporation, a party to a reorganization as defined in section 368, and all other classes of distributees. Such term also includes, with respect to the gift tax, a donee (without regard to the solvency of the donor) and, with respect to the estate tax, any person who, under section 6324(a)(2), is personally liable for any part of such tax.

(c) *Period of limitation on assessment.* The period of limitation for assessment of the liability of a transferee or of a fiduciary is as follows:

(1) *Initial transferee.* In the case of the liability of an initial transferee, one year after the expiration of the period of limitation for assessment against the taxpayer in the case of a tax imposed by subtitle A (relating to income taxes), the executor in the case of the estate tax imposed by chapter 11, or the donor in the case of the gift tax imposed by chapter 12, each of which for purposes of this section is referred to as the ''taxpayer'' (see subchapter A, chapter 66, of the Code).

(2) *Transferee of transferee.* In the case of the liability of a transferee of a transferee, 1 year after the expiration of the period of limitation for assessment against the preceding transferee, or 3 years after the expiration of the period of limitation for assessment against the taxpayer, whichever of such periods first expires.

(3) *Court proceeding against taxpayer or last preceding transferee.* If, before the expiration of the period specified in subparagraph (1) or subparagraph (2) of this paragraph (c), (whichever is applicable), a court proceeding against the taxpayer or last preceding transferee for the collection of the tax or liability in respect thereof, respectively, has been begun within the period of limitation for the commencement of such proceeding, then within one year after the return of execution in such proceeding.

(4) *Fiduciary.* In the case of the liability of a fiduciary, not later than 1 year after the liability arises or not later than the expiration of the period for collection of the tax in respect of which such liability arises, whichever is the later.

(d) *Extension by agreement*—(1) *Extension of time for assessment.* The time prescribed by section 6901 for the assessment of the liability of a transferee or fiduciary may, prior to the expiration of such time, be extended for any period of time agreed upon in writing by the transferee or fiduciary and the district director or an assistant regional commissioner. The extension shall become effective when the agreement has been executed by both parties. The period agreed upon may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.

(2) *Extension of times for credit or refund.* (i) For the purposes of determining the period of limitation on credit or refund to the transferee or fiduciary of overpayments made by such transferee or fiduciary or overpayments made by the taxpayer to which such transferee or fiduciary may be legally entitled to credit or refund, an agreement and any extension thereof referred to in subparagraph (1) of this

paragraph (d), shall be deemed an agreement and extension thereof for purposes of section 6511(c) (relating to limitations on credit or refund in case of extension of time by agreement).

(ii) For the purpose of determining the limit specified in section 6511(c)(2) on the amount of the credit or refund, if the agreement is executed after the expiration of the period of limitation for assessment against the taxpayer with reference to whom the liability of such transferee or fiduciary arises, the periods specified in section 6511(b)(2) shall be increased by the period from the date of such expiration to the date the agreement is executed. The application of this subdivision may be illustrated by the following example:

Example. Assume that Corporation A files its income tax return on March 15, 1955, for the calendar year 1954, showing a liability of $100,000 which is paid with the return. The period within which an assessment may be made against Corporation A expires on March 15, 1958. Corporation B is a transferee of Corporation A. An agreement is executed on October 9, 1958, extending, beyond its normal expiration date of March 15, 1959, the period within which an assessment may be made against Corporation B. Under section 6511(c)(2) and section 6511(b)(2)(A) the portion of an overpayment, paid before the execution of an agreement extending the period for assessment, may not be credited or refunded unless paid within three years prior to the date on which the agreement is executed. However, as applied to Corporation B such 3-year period is increased under section 6901(d)(2) to include the period from March 15, 1958, to October 9, 1958, the date on which the agreement was executed.

(e) *Period of assessment against taxpayer*. For the purpose of determining the period of limitation for assessment against a transferee or a fiduciary, if the taxpayer is deceased, or, in the case of a corporation, has terminated its existence, the period of limitation for assessment against the taxpayer shall be the period that would be in effect had the death or termination of existence not occurred.

(f) *Suspension of running of period of limitations*. In the cases of the income, estate, and gift taxes, if a notice of liability of a transferee or the liability of a fiduciary has been mailed to such transferee or to such fiduciary under the provisions of section 6212, then the running of the statute of limitations shall be suspended for the period during which assessment is prohibited in respect of liability of the transferee or fiduciary (and in any event, if a proceeding in respect of the liability is placed on the docket of the Tax Court, until the decision of the Tax Court becomes final), and for 60 days thereafter.

§ 301.6902–1 Burden of proof.

In proceedings before the Tax Court the burden of proof shall be upon the Commissioner to show that a petitioner is liable as a transferee of property of a taxpayer, but not to show that the taxpayer was liable for the tax.

§ 301.6903–1 Notice of fiduciary relationship.

(a) *Rights and obligations of fiduciary*. Every person acting for another person in a fiduciary capacity shall give notice thereof to the district director in writing. As soon as such notice is filed with the district director such fiduciary must, except as otherwise specifically provided, assume the powers, rights, duties, and privileges of the taxpayer with respect to the taxes imposed by the Code. If the person is acting as a fiduciary for a transferee or other person subject to the liability specified in section 6901, such fiduciary is required to assume the powers, rights, duties, and privileges of the transferee or other person under that section. The amount of the tax or liability is ordinarily not collectible from the personal estate of the fiduciary but is collectible from the estate of the taxpayer or from the estate of the transferee or other person subject to the liability specified in section 6901.

(b) *Manner of notice*—(1) *Notices filed before April 24, 2002*. This paragraph (b)(1) applies to notices filed before April 24, 2002. The notice shall be signed by the fiduciary, and shall be filed with the Internal Revenue Service office where the return of the person for whom the fiduciary is acting is required to be filed. The notice must state the name and address of the person for whom the fiduciary is acting, and the nature of the liability of such person; that is, whether it is a liability for tax, and, if so, the type of tax, the year or years involved, or a liability at

law or in equity of a transferee of property of a taxpayer, or a liability of a fiduciary under section 3467 of the Revised Statutes, as amended (31 U.S.C. 192) in respect of the payment of any tax from the estate of the taxpayer. Satisfactory evidence of the authority of the fiduciary to act for any other person in a fiduciary capacity must be filed with and made a part of the notice. If the fiduciary capacity exists by order of court, a certified copy of the order may be regarded as satisfactory evidence. When the fiduciary capacity has terminated, the fiduciary, in order to be relieved of any further duty or liability as such, must file with the Internal Revenue Service office with whom the notice of fiduciary relationship was filed written notice that the fiduciary capacity has terminated as to him, accompanied by satisfactory evidence of the termination of the fiduciary capacity. The notice of termination should state the name and address of the person, if any, who has been substituted as fiduciary. Any written notice disclosing a fiduciary relationship which has been filed with the Commissioner under the Internal Revenue Code of 1939 or any prior revenue law shall be considered as sufficient notice within the meaning of section 6903. Any satisfactory evidence of the authority of the fiduciary to act for another person already filed with the Commissioner or district director need not be resubmitted.

(2) *Notices filed on or after April 24, 2002*. This paragraph (b)(2) applies to notices filed on or after April 24, 2002. The notice shall be signed by the fiduciary, and shall be filed with the Internal Revenue Service Center where the return of the person for whom the fiduciary is acting is required to be filed. The notice must state the name and address of the person for whom the fiduciary is acting, and the nature of the liability of such person; that is, whether it is a liability for tax, and if so, the type of tax, the year or years involved, or a liability at law or in equity of a transferee of property of a taxpayer, or a liability of a fiduciary under 31 U.S.C. 3713(b), in respect of the payment of any tax from the estate of the taxpayer. The fiduciary must retain satisfactory evidence of his or her authority to act for any other person in a fiduciary capacity as long as the evidence may become material in the administration of any internal revenue law.

(c) *Where notice is not filed*. If the notice of the fiduciary capacity described in paragraph (b) of this section is not filed with the district director before the sending of notice of a deficiency by registered mail or certified mail to the last known address of the taxpayer (see section 6212), or the last known address of the transferee or other person subject to liability (see section 6901(g)), no notice of the deficiency will be sent to the fiduciary. For further guidance regarding the definition of last known address, see § 301.6212–2. In such a case the sending of the notice to the last known address of the taxpayer, transferee, or other person, as the case may be will be a sufficient compliance with the requirements of the Code, even though such taxpayer, transferee, or other person is deceased, or is under a legal disability, or, in the case of a corporation, has terminated its existence. Under such circumstances, if no petition is filed with the Tax Court of the United States within 90 days after the mailing of the notice (or within 150 days after mailing in the case of such a notice addressed to a person outside the States of the Union and the District of Columbia) to the taxpayer, transferee, or other person, the tax, or liability under section 6901, will be assessed immediately upon the expiration of such 90-day or 150-day period, and demand for payment will be made. See paragraph (a) of § 301.6213–1 with respect to the expiration of such 90-day or 150-day period.

(d) *Definition of fiduciary*. The term ''fiduciary'' is defined in section 7701(a)(6) to mean a guardian, trustee, executor, administrator, receiver, conservator, or any person acting in any fiduciary capacity for any person.

(e) *Applicability of other provisions*. This section, relating to the provisions of section 6903, shall not be taken to

abridge in any way the powers and duties of fiduciaries provided for in other sections of the Code.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 8939, 66 FR 2821, Jan. 12, 2001; T.D. 8989, 67 FR 20032, Apr. 24, 2002; T.D. 9040, 68 FR 4921, Jan. 31, 2003]

§ 301.6905–1 Discharge of executor from personal liability for decedent's income and gift taxes.

(a) *Discharge of liability*. With respect to decedents dying after December 31, 1970, the executor of a decedent's estate may make written application to the applicable internal revenue officer with whom the estate tax return is required to be filed, as provided in § 20.6091–1 of this chapter, for a determination of the income or gift taxes imposed upon the decedent by subtitle A or by chapter 12 of the Code, and for a discharge of personal liability therefrom. If no estate tax return is required to be filed, then such application should be filed where the decedent's final income tax return is required to be filed. The application must be filed after the return with respect to such income or gift taxes is filed. Within 9 months (1 year with respect to the estate of a decedent dying before January 1, 1974) after receipt of the application, the executor shall be notified of the amount of the income or gift tax and, upon payment thereof, he will be discharged from personal liability for any deficiency in income or gift tax thereafter found to be due. If no such notification is received, the executor is discharged at the end of such 9 months (1 year with respect to the estate of a decedent dying before January 1, 1974) period from personal liability for any deficiency thereafter found to be due. The discharge of the executor under this section from personal liability applies only to him in his personal capacity and to his personal assets. The discharge is not applicable to his liability as executor to the extent of the assets of the estate in his possession or control. Further, the discharge does not operate as a release of any part of the property from the lien provided under section 6321 or the special lien provided under subsection (a) or (b) of section 6324.

(b) *Definition of ''executor''*. For purposes of this section, the term ''executor'' means the executor or administrator of the decedent appointed, qualified, and acting within the United States.

(c) *Cross reference*. For provisions concerning the discharge of the executor from personal liability for estate taxes imposed by chapter 11 of the Code, see section 2204 and the regulations thereunder.

[T.D. 7238, 37 FR 28742, Dec. 29, 1972]

Licensing

§ 301.7001–1 License to collect foreign items.

(a) *In general*. Any bank or agent undertaking as a matter of business or for profit the collection of foreign items must obtain a license from the district director for the district in which is located its principal place of business within the United States. For definitions of the terms ''foreign item'' and ''collection'', see paragraph (b) of this section.

(b) *Definitions*—(1) *Foreign item*. The term ''foreign item'' as used in this section, means any item of interest upon the bonds of a foreign country or of a nonresident foreign corporation not having a fiscal or paying agent in the United States (including Puerto Rico as if a part of the United States), or any item of dividends upon the stock of such corporation.

(2) *Collection*. The term ''collection'' as used in this section, includes the following:

(i) The payment by the licensee of the foreign item in cash;

(ii) The crediting by the licensee of the account of the person presenting the foreign item;

(iii) The tentative crediting by the licensee of the account of the person presenting the foreign item until the amount of the foreign item is received by the licensee from abroad; and

(iv) The receipt of foreign items by the licensee for the purpose of transmitting them abroad for deposits.

(c) *Application for license*. Application for the license required by paragraph (a) of this section shall be made in writing and shall contain the following information:

(1) The name and present business of the person, partnership (including

names of all partners), or corporation applying for the license;

(2) The address of the applicant's principal place of business in the United States and of any branch offices in the United States;

(3) The date on which the applicant intends to commence the collection of foreign items; and

(4) An estimate of the aggregate amount of annual collections of foreign items (in dollars).

The application shall be signed by the applicant (a partner, in the case of a partnership, or an officer, in the case of a corporation).

(d) *Issuance of license*. The license will be issued by the district director in letter form without cost to the licensee.

(e) *Previous license holders*. Any person who has been issued a license under the corresponding provision of the Internal Revenue Code of 1939, or any prior revenue law, is not required to renew such license under this section.

(f) *Returns of information as to foreign items*. For provisions relating to the filing of returns as to foreign items, see section 6041(b) and §1.6041–4 of this chapter (Income Tax Regulations).

Bonds

§ 301.7101–1 Form of bond and security required.

(a) *In general*. Any person required to furnish a bond under the provisions of the Code (other than section 6803(a)(1), relating to bonds required of certain postmasters before June 6, 1972, and section 7485, relating to bonds to stay assessment and collection of a deficiency pending review of a Tax Court decision), or under any rules or regulations prescribed under the Code, shall (except as provided in paragraph (d) of this section) execute such bond—

(1) On the appropriate form prescribed by the Internal Revenue Service (which may be obtained from the district director), and

(2) With satisfactory surety.

For provisions as to what will be considered ''satisfactory surety'', see paragraph (b) of this section. The bonds referred to in this paragraph shall be drawn in favor of the United States.

(b) *Satisfactory surety*—(1) *Approved surety company or bonds or notes of the United States*. For purposes of paragraph (a) of this section, a bond shall be considered executed with satisfactory surety if:

(i) It is executed by a surety company holding a certificate of authority from the Secretary as an acceptable surety on Federal bonds; or

(ii) It is secured by bonds or notes of the United States as provided in 6 U.S.C. 15 (see 31 CFR part 225).

(2) *Other surety acceptable in discretion of district director*. Unless otherwise expressly provided in the Code, or the regulations thereunder, a bond may, in the discretion of the district director, be considered executed with satisfactory surety if, in lieu of being executed or secured as provided in subparagraph (1) of this paragraph (b), it is:

(i) Executed by a corporate surety (other than a surety company) provided such corporate surety establishes that it is within its corporate powers to act as surety for another corporation or an individual;

(ii) Executed by two or more individual sureties, provided such individual sureties meet the conditions contained in subparagraph (3) of this paragraph (b);

(iii) Secured by a mortgage on real or personal property;

(iv) Secured by a certified, cashier's, or treasurer's check drawn on any bank or trust company incorporated under the laws of the United States or any State, Territory, or possession of the United States, or by a U.S. postal, bank, express or telegraph money order;

(v) Secured by corporate bonds or stocks, or by bonds issued by a State or political subdivision thereof, of recognized stability; or

(vi) Secured by any other acceptable collateral. Collateral shall be deposited with the district director or, in his discretion, with a responsible financial institution acting as escrow agent.

(3) *Conditions to be met by individual sureties*. If a bond is executed by two or more individual sureties, the following conditions must be met by each such individual surety:

(i) He must reside within the State in which the principal place of business or legal residence of the primary obligor is located;

(ii) He must have property subject to execution of a current market value, above all encumbrances, equal to at least the penalty of the bond;

(iii) All real property which he offers as security must be located in the State in which the principal place of business or legal residence of the primary obligor is located;

(iv) He must agree not to mortgage, or otherwise encumber, any property offered as security while the bond continues in effect without first securing the permission of the district director; and

(v) He must file with the bond, and annually thereafter so long as the bond continues in effect, an affidavit as to the adequacy of his security, executed on the appropriate form furnished by the district director.

Partners may not act as sureties upon bonds of their partnership. Stockholders of a corporate principal may be accepted as sureties provided their qualifications as such are independent of their holdings of the stock of the corporation.

(4) *Adequacy of surety*. No surety or security shall be accepted if it does not adequately protect the interest of the United States.

(c) *Bonds required by Internal Revenue Code of 1939*. This section shall also apply in the case of bonds required under the Internal Revenue Code of 1939 (other than sections 1423(b) and 1145) or under the regulations under such Code.

(d) *Bonds required under subtitle E and chapter 75 of the Internal Revenue Code of 1954*. Bonds required under subtitle E and chapter 75, subtitle F, of the Internal Revenue Code of 1954 (or under the corresponding provisions of the Internal Revenue Code of 1939) shall be in such form and with such surety or sureties as are prescribed in the regulations in subchapter E of this chapter (Alcohol, Tobacco, and Other Excise Taxes).

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7239, 37 FR 28628, Dec. 28, 1972]

§ 301.7102–1 Single bond in lieu of multiple bonds.

(a) *In general*. Except as provided in paragraph (b) of this section, a person who is required, or authorized, under the Code (other than sections 6803(a)(1) and 7485), or under any rules or regulations under the Code, to execute two or more bonds may, in the discretion of the district director, furnish a single bond in lieu of such two or more bonds but only if such single bond meets all the conditions and requirements prescribed for each of the separate bonds which it replaces. This section shall also apply in the case of bonds required or authorized under the Internal Revenue Code of 1939 (other than sections 1423(b) and 1145) or under the regulations under such Code.

(b) *Bonds required under subtitle E and chapter 75 of the Internal Revenue Code of 1954*. In the case of bonds required under subtitle E and chapter 75, subtitle F, of the Internal Revenue Code of 1954 (or under the corresponding provisions of the Internal Revenue Code of 1939), a single bond will not be accepted in lieu of two or more bonds except as provided in the regulations in subchapter E of this chapter (Alcohol, Tobacco, and Other Excise Taxes).

Closing Agreements and Compromises

§ 301.7121–1 Closing agreements.

(a) *In general*. The Commissioner may enter into a written agreement with any person relating to the liability of such person (or of the person or estate for whom he acts) in respect of any internal revenue tax for any taxable period ending prior or subsequent to the date of such agreement. A closing agreement may be entered into in any case in which there appears to be an advantage in having the case permanently and conclusively closed, or if good and sufficient reasons are shown by the taxpayer for desiring a closing agreement and it is determined by the Commissioner that the United States will sustain no disadvantage through consummation of such an agreement.

(b) *Scope of closing agreement*—(1) *In general*. A closing agreement may be executed even though under the agreement the taxpayer is not liable for any tax for the period to which the agreement relates. There may be a series of closing agreements relating to the tax liability for a single period.

(2) *Taxable periods ended prior to date of closing agreement.* Closing agreements with respect to taxable periods ended prior to the date of the agreement may relate to the total tax liability of the taxpayer or to one or more separate items affecting the tax liability of the taxpayer, as, for example, the amount of gross income, deduction for losses, depreciation, depletion, the year in which an item of income is to be included in gross income, the year in which an item of loss is to be deducted, or the value of property on a specific date. A closing agreement may also be entered into for the purpose of allowing a deficiency dividend deduction under section 547. In addition, a closing agreement constitutes a determination as defined by section 1313.

(3) *Taxable periods ending subsequent to date of closing agreement.* Closing agreements with respect to taxable periods ending subsequent to the date of the agreement may relate to one or more separate items affecting the tax liability of the taxpayer.

(4) *Illustration.* The provisions of this paragraph may be illustrated by the following example:

Example. A owns 500 shares of stock in the XYZ Corporation which he purchased prior to March 1, 1913. A is considering selling 200 shares of such stock but is uncertain as to the basis of the stock for the purpose of computing gain. Either prior or subsequent to the sale, a closing agreement may be entered into determining the market value of such stock as of March 1, 1913, which represents the basis for determining gain if it exceeds the adjusted basis otherwise determined as of such date. Not only may the closing agreement determine the basis for computing gain on the sale of the 200 shares of stock, but such an agreement may also determine the basis (unless or until the law is changed to require the use of some other factor to determine basis) of the remaining 300 shares of stock upon which gain will be computed in a subsequent sale.

(c) *Finality.* A closing agreement which is approved within such time as may be stated in such agreement, or later agreed to, shall be final and conclusive, and, except upon a showing of fraud or malfeasance, or misrepresentation of a material fact:

(1) The case shall not be reopened as to the matters agreed upon or the agreement modified by any officer, employee, or agent of the United States, and

(2) In any suit, action, or proceeding, such agreement, or any determination, assessment, collection, payment, abatement, refund, or credit made in accordance therewith, shall not be annulled, modified, set aside, or disregarded.

However, a closing agreement with respect to a taxable period ending subsequent to the date of the agreement is subject to any change in, or modification of, the law enacted subsequent to the date of the agreement and made applicable to such taxable period, and each closing agreement shall so recite.

(d) *Procedure with respect to closing agreements*—(1) *Submission of request.* A request for a closing agreement which relates to a prior taxable period may be submitted at any time before a case with respect to the tax liability involved is docketed in the Tax Court of the United States. All closing agreements shall be executed on forms prescribed by the Internal Revenue Service. The procedure with respect to requests for closing agreements shall be under such rules as may be prescribed from time to time by the Commissioner in accordance with the regulations under this section.

(2) *Collection, credit, or refund.* Any tax or deficiency in tax determined pursuant to a closing agreement shall be assessed and collected, and any overpayment determined pursuant thereto shall be credited or refunded, in accordance with the applicable provisions of law.

§ 301.7122–0 Table of contents.

This section lists the major captions that appear in the regulations under § 301.7122–1.

§ 301.7122–1 Compromises.

(a) In general.
(b) Grounds for compromise.
(c) Special rules for the evaluation of offers to compromise.
(d) Procedures for submission and consideration of offers.
(e) Acceptance of an offer to compromise a tax liability.
(f) Rejection of an offer to compromise.
(g) Effect of offer to compromise on collection activity.
(h) Deposits.

(i) Statute of limitations.
(j) Inspection with respect to accepted offers to compromise.
(k) Effective date.

[T.D. 9007, 67 FR 48029, July 23, 2002]

§ 301.7122–1 Compromises.

(a) *In general*—(1) If the Secretary determines that there are grounds for compromise under this section, the Secretary may, at the Secretary's discretion, compromise any civil or criminal liability arising under the internal revenue laws prior to reference of a case involving such a liability to the Department of Justice for prosecution or defense.

(2) An agreement to compromise may relate to a civil or criminal liability for taxes, interest, or penalties. Unless the terms of the offer and acceptance expressly provide otherwise, acceptance of an offer to compromise a civil liability does not remit a criminal liability, nor does acceptance of an offer to compromise a criminal liability remit a civil liability.

(b) *Grounds for compromise*—(1) *Doubt as to liability*. Doubt as to liability exists where there is a genuine dispute as to the existence or amount of the correct tax liability under the law. Doubt as to liability does not exist where the liability has been established by a final court decision or judgment concerning the existence or amount of the liability. See paragraph (f)(4) of this section for special rules applicable to rejection of offers in cases where the Internal Revenue Service (IRS) is unable to locate the taxpayer's return or return information to verify the liability.

(2) *Doubt as to collectibility*. Doubt as to collectibility exists in any case where the taxpayer's assets and income are less than the full amount of the liability.

(3) *Promote effective tax administration*. (i) A compromise may be entered into to promote effective tax administration when the Secretary determines that, although collection in full could be achieved, collection of the full liability would cause the taxpayer economic hardship within the meaning of § 301.6343–1.

(ii) If there are no grounds for compromise under paragraphs (b)(1), (2), or (3)(i) of this section, the IRS may compromise to promote effective tax administration where compelling public policy or equity considerations identified by the taxpayer provide a sufficient basis for compromising the liability. Compromise will be justified only where, due to exceptional circumstances, collection of the full liability would undermine public confidence that the tax laws are being administered in a fair and equitable manner. A taxpayer proposing compromise under this paragraph (b)(3)(ii) will be expected to demonstrate circumstances that justify compromise even though a similarly situated taxpayer may have paid his liability in full.

(iii) No compromise to promote effective tax administration may be entered into if compromise of the liability would undermine compliance by taxpayers with the tax laws.

(c) *Special rules for evaluating offers to compromise*—(1) *In general*. Once a basis for compromise under paragraph (b) of this section has been identified, the decision to accept or reject an offer to compromise, as well as the terms and conditions agreed to, is left to the discretion of the Secretary. The determination whether to accept or reject an offer to compromise will be based upon consideration of all the facts and circumstances, including whether the circumstances of a particular case warrant acceptance of an amount that might not otherwise be acceptable under the Secretary's policies and procedures.

(2) *Doubt as to collectibility*—(i) *Allowable expenses*. A determination of doubt as to collectibility will include a determination of ability to pay. In determining ability to pay, the Secretary will permit taxpayers to retain sufficient funds to pay basic living expenses. The determination of the amount of such basic living expenses will be founded upon an evaluation of the individual facts and circumstances presented by the taxpayer's case. To guide this determination, guidelines published by the Secretary on national and local living expense standards will be taken into account.

(ii) *Nonliable spouses*—(A) *In general.* Where a taxpayer is offering to compromise a liability for which the taxpayer's spouse has no liability, the assets and income of the nonliable spouse will not be considered in determining the amount of an adequate offer. The assets and income of a nonliable spouse may be considered, however, to the extent property has been transferred by the taxpayer to the nonliable spouse under circumstances that would permit the IRS to effect collection of the taxpayer's liability from such property (e.g., property that was conveyed in fraud of creditors), property has been transferred by the taxpayer to the nonliable spouse for the purpose of removing the property from consideration by the IRS in evaluating the compromise, or as provided in paragraph (c)(2)(ii)(B) of this section. The IRS also may request information regarding the assets and income of the nonliable spouse for the purpose of verifying the amount of and responsibility for expenses claimed by the taxpayer.

(B) *Exception.* Where collection of the taxpayer's liability from the assets and income of the nonliable spouse is permitted by applicable state law (e.g., under state community property laws), the assets and income of the nonliable spouse will be considered in determining the amount of an adequate offer except to the extent that the taxpayer and the nonliable spouse demonstrate that collection of such assets and income would have a material and adverse impact on the standard of living of the taxpayer, the nonliable spouse, and their dependents.

(3) *Compromises to promote effective tax administration*—(i) Factors supporting (but not conclusive of) a determination that collection would cause economic hardship within the meaning of paragraph (b)(3)(i) of this section include, but are not limited to—

(A) Taxpayer is incapable of earning a living because of a long term illness, medical condition, or disability, and it is reasonably foreseeable that taxpayer's financial resources will be exhausted providing for care and support during the course of the condition;

(B) Although taxpayer has certain monthly income, that income is exhausted each month in providing for the care of dependents with no other means of support; and

(C) Although taxpayer has certain assets, the taxpayer is unable to borrow against the equity in those assets and liquidation of those assets to pay outstanding tax liabilities would render the taxpayer unable to meet basic living expenses.

(ii) Factors supporting (but not conclusive of) a determination that compromise would undermine compliance within the meaning of paragraph (b)(3)(iii) of this section include, but are not limited to—

(A) Taxpayer has a history of noncompliance with the filing and payment requirements of the Internal Revenue Code;

(B) Taxpayer has taken deliberate actions to avoid the payment of taxes; and

(C) Taxpayer has encouraged others to refuse to comply with the tax laws.

(iii) The following examples illustrate the types of cases that may be compromised by the Secretary, at the Secretary's discretion, under the economic hardship provisions of paragraph (b)(3)(i) of this section:

Example 1. The taxpayer has assets sufficient to satisfy the tax liability. The taxpayer provides full time care and assistance to her dependent child, who has a serious long-term illness. It is expected that the taxpayer will need to use the equity in his assets to provide for adequate basic living expenses and medical care for his child. The taxpayer's overall compliance history does not weigh against compromise.

Example 2. The taxpayer is retired and his only income is from a pension. The taxpayer's only asset is a retirement account, and the funds in the account are sufficient to satisfy the liability. Liquidation of the retirement account would leave the taxpayer without an adequate means to provide for basic living expenses. The taxpayer's overall compliance history does not weigh against compromise.

Example 3. The taxpayer is disabled and lives on a fixed income that will not, after allowance of basic living expenses, permit full payment of his liability under an installment agreement. The taxpayer also owns a modest house that has been specially equipped to accommodate his disability. The taxpayer's equity in the house is sufficient to permit payment of the liability he owes.

However, because of his disability and limited earning potential, the taxpayer is unable to obtain a mortgage or otherwise borrow against this equity. In addition, because the taxpayer's home has been specially equipped to accommodate his disability, forced sale of the taxpayer's residence would create severe adverse consequences for the taxpayer. The taxpayer's overall compliance history does not weigh against compromise.

(iv) The following examples illustrate the types of cases that may be compromised by the Secretary, at the Secretary's discretion, under the public policy and equity provisions of paragraph (b)(3)(ii) of this section:

Example 1. In October of 1986, the taxpayer developed a serious illness that resulted in almost continuous hospitalizations for a number of years. The taxpayer's medical condition was such that during this period the taxpayer was unable to manage any of his financial affairs. The taxpayer has not filed tax returns since that time. The taxpayer's health has now improved and he has promptly begun to attend to his tax affairs. He discovers that the IRS prepared a substitute for return for the 1986 tax year on the basis of information returns it had received and had assessed a tax deficiency. When the taxpayer discovered the liability, with penalties and interest, the tax bill is more than three times the original tax liability. The taxpayer's overall compliance history does not weigh against compromise.

Example 2. The taxpayer is a salaried sales manager at a department store who has been able to place $2,000 in a tax-deductible IRA account for each of the last two years. The taxpayer learns that he can earn a higher rate of interest on his IRA savings by moving those savings from a money management account to a certificate of deposit at a different financial institution. Prior to transferring his savings, the taxpayer submits an e-mail inquiry to the IRS at its Web Page, requesting information about the steps he must take to preserve the tax benefits he has enjoyed and to avoid penalties. The IRS responds in an answering e-mail that the taxpayer may withdraw his IRA savings from his neighborhood bank, but he must redeposit those savings in a new IRA account within 90 days. The taxpayer withdraws the funds and redeposits them in a new IRA account 63 days later. Upon audit, the taxpayer learns that he has been misinformed about the required rollover period and that he is liable for additional taxes, penalties and additions to tax for not having redeposited the amount within 60 days. Had it not been for the erroneous advice that is reflected in the taxpayer's retained copy of the IRS e-mail response to his inquiry, the taxpayer would have redeposited the amount within the required 60-day period. The taxpayer's overall compliance history does not weigh against compromise.

(d) *Procedures for submission and consideration of offers*—(1) *In general.* An offer to compromise a tax liability pursuant to section 7122 must be submitted according to the procedures, and in the form and manner, prescribed by the Secretary. An offer to compromise a tax liability must be made in writing, must be signed by the taxpayer under penalty of perjury, and must contain all of the information prescribed or requested by the Secretary. However, taxpayers submitting offers to compromise liabilities solely on the basis of doubt as to liability will not be required to provide financial statements.

(2) *When offers become pending and return of offers.* An offer to compromise becomes pending when it is accepted for processing. The IRS may not accept for processing any offer to compromise a liability following reference of a case involving such liability to the Department of Justice for prosecution or defense. If an offer accepted for processing does not contain sufficient information to permit the IRS to evaluate whether the offer should be accepted, the IRS will request that the taxpayer provide the needed additional information. If the taxpayer does not submit the additional information that the IRS has requested within a reasonable time period after such a request, the IRS may return the offer to the taxpayer. The IRS may also return an offer to compromise a tax liability if it determines that the offer was submitted solely to delay collection or was otherwise nonprocessable. An offer returned following acceptance for processing is deemed pending only for the period between the date the offer is accepted for processing and the date the IRS returns the offer to the taxpayer. See paragraphs (f)(5)(ii) and (g)(4) of this section for rules regarding the effect of such returns of offers.

(3) *Withdrawal.* An offer to compromise a tax liability may be withdrawn by the taxpayer or the taxpayer's representative at any time prior to the IRS' acceptance of the offer to compromise. An offer will be

considered withdrawn upon the IRS' receipt of written notification of the withdrawal of the offer either by personal delivery or certified mail, or upon issuance of a letter by the IRS confirming the taxpayer's intent to withdraw the offer.

(e) *Acceptance of an offer to compromise a tax liability*. (1) An offer to compromise has not been accepted until the IRS issues a written notification of acceptance to the taxpayer or the taxpayer's representative.

(2) As additional consideration for the acceptance of an offer to compromise, the IRS may request that taxpayer enter into any collateral agreement or post any security which is deemed necessary for the protection of the interests of the United States.

(3) Offers may be accepted when they provide for payment of compromised amounts in one or more equal or unequal installments.

(4) If the final payment on an accepted offer to compromise is contingent upon the immediate and simultaneous release of a tax lien in whole or in part, such payment must be made in accordance with the forms, instructions, or procedures prescribed by the Secretary.

(5) Acceptance of an offer to compromise will conclusively settle the liability of the taxpayer specified in the offer. Compromise with one taxpayer does not extinguish the liability of, nor prevent the IRS from taking action to collect from, any person not named in the offer who is also liable for the tax to which the compromise relates. Neither the taxpayer nor the Government will, following acceptance of an offer to compromise, be permitted to reopen the case except in instances where—

(i) False information or documents are supplied in conjunction with the offer;

(ii) The ability to pay or the assets of the taxpayer are concealed; or

(iii) A mutual mistake of material fact sufficient to cause the offer agreement to be reformed or set aside is discovered.

(6) *Opinion of Chief Counsel*. Except as otherwise provided in this paragraph (e)(6), if an offer to compromise is accepted, there will be placed on file the opinion of the Chief Counsel for the IRS with respect to such compromise, along with the reasons therefor. However, no such opinion will be required with respect to the compromise of any civil case in which the unpaid amount of tax assessed (including any interest, additional amount, addition to the tax, or assessable penalty) is less than $50,000. Also placed on file will be a statement of—

(i) The amount of tax assessed;

(ii) The amount of interest, additional amount, addition to the tax, or assessable penalty, imposed by law on the person against whom the tax is assessed; and

(iii) The amount actually paid in accordance with the terms of the compromise.

(f) *Rejection of an offer to compromise*. (1) An offer to compromise has not been rejected until the IRS issues a written notice to the taxpayer or his representative, advising of the rejection, the reason(s) for rejection, and the right to an appeal.

(2) The IRS may not notify a taxpayer or taxpayer's representative of the rejection of an offer to compromise until an independent administrative review of the proposed rejection is completed.

(3) No offer to compromise may be rejected solely on the basis of the amount of the offer without evaluating that offer under the provisions of this section and the Secretary's policies and procedures regarding the compromise of cases.

(4) *Offers based upon doubt as to liability*. Offers submitted on the basis of doubt as to liability cannot be rejected solely because the IRS is unable to locate the taxpayer's return or return information for verification of the liability.

(5) *Appeal of rejection of an offer to compromise*—(i) *In general*. The taxpayer may administratively appeal a rejection of an offer to compromise to the IRS Office of Appeals (Appeals) if, within the 30-day period commencing the day after the date on the letter of rejection, the taxpayer requests such an administrative review in the manner provided by the Secretary.

(ii) *Offer to compromise returned following a determination that the offer was nonprocessable, a failure by the taxpayer*

to provide requested information, or a determination that the offer was submitted for purposes of delay. Where a determination is made to return offer documents because the offer to compromise was nonprocessable, because the taxpayer failed to provide requested information, or because the IRS determined that the offer to compromise was submitted solely for purposes of delay under paragraph (d)(2) of this section, the return of the offer does not constitute a rejection of the offer for purposes of this provision and does not entitle the taxpayer to appeal the matter to Appeals under the provisions of this paragraph (f)(5). However, if the offer is returned because the taxpayer failed to provide requested financial information, the offer will not be returned until a managerial review of the proposed return is completed.

(g) *Effect of offer to compromise on collection activity*—(1) *In general*. The IRS will not levy against the property or rights to property of a taxpayer who submits an offer to compromise, to collect the liability that is the subject of the offer, during the period the offer is pending, for 30 days immediately following the rejection of the offer, and for any period when a timely filed appeal from the rejection is being considered by Appeals.

(2) *Revised offers submitted following rejection*. If, following the rejection of an offer to compromise, the taxpayer makes a good faith revision of that offer and submits the revised offer within 30 days after the date of rejection, the IRS will not levy to collect from the taxpayer the liability that is the subject of the revised offer to compromise while that revised offer is pending.

(3) *Jeopardy*. The IRS may levy to collect the liability that is the subject of an offer to compromise during the period the IRS is evaluating whether that offer will be accepted if it determines that collection of the liability is in jeopardy.

(4) *Offers to compromise determined by IRS to be nonprocessable or submitted solely for purposes of delay*. If the IRS determines, under paragraph (d)(2) of this section, that a pending offer did not contain sufficient information to permit evaluation of whether the offer should be accepted, that the offer was submitted solely to delay collection, or that the offer was otherwise nonprocessable, then the IRS may levy to collect the liability that is the subject of that offer at any time after it returns the offer to the taxpayer.

(5) *Offsets under section 6402*. Notwithstanding the evaluation and processing of an offer to compromise, the IRS may, in accordance with section 6402, credit any overpayments made by the taxpayer against a liability that is the subject of an offer to compromise and may offset such overpayments against other liabilities owed by the taxpayer to the extent authorized by section 6402.

(6) *Proceedings in court*. Except as otherwise provided in this paragraph (g)(6), the IRS will not refer a case to the Department of Justice for the commencement of a proceeding in court, against a person named in a pending offer to compromise, if levy to collect the liability is prohibited by paragraph (g)(1) of this section. Without regard to whether a person is named in a pending offer to compromise, however, the IRS may authorize the Department of Justice to file a counterclaim or third-party complaint in a refund action or to join that person in any other proceeding in which liability for the tax that is the subject of the pending offer to compromise may be established or disputed, including a suit against the United States under 28 U.S.C. 2410. In addition, the United States may file a claim in any bankruptcy proceeding or insolvency action brought by or against such person.

(h) *Deposits*. Sums submitted with an offer to compromise a liability or during the pendency of an offer to compromise are considered deposits and will not be applied to the liability until the offer is accepted unless the taxpayer provides written authorization for application of the payments. If an offer to compromise is withdrawn, is determined to be nonprocessable, or is submitted solely for purposes of delay and returned to the taxpayer, any amount tendered with the offer, including all installments paid on the offer, will be refunded without interest. If an offer is rejected, any amount tendered

with the offer, including all installments paid on the offer, will be refunded, without interest, after the conclusion of any review sought by the taxpayer with Appeals. Refund will not be required if the taxpayer has agreed in writing that amounts tendered pursuant to the offer may be applied to the liability for which the offer was submitted.

(i) *Statute of limitations*—(1) *Suspension of the statute of limitations on collection*. The statute of limitations on collection will be suspended while levy is prohibited under paragraph (g)(1) of this section.

(2) *Extension of the statute of limitations on assessment*. For any offer to compromise, the IRS may require, where appropriate, the extension of the statute of limitations on assessment. However, in any case where waiver of the running of the statutory period of limitations on assessment is sought, the taxpayer must be notified of the right to refuse to extend the period of limitations or to limit the extension to particular issues or particular periods of time.

(j) *Inspection with respect to accepted offers to compromise*. For provisions relating to the inspection of returns and accepted offers to compromise, see section 6103(k)(1).

(k) *Effective date*. This section applies to offers to compromise pending on or submitted on or after July 18, 2002.

[T.D. 9007, 67 FR 48029, July 23, 2002; 67 FR 53879, Aug. 20, 2002]

Crimes, Other Offenses, and Forfeitures

CRIMES

GENERAL PROVISIONS

§ 301.7207–1 Fraudulent returns, statements, or other documents.

Any person who willfully delivers or discloses to any officer or employee of the Internal Revenue Service any list, return, account, statement, or other document, known by him to be fraudulent or to be false as to any material matter, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both. Any person required pursuant to section 6047 (b) or (c) or, section 6104(d), to furnish information to any officer or employee of the Internal Revenue Service or any other person who willfully furnishes to such officer or employee of the Internal Revenue Service or such other person any information known by him to be fraudulent or to be false as to any material matter shall be fined not more than $1,000, or imprisoned not more than 1 year, or both.

[T.D. 7127, 36 FR 11505, June 15, 1971, as amended by T.D. 8026, 50 FR 20758, May 20, 1985]

§ 301.7209–1 Unauthorized use or sale of stamps.

(a) Any person who buys, sells, offers for sale, uses, transfers, takes or gives in exchange, or pledges or gives in pledge, except as authorized in the Code or in regulations made pursuant thereto, any stamp, coupon, ticket, book, or other device prescribed by the Commissioner under the Code for the collection or payment of any tax imposed by the Code, shall, upon conviction thereof, be fined not more than $1,000, or imprisoned not more than 6 months, or both.

(b) For use or resale of unused documentary stamps, see paragraph (c) of § 43.6802–1 of this chapter (Documentary Stamp Tax Regulations).

§ 301.7214–1 Offenses by officers and employees of the United States.

Any officer or employee of the United States acting in connection with any revenue law of the United States required to make a written report under the provisions of section 7214(a)(8) shall submit such report to the Commissioner, or to a regional commissioner or district director.

§ 301.7216–0 Table of contents.

This section lists captions contained in §§ 301.7216–1 through 301.7216–3.

§ 301.7216–1 Penalty for disclosure or use of tax return information.

(a) In general.
(b) Definitions.
(c) Gramm-Leach-Bliley Act.
(d) Effective date.

§ 301.7216–2 Permissible disclosures or uses without consent of the taxpayer.

(a) Disclosure pursuant to other provisions of the Internal Revenue Code.
(b) Disclosures to the IRS.
(c) Disclosures or uses for preparation of a taxpayer's return.
(d) Disclosures to other tax return preparers.
(e) Disclosure or use of information in the case of related taxpayers.
(f) Disclosure pursuant to an order of a court, or an administrative order, demand, request, summons or subpoena which is issued in the performance of its duties by a Federal or State agency, the United States Congress, a professional association ethics committee or board, or the Public Company Accounting Oversight Board.
(g) Disclosure for use in securing legal advice, Treasury investigations or court proceedings.
(h) Certain disclosures by attorneys and accountants.
(i) Corporate fiduciaries.
(j) Disclosure to taxpayer's fiduciary.
(k) Disclosure or use of information in preparation or audit of State or local tax returns or assisting a taxpayer with foreign country tax obligations.
(l) Payment for tax preparation services.
(m) Retention of records.
(n) Lists for solicitation of tax return preparation business.
(o) Producing statistical information in connection with tax return preparation business.
(p) Disclosure or use of information for quality, peer, or conflict reviews.
(q) Disclosure to report the commission of a crime.
(r) Disclosure of tax return information due to a tax return preparer's incapacity or death.
(s) Effective date.

§ 301.7216–3 Disclosure or use permitted only with the taxpayer's consent.

(a) In general.
(b) Timing requirements and limitations.
(c) Special rules.
(d) Effective date.

[T.D. 9375, 73 FR 1067, Jan. 7, 2008, as amended by T.D. 9478, 75 FR 52, Jan. 4, 2010; T.D. 9608, 77 FR 76403, Dec. 28, 2012]

§ 301.7216–1 Penalty for disclosure or use of tax return information.

(a) *In general.* Section 7216(a) prescribes a criminal penalty for tax return preparers who knowingly or recklessly disclose or use tax return information for a purpose other than preparing a tax return. A violation of section 7216 is a misdemeanor, with a maximum penalty of up to one year imprisonment or a fine of not more than $1,000, or both, together with the costs of prosecution. Section 7216(b) establishes exceptions to the general rule in section 7216(a) prohibiting disclosure and use. Section 7216(b) also authorizes the Secretary to promulgate regulations prescribing additional permitted disclosures and uses. Section 6713(a) prescribes a related civil penalty for disclosures and uses that constitute a violation of section 7216. The penalty for violating section 6713 is $250 for each prohibited disclosure or use, not to exceed a total of $10,000 for a calendar year. Section 6713(b) provides that the exceptions in section 7216(b) also apply to section 6713. Under section 7216(b), the provisions of section 7216(a) will not apply to any disclosure or use permitted under regulations prescribed by the Secretary.

(b) *Definitions.* For purposes of section 7216 and §§ 301.7216–1 through 301.7216–3:

(1) *Tax return.* The term *tax return* means any return (or amended return) of income tax imposed by chapter 1 of the Internal Revenue Code.

(2) *Tax return preparer*—(i) *In general.* The term *tax return preparer* means:

(A) Any person who is engaged in the business of preparing or assisting in preparing tax returns;

(B) Any person who is engaged in the business of providing auxiliary services in connection with the preparation of tax returns, including a person who develops software that is used to prepare or file a tax return and any Authorized IRS e-file Provider;

(C) Any person who is otherwise compensated for preparing, or assisting in preparing, a tax return for any other person; or

(D) Any individual who, as part of their duties of employment with any person described in paragraph (b)(2)(i)(A), (B), or (C) of this section performs services that assist in the preparation of, or assist in providing auxiliary services in connection with the preparation of, a tax return.

(ii) *Business of preparing returns.* A person is engaged in the business of preparing tax returns as described in paragraph (b)(2)(i)(A) of this section if,

in the course of the person's business, the person holds himself out to tax return preparers or taxpayers as a person who prepares tax returns or assists in preparing tax returns, whether or not tax return preparation is the person's sole business activity and whether or not the person charges a fee for tax return preparation services.

(iii) *Providing auxiliary services.* A person is engaged in the business of providing auxiliary services in connection with the preparation of tax returns as described in paragraph (b)(2)(i)(B) of this section if, in the course of the person's business, the person holds himself out to tax return preparers or to taxpayers as a person who performs auxiliary services, whether or not providing the auxiliary services is the person's sole business activity and whether or not the person charges a fee for the auxiliary services. Likewise, a person is engaged in the business of providing auxiliary services if, in the course of the person's business, the person receives a taxpayer's tax return information from another tax return preparer pursuant to the provisions of § 301.7216–2(d)(2).

(iv) *Otherwise compensated.* A tax return preparer described in paragraph (b)(2)(i)(C) of this section includes any person who—

(A) Is compensated for preparing a tax return for another person, but not in the course of a business; or

(B) Is compensated for helping, on a casual basis, a relative, friend, or other acquaintance to prepare their tax return.

(v) *Exclusions.* A person is not a tax return preparer merely because he leases office space to a tax return preparer, furnishes credit to a taxpayer whose tax return is prepared by a tax return preparer, furnishes information to a tax return preparer at the taxpayer's request, furnishes access (free or otherwise) to a separate person's tax return preparation Web site through a hyperlink on his own Web site, or otherwise performs some service that only incidentally relates to the preparation of tax returns.

(vi) *Examples.* The application of § 301.7216–1(b)(2) may be illustrated by the following examples:

Example 1. Bank B is a tax return preparer within the meaning of paragraph (b)(2)(i)(A) of this section, and an Authorized IRS e-file Provider. B employs one individual, Q, to solicit the necessary tax return information for the preparation of a tax return; another individual, R, to prepare the return on the basis of the information that is furnished; a secretary, S, who types the information on the returns into a computer; and an administrative assistant, T, who uses a computer to file electronic versions of the tax returns. Under these circumstances, only R is a tax return preparer for purposes of section 7701(a)(36), but all four employees are tax return preparers for purposes of section 7216, as provided in paragraph (b) of this section.

Example 2. Tax return preparer P contracts with department store D to rent space in D's store. D advertises that taxpayers who use P's services may charge the cost of having their tax return prepared to their charge account with D. Under these circumstances, D is not a tax return preparer because it provides space, credit, and services only incidentally related to the preparation of tax returns.

(3) *Tax return information*—(i) *In general.* The term *tax return information* means any information, including, but not limited to, a taxpayer's name, address, or identifying number, which is furnished in any form or manner for, or in connection with, the preparation of a tax return of the taxpayer. This information includes information that the taxpayer furnishes to a tax return preparer and information furnished to the tax return preparer by a third party. Tax return information also includes information the tax return preparer derives or generates from tax return information in connection with the preparation of a taxpayer's return.

(A) Tax return information can be provided directly by the taxpayer or by another person. Likewise, tax return information includes information received by the tax return preparer from the IRS in connection with the processing of such return, including an acknowledgment of acceptance or notice of rejection of an electronically filed return.

(B) Tax return information includes statistical compilations of tax return information, even in a form that cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer. See § 301.7216–2(o) for limited use of tax return information

to make statistical compilations without taxpayer consent and to use the statistical compilations for limited purposes.

(C) Tax return information does not include information identical to any tax return information that has been furnished to a tax return preparer if the identical information was obtained otherwise than in connection with the preparation of a tax return.

(D) Information is considered ''in connection with tax return preparation,'' and therefore tax return information, if the taxpayer would not have furnished the information to the tax return preparer but for the intention to engage, or the engagement of, the tax return preparer to prepare the tax return.

(ii) *Examples*. The application of this paragraph (b)(3) may be illustrated by the following examples:

Example 1. Taxpayer A purchases computer software designed to assist with the preparation and filing of her income tax return. When A loads the software onto her computer, it prompts her to register her purchase of the software. In this situation, the software provider is a tax return preparer under paragraph (b)(2)(i)(B) of this section and the information that A provides to register her purchase is tax return information because she is providing it in connection with the preparation of a tax return.

Example 2. Corporation A is a brokerage firm that maintains a Web site through which its clients may access their accounts, trade stocks, and generally conduct a variety of financial activities. Through its Web site, A offers its clients free access to its own tax preparation software. Taxpayer B is a client of A and has furnished A his name, address, and other information when registering for use of A's Web site to use A's brokerage services. In addition, A has a record of B's brokerage account activity, including sales of stock, dividends paid, and IRA contributions made. B uses A's tax preparation software to prepare his tax return. The software populates some fields on B's return on the basis of information A already maintains in its databases. A is a tax return preparer within the meaning of paragraph (b)(2)(i)(B) of this section because it has prepared and provided software for use in preparing tax returns. The information in A's databases that the software accesses to populate B's return, *i.e.*, the registration information and brokerage account activity, is not tax return information because A did not receive that information in connection with the preparation of a tax return. Once A uses the information to populate the return, however, the information associated with the return becomes tax return information. If A retains the information in a form in which A can identify that the information was used in connection with the preparation of a return, the information in that form is tax return information. If, however, A retains the information in a database in which A cannot identify whether the information was used in connection with the preparation of a return, then that information is not tax return information.

(4) *Use*—(i) *In general*. Use of tax return information includes any circumstance in which a tax return preparer refers to, or relies upon, tax return information as the basis to take or permit an action.

(ii) *Example*. The application of this paragraph (b)(4) may be illustrated by the following example:

Example. Preparer G is a tax return preparer as defined by paragraph (b)(2)(i)(A) of this section. If G determines, upon preparing a return, that the taxpayer is eligible to make a contribution to an individual retirement account (IRA), G will ask whether the taxpayer desires to make a contribution to an IRA. G does not ask about IRAs in cases in which the taxpayer is not eligible to make a contribution. G is using tax return information when it asks whether a taxpayer is interested in making a contribution to an IRA because G is basing the inquiry upon knowledge gained from information that the taxpayer furnished in connection with the preparation of the taxpayer's return.

(5) *Disclosure*. The term *disclosure* means the act of making tax return information known to any person in any manner whatever. To the extent that a taxpayer's use of a hyperlink results in the transmission of tax return information, this transmission of tax return information is a disclosure by the tax return preparer subject to penalty under section 7216 if not authorized by regulation.

(6) *Hyperlink*. For purposes of section 7216, a hyperlink is a device used to transfer an individual using tax preparation software from a tax return preparer's Web page to a Web page operated by another person without the individual having to separately enter the Web address of the destination page.

(7) *Request for consent*. A request for consent includes any effort by a tax return preparer to obtain the taxpayer's

consent to use or disclose the taxpayer's tax return information. The act of supplying a taxpayer with a paper or electronic form that meets the requirements of a revenue procedure published pursuant to § 301.7216–3(a) is a request for a consent. When a tax return preparer requests a taxpayer's consent, any associated efforts of the tax return preparer, including, but not limited to, verbal or written explanations of the form, are part of the request for consent.

(c) *Gramm-Leach-Bliley Act*. Any applicable requirements of the Gramm-Leach-Bliley Act, Public Law 106–102 (113 Stat. 1338), do not supersede, alter, or affect the requirements of section 7216 and §§ 301.7216–1 through 301.7216–3. Similarly, the requirements of section 7216 and §§ 301.7216–1 through 301.7216–3 do not override any requirements or restrictions of the Gramm-Leach-Bliley Act, which are in addition to the requirements or restrictions of section 7216 and §§ 301.7216–1 through 301.7216–3.

(d) *Effective/applicability date*. This section applies to disclosures or uses of tax return information occurring on or after January 1, 2009.

[T.D. 9375, 73 FR 1067, Jan. 7, 2008]

§ 301.7216–2 Permissible disclosures or uses without consent of the taxpayer.

(a) *Disclosure pursuant to other provisions of the Internal Revenue Code*. The provisions of section 7216(a) and § 301.7216–1 shall not apply to any disclosure of tax return information if the disclosure is made pursuant to any other provision of the Internal Revenue Code or the regulations thereunder.

(b) *Disclosures to the IRS*. The provisions of section 7216(a) and § 301.7216–1 shall not apply to any disclosure of tax return information to an officer or employee of the IRS.

(c) *Disclosures or uses for preparation of a taxpayer's return*—(1) *Updating Taxpayers' Tax Return Preparation Software*. If a tax return preparer provides software to a taxpayer that is used in connection with the preparation or filing of a tax return, the tax return preparer may use the taxpayer's tax return information to update the taxpayer's software for the purpose of addressing changes in IRS forms, e-file specifications and administrative, regulatory and legislative guidance or to test and ensure the software's technical capabilities without the taxpayer's consent under § 301.7216–3.

(2) *Tax return preparers located within the same firm in the United States*. If a taxpayer furnishes tax return information to a tax return preparer located within the United States, including any territory or possession of the United States, an officer, employee, or member of a tax return preparer may use the tax return information, or disclose the tax return information to another officer, employee, or member of the same tax return preparer, for the purpose of performing services that assist in the preparation of, or assist in providing auxiliary services in connection with the preparation of, the taxpayer's tax return. If an officer, employee, or member to whom the tax return information is to be disclosed is located outside of the United States or any territory or possession of the United States, the taxpayer's consent under § 301.7216–3 prior to any disclosure is required.

(3) *Furnishing tax return information to tax return preparers located outside the United States*. If a taxpayer initially furnishes tax return information to a tax return preparer located outside of the United States or any territory or possession of the United States, an officer, employee, or member of a tax return preparer may use tax return information, or disclose any tax return information to another officer, employee, or member of the same tax return preparer, for the purpose of performing services that assist in the preparation of, or assist in providing auxiliary services in connection with the preparation of, the tax return of a taxpayer by or for whom the information was furnished without the taxpayer's consent under § 301.7216–3.

(4) *Examples*. The following examples illustrate this paragraph (c):

Example 1. Preparer P provides tax return preparation software to Taxpayer T for T to use in the preparation of its 2009 income tax return. For the 2009 tax year, and using T's tax return information furnished while registering for the software, P would like to update the tax return preparation software that T is using to account for last minute changes made to the tax laws for the 2009 tax

year. P is not required to obtain T's consent to update the tax return preparation software. P may perform a software update regardless of whether the software update will affect T's particular return preparation activities.

Example 2. T is a client of Firm, which is a tax return preparer. E, an employee at Firm's State A office, receives tax return information from T for use in preparing T's income tax return. E discloses the tax return information to P, an employee in Firm's State B office; P uses the tax return information to process T's income tax return. Firm is not required to receive T's consent under § 301.7216–3 prior to E's disclosure of T's tax return information to P because the tax return information is disclosed to an employee employed by the same tax return preparer located within the United States.

Example 3. Same facts as *Example 2* except T's tax return information is disclosed to FE who is located in Firm's Country F office. FE uses the tax return information to process T's income tax return. After processing, FE returns the processed tax return information to E in Firm's State A office. Because FE is outside of the United States, Firm is required to obtain T's consent under § 301.7216–3 prior to E's disclosure of T's tax return information to FE.

Example 4. T, Firm's client, is temporarily located in Country F. She initially furnishes her tax return information to employee FE in Firm's Country F office for the purpose of having Firm prepare her U.S. income tax return. FE makes the substantive determinations concerning T's tax liability and forwards T's tax return information to FP, an employee in Firm's Country P office, for the purpose of processing T's tax return information. FP processes the return information and forwards it to Partner at Firm's State A office in the United States for review and delivery to T. Because T initially furnished the tax return information to a tax return preparer outside of the United States, T's prior consent for disclosure or use under § 301.7216–3 was not required. An officer, employee, or member of Firm in the United States may use T's tax return information or disclose the tax return information to another officer, employee, or member of Firm without T's prior consent under § 301.7216–3 as long as any disclosure or use of T's tax return information is within the United States. Firm is required to receive T's consent under § 301.7216–3 prior to any subsequent disclosure of T's tax return information to a tax return preparer located outside of the United States.

(d) *Disclosures to other tax return preparers*—(1) *Preparer-to-preparer disclosures.* Except as limited in paragraph (d)(2) of this section, an officer, employee, or member of a tax return preparer may disclose tax return information of a taxpayer to another tax return preparer (other than an officer, employee, or member of the same tax return preparer) located in the United States (including any territory or possession of the United States) for the purpose of preparing or assisting in preparing a tax return, or obtaining or providing auxiliary services in connection with the preparation of any tax return, so long as the services provided are not substantive determinations or advice affecting the tax liability reported by taxpayers. A substantive determination involves an analysis, interpretation, or application of the law. The authorized disclosures permitted under this paragraph (d)(1) include one tax return preparer disclosing tax return information to another tax return preparer for the purpose of having the second tax return preparer transfer that information to, and compute the tax liability on, a tax return of the taxpayer by means of electronic, mechanical, or other form of tax return processing service. The authorized disclosures permitted under this paragraph (d)(1) also include disclosures by a tax return preparer to an Authorized IRS *e-file* Provider for the purpose of electronically filing the return with the IRS. Authorized disclosures also include disclosures by a tax return preparer to a second tax return preparer for the purpose of making information concerning the return available to the taxpayer. This would include, for example, whether the return has been accepted or rejected by the IRS, or the status of the taxpayer's refund. Except as provided in paragraph (c) of this section, a tax return preparer may not disclose tax return information to another tax return preparer for the purpose of the second tax return preparer providing substantive determinations without first receiving the taxpayer's consent in accordance with the rules under § 301.7216–3.

(2) *Disclosures to contractors.* A tax return preparer may disclose tax return information to a person under contract with the tax return preparer in connection with the programming, maintenance, repair, testing, or procurement of equipment or software used for purposes of tax return preparation only to

the extent necessary for the person to provide the contracted services, and only if the tax return preparer ensures that all individuals who are to receive disclosures of tax return information receive a written notice that informs them of the applicability of sections 6713 and 7216 to them and describes the requirements and penalties of sections 6713 and 7216. Contractors receiving tax return information pursuant to this section are tax return preparers under section 7216 because they are performing auxiliary services in connection with tax return preparation. See § 301.7216–1(b)(2)(i)(B) and (D).

(3) *Examples*. The following examples illustrate this paragraph (d):

Example 1. E, an employee at Firm's State A office, receives tax return information from T for Firm's use in preparing T's income tax return. E makes substantive determinations and forwards the tax return information to P, an employee at Processor; Processor is located in State B. P places the tax return information on the income tax return and furnishes the finished product to E. E is not required to receive T's prior consent under § 301.7216–3 before disclosing T's tax return information to P because Processor's services are not substantive determinations and the tax return information remained in the United States at Processor's State B office during the entire course of the tax return preparation process.

Example 2. Firm, a tax return preparer, offers income tax return preparation services. Firm's contract with its software provider, Contractor, requires Firm to periodically randomly select certain taxpayers' tax return information solely for the purpose of testing the reliability of the software sold to Firm. Under its agreement with Contractor, Firm discloses tax return information to Contractor's employee, C, who services Firm's contract without providing Contractor or C with a written notice that describes the requirements of and penalties under sections 7216 and 6713. C uses the tax return information solely for quality assurance purposes. Firm's disclosure of tax return information to C was an impermissible disclosure because Firm failed to ensure that C received a written notice that describes the requirements and penalties of sections 7216 and 6713.

Example 3. E, an employee of Firm in State A in the United States, receives tax return information from T for use in preparing T's income tax return. After E enters T's tax return information into Firm's computer, that information is stored on a computer server that is physically located in State A. Firm contracts with Contractor, located in Country F, to prepare its clients' tax returns. FE, an employee of Contractor, uses a computer in Country F and inputs a password to view T's income tax information stored on the computer server in State A to prepare T's tax return. A computer program permits FE to view T's tax return information, but prohibits FE from downloading or printing out T's tax return information from the computer server. Because Firm is disclosing T's tax return information outside of the United States, Firm is required to obtain T's consent under § 301.7216–3 prior to the disclosure to FE. As provided in § 301.7216–3(b)(5), however, Firm may not obtain consent to disclose T's social security number (SSN) to a tax return preparer located outside of the United States or any territory or possession of the United States.

Example 4. A, an employee at Firm A, receives tax return information from T for Firm's use in preparing T's income tax return. A forwards the tax return information to B, an employee at another firm, Firm B, to obtain advice on the issue of whether T may claim a deduction for a certain business expense. A is required to receive T's prior consent under § 301.7216–3 before disclosing T's tax return information to B because B's services involve a substantive determination affecting the tax liability that T will report.

(e) *Disclosure or use of information in the case of related taxpayers*. (1) In preparing a tax return of a second taxpayer, a tax return preparer may use, and may disclose to the second taxpayer in the form in which it appears on the return, any tax return information that the tax return preparer obtained from a first taxpayer if—

(i) The second taxpayer is related to the first taxpayer within the meaning of paragraph (e)(2) of this section;

(ii) The first taxpayer's tax interest in the information is not adverse to the second taxpayer's tax interest in the information; and

(iii) The first taxpayer has not expressly prohibited the disclosure or use.

(2) For purposes of paragraph (e)(1)(i) of this section, a taxpayer is related to another taxpayer if they have any one of the following relationships: Husband and wife, child and parent, grandchild and grandparent, partner and partnership, trust or estate and beneficiary, trust or estate and fiduciary, corporation and shareholder, or members of a controlled group of corporations as defined in section 1563.

(3) See § 301.7216–3 for disclosure or use of tax return information of the taxpayer in preparing the tax return of a second taxpayer when the requirements of this paragraph are not satisfied.

(f) D*isclosure pursuant to an order of a court, or an administrative order, demand, request, summons or subpoena which is issued in the performance of its duties by a Federal or State agency, the United States Congress, a professional association ethics committee or board, or the Public Company Accounting Oversight Board.* The provisions of section 7216(a) and § 301.7216–1 will not apply to any disclosure of tax return information if the disclosure is made pursuant to any one of the following documents:

(1) The order of any court of record, Federal, State, or local.

(2) A subpoena issued by a grand jury, Federal or State.

(3) A subpoena issued by the United States Congress.

(4) An administrative order, demand, summons or subpoena that is issued in the performance of its duties by—

(i) Any Federal agency as defined in 5 U.S.C. 551(1) and 5 U.S.C. 552(f), or

(ii) A State agency, body, or commission charged under the laws of the State or a political subdivision of the State with the licensing, registration, or regulation of tax return preparers.

(5) A written request from a professional association ethics committee or board investigating the ethical conduct of the tax return preparer.

(6) A written request from the Public Company Accounting Oversight Board in connection with an inspection under section 104 of the Sarbanes-Oxley Act of 2002, 15 U.S.C. 7214, or an investigation under section 105 of such Act, 15 U.S.C. 7215, for use in accordance with such Act.

(g) *Disclosure for use in securing legal advice, Treasury investigations or court proceedings.* A tax return preparer may disclose tax return information—

(1) To an attorney for purposes of securing legal advice;

(2) To an employee of the Treasury Department for use in connection with any investigation of the tax return preparer (including investigations relating to the tax return preparer in its capacity as a practitioner) conducted by the IRS or the Treasury Department; or

(3) To any officer of a court for use in connection with proceedings involving the tax return preparer (including proceedings involving the tax return preparer in its capacity as a practitioner), or the return preparer's client, before the court or before any grand jury that may be convened by the court.

(h) *Certain disclosures by attorneys and accountants.* The provisions of section 7216(a) and § 301.7216–1 shall not apply to any disclosure of tax return information permitted by this paragraph (h).

(1)(i) A tax return preparer who is lawfully engaged in the practice of law or accountancy and prepares a tax return for a taxpayer may use the taxpayer's tax return information, or disclose the information to another officer, employee or member of the tax return preparer's law or accounting firm, consistent with applicable legal and ethical responsibilities, who may use the tax return information for the purpose of providing other legal or accounting services to the taxpayer. As an example, a lawyer who prepares a tax return for a taxpayer may use the tax return information of the taxpayer for, or in connection with, rendering legal services, including estate planning or administration, or preparation of trial briefs or trust instruments, for the taxpayer or the estate of the taxpayer. In addition, the lawyer who prepared the tax return may disclose the tax return information to another officer, employee or member of the same firm for the purpose of providing other legal services to the taxpayer. As another example, an accountant who prepares a tax return for a taxpayer may use the tax return information, or disclose it to another officer, employee or member of the firm, for use in connection with the preparation of books and records, working papers, or accounting statements or reports for the taxpayer. In the normal course of rendering the legal or accounting services to the taxpayer, the attorney or accountant may make the tax return information available to third parties, including stockholders, management, suppliers, or lenders, consistent with the applicable

legal and ethical responsibilities, unless the taxpayer directs otherwise. For rules regarding disclosures outside of the United States, see § 301.7216–2(c) and (d).

(ii) A tax return preparer's law or accounting firm does not include any related or affiliated firms. For example, if law firm A is affiliated with law firm B, officers, employees and members of law firm A must receive a taxpayer's consent under § 301.7216–3 before disclosing the taxpayer's tax return information to an officer, employee or member of law firm B.

(2) A tax return preparer who is lawfully engaged in the practice of law or accountancy and prepares a tax return for a taxpayer may, consistent with the applicable legal and ethical responsibilities, take the tax return information into account, and may act upon it, in the course of performing legal or accounting services for a client other than the taxpayer, or disclose the information to another officer, employee or member of the tax return preparer's law or accounting firm to enable that other officer, employee or member to take the information into account, and act upon it, in the course of performing legal or accounting services for a client other than the taxpayer. This is permissible when the information is, or may be, relevant to the subject matter of the legal or accounting services for the other client, and consideration of the information by those performing the services is necessary for the proper performance of the services. In no event, however, may the tax return information be disclosed to a person who is not an officer, employee or member of the law or accounting firm, unless the disclosure is exempt from the application of section 7216(a) and § 301.7216–1 by reason of another provision of §§ 301.7216–2 or 301.7216–3.

(3) *Examples*. The application of this paragraph may be illustrated by the following examples:

Example 1. A, a member of an accounting firm, renders an opinion on a financial statement of M Corporation that is part of a registration statement filed with the Securities and Exchange Commission. After the registration statement is filed, but before its effective date, B, a member of the same accounting firm, prepares an income tax return for N Corporation. In the course of preparing N's income tax return, B discovers that N does business with M and concludes that the information given by N should be considered by A to determine whether the financial statement opined on by A contains an untrue statement of material fact or omits a material fact required to keep the statement from being misleading. B discloses to A the tax return information of N for this purpose. A determines that there is an omission of material fact and that an amended statement should be filed. A so advises M and the Securities and Exchange Commission. A explains that the omission was revealed as a result of confidential information that came to A's attention after the statement was filed, but A does not disclose the identity of the taxpayer or the tax return information itself. Section 7216(a) and § 301.7216–1 do not apply to B's disclosure of N's tax return information to A and A's use of the information in advising M and the Securities and Exchange Commission of the necessity for filing an amended statement. Section 7216(a) and § 301.7216–1 would apply to a disclosure of N's tax return information to M or to the Securities and Exchange Commission unless the disclosure is exempt from the application of section 7216(a) and § 301.7216–1 by reason of another provision of either this section or § 301.7216–3.

Example 2. A, a member of an accounting firm, is conducting an audit of M Corporation, and B, a member of the same accounting firm, prepares an income tax return for D, an officer of M. In the course of preparing the return, B obtains information from D indicating that D, pursuant to an arrangement with a supplier doing business with M, has been receiving from the supplier a percentage of the amounts that the supplier invoices to M. B discloses this information to A who, acting upon it, searches in the course of the audit for indications of a kickback scheme. As a result, A discovers information from audit sources that independently indicate the existence of a kickback scheme. Without revealing the tax return information A has received from B, A brings to the attention of officers of M the audit information indicating the existence of the kickback scheme. Section 7216(a) and § 301.7216–1 do not apply to B's disclosure of D's tax return information to A, A's use of D's information in the course of the audit, and A's disclosure to M of the audit information indicating the existence of the kickback scheme. Section 7216(a) and § 301.7216–1 would apply to a disclosure to M, or to any other person not an employee or member of the accounting firm, of D's tax return information furnished to B.

(i) *Corporate fiduciaries*. A trust company, trust department of a bank, or other corporate fiduciary that prepares a tax return for a taxpayer for whom it renders fiduciary, investment, or other

custodial or management services may, unless the taxpayer directs otherwise—

(1) Disclose or use the taxpayer's tax return information in the ordinary course of rendering such services to or for the taxpayer; or

(2) Make the information available to the taxpayer's attorney, accountant, or investment advisor.

(j) *Disclosure to taxpayer's fiduciary.* If, after furnishing tax return information to a tax return preparer, the taxpayer dies or becomes incompetent, insolvent, or bankrupt, or the taxpayer's assets are placed in conservatorship or receivership, the tax return preparer may disclose the information to the duly appointed fiduciary of the taxpayer or his estate, or to the duly authorized agent of the fiduciary.

(k) *Disclosure or use of information in preparation or audit of State or local tax returns or assisting a taxpayer with foreign country tax obligations.* The provisions of paragraphs (c) and (d) of this section shall apply to the disclosure by any tax return preparer of any tax return information in the preparation of, or in connection with the preparation of, any tax return of the taxpayer under the law of any State or political subdivision thereof, of the District of Columbia, of any territory or possession of the United States, or of a country other than the United States. The provisions of section 7216(a) and § 301.7216–1 shall not apply to the use by any tax return preparer of any tax return information in the preparation of, or in connection with the preparation of, any tax return of the taxpayer under the law of any State or political subdivision thereof, of the District of Columbia, of any territory or possession of the United States, or of a country other than the United States. The provisions of section 7216(a) and § 301.7216–1 shall not apply to the disclosure or use by any tax return preparer of any tax return information in the audit of, or in connection with the audit of, any tax return of the taxpayer under the law of any State or political subdivision thereof, the District of Columbia, or any territory or possession of the United States.

(l) *Payment for tax preparation services.* A tax return preparer may use and disclose, without the taxpayer's written consent, tax return information that the taxpayer provides to the tax return preparer to pay for tax preparation services to the extent necessary to process or collect the payment. For example, if the taxpayer gives the tax return preparer a credit card to pay for tax preparation services, the tax return preparer may disclose the taxpayer's name, credit card number, credit card expiration date, and amount due for tax preparation services to the credit card company, as necessary, to process the payment. Any tax return information that the taxpayer did not give the tax return preparer for the purpose of making payment for tax preparation services may not be used or disclosed by the tax return preparer without the taxpayer's prior written consent, unless otherwise permitted under another provision of this section.

(m) *Retention of records.* A tax return preparer may retain tax return information of a taxpayer, including copies of tax returns, in paper or electronic format, prepared on the basis of the tax return information, and may use the information in connection with the preparation of other tax returns of the taxpayer or in connection with an examination by the Internal Revenue Service of any tax return or subsequent tax litigation relating to the tax return. The provisions of paragraph (n) of this section regarding the transfer of a taxpayer list also apply to the transfer of any records and related papers to which this paragraph applies.

(n) *Lists for solicitation of tax return preparation business.* (1) A tax return preparer, other than a person who is a tax return preparer solely because the person provides auxiliary services as defined in § 301.7216–1(b)(2)(iii), may compile and maintain a separate list containing solely items of tax return information. The following items of tax return information are permissible: The names, mailing addresses, email addresses, phone numbers, taxpayer entity classification (including ''individual'' or the specific type of business entity), and income tax return form number (for example, Form 1040–EZ) of taxpayers whose tax returns the tax return preparer has prepared or processed. The Internal Revenue Service may issue guidance, by publication in

the Internal Revenue Bulletin (see § 601.601(d)(2)(ii)(*b*) of this chapter), describing other types of information that may be included in a list compiled and maintained pursuant to this paragraph. This list may be used by the compiler solely to contact the taxpayers on the list for the purpose of providing tax information and general business or economic information or analysis for educational purposes, or soliciting additional tax return preparation services. The list may not be used to solicit any service or product other than tax return preparation services. The compiler of the list may not transfer the taxpayer list, or any part thereof, to any other person unless the transfer takes place in conjunction with the sale or other disposition of the compiler's tax return preparation business. Due diligence conducted prior to a proposed sale of a compiler's tax return preparation business is in conjunction with the sale or other disposition of a compiler's tax return preparation business and will not constitute a transfer of the list if conducted pursuant to a written agreement that requires confidentiality of the tax return information disclosed and expressly prohibits the further disclosure or use of the tax return information for any purpose other than that related to the purchase of the tax return preparation business. A person who acquires a taxpayer list, or a part thereof, in conjunction with a sale or other disposition of a tax return preparation business falls under the provisions of this paragraph with respect to the list. The term *list*, as used in this paragraph (n), includes any record or system whereby the types of information expressly authorized for inclusion in a taxpayer list pursuant to the terms of this paragraph (n) are retained. The provisions of this paragraph (n) also apply to the transfer of any records and related papers to which this paragraph (n) applies.

(2) *Examples*. The following examples illustrate this paragraph (n):

Example 1. Preparer A is a tax return preparer as defined by § 301.7216–1(b)(2)(i)(A). Preparer A's office is located in southeast Pennsylvania, and Preparer A prepares federal and state income tax returns for taxpayers who live in Pennsylvania, New Jersey, Maryland, and Delaware. Preparer A maintains a list of taxpayer clients containing the information allowed by this paragraph (n). Preparer A provides quarterly state income tax information updates to his individual taxpayer clients by email or U.S. mail. To ensure that his clients only receive the information updates that are relevant to them, Preparer A uses his list to direct his outreach efforts towards the relevant clients by searching his list to filter it by zip code and income tax return form number (Form 1040 and corresponding state income tax return form number). Preparer A may use the list information in this manner without taxpayer consent because he is providing tax information for educational or informational purposes and is targeting clients based solely upon tax return information that is authorized by this paragraph (n) (by zip code, which is part of a taxpayer's address, and by income tax return form number). Without taxpayer consent, Preparer A also may deliver this information to his clients by email, U.S. mail, or other method of delivery that uses only information authorized by this paragraph (n).

Example 2. Preparer B is a tax return preparer as defined by § 301.7216–1(b)(2)(i)(A). Preparer B maintains a list of taxpayer clients containing the information allowed by this paragraph (n). Preparer B provides monthly federal income tax information updates in the form of a newsletter to all of her taxpayer clients by email or U.S. mail. When Preparer B hires a new employee who participates or assists in tax return preparation, she announces that hire in the newsletter for the month that follows the hiring. Each announcement includes a photograph of the new employee, the employee's name, the employee's telephone number, a brief listing of the employee's qualifications, and a brief listing of the employee's employment responsibilities. Preparer B may use the tax return information described in this paragraph (n) in this manner without taxpayer consent because she is providing tax information for educational or informational purposes to provide general federal income tax information updates. Preparer B may include the new employee announcements in the form described because this is considered tax information for informational purposes, provided the announcements do not contain solicitations for non-tax return preparation services. Without taxpayer consent, Preparer B also may deliver this information to her clients by email, U.S. mail, or other method of delivery that uses only information authorized by this paragraph (n).

(o) *Producing statistical information in connection with tax return preparation business*. (1) A tax return preparer may use tax return information, subject to

the limitations specified in this paragraph (o), to produce a statistical compilation of data described in § 301.7216–1(b)(3)(i)(B). The purpose for and disclosure or use of the statistical compilation requiring data acquired during the tax return preparation process must relate directly to the internal management or support of the tax return preparer's tax return preparation business, or to bona fide research or public policy discussions concerning state or federal taxation. A tax return preparer may not disclose the statistical compilation, or any part thereof, to any other person unless disclosure of the statistical compilation is anonymous as to taxpayer identity, does not disclose an aggregate figure containing data from fewer than ten tax returns, and is in direct support of the tax return preparer's tax return preparation business or of bona fide research or public policy discussions concerning state or federal taxation. A statistical compilation is anonymous as to taxpayer identity if it is in a form which cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer. For purposes of this paragraph, marketing and advertising is in direct support of the tax return preparer's tax return preparation business provided the marketing and advertising is not false, misleading, or unduly influential. This paragraph, however, does not authorize the disclosure or use in marketing or advertising of any statistical compilations, or part thereof, that identify dollar amounts of refunds, credits, or deductions associated with tax returns, or percentages relating thereto, whether or not the data are statistical, averaged, aggregated, or anonymous. Disclosures made in support of fundraising activities conducted by volunteer return preparation programs and other organizations described in section 501(c) of the Internal Revenue Code (Code) in direct support of their tax return preparation businesses are not marketing and advertising under this paragraph. A tax return preparer who produces a statistical compilation of data described in § 301.7216–1(b)(3)(i)(B) may disclose the compilation to comply with financial accounting or regulatory reporting requirements whether or not the statistical compilation is anonymous as to taxpayer identity or discloses an aggregate figure containing data from fewer than ten tax returns.

(2) A tax return preparer may not sell or exchange for value a statistical compilation of data described in § 301.7216–1(b)(3)(i)(B), in whole or in part, except in conjunction with the transfer of assets made pursuant to the sale or other disposition of the tax return preparer's tax return preparation business. The provisions of paragraph (n) of this section regarding the transfer of a taxpayer list also apply to the transfer of any statistical compilations of data to which this paragraph applies. A person who acquires a statistical compilation, or a part thereof, pursuant to the operation of this paragraph (o) or in conjunction with a sale or other disposition of a tax return preparation business is subject to the provisions of this paragraph with respect to the compilation.

(3) *Examples*. The following examples illustrate this paragraph (o):

Example 1. Preparer A is a tax return preparer as defined by § 301.7216–1(b)(2)(i)(A). In 2009, A used tax return information to produce a statistical compilation of data for both internal management purposes and to support A's tax return preparation business. The statistical compilation included an aggregate figure containing the information that A prepared 32 S corporation tax returns in 2009. In 2010, A decided to embark upon a new marketing campaign emphasizing its experience preparing small business tax returns. In the campaign, A discloses the aggregate figure containing the number of S corporation tax returns prepared in 2009. A's disclosure does not include any information that can be associated with or identify any specific taxpayers. A may disclose the anonymous statistical compilation without taxpayer consent.

Example 2. Preparer B is a tax return preparer as defined by § 301.7216–1(b)(2)(i)(A). In 2010, in support of B's tax return preparation business, B wants to advertise that the average tax refund obtained for its clients in 2009 was $2,800. B may not disclose this information because it contains a statistical compilation reflecting average refund amounts.

Example 3. Preparer C is a tax return preparer as defined by § 301.7216–1(b)(2)(i)(A) and is a volunteer income tax assistance program. In 2010, in support of C's tax return preparation business, C submits a grant application to a charitable foundation to fund

C's operations providing free tax return preparation services to low- and moderate-income families. In support of C's request, C includes anonymous statistical data consisting of aggregated figures containing data from ten or more tax returns showing that, in 2009, C provided services to 500 taxpayers, that 95 percent of the taxpayer population served by C received the Earned Income Tax Credit (EITC), and that the average amount of the EITC received was $3,300. Despite the fact that this information constitutes an average credit amount, C may disclose the information to the charitable foundation because disclosures made in support of fundraising activities conducted by volunteer income tax assistance programs and other organizations described in section 501(c) of the Code in direct support of their tax return preparation business are not considered marketing and advertising for purposes of § 301.7216–2(o)(1).

Example 4. Preparer D is a tax return preparer as defined by § 301.7216–1(b)(2)(i)(A). In December 2009, D produced an anonymous statistical compilation of tax return information obtained during the 2009 filing season. In 2010, D wants to disclose portions of the anonymous statistical compilation from aggregated figures containing data from ten or more tax returns in connection with the marketing of its financial advisory and asset planning services. D is required to receive taxpayer consent under § 301.7216–3 before disclosing the tax return information contained in the anonymous statistical compilation because the disclosure is not being made in support of D's tax return preparation business.

(p) *Disclosure or use of information for quality, peer, or conflict reviews.* (1) The provisions of section 7216(a) and § 301.7216–1 shall not apply to any disclosure for the purpose of a quality or peer review to the extent necessary to accomplish the review. A quality or peer review is a review that is undertaken to evaluate, monitor, and improve the quality and accuracy of a tax return preparer's tax preparation, accounting, or auditing services. A quality or peer review may be conducted only by attorneys, certified public accountants, enrolled agents, and enrolled actuaries who are eligible to practice before the Internal Revenue Service. See Department of the Treasury Circular 230, 31 CFR part 10. Tax return information may also be disclosed to persons who provide administrative or support services to an individual who is conducting a quality or peer review under this paragraph (p), but only to the extent necessary for the reviewer to conduct the review. Tax return information gathered in conducting a review may be used only for purposes of a review. No tax return information identifying a taxpayer may be disclosed in any evaluative reports or recommendations that may be accessible to any person other than the reviewer or the tax return preparer being reviewed. The tax return preparer being reviewed will maintain a record of the review, including the information reviewed and the identity of the persons conducting the review. After completion of the review, no documents containing information that may identify any taxpayer by name or identification number may be retained by a reviewer or by the reviewer's administrative or support personnel.

(2) The provisions of section 7216(a) and § 301.7216–1 shall not apply to any disclosure necessary to accomplish a conflict review. A conflict review is a review undertaken to comply with requirements established by any federal, state, or local law, agency, board or commission, or by a professional association ethics committee or board, to either identify, evaluate, or monitor actual or potential legal and ethical conflicts of interest that may arise when a tax return preparer is employed or acquired by another tax return preparer, or to identify, evaluate, or monitor actual or potential legal and ethical conflicts of interest that may arise when a tax return preparer is considering engaging a new client. Tax return information gathered in conducting a conflict review may be used only for purposes of a conflict review. No tax return information identifying a taxpayer may be disclosed in any evaluative reports or recommendations that may be accessible to any person other than those responsible for identifying, evaluating, or monitoring legal and ethical conflicts of interest. No tax return information identifying a taxpayer may be disclosed outside of the United States or a territory or possession of the United States unless the disclosing and receiving tax return preparers have procedures in place that

are consistent with good business practices and designed to maintain the confidentiality of the disclosed tax return information.

(3) Any person (including administrative and support personnel) receiving tax return information in connection with a quality, peer, or conflict review is a tax return preparer for purposes of sections 7216(a) and 6713(a). Tax return information disclosed and used for purposes of a quality, peer, or conflict review shall not be disclosed or used for any other purpose.

(q) *Disclosure to report the commission of a crime.* The provisions of section 7216(a) and § 301.7216–1 shall not apply to the disclosure of any tax return information to the proper Federal, State, or local official in order, and to the extent necessary, to inform the official of activities that may constitute, or may have constituted, a violation of any criminal law or to assist the official in investigating or prosecuting a violation of criminal law. A disclosure made in the bona fide but mistaken belief that the activities constituted a violation of criminal law is not subject to section 7216(a) and § 301.7216–1.

(r) *Disclosure of tax return information due to a tax return preparer's incapacity or death.* In the event of incapacity or death of a tax return preparer, disclosure of tax return information may be made for the purpose of assisting the tax return preparer or his legal representative (or the representative of a deceased tax return preparer's estate) in operating the business. Any person receiving tax return information under the provisions of this paragraph (r) is a tax return preparer for purposes of sections 7216(a) and 6713(a).

(s) *Effective/applicability date.* Paragraphs (n), (o), and (p) of this section apply to disclosures or uses of tax return information occurring on or after December 28, 2012. All other paragraphs of this section apply to disclosures or uses of tax return information occurring on or after January 1, 2009.

[T.D. 9375, 73 FR 1069, Jan. 7, 2008, as amended by T.D. 9478, 75 FR 52, Jan. 4, 2010; T.D. 9608, 77 FR 76404, Dec. 28, 2012]

§ 301.7216–3 Disclosure or use permitted only with the taxpayer's consent.

(a) *In general*—(1) *Taxpayer consent.* Unless section 7216 or § 301.7216–2 specifically authorizes the disclosure or use of tax return information, a tax return preparer may not disclose or use a taxpayer's tax return information prior to obtaining a written consent from the taxpayer, as described in this section. A tax return preparer may disclose or use tax return information as the taxpayer directs as long as the preparer obtains a written consent from the taxpayer as provided in this section. The consent must be knowing and voluntary. Except as provided in paragraph (a)(2) of this section, conditioning the provision of any services on the taxpayer's furnishing consent will make the consent involuntary, and the consent will not satisfy the requirements of this section.

(2) *Taxpayer consent to a tax return preparer furnishing tax return information to another tax return preparer.* (i) A tax return preparer may condition its provision of preparation services upon a taxpayer's consenting to disclosure of the taxpayer's tax return information to another tax return preparer for the purpose of performing services that assist in the preparation of, or provide auxiliary services in connection with the preparation of, the tax return of the taxpayer.

(ii) *Example.* The application of this paragraph (a)(2) may be illustrated by the following example:

Example. Preparer P, who is located within the United States, is retained by Company C to provide tax return preparation services for employees of Company C. An employee of Company C, Employee E, works for C outside of the United States. To provide tax return preparation services for E, P requires the assistance of and needs to disclose E's tax return information to a tax return preparer who works for P's affiliate located in the country where E works. P may condition its provision of tax return preparation services upon E consenting to the disclosure of E's tax return information to the tax return preparer in the country where E works.

(3) *The form and contents of taxpayer consents*—(i) *In general.* All consents to disclose or use tax return information must satisfy the following requirements—

(A) A taxpayer's consent to a tax return preparer's disclosure or use of tax return information must include the name of the tax return preparer and the name of the taxpayer.

(B) If a taxpayer consents to a disclosure of tax return information, the consent must identify the intended purpose of the disclosure. Except as provided in § 301.7216–3(a)(3)(iii), if a taxpayer consents to a disclosure of tax return information, the consent must also identify the specific recipient (or recipients) of the tax return information. If the taxpayer consents to use of tax return information, the consent must describe the particular use authorized. For example, if the tax return preparer intends to use tax return information to generate solicitations for products or services other than tax return preparation, the consent must identify each specific type of product or service for which the tax return preparer may solicit use of the tax return information. Examples of products or services that must be identified include, but are not limited to, balance due loans, mortgage loans, mutual funds, individual retirement accounts, and life insurance.

(C) The consent must specify the tax return information to be disclosed or used by the return preparer.

(D) If a tax return preparer to whom the tax return information is to be disclosed is located outside of the United States, the taxpayer's consent under § 301.7216–3 prior to any disclosure is required. See § 301.7216–2(c) and (d).

(E) A consent to disclose or use tax return information must be signed and dated by the taxpayer.

(ii) *The form and contents of taxpayer consents with respect to taxpayers filing a return in the Form 1040 series—guidance describing additional requirements for taxpayer consents with respect to Form 1040 series filers.* The Secretary may issue guidance, by publication in the Internal Revenue Bulletin (see § 601.601(d)(2)(ii)(b) of this chapter), describing additional requirements for tax return preparers regarding the format and content of consents to disclose and use tax return information with respect to taxpayers filing a return in the Form 1040 series, e.g., Form 1040, Form 1040NR, Form 1040A, or Form 1040EZ.

(iii) *The form and contents of taxpayer consents with respect to all other taxpayers.* A consent to disclose or use tax return information with respect to a taxpayer not filing a return in the Form 1040 series may be in any format, including an engagement letter to a client, as long as the consent complies with the requirements of § 301.7216–3(a)(3)(i). Additionally, the requirements of § 301.7216–3(c)(1) are inapplicable to consents to disclose or use tax return information with respect to taxpayers not filing a return in the Form 1040 series. Solely for purposes of a consent issued under § 301.7216–3(a)(3)(iii), in lieu of identifying specific recipients of an intended disclosure under § 301.7216–3(a)(3)(i)(B), a consent may allow disclosure to a descriptive class of entities engaged by a taxpayer or the taxpayer's affiliate for purposes of services in connection with the preparation of tax returns, audited financial statements, or other financial statements or financial information as required by a government authority, municipality or regulatory body.

(iv) *Examples.* The application of § 301.7216–3(a)(3)(iii) may be illustrated by the following examples:

Example 1. Consistent with applicable legal and ethical responsibilities, Preparer Z sends its client, a corporation, Taxpayer C, an engagement letter. Part of the engagement letter requests the consent of Taxpayer C for the purpose of disclosing tax return information to an investment banking firm to assist the investment banking firm in securing long term financing for Taxpayer C. The engagement letter includes language and information that meets the requirements of § 301.7216–3(a)(3)(i), including: (I) Preparer Z's name, Taxpayer C's name, and a signature and date line for Taxpayer C; and (II) a statement that ''Taxpayer C authorizes Preparer Z to disclose the portions of Taxpayer C's 2009 tax return information to the firm retained by Taxpayer C necessary for the purposes of assisting Taxpayer C secure long term financing.'' The engagement letter satisfies the requirements of § 301.7216–3(a)(3) for the disclosure of the information provided therein for the specific purpose stated.

Example 2. Consistent with applicable legal and ethical responsibilities, Preparer N sends its client, a corporation, Taxpayer D, an engagement letter. Part of the engagement letter requests the consent of Taxpayer D for

the purpose of disclosing tax return information to Preparer N's affiliated firms located outside of the United States for the purposes of preparation of Taxpayer D's 2009 tax return''. The engagement letter includes language and information that meets the requirements of § 301.7216–3(a)(3)(i), including: (I) Preparer N's name, Taxpayer D's name, and a signature and date line for Taxpayer D; (II) a statement that ''Taxpayer D authorizes Preparer N to disclose Taxpayer D's 2009 tax return information to Preparer N's affiliates located outside of the United States for the purposes of assisting Preparer N prepare Taxpayer D's 2009 tax return''; and (III) a statement that, in providing consent, Taxpayer D acknowledges that its tax return information for 2009 will be disclosed to tax return preparers located abroad. The engagement letter satisfies the requirements of § 301.7216–3(a)(3) for the disclosure of the information provided therein for the specific purpose stated.

(b) *Timing requirements and limitations*—(1) *No retroactive consent.* A taxpayer must provide written consent before a tax return preparer discloses or uses the taxpayer's tax return information.

(2) *Time limitations on requesting consent in solicitation context.* A tax return preparer may not request a taxpayer's consent to disclose or use tax return information for purposes of solicitation of business unrelated to tax return preparation after the tax return preparer provides a completed tax return to the taxpayer for signature.

(3) *No requests for consent after an unsuccessful request.* With regard to tax return information for each income tax return that a tax return preparer prepares, if a taxpayer declines a request for consent to the disclosure or use of tax return information for purposes of solicitation of business unrelated to tax return preparation, the tax return preparer may not solicit from the taxpayer another consent for a purpose substantially similar to that of the rejected request.

(4) *No consent to the disclosure of a taxpayer's social security number to a return preparer outside of the United States with respect to a taxpayer filing a return in the Form 1040 Series*—(i) *In general.* Except as provided in paragraph (b)(4)(ii) of this section, a tax return preparer located within the United States, including any territory or possession of the United States, may not obtain consent to disclose the taxpayer's social security number (SSN) with respect to a taxpayer filing a return in the Form 1040 Series, for example, Form 1040, Form 1040NR, Form 1040A, or Form 1040EZ, to a tax return preparer located outside of the United States or any territory or possession of the United States. Thus, if a tax return preparer located within the United States (including any territory or possession of the United States) obtains consent from an individual taxpayer to disclose tax return information to another tax return preparer located outside of the United States, as provided under §§ 301.7216–2(c) and 301.7216–2(d), the tax return preparer located in the United States may not disclose the taxpayer's SSN, and the tax return preparer must redact or otherwise mask the taxpayer's SSN before the tax return information is disclosed outside of the United States. If a tax return preparer located within the United States initially receives or obtains a taxpayer's SSN from another tax return preparer located outside of the United States, however, the tax return preparer within the United States may, without consent, retransmit the taxpayer's SSN to the tax return preparer located outside the United States that initially provided the SSN to the tax return preparer located within the United States. For purposes of this section, a tax return preparer located outside of the United States does not include a tax return preparer who is continuously and regularly employed in the United States or any territory or possession of the United States and who is in a temporary travel status outside of the United States.

(ii) *Exception.* A tax return preparer located within the United States, including any territory or possession of the United States, may obtain consent to disclose the taxpayer's SSN to a tax return preparer located outside of the United States or any territory or possession of the United States only if the tax return preparer within the United States discloses the SSN to a tax return preparer outside of the United States through the use of an adequate data protection safeguard as defined by the Secretary in guidance published in the Internal Revenue Bulletin (see

§ 601.601(d)(2)(ii)(b) of this chapter) and verifies the maintenance of the adequate data protection safeguards in the request for the taxpayer's consent pursuant to the specifications described by the Secretary in guidance published in the Internal Revenue Bulletin.

(5) *Duration of consent.* A consent document may specify the duration of the taxpayer's consent to the disclosure or use of tax return information. If a consent agreed to by the taxpayer does not specify the duration of the consent, the consent to the disclosure or use of tax return information will be effective for a period of one year from the date the taxpayer signed the consent.

(c) *Special rules*—(1) *Multiple disclosures within a single consent form or multiple uses within a single consent form.* A taxpayer may consent to multiple uses within the same written document, or multiple disclosures within the same written document. A single written document, however, cannot authorize both uses and disclosures; rather one written document must authorize the uses and another separate written document must authorize the disclosures. Furthermore, a consent that authorizes multiple disclosures or multiple uses must specifically and separately identify each disclosure or use. See § 301.7216–3(a)(3)(iii) for an exception to this rule for certain taxpayers.

(2) *Disclosure of entire return.* A consent may authorize the disclosure of all information contained within a return. A consent authorizing the disclosure of an entire return must provide that the taxpayer has the ability to request a more limited disclosure of tax return information as the taxpayer may direct.

(3) *Copy of consent must be provided to taxpayer.* The tax return preparer must provide a copy of the executed consent to the taxpayer at the time of execution. The requirements of this paragraph (c)(3) may also be satisfied by giving the taxpayer the opportunity, at the time of executing the consent, to print the completed consent or save it in electronic form.

(d) *Effective/applicability date.* This section applies to disclosures or uses of tax return information occurring on or after January 1, 2009.

[T.D. 9375, 73 FR 1073, Jan. 7, 2008, as amended by T.D. 9409, 73 FR 37806, July 2, 2008; T.D. 9437, 73 FR 76217, Dec. 16, 2008]

PENALTIES APPLICABLE TO CERTAIN TAXES

§ 301.7231–1 Failure to obtain license for collection of foreign items.

For provisions relating to the obtaining of a license for the collection of foreign items, see section 7001 and § 301.7001–1.

Other Offenses

§ 301.7269–1 Failure to produce records.

Whoever fails to comply with any duty imposed upon him by section 6018, 6036 (in the case of an executor), or 6075(a), or, having in his possession or control any record, file, or paper, containing or supposed to contain any information concerning the estate of the decedent, or, having in his possession or control any property comprised in the gross estate of the decedent, fails to exhibit the same upon request of any officer or employee of the Internal Revenue Service who desires to examine the same in the performance of his duties under chapter 11 of the Code (relating to estate taxes) shall be liable to a penalty of not exceeding $500, to be recovered with costs of suit, in a civil action in the name of the United States.

§ 301.7272–1 Penalty for failure to register.

(a) Any person who fails to register with the district director as required by the Code or by regulations issued thereunder shall be liable to a penalty of $50 except that on and after September 3, 1958, this section shall not apply to persons required to register under subtitle E of the Code, or persons engaging in a trade or business on which a special tax is imposed by such subtitle.

(b) For provisions relating to registration under sections 4101, 4412, 4455, 4722, 4753, and 4804(d), see the regulations relating to the particular tax.

For regulations under section 7011, see § 301.7011–1.

FORFEITURES

PROPERTY SUBJECT TO FORFEITURE

§ 301.7304–1 Penalty for fraudulently claiming drawback.

Whenever any person fraudulently claims or seeks to obtain an allowance of drawback on goods, wares, or merchandise on which no internal tax shall have been paid, or fraudulently claims any greater allowance of drawback than the tax actually paid, he shall forfeit triple the amount wrongfully or fraudulently claimed or sought to be obtained, or the sum of $500, at the election of the district director.

PROVISIONS COMMON TO FORFEITURES

§ 301.7321–1 Seizure of property.

Any property subject to forfeiture to the United States under any provision of the Code may be seized by the district director or assistant regional commissioner (alcohol, tobacco, and firearms). Upon seizure of property by the district director he shall notify the assistant regional commissioner (alcohol, tobacco, and firearms) for the region wherein the district is located who will take charge of the property and arrange for its disposal or retention under the provisions of law and regulations applicable thereto.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7188, 37 FR 12794, June 29, 1972; T.D. ATF–33, 41 FR 44038, Oct. 6, 1976]

§ 301.7322–1 Delivery of seized property to U.S. marshal.

Any forfeitable property which may be seized under the provisions of the Code may, at the option of the assistant regional commissioner (alcohol, tobacco, and firearms) be delivered to the U.S. marshal of the judicial district wherein the property was seized, and remain in the care and custody and under the control of such marshal, pending the disposal thereof as provided by law.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7188, 37 FR 12794, June 29, 1972; T.D. ATF–33, 41 FR 44038, Oct. 6, 1976]

§ 301.7324–1 Special disposition of perishable goods.

For regulations relating to the disposal of perishable goods, see § 172.30 of this chapter (Disposition of Seized Personal Property).

§ 301.7325–1 Personal property valued at $2,500 or less.

For regulations relating to the forfeiture of personal property valued at $2,500 or less, see part 172 of this chapter (Disposition of Seized Personal Property).

§ 301.7326–1 Disposal of forfeited or abandoned property in special cases.

(a) *Coin-operated gaming devices.* For regulations relating to the disposal of coin-operated gaming devices, see § 172.65 of this chapter (Disposition of Seized Personal Property).

(b) *Narcotics.* For regulations relating to the disposal of forfeited narcotic drugs, see 21 CFR 302.56. For the disposal of forfeited marihuana, see 26 CFR (1939) 152.99 and 152.100 (Regulations under the Marihuana Tax Act of 1937, as amended).

(c) *Firearms.* For regulations relating to the disposal of forfeited firearms or ammunition, see § 178.166 of this chapter (Commerce in Firearms and Ammunition), and § 179.182 of this chapter (Machine Guns, Destructive Devices, and Certain Other Firearms).

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7188, 37 FR 12796, June 29, 1972]

§ 301.7327–1 Customs laws applicable.

For regulations relating to the remission or mitigation of forfeitures, see part 172 of this chapter (Disposition of Seized Personal Property).

Judicial Proceedings

CIVIL ACTIONS BY THE UNITED STATES

§ 301.7401–1 Authorization.

(a) *In general.* No civil action for the collection or recovery of taxes, or of any fine, penalty, or forfeiture, shall be commenced unless the Commissioner (or the Director, Alcohol, Tobacco and Firearms Division, with respect to the provisions of subtitle E of the Code), or

the Chief Counsel for the Internal Revenue Service or his delegate authorizes or sanctions the proceedings and the Attorney General or his delegate directs that the action be commenced.

(b) *Property held by banks.* The Commissioner shall not authorize or sanction any civil action for the collection or recovery of taxes, or of any fine, penalty, or forfeiture, from any deposits held in a foreign office of a bank engaged in the banking business in the United States or a possession of the United States unless the Commissioner believes—

(1) That the taxpayer is within the jurisdiction of a U.S. court at the time the civil action is authorized or sanctioned and that the bank is in possession of (or obligated with respect to) deposits of the taxpayer in an office of the bank outside the United States or a possession of the United States; or

(2) That the taxpayer is not within the jurisdiction of a U.S. court at the time the civil action is authorized or sanctioned, that the bank is in possession of (or obligated with respect to) deposits of the taxpayer in an office outside the United States or a possession of the United States, and that such deposits consist, in whole or in part, of funds transferred from the United States or a possession of the United States in order to hinder or delay the collection of a tax imposed by the Code.

For purposes of this paragraph, the term ''possession of the United States'' includes Guam, the Midway Islands, the Panama Canal Zone, the Commonwealth of Puerto Rico, American Samoa, the Virgin Islands, and Wake Island.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7188, 37 FR 12796, June 29, 1972]

§ 301.7403–1 Action to enforce lien or to subject property to payment of tax.

(a) *Civil actions.* In any case where there has been a refusal or neglect to pay any tax, or to discharge any liability in respect thereof, whether or not levy has been made, the Attorney General or his delegate, at the request of the Commissioner (or the Director, Bureau of Alcohol, Tobacco, and Firearms, or the Chief Counsel for the Bureau, with respect to the provisions of subtitle E of the Code), or the Chief Counsel for the Internal Revenue Service or his delegate, may direct a civil action to be filed in a district court of the United States to enforce the lien of the United States under the Code with respect to such tax or liability or to subject any property, of whatever nature, of the delinquent, or in which he has any right, title or interest, to the payment of such tax or liability. In any such proceeding, at the instance of the United States, the court may appoint a receiver to enforce the lien, or, upon certification by the Commissioner or the Chief Counsel for the Internal Revenue Service during the pendency of such proceedings that it is in the public interest, may appoint a receiver with all the powers of a receiver in equity.

(b) *Bid by the United States.* If property is sold to satisfy a first lien held by the United States, the United States may bid at the sale a sum which does not exceed the amount of its lien and the expenses of the sale. See also 31 U.S.C. 195.

[T.D. 7305, 39 FR 9950, Mar. 15, 1974]

§ 301.7404–1 Authority to bring civil action for estate taxes.

(a) If the estate tax imposed by chapter 11 of the Code is not paid on or before the last date prescribed for payment, the district director shall proceed to collect the tax under the provisions of general law; or appropriate proceedings in the name of the United States may be commenced in any court having jurisdiction to subject the property of the decedent to be sold under the judgment or decree of the court.

(b) The remedy by action provided in section 7404 is not exclusive. The district director may proceed to collect the tax by levy, as provided in section 6331, on any or all property or rights to property of the estate, or collection may be enforced by an appropriate action against the executor, certain transferees, trustees, and beneficiaries for their personal liability. See § 20.2002–1 of this chapter (Estate Tax Regulations).

§ 301.7406–1 Disposition of judgments and moneys recovered.

All judgments and moneys recovered or received for taxes, costs, forfeitures, and penalties shall be paid to the district director as collections of internal revenue taxes.

§ 301.7409–1 Action to enjoin flagrant political expenditures of section 501(c)(3) organizations.

(a) *Letter to organization.* When the Assistant Commissioner (Employee Plans and Exempt Organizations) concludes that a section 501(c)(3) organization has engaged in flagrant political intervention and is likely to continue to engage in political intervention that involves political expenditures, the Assistant Commissioner (Employee Plans and Exempt Organizations) shall send a letter to the organization providing it with the facts based on which the Service believes that the organization has been engaging in flagrant political intervention and is likely to continue to engage in political intervention that involves political expenditures. The organization will have 10 calendar days after the letter is sent to respond by establishing that it will immediately cease engaging in political intervention, or by providing the Service with sufficient information to refute the Service's evidence that it has been engaged in flagrant political intervention. The Internal Revenue Service will not proceed to seek an injunction under section 7409 until after the close of this 10-day response period.

(b) *Determination by Commissioner.* If the organization does not respond within 10 calendar days to the letter under paragraph (a) of this section in a manner sufficient to dissuade the Assistant Commissioner (Employee Plans and Exempt Organizations) of the need for an injunction, the file will be forwarded to the Commissioner of Internal Revenue. The Commissioner of Internal Revenue will personally determine whether to forward to the Department of Justice a recommendation that it immediately bring an action to enjoin the organization from making further political expenditures. The Commissioner may also recommend that the court action include any other action that is appropriate in ensuring that the assets of the section 501(c)(3) organization are preserved for section 501(c)(3) purposes. The authority of the Commissioner to make the determinations described in this paragraph may not be delegated to any other persons.

(c) *Flagrant political intervention.* For purposes of this section, *flagrant political intervention* is defined as participation in, or intervention in (including the publication and distribution of statements), any political campaign by a section 501(c)(3) organization on behalf of (or in opposition to) any candidate for public office in violation of the prohibition on such participation or intervention in section 501(c)(3) and the regulations thereunder if the participation or intervention is flagrant.

(d) *Effective date.* This section is effective December 5, 1995.

[T.D. 8628, 60 FR 62213, Dec. 5, 1995]

PROCEEDINGS BY TAXPAYERS AND THIRD PARTIES

§ 301.7422–1 Special rules for certain excise taxes imposed by chapter 42 or 43.

(a) *Finality of refund proceeding.* For purposes of sections 4941, 4942, 4943, 4944, 4945, 4951, 4952, 4955, 4958, 4961, 4963, 4971, and 4975, and the regulations thereunder, a decision in a suit for refund instituted under the provisions of this section shall be final—

(1) Upon the expiration of the time allowed for filing a notice of appeal from a decision of the United States Claims Court or of the United States District Court, if no timely notice of appeal is filed; or

(2) Upon the expiration of the time allowed for filing a petition for certiorari from a decision of the United States Claims Court, or from a decision of the United States District Court, which has been affirmed or the appeal dismissed by the United States Court of Appeals, if no timely petition for certiorari is filed; or

(3) If a petition for certiorari has been filed, thirty days from the denial of such petition; or

(4) Thirty days from the date of a decision of the United States Supreme Court if no timely petition for rehearing is filed; however, if a timely petition for rehearing from such a decision

is filed, and is denied, thirty days from the denial thereof; or

(5) If a decision is entered upon a rehearing or if a decision is modified or reversed as the result of a decision of a higher court, upon the expiration, with respect to the decision on rehearing or the modified or reversed decision, of periods similar to those provided in subparagraphs (1) through (4).

(b) *Right to bring action.* With respect to any taxable event, payment of the full amount of first tier tax for the taxable period shall constitute sufficient payment in order to maintain an action under this section with respect to the second tier tax.

(c) *Limitation on suit for refund.* No suit may be maintained under this section for the credit or refund of any tax imposed under section 4941, 4942, 4943, 4944, 4945, 4951, 4952, 4955, 4958, 4971, or 4975 with respect to any taxable event unless—

(1) No other suit has been maintained for credit or refund of any tax imposed by such sections with respect to such taxable event; and

(2) No petition has been filed in the Tax Court with respect to a deficiency in any tax imposed by such sections with respect to such taxable event.

(d) *Final determination of issues.* For purposes of this section, any suit for the credit or refund of any tax imposed under section 4941, 4942, 4943, 4944, 4945, 4951, 4952, 4955, 4958, 4971, or 4975, together with a supplemental proceeding (if any) under section 4961 (b), with respect to any taxable event, shall constitute a suit to determine all questions with respect to any other tax imposed with respect to such taxable event under such sections. Consequently, failure by the parties to the suit to bring before the Court any question described in the preceding sentence shall constitute a bar to the question.

(e) *Definitions.* For definitions of the terms ''taxable event,'' ''first tier tax,'' and ''second tier tax,'' see § 53.4963–1.

[T.D. 8084, 51 FR 16305, May 2, 1986, as amended by T.D. 8628, 60 FR 62213, Dec. 5, 1995; T.D. 8920, 66 FR 2171, Jan. 10, 2001]

§ 301.7423–1 Repayments to officers or employees.

The Commissioner is authorized to repay to any officer or employee of the United States the full amount of such sums of money as may be recovered against him in any court, for any internal revenue taxes collected by him, with the cost and expense of suit, and all damages and costs recovered against any officer or employee of the United States in any suit brought against him by reason of anything done in the official performance of his duties under the Code.

§ 301.7424–2 Intervention.

If the United States is not a party to a civil action or suit, the United States may intervene in such action or suit to assert any lien arising under title 26 of the United States Code on the property which is the subject of such action or suit. The provisions of section 2410 of title 28 of the United States Code (except subsection (b)) and of section 1444 of title 28 of the United States Code shall apply in any case in which the United States intervenes as if the United States had originally been named a defendant in such action or suit. If the application of the United States to intervene is denied, the adjudication in such civil action or suit shall have no effect upon such lien.

[T.D. 7305, 39 FR 9951, Mar. 15, 1974]

§ 301.7425–1 Discharge of liens; scope and application; judicial proceedings.

(a) *In general.* A tax lien of the United States, or a title derived from the enforcement of a tax lien of the United States, may be discharged or divested under local law only in the manner prescribed in section 2410 of title 28 of the United States Code or in the manner prescribed in section 7425 of the Internal Revenue Code. Section 7425 (a) contains provisions relating to the discharge of a lien when the United States is not joined as a party in the judicial proceedings described in subsection (a) of section 2410 of title 28 of the United States Code. These judicial proceedings are plenary in nature and proceed on formal pleadings. Section 7425(b) contains provisions relating to

the discharge of a lien or a title derived from the enforcement of a lien in the event of a nonjudicial sale with respect to the property involved. Section 7425 (c) contains special rules relating to the notice of sale requirements contained in section 7425(b). Section 301.7425–2 contains rules with respect to the nonjudicial sales described in section 7425(b). Paragraph (a) of § 301.7425–3 contains rules with respect to the notice of sale provisions of section 7425(c)(1). Paragraph (b) of § 301.7425–3 contains rules relating to the consent to sale provisions of section 7425(c)(2). Paragraph (c) of § 301.7425–3 contains rules relating to the sale of perishable goods provisions of section 7425(c)(3). Paragraph (d) of § 301.7425–3 contains the requirements with respect to the contents of a notice of sale. Section 301.7425–4 prescribes rules with respect to the redemption of real property by the United States.

(b) *Effective date.* The provisions of section 7425, as added by the Federal Tax Lien Act of 1966, are effective with respect to sales described in section 7425 occurring after November 2, 1966. The notice of sale provisions of section 7425 (c) (1) or (3) do not apply to sales occurring after Nobember 2, 1966, if the seller of the property performed an act before November 3, 1966, which act at the time of performance was required and effective under local law with respect to the sale. An example of such an act is publication of a notice of the sale in a local newspaper before November 3, 1966, if local law requires such publication before a sale and the publication is effective under local law. Accordingly, in such a case, it is not necessary to notify the Internal Revenue Service pursuant to the provisions of section 7425 (c) (1) or (3). With respect to a notice of sale required under section 7425 (c) (1) or (3)—

(1) Any notice of sale given to an office of the Internal Revenue Service or the Treasury Department during the period November 3, 1966, through December 21, 1966, shall be considered as adequate;

(2) Any notice of sale given during the period December 22, 1966, through January 31, 1968, which complies with the provisions of either—

(i) Revenue Procedure 67–25, 1967–1 C.B. 626 (based on Technical Information Release 873, dated December 22, 1966), or

(ii) Section 301.7425–3, shall be considered as adequate; and

(3) Any notice of sale given after January 31, 1968, which complies with the provisions of § 301.7425–3 shall be considered as adequate.

(c) *Judicial proceedings*—(1) *In general.* Section 7425 (a) provides rules, where the United States is not joined as a party, to determine the effect of a judgment in any civil action or suit described in subsection (a) of section 2410 of title 28 of the United States Code (relating to joinder of the United States in certain proceedings), or a judicial sale pursuant to such a judgment, with respect to property on which the United States has or claims a lien under the provisions of this title. If the United States is improperly named as a party to a judicial proceeding, the effect is the same as if the United States were not joined.

(2) *Notice of lien filed when the proceeding is commenced.* Where the United States is not properly joined as a party in the court proceeding and a notice of lien has been filed in accordance with section 6323 (f) or (g) in the place provided by law for such filing at the time the action or suit is commenced, a judgment or judicial sale pursuant to such a judgment shall be made subject to and without disturbing the lien of the United States.

(3) *Notice of lien not filed when the proceeding is commenced*—(i) *General rule.* Where the United States is not joined as a party in the court proceeding and either a notice of lien has not been filed in accordance with section 6323 (f) or (g) in the place provided by law for such filing at the time the action or suit is commenced, or the law makes no provision for that filing, a judgment or judicial sale pursuant to such a judgment shall have the same effect with respect to the discharge or divestment of the lien of the United States as may be provided with respect to these matters by the local law of the place where the property is situated.

(ii) *Examples.* The provisions of subparagraph (3) may be illustrated by the following examples:

Example 1. A, the first mortgagee of an apartment building located in State Y, commenced a foreclosure action on the mortgage prior to the time that a notice of a Federal tax lien, on that building, had been filed. Under the law of Y, junior liens on real property are discharged by a judicial sale pursuant to a judgment in a foreclosure action. Therefore, the Federal tax lien on the building will be discharged by the judicial sale. This result is the same whether the tax lien arose before or after the date of commencement of the foreclosure action and whether notice of the tax lien was filed at any time after commencement of the foreclosure action.

Example 2. On January 10, 1969, B dies testate and devises Blackacre to C. At B's death, Blackacre is subject to a first mortgage held by D. Realty is subject to administration as part of a decedent's estate under the laws of State X. However, C takes possession of Blackacre with the assent of E, the executor of B's estate. On January 5, 1970, D commences a foreclosure action on the mortgage. Under the law of X, junior liens on real property are discharged by a judicial sale pursuant to a judgment in a foreclosure action. After commencement of the proceedings, an assessment for estate taxes is made and, thereafter, a notice of lien is filed in accordance with section 6323. The special lien on Blackacre, arising at the date of B's death, for estate taxes under section 6324(a) will be discharged by the judicial sale because there are no provisions for filing a notice thereof under law and junior liens are discharged by the sale under local law. The lien is discharged even though the executor failed to obtain a discharge of his personal liability under section 2204. Furthermore, the general lien on Blackacre under section 6321 will be discharged by the judicial sale because the foreclosure action was commenced prior to the time that a notice of lien was filed.

(4) *Proceeds of a judicial sale.* If a judicial sale of property pursuant to a judgment in any civil action or suit to which the United States is not a party discharges a lien of the United States arising under the provisions of the Internal Revenue Code of 1954, the United States may claim the proceeds of the sale (exclusive of costs) prior to the time that distribution of the proceeds is ordered. The claim of the United States in such a case is treated as having the same priority with respect to the proceeds as the lien had with respect to the property which was discharged from the lien by the judicial sale.

[T.D. 7430, 41 FR 35178, Aug. 20, 1976]

§ 301.7425–2 Discharge of liens; nonjudicial sales.

(a) *In general.* Section 7425(b) contains provisions with respect to the effect on the interest of the United States in property in which the United States has or claims a lien, or a title derived from the enforcement of a lien, of a sale made pursuant to—

(1) An instrument creating a lien on the property sold,

(2) A confession of judgment on the obligation secured by an instrument creating a lien on the property sold, or

(3) A statutory lien on the property sold.

For purposes of this section, such a sale is referred to as a ''nonjudicial sale.'' The term ''nonjudicial sale'' includes, but is not limited to, the divestment of the taxpayer's interest in property which occurs by operation of law, by public or private sale, by forfeiture, or by termination under provisions contained in a contract for a deed or a conditional sales contract. Under section 7425(b)(1), if a notice of lien is filed in accordance with section 6323 (f) or (g), or the title derived from the enforcement of a lien is recorded as provided by local law, more than 30 days before the date of sale, and the appropriate district director is not given notice of the sale (in the manner prescribed in § 301.7425–3), the sale shall be made subject to and without disturbing the lien or title of the United States. Under section 7425(b)(2)(C), in any case in which notice of the sale is given to the district director not less than 25 days prior to the date of sale (in the manner prescribed in section 7425(c)(1)), the sale shall have the same effect with respect to the discharge or divestment of the lien or title as may be provided by local law with respect to other junior liens or other titles derived from the enforcement of junior liens. A nonjudicial sale pursuant to a lien which is junior to a tax lien does not divest the tax lien, even though notice of the nonjudicial sale is given to the appropriate district director. However, under the provisions of section

6325(b) and § 301.6325–1, a district director may discharge the property from a tax lien, including a tax lien which is senior to another lien upon the property.

(b) *Date of sale.* In the case of a nonjudicial sale subject to the provisions of section 7425(b), in order to compute any period of time determined with reference to the date of sale, the date of sale shall be determined in accordance with the following rules:

(1) In the case of divestment of junior liens on property resulting directly from a public sale, the date of sale is deemed to be the date the public sale is held, regardless of the date under local law on which junior liens on the property are divested or the title to the property is transferred,

(2) In the case of divestment of junior liens on property resulting directly from a private sale, the date of sale is deemed to be the date title to the property is transferred, regardless of the date junior liens on the property are divested under local law, and

(3) In the case of divestment of junior liens on property not resulting directly from a public or private sale, the date of sale is deemed to be the date on which junior liens on the property are divested under local law.

For provisions relating to the right of redemption of the United States, see section 7425(d) and § 301.7425–4.

(c) *Examples.* The provisions of this section may be illustrated by the following examples:

Example 1. (i) Under the law of State M, upon entry of judgment, the judgment creditor obtains a statutory lien upon the real property of the judgment debtor, and certain procedures are provided by which the judgment creditor may execute by public sale upon such real property. These procedures provide, among other things, for notification by personal service or registered or certified mail to other lien creditors, if any, and publication of a notice of the sale in a local newspaper. After the expiration of a prescribed period of time after such notification and publication, the sheriff of the county where the real property is located may sell the property at public sale. After payment of the amount bid at the public sale, the sheriff issues to the purchaser a deed to the real property, and the interests of junior lienors in the property are divested.

(ii) For purposes of this section, such an execution sale is a nonjudicial sale described in section 7425(b) because the sale is made pursuant to a statutory lien on the property sold. The date of sale, for purposes of computing a period of time determined with reference to the date of sale, is the date on which the public sale is held because junior liens on the real property are divested directly as a result of the public sale. This result obtains even though the junior liens are legally divested on a later date when the sheriff issues the deed.

Example 2. (i) Under the law of State N, mortgages on real property may contain a power of sale which authorizes the mortgagee, upon breach by the mortgagor of one of the conditions of the mortgage, to have the mortgaged property sold at public sale. This public sale must be preceded by notice by advertisement in a local newspaper, and the time, place, description of the property, and other terms of the sale must be specified. The purchaser at such a public sale obtains a title to the real property which is not subject to a right of redemption by the mortgagor and which divests the interests of the junior lienors in the property.

(ii) For purposes of this section, a sale pursuant to such a power of sale is a nonjudicial sale described in section 7425(b) because the sale is made pursuant to the mortgage instrument which created a lien on the property sold. The date of the sale, for purposes of computing a period of time determined with reference to the date of sale, is the date of the public sale because junior liens on the property are divested directly as a result of the public sale.

Example 3. Assume the same facts as in example 2 except that the purchaser at the public sale obtains a title which is defeasible by the exercise of a right of redemption in the mortgagor. The purchaser's title divests the interests of junior lienors in the property as of the time of public sale. The interests of junior leinors in the property revive if the mortgagor exercises his right of redemption. The date of the sale, for purposes of computing a period of time determined with reference to the date of sale, is the date of the public sale because junior liens on the property are divested directly as a result of the public sale although such junior liens may be revived by a subsequent redemption by the mortgagor.

Example 4. (i) Under the law of State O, upon breach by a mortgagor of real property of one of the conditions of the mortgage, the mortgagee may foreclose the mortgage by securing possession of the property by one of several procedures provided by statute. These procedures are generally referred to as ''strict foreclosure.'' In order for a foreclosure to be effective under these procedures, a certificate attesting the fact of entry must be recorded with the proper registrar of deeds within 30 days after the mortgagee enters the property. During the one-

year period following the date on which the certificate of entry is recorded, the mortgagor or a junior lienor may redeem the property by paying the mortgagee the amount of the mortgage obligation. If, during such one-year period the property is not redeemed and the mortgagee's possession is continued, the interests of the mortgagor and the junior lienors in the property are divested as of the date such one-year period expires.

(ii) For purposes of this section, such a foreclosure procedure is a nonjudicial sale described in section 7425(b) because it results in the divestment of the mortgagor's interest in the property by operation of law pursuant to the mortgage which created a lien on the property. In addition, because there is no public or private sale which directly results in the divestment of junior liens on the property, the date of sale, for purposes of computing a period of time determined with reference to the date of sale, is the date on which the one-year period following the recording of the certificate of entry expires.

Example 5. The law of State P contains a procedure which permits a county to collect a delinquent tax assessment with respect to real property by the means of a tax sale of the property. First, a notice of a public auction with respect to the tax assessment on the real property is published in a local newspaper. At the public auction, the purchaser, upon payment of the delinquent taxes and interest, obtains from the county tax collector a tax certificate with respect to the real property. Because the obtaining of this tax certificate does not directly result in the divestment of either the owner's title or junior liens with respect to the property, the public auction is not a nonjudicial sale described in section 7425(b). At any time before a tax deed with respect to the property is issued by the clerk of the county court, the owner or any holder of a lien or other interest with respect to the property may obtain the tax certificate by paying the holder of the tax certificate the amount of the taxes, interest, and costs. After a date which is two years after the date on which the tax assessment became delinquent, the holder of the tax certificate may request the clerk of the county court to have the property advertised for sale. After advertisement of the sale, the clerk of the county court conducts a public sale of the real property and the purchaser obtains a tax deed. The interests of all junior lienors in the property are divested and the property is not subject to a right of redemption under the law of State P. For purposes of this section, this public sale is considered to be a nonjudicial sale described in section 7425(b) because the sale is made pursuant to a statutory lien on the property sold. The date of the sale, for purposes of computing a period of time determined with reference to the date of sale, is the date on which the public sale is held at which the purchaser obtains a tax deed as this sale directly results in the divestment of junior liens on the property.

Example 6. The law of State Q contains a provision which permits a county to collect a delinquent tax assessment with respect to real property by the means of a tax sale of the property. After public notice is given, a ''tax sale'' of the real property is conducted. Upon payment of the delinquent taxes and interest, a purchaser obtains a tax certificate with respect to the real property. If there is no purchaser at the tax sale, the property is deemed to be bid in by the State. Because the obtaining of this tax certificate by a purchaser or State Q does not directly result in the divestment of either the owner's title or junior liens with respect to the property, the tax sale is not a nonjudicial sale described in section 7425(b). Following the tax sale, there is a three-year period during which any person having an interest in the property may redeem the property by paying the holder of the tax certificate the amount of taxes, interest, and costs. Unless, redeemed, the holder of the tax certificate may obtain an absolute title at the expiration of the period of redemption provided he serves a notice of the expiration of the redemption period upon the owner at least 60 days prior to the date of expiration. Because there is no public or private sale which directly results in the divestment of junior liens on the property, the date of sale, for purposes of computing a period of time determined with reference to the date of sale, is the date on which the holder of the tax certificate obtains absolute title.

[T.D. 7430, 41 FR 35178, Aug. 20, 1976]

§ 301.7425–3 Discharge of liens; special rules.

(a) *Notice of sale requirements*—(1) *In general.* Except in the case of the sale of perishable goods described in paragraph (c) of this section, a notice (as described in paragraph (d) of this section) of a nonjudicial sale shall be given, in writing by registered or certified mail or by personal service, not less than 25 days prior to the date of sale (determined under the provisions of § 301.7425–2(b)), to the Internal Revenue Service (IRS) official, office and address specified in IRS Publication 786, ''Instructions for Preparing a Notice of Nonjudicial Sale of Property and Application for Consent to Sale,'' or any successor publication. The relevant IRS publications may be downloaded from the IRS Internet site

at *http://www.irs.gov*. Under this section, a notice of sale is not effective if it is given to an office other than the office listed in the relevant publication. The provisions of sections 7502 (relating to timely mailing treated as timely filing) and 7503 (relating to time for performance of acts where the last day falls on Saturday, Sunday, or a legal holiday) apply in the case of notices required to be made under this paragraph.

(2) *Postponement of scheduled sale*—(i) *Where notice of sale is given*. In the event that notice of a sale is given in accordance with subparagraph (1) of this paragraph (a), with respect to a scheduled sale which is postponed to a later time or date, the seller of the property is required to give notice of the postponement to the IRS in the same manner as is required under local law with respect to other secured creditors. For example, assume that in State M local law requires that in the event of a postponement of a scheduled foreclosure sale of real property, an oral announcement of the postponement at the place and time of the scheduled sale constitutes sufficient notice to secured creditors of the postponement. Accordingly, if at the place and time of a scheduled sale in State M an oral announcement of the postponement is made, the Internal Revenue Service is considered to have notice of the postponement for the purpose of this subparagraph.

(ii) *Where notice of sale is not given*. In the event that—

(A) Notice of a nonjudicial sale would not be required under subparagraph (1) of this paragraph (a), if the sale were held on the originally scheduled date,

(B) Because of a postponement of the scheduled sale, more than 30 days elapse between the originally scheduled date of the sale and the date of the sale, and

(C) A notice of lien with respect to the property to be sold is filed more than 30 days before the date of the sale, notice of the sale is required to be given to the IRS in accordance with the provisions of paragraph (a)(1) of this section. In any case in which notice of sale is required to be given with respect to a scheduled sale, and notice of the sale is not given, any postponement of the scheduled sale does not affect the rights of the United States under section 7425(b).

(iii) *Examples*. The provisions of subdivision (ii) of this subparagraph may be illustrated by the following examples:

Example 1. A nonjudicial sale of Blackacre, belonging to A, a delinquent taxpayer, is scheduled for December 2, 1968. As no notice of lien is filed applicable to Blackacre more than 30 days before December 2, 1968, no notice of sale is given to the IRS. On December 2, 1968, the sale of Blackacre is postponed until January 15, 1969. A notice of lien with respect to Blackacre is properly filed on January 2, 1969. The sale of blackacre is held on January 15, 1969. Even though more than 30 days elapsed between the originally scheduled date of the sale (December 2, 1968) and the date of the sale (January 15, 1969), no notice of sale is required to be given to the IRS because the notice of lien was not filed more than 30 days before the date of the sale.

Example 2. Assume the same facts as in example 1 except that a notice of lien is filed on November 29, 1968, in accordance with section 6323. Because more than 30 days elapsed between the originally scheduled date of the sale and the date of the sale, and the notice of lien is filed (on November 29, 1968) more than 30 days before the date of the sale (January 15, 1969), notice of the sale, in accordance with the provisions of subparagraph (1) of this paragraph, is required to be given to the distirct director.

Example 3. A nonjudicial sale of Whiteacre, belonging to B, a delinquent taxpayer, is scheduled for December 2, 1968. A notice of lien applicable to Whiteacre is filed on November 12, 1968, in accordance with section 6323. As the notice of lien was not filed more than 30 days before December 2, 1968, no notice of sale is given to the IRS. On December 2, 1968, the sale of Whiteacre is postponed until December 20, 1968. The sale of Whiteacre is held on December 20, 1968. Even though more than 30 days elapsed between the date notice of lien was filed (November 12, 1968) and the date of the sale (December 20, 1968), no notice of sale is required to be given to the IRS because not more than 30 days elapsed between the date of the originally scheduled sale (December 2, 1968) and the date the sale was actually held (December 20, 1968).

(b) *Consent to sale*—(1) *In general*. Notwithstanding the notice of sale provisions of paragraph (a) of this section, a nonjudicial sale of property shall discharge or divest the property of the lien and title of the United States if the IRS consents to the sale of the

property free of the lien or title. Pursuant to section 7425(c)(2), where adequate protection is afforded the lien or title of the United States, the IRS may, in its discretion, consent with respect to the sale of property in appropriate cases. Such consent shall be effective only if given in writing and shall be subject to such limitations and conditions as the IRS may require. However, the IRS may not consent to a sale of property under this section after the date of sale, as determined under § 301.7425–2(b). For provisions relating to the authority of the IRS to release a lien or discharge property subject to a tax lien, see section 6325 and the section 6325 regulations.

(2) *Application for consent.* Any person desiring the IRS's consent to sell property free of a tax lien or a title derived from the enforcement of a tax lien of the United States in the property shall submit to the IRS, at the office and address specified in the relevant IRS publications, a written application, in triplicate, declaring that it is made under penalties of perjury, and requesting that such consent be given. The application shall contain the information required in the case of a notice of sale, as set forth in paragraph (d)(1) of this section, and, in addition, shall contain a statement of the reasons why the consent is desired.

(c) *Sale of perishable goods*—(1) *In general.* A notice (as described in paragraph (d) of this section) of a nonjudicial sale of perishable goods (as defined in paragraph (c)(2) of this section) shall be given in writing, by registered or certified mail or delivered by personal service, at any time before the sale, to the IRS official and office specified in the relevant IRS publications, at the address specified in such publications. Under this section, a notice of sale is not effective if it is given to an office other than the office listed in the relevant publication. If a notice of a nonjudicial sale is timely given in the manner described in this paragraph, the nonjudicial sale shall discharge or divest the tax lien, or a title derived from the enforcement of a tax lien, of the United States in the property. The provisions of sections 7502 (relating to timely mailing treated as timely filing) and 7503 (relating to time for performance of acts where the last day falls on Saturday, Sunday, or a legal holiday) apply in the case of notices required to be made under this paragraph. The seller of the perishable goods shall hold the proceeds (exclusive of costs) of the sale as a fund, for not less than 30 days after the date of the sale, subject to the liens and claims of the United States, in the same manner and with the same priority as the liens and claims of the United States had with respect to the property sold. If the seller fails to hold the proceeds of the sale in accordance with the provisions of this paragraph and if the IRS asserts a claim to the proceeds within 30 days after the date of sale, the seller shall be personally liable to the United States for an amount equal to the value of the interest of the United States in the fund. However, even if the proceeds of the sale are not so held by the seller, but all the other provisions of this paragraph are satisfied, the buyer of the property at the sale takes the property free of the liens and claims of the United States. In the event of a postponement of the scheduled sale of perishable goods, the seller is not required to notify the IRS of the postponement. For provisions relating to the authority of the IRS to release a lien or discharge property subject to a tax lien, see section 6325 and the regulations.

(2) *Definition of perishable goods.* For the purpose of this paragraph, the term ''perishable goods'' means any tangible personal property which, in the reasonable view of the person selling the property, is liable to perish or become greatly reduced in price or value by keeping, or cannot be kept without great expense.

(d) *Content of notice of sale*—(1) *In general.* With respect to a notice of sale described in paragraph (a) or (c) of this section, the notice will be considered adequate if it contains the information described in paragraph (d)(1) (i), (ii), (iii), and (iv) of this section.

(i) The name and address of the person submitting the notice of sale;

(ii) A copy of each notice of Federal Tax Lien (Form 668) affecting the property to be sold, or the following information as shown on each such Notice of Federal Tax Lien—

(A) The IRS office named thereon,

(B) The name and address of the taxpayer, and

(C) The date and place of filing of the notice;

(iii) With respect to the property to be sold, the following information—

(A) A detailed description, including location, of the property affected by the notice (in the case of real property, the street address, city, and State and the legal description contained in the title or deed to the property and, if available, a copy of the abstract of title),

(B) The date, time, place, and terms of the proposed sale of the property, and

(C) In the case of a sale of perishable property described in paragraph (c) of this section, a statement of the reasons why the property is believed to be perishable; and

(iv) The approximate amount of the principal obligation, including interest, secured by the lien sought to be enforced and a description of the other expenses (such as legal expenses, selling costs, etc.) which may be charged against the sale proceeds.

(2) *Inadequate notice.* Except as otherwise provided in this paragraph, a notice of sale described in paragraph (a) of this section that does not contain the information described in paragraph (d)(1) of this section shall be considered inadequate by the IRS. If the IRS determines that the notice is inadequate, the IRS will give written notification of the items of information which are inadequate to the person who submitted the notice. A notice of sale that does not contain the name and address of the person submitting such notice shall be considered to be inadequate for all purposes without notification of any specific inadequacy. In any case where a notice of sale does not contain the information required under paragraph (d)(1)(ii) of this section with respect to a Notice of Federal Tax Lien, the IRS may give written notification of such omission without specification of any other inadequacy and such notice of sale shall be considered inadequate for all purposes. In the event the IRS gives notification that the notice of sale is inadequate, a notice complying with the provisions of this section (including the requirement that the notice be given not less than 25 days prior to the sale in the case of a notice described in paragraph (a) of this section) must be given. However, in accordance with the provisions of paragraph (b)(1) of this section, in such a case the IRS may, in its discretion, consent to the sale of the property free of the lien or title of the United States even though notice of the sale is given less than 25 days prior to the sale. In any case where the person who submitted a timely notice, which indicates his name and address, does not receive more than 5 days prior to the date of sale written notification from the IRS that the notice is inadequate, the notice shall be considered adequate for purposes of this section.

(3) *Acknowledgment of notice.* If a notice of sale described in paragraph (a) or (c) of this section is submitted in duplicate to the IRS with a written request that receipt of the notice be acknowledged and returned to the person giving the notice, this request will be honored by the IRS. The acknowledgment by the IRS will indicate the date and time of the receipt of the notice.

(4) *Disclosure of adequacy of notice.* The IRS is authorized to disclose, to any person who has a proper interest, whether an adequate notice of sale was given under paragraph (d)(1) of this section. Any person desiring this information should submit to the IRS a written request that clearly describes the property sold or to be sold, identifies the applicable notice of lien, gives the reasons for requesting the information, and states the name and address of the person making the request. The request should be submitted to the IRS official, office and address specified in IRS Publication 4235, ''Technical Services (Advisory) Group Addresses,'' or any successor publication. The relevant IRS publications may be downloaded from the IRS Internet site at *http://www.irs.gov*.

(e) *Effective/applicability date.* These regulations are effective on July 8, 2008.

[T.D. 7430, 41 FR 35180, Aug. 20, 1976, as amended by T.D. 9344, 72 FR 39739, July 20, 2007; T.D. 9410, 73 FR 38916, July 8, 2008]

§ 301.7425–4 Discharge of liens; redemption by United States.

(a) *Right to redeem*—(1) *In general.* In the case of a nonjudicial sale of real property to satisfy a lien prior to the tax lien or a title derived from the enforcement of a tax lien, the district director may redeem the property within the redemption period (as described in paragraph (a)(2) of this section). The right of redemption of the United States exists under section 7425(d) even though the district director has consented to the sale under section 7425(c)(2) and § 301.7425–3(b). For purposes of this section, the term ''nonjudicial sale'' shall have the same meaning as used in paragraph (a) of § 301.7425–2.

(2) *Redemption period.* For purposes of this section, the redemption period shall be—

(i) The period beginning with the date of the sale (as determined under paragraph (b) of § 301.7425–2) and ending with the 120th day after such date, or

(ii) The period for redemption of real property allowable with respect to other secured creditors, under the local law of the place where the real property is located, whichever expires later. Whichever period is applicable, section 7425 and this section shall govern the amount to be paid and the procedure to be followed.

(3) *Limitations.* In the event a sale does not ultimately discharge the property from the tax lien (whether by reason of local law or the provisions of section 7425(b)), the provisions of this section do not apply because the tax lien will continue to attach to the property after the sale. In a case in which the Internal Revenue Service is not entitled to a notice of sale under section 7425(b) and § 301.7425–3, the United States does not have a right of redemption under section 7425(d). However, in such a case, if a tax lien has attached to the property at the time of sale, the United States has the same right of redemption, if any, which is afforded similar creditors under the local law of the place in which the property is situated.

(b) *Amount to be paid*—(1) *In general.* In any case in which a district director exercises the right to redeem real property under section 7425(d), the amount to be paid is the sum of the following amounts—

(i) The actual amount paid for the property (as determined under paragraph (b)(2) of this section) being redeemed (which, in the case of a purchaser who is the holder of the lien being foreclosed, shall include the amount of the obligation secured by such lien to the extent legally satisfied by reason of the sale);

(ii) Interest on the amount paid (described in paragraph (b)(1)(i) of this section) at the sale by the purchaser of the real property computed at the rate of 6 percent per annum for the period from the date of the sale (as determined under paragraph (b) of § 301.7425–2) to the date of redemption;

(iii) The amount, if any, equal to the excess of (A) the expenses necessarily incurred to maintain such property (as determined under paragraph (b)(3) of this section) by the purchaser (and his successor in interest, if any) over (B) the income from such property realized by the purchaser (and his successor in interest, if any) plus a reasonable rental value of such property (to the extent the property is used by or with the consent of the purchaser or his successor in interest or is rented at less than its reasonable rental value); and

(iv) With respect to a redemption made after December 31, 1976, the amounts, if any, of a payment made by the purchaser or his successor in interest after the foreclosure sale to a holder of a senior lien (to the extent provided under paragraph (b)(4) of this section).

(2) *Actual amount paid.* (i) The actual amount paid for property by a purchaser, other than holder of the lien being foreclosed, is the amount paid by him at the sale. For purposes of this subdivision, the amount paid by the purchaser at the sale includes deferred payments upon the bid price. The actual amount paid does not include costs and expenses incurred prior to the foreclosure sale by the purchaser except to the extent such expenses are included in the amount bid and paid for the property. For example, the actual amount paid does not normally include the expenses of the purchaser such as

title searches, professional fees, or interest on debt incurred to obtain funds to purchase the property.

(ii) In the case of a purchaser who is the holder of the lien being foreclosed, the actual amount paid is the sum of (A) the amount of the obligation secured by such lien to the extent legally satisfied by reason of the sale and (B) any additional amount bid and paid at the sale. For purposes of this section, a purchaser who acquires title as a result of a nonjudicial foreclosure sale is treated as the holder of the lien being foreclosed if a lien (or any interest reserved, created, or conveyed as security for the payment of a debt or fulfillment of other obligation) held by him is partially or fully satisfied by reason of the foreclosure sale. For example, a person whose title is derived from a tax deed issued under local law shall be treated as a purchaser who is the holder of the lien foreclosed in a case where a tax certificate, evidencing a lien on the property arising from the payment of property taxes, ripens into title. The amount paid by a purchaser at the sale includes deferred payments upon any portion of the bid price which is in excess of the amount of the lien being foreclosed. The actual amount paid does not include costs and expenses incurred prior to the foreclosure sale by the purchaser except to the extent such expenses are included in the amount of the lien being foreclosed which is legally satisfied by reason of the sale or in the amount bid and paid at the sale. Where the lien being foreclosed attaches to other property not subject to the foreclosure sale, the amount legally satisfied by reason of the sale does not include the amount of such lien that attaches to the other property. However, for purposes of the preceding sentence, the amount of the lien that attaches to the other property shall be considered to be equal to the amount by which the value of the other property exceeds the amount of any other senior lien on that property. Where, after the sale, the holder of the lien being foreclosed has the right to the unpaid balance of the amount due him, the amount legally satisfied by reason of the sale does not include the amount of such lien to the extent a deficiency judgment may be obtained therefor. However, for purposes of the preceding sentence, an amount, with respect to which the holder of the lien being foreclosed would otherwise have a right to a deficiency judgment, shall be considered to be legally satisfied by reason of the foreclosure sale to the extent that the holder has waived his right to a deficiency judgment prior to the foreclosure sale. For this purpose, the waiver must be in writing and legally binding upon the foreclosing lienholder as of the time the sale is concluded. If, prior to the foreclosure, payments have been made by the foreclosing lienholder to a holder of a superior lien, the payments are included in the actual amount paid to the extent they give rise to an interest which is legally satisfied by reason of the foreclosure sale.

(3) *Excess expenses incurred by purchaser*. (i) Expenses necessarily incurred in connection with the property after the foreclosure sale and before redemption by the United States are taken into account in determining if there are excess expenses payable under paragraph (b)(1)(iii) of this section. Expenses incurred by the purchaser prior to the foreclosure sale are not considered under this subparagraph. (See paragraph (b)(2)(ii) of this section for circumstances under which such expenses may be included in the amount to be paid.) Expenses necessarily incurred in connection with the property include, for example, rental agent commissions, repair and maintenance expenses, utilities expenses, legal fees incurred after the foreclosure sale and prior to redemption in defending the title acquired through the foreclosure sale, and a proportionate amount of casualty insurance premiums and ad valorem taxes. Improvements made to the property are not considered as an expense unless the amounts incurred for such improvements are necessarily incurred to maintain the property.

(ii) At any time prior to the expiration of the redemption period applicable under paragraph (a)(2) of this section, the district director may, by certified or registered mail or hand delivery, request a written itemized statement of the amount claimed by the purchaser or his successor in interest

to be payable under paragraph (b)(1)(iii) of this section. Unless the purchaser or his successor in interest furnishes the written itemized statement within 15 days after the request is made by the district director, it shall be presumed that no amount is payable for expenses in excess of income and the Internal Revenue Service shall tender only the amount otherwise payable under paragraph (b)(1) of this section. If a purchaser or his or her successor in interest has failed to furnish the written itemized statement within 15 days after the request therefor is made by the district director, or there is a disagreement as to the amount properly payable under paragraph (b)(1)(iii) of this section, or if there were additional excess expenses that were not claimed in the original itemized statement, the purchaser or his or her successor in interest may submit a written itemized statement to the district director within 30 days after the date of redemption. If the purchaser or his or her successor in interest fails to timely submit such a written itemized statement, no amount shall be payable for expenses in excess of income.

(4) *Payments made by purchaser or his successor in interest to a senior lienor.* (i) The amount to be paid upon a redemption by the United States made after December 31, 1976, shall include the amount of a payment made by the purchaser or his successor in interest to a holder of a senior lien to the extent a request for the reimbursement thereof (made in accordance with paragraph (b)(4)(ii) of this section) is approved as provided under paragraph (b)(4)(iii) of this section. This paragraph applies only to a payment made after the foreclosure sale and before the redemption to a holder of a lien that was, immediately prior to the foreclosure sale, superior to the lien foreclosed. A payment of principal or interest to a senior lienor shall be taken into account. Generally, the portion, if any, of a payment which is to be held in escrow for the payment of an expense, such as hazard insurance or real property taxes, is not considered under this paragraph. However, a payment by the escrow agent of a real property tax or special assessment lien, which was senior to the lien foreclosed, shall be considered to be a payment made by the purchaser or his successor in interest for purposes of this paragraph. With respect to real property taxes assessed after the foreclosure sale, see paragraph (b)(3)(i) of this section, relating to excess expenses incurred by the purchaser.

(ii) Before the expiration of the redemption period applicable under paragraph (a)(2) of this section, the district director shall, in any case where a redemption is contemplated, send notice to the purchaser (or his successor in interest of record) by certified or registered mail or hand delivery of his right under this subparagraph to request reimbursement (payable in the event the right to redeem under section 7425(d) is exercised) for a payment made to a senior lienor. No later than 15 days after the notice from the district director is sent, the request for reimbursement shall be mailed or delivered to the office specified in such notice and shall consist of—

(A) A written itemized statement, signed by the claimant, of the amount claimed with respect to a payment made to a senior lienor, together with the supporting evidence requested in the notice from the district director, and

(B) A waiver or other document that will be effective upon redemption by the United States to discharge the property from, or transfer to the United States, any interest in or lien on the property that may arise under local law with respect to the payment made to a senior lienor.

Upon a showing of reasonable cause, a district director may, in his discretion and at any time before the expiration of the applicable period for redemption, grant an extension for a reasonable period of time to submit, amend, or supplement a request for reimbursement. Unless a request for reimbursement is timely submitted (determined with regard to any extension of time granted), no amount shall be payable to the purchaser or his successor in interest on account of a payment made to a senior lienor if the right to redeem under section 7425(d) is exercised. A waiver or other document submitted pursuant to

this subdivision shall be treated as effective only to the extent of the amount included in the redemption price under this paragraph. If the right to redeem is not exercised or a request for reimbursement is withdrawn, the district director shall, by certified or registered mail or hand delivery, return to the purchaser or his successor any waiver or other document submitted pursuant to this subdivision as soon as is practicable.

(iii) A request for reimbursement submitted in accordance with paragraph (b)(4)(ii) of this section shall be considered to be approved for the total amount claimed by the purchaser, and payable in the event the right to redeem is exercised, unless the district director sends notice to the claimant, by certified or registered mail or hand delivery, of the denial of the amount claimed within 30 days after receipt of the request or 15 days before expiration of the applicable period for redemption, whichever is later. The notification of denial shall state the grounds for denial. If such notice of denial is given, the request for reimbursement for a payment made to a senior lienor shall be treated as having been withdrawn by the purchaser or his successor and the Internal Revenue Service shall tender only the amount otherwise payable under paragraph (b)(1) of this section. If a request for reimbursement is treated as having been withdrawn under the preceding sentence, payment for amounts described in this subparagraph may, in the discretion of the district director, be made after the redemption upon the resolution of the disagreement as to the amount properly payable under paragraph (b)(1)(iv) of this section.

(5) *Examples*. The provisions of paragraph (b)(1)(i) of this section may be illustrated by the following examples:

Example 1. A, a delinquent taxpayer, owns Blackacre located in State X upon which B holds a mortgage. After the mortgage is properly recorded, a notice of tax lien is filed under section 6323(f) which is applicable to Blackacre. Subsequently, A defaults on the mortgage and B forecloses on the mortgage which has an outstanding obligation in the amount of $100,000. At the foreclosure sale, B bids $50,000 and obtains title to Blackacre as a result of the sale. At the time of the foreclosure sale, Blackacre has a fair market value of $75,000. Under the laws of State X, the mortgage obligation is fully satisfied by operation of the foreclosure sale per se and the mortgagee cannot obtain a deficiency judgment. Under paragraph (b)(1)(i) of this section, the district director must pay $100,000 in order to redeem Blackacre.

Example 2. Assume the same facts as in example 1 except that under the laws of State X, the amount bid is the amount of the obligation legally satisfied as a result of the foreclosure sale, and in the case in which the amount of the obligation exceeds the amount bid, the mortgagee has the right to a judgment for the deficiency computed as the difference between the amount of the obligation and the amount bid. B does not waive, prior to the foreclosure sale, his right to a deficiency judgment. In such a case, the district director must, under paragraph (b)(1)(i) of this section, pay $50,000 in order to redeem Blackacre, whether or not B seeks a judgment for the deficiency.

Example 3. C, a delinquent taxpayer, owns Greenacre located in State Y upon which D holds a first mortgage and E holds a second mortgage. After the mortgages are properly recorded, a notice of tax lien is filed under section 6323(f) which is applicable to Greenacre. Subsequently, C defaults on both mortgages and E pays $5,000 to D, which is the portion of D's obligation which is in default. The second mortgage held by E is an outstanding obligation in the amount of $100,000. Under the laws of State Y, E may treat the amount paid to D as an addition to his second mortgage upon foreclosure by him. E forecloses upon the security interest held by him. At the foreclosure sale, E bids $50,000 and obtains title to Greenacre subject to D's mortgage as a result of the foreclosure sale. Under the laws of State Y, the mortgage obligation legally satisfied is the amount bid and E has the right to a judgment for a deficiency in the amount of $55,000 ($100,000 plus $5,000 less $50,000). In such a case, the district director must, under paragraph (b)(1)(i) of this section, pay $50,000 in order to redeem Greenacre, whether or not E seeks a judgment for the deficiency.

Example 4. The law of State Z contains a procedure which permits a county to collect a delinquent tax assessment with respect to real property by the means of a ''tax sale'' of the property. Pursuant to this procedure, a public auction is conducted on January 15, 1970, to collect the delinquent property taxes assessed against Whiteacre, which is owned by F. At the auction, a bid of $1,000 (representing the tax, costs, and interest due at the time of the auction) is made by G. Subsequently, G pays the amount bid to the county and obtains a tax certificate with respect to Whiteacre. Under this tax sale procedure, the obtaining of the tax certificate does not directly result in the divestment of either F's title or any junior liens on Whiteacre. On

January 15, 1973, the period under this tax sale procedure during which F could have redeemed Whiteacre expires. Further, more than 30 days before January 15, 1973, a notice of tax lien affecting Whiteacre is filed under section 6323(f) with respect to F's delinquent Federal income taxes. Under the state tax sale procedure, the amount which would be required to be paid by F to G on January 15, 1973, to redeem Whiteacre is $1,350 (the $1,000 amount bid, interest of $300, and costs of $50). However, Whiteacre is not redeemed by F under the state procedure and, on January 16, 1973, G obtains a tax deed to Whiteacre. Under the law of State Z, the issuance of the tax deed results in the divestment of F's title and junior liens on Whiteacre. Thus, under § 301.7425–2(b), the date of sale is January 16, 1973, for purposes of section 7425(b). The amount legally satisfied by reason of the sale is the amount G is entitled to receive, immediately prior to the expiration of the period for redemption under the law of State Z, if Whiteacre were redeemed at such time. Thus, the district director must, under paragraph (b)(1)(i) of this section, pay $1,350 in order to redeem Whiteacre.

(c) *Certificate of redemption*—(1) *In general*. If a district director exercise the right of redemption of the United States described in paragraph (a) of this section, he shall apply to the officer designated by local law, if any, for the documents necessary to evidence the fact of redemption and to record title to the redeemed property in the name of the United States. If no such officer has been designated by local law or if the officer designated by local law fails to issue the necessary documents, the district director is authorized to issue a certificate of redemption for the property redeemed by the United States.

(2) *Filing*. The district director shall, without delay, cause either the documents issued by the local officer or the certificate of redemption executed by the district director to be filed with the local office where certificates of redemption are generally filed. If a certificate of redemption is issued by the district director and if the State in which the real property redeemed by the United States is situated has no office with which certificates of redemption may be filed, the district director shall file the certificate of redemption in the office of the clerk of the United States district court for the judicial district in which the redeemed property is situated.

(3) *Effect of certificate of redemption*. A certificate of redemption executed pursuant to paragraph (c)(1) of this section, shall constitute prima facie evidence of the regularity of the redemption. When a certificate of redemption is recorded, it shall transfer to the United States all the rights, title, and interest in and to the redeemed property acquired by the person, from whom the district director redeemed the property, by virtue of the sale of the property. Therefore, if under local law the purchaser takes title free of liens junior to the lien of the foreclosing lienholder, the United States takes title free of such junior liens upon redemption of the property. If a certificate of redemption has been erroneously prepared and filed because the redemption was not effective, the district director shall issue a document revoking such certificate of redemption and such document shall be conclusively binding upon the United States against a purchaser of the property or a holder of a lien upon the property.

(4) *Application for release of right of redemption*. Upon application of a party with a proper interest in the real property sold in a nonjudicial sale described in section 7425(b) and § 301.7425–2 which real property is subject to the right of redemption of the United States described in this section, the district director may, in his discretion, release the right of redemption with respect to the property. The application for the release shall be submitted in writing to a district director and shall contain such information as the district director may require. If the district director determines that the right of redemption of the United States is without value, no amount shall be required to be paid with respect to the release of the right of redemption.

[T.D. 7430, 41 FR 35181, Aug. 20, 1976, as amended by T.D. 8596, 60 FR 28720, June 2, 1995]

§ 301.7426–1 Civil actions by persons other than taxpayers.

(a) *Actions permitted*—(1) *Wrongful levy*—(i) *In general*. If a levy has been made on property or property has been sold pursuant to a levy, any person (other than the person against whom is

assessed the tax out of which such levy arose) may bring a civil action against the United States in a district court of the United States based upon such person's claim—

(A) That such person has an interest in, or lien on, such property which is senior to the interest of the United States; and

(B) That such property was wrongfully levied upon.

(ii) *Debt owed by another Federal agency*. Section 7426 and this paragraph (a) apply when a levy is made by the Internal Revenue Service on a debt owed to a taxpayer by another Federal agency. By contrast, section 7426 and this paragraph (a) do not apply if the Internal Revenue Service requests payment from another Federal agency pursuant to a request for setoff.

(2) *Surplus proceeds*. If property has been sold pursuant to levy, any person (other than the person against whom is assessed the tax out of which such levy arose) may bring a civil action against the United States in a district court of the United States based upon such person's claim that he—

(i) Has an interest in or lien on such property junior to that of the United States; and

(ii) Is entitled to the surplus proceeds of such sale.

(3) *Substituted sale proceeds*. Any person who claims to be legally entitled to all or any part of the amount which is held as a fund from the sale of property pursuant to an agreement described in section 6325(b)(3) may bring a civil action against the United States in a district court of the United States to obtain the relief provided by section 7426 (b)(4). It is not necessary that the claimant be a party to the agreement which provides for the substitution of the sale proceeds for the property subject to the lien.

(4) *Substitution of value*. A person who obtains a certificate of discharge under section 6325(b)(4) with respect to any property may, within 120 days after the day on which the certificate is issued, bring a civil action against the United States in a district court of the United States for a determination of whether the value of the interest of the United States (if any) in such property is less than the value determined by the appropriate official. A civil action under this provision shall be the exclusive judicial remedy for a person other than the taxpayer who obtains a certificate of discharge for a filed notice of Federal tax lien.

(b) *Adjudication*—(1) *Wrongful levy*. If the court determines that property has been wrongfully levied upon, the court may—

(i) Grant an injunction to prohibit the enforcement of such levy or to prohibit a sale of such property if such sale would irreparably injure rights in the property which are superior to the rights of the United States in such property; or

(ii) Order the return of specific property if the United States is in possession of such property; or

(iii) Grant a judgment for the amount of money levied upon; or

(iv) Grant a judgment for an amount not exceeding the amount received by the United States from the sale of such property (which, in the case of property declared purchased by the United States at a sale, shall be the greater of the minimum amount determined pursuant to section 6335(e) or the amount received by the United States from the resale of such property).

For purposes of this paragraph, a levy is wrongful against a person (other than the taxpayer against whom the assessment giving rise to the levy is made), if (*a*) the levy is upon property exempt from levy under section 6334, or (*b*) the levy is upon property in which the taxpayer had no interest at the time the lien arose or thereafter, or (*c*) the levy is upon property with respect to which such person is a purchaser against whom the lien is invalid under section 6323 or 6324 (a)(2) or (b), or (*d*) the levy or sale pursuant to levy will or does effectively destroy or otherwise irreparably injure such person's interest in the property which is senior to the Federal tax lien. A levy may be wrongful against a holder of a senior lien upon the taxpayer's property under certain circumstances although legal rights to enforce his interest survive the levy procedure. For example, the levy may be wrongful against such a person if the property is an obligation which is collected pursuant to the levy rather than sold and nothing

thereafter remains for the senior lienholder, or the property levied upon is of such a nature that when it is sold at a public sale the property subject to the senior lien is not available for the senior lienholder as a realistic source for the enforcement of his interest. Some of the factors which should be taken into account in determining whether property remains or will remain a realistic source from which the senior lienholder may realize collection are: (*1*) The nature of the property, (*2*) the number of purchasers, (*3*) the value of each unit sold or to be sold, (*4*) whether, as a direct result of the distraint sale, the costs of realizing collection from the security have or will be so substantially increased as to render the security substantially valueless as a source of collection, and (*5*) whether the property subject to the distraint sale constitutes substantially all of the property available as security for the payment of the indebtedness to the senior lienholder.

(2) *Example*. The provisions of subparagraph (1) of this paragraph (b) may be illustrated by the following example:

Example. On April 10, 1972, A makes a $10,000 loan to B which is partially secured by a $5,000 obligation owed to B by C. Under local law, A's security interest in the obligation owed to B by C is protected against a subsequent judgment lien arising out of an unsecured obligation. Thus, under section 6323(h)(1), A's security interest exists as of April 10, 1972, for purposes of determining priorities against a tax lien under section 6323. On April 17, 1972, an assessment of $6,000 is made against B with respect to his delinquent Federal tax liability. Thereafter, notice of lien is filed pursuant to section 6323(f) with respect to B's delinquent tax liability. On July 10, 1972, a notice of levy is served upon C to reach the amount owed by him to B. C pays over the $5,000 obligation in satisfaction of the levy and, under local law, the obligation is discharged as to A. Because the levy effectively destroyed A's senior security interest in the obligation owed to B by C, the levy is wrongful as to A for purposes of section 7426. Under these circumstances, the levy is wrongful with respect to A even if, under local law. A may have a cause of action in contract against B for the $10,000 loan or may have a cause of action in tort against C for the amount of the $5,000 payment which defeated A's security interest in the obligation owed by C to B.

(3) *Surplus proceeds*. If the court determines that the interest or lien of any party to an action under section 7426 was transferred to the proceeds of a sale of the property, the court may grant a judgment in an amount equal to all or any part of the amount of the surplus proceeds of such sale. The term ''surplus proceeds'' means those proceeds realized on a sale of property remaining after application of the provisions of section 6342(a).

(4) *Substituted sale proceeds*. If the court determines that a party has an interest in or lien on the amount held as a fund pursuant to an agreement described in section 6325(b)(3), the court may grant a judgment in an amount equal to all or any part of the amount of such fund.

(5) *Substitution of value*. If the court determines that the determination by the appropriate official of the value of the interest of the United States in the property exceeds the actual value of such interest, the court may grant a judgment ordering a refund of the amount deposited, or a release of the bond, to the extent that the aggregate of those amounts exceeds the value as determined by the court.

(c) *Effective date*. Paragraph (a)(1) of this section is effective as of December 23, 1993.

(d) Paragraphs (a)(4) and (b)(5) of this section apply to any request for a certificate of discharge made after January 31, 2008.

[T.D. 7305, 39 FR 9951, Mar. 15, 1974, as amended by T.D. 8541, 59 FR 26601, May 23, 1994; 73 FR 5744, Jan. 31, 2008]

§ 301.7426–2 Recovery of damages in certain cases.

(a) *In general*. In addition to remedies related to wrongful levy set forth in § 301.7426–1(b), if a district court of the United States finds in any action brought under section 7426 that any officer or employee of the Internal Revenue Service recklessly or intentionally, or by reason of negligence, disregarded any provision of this title, the United States shall be liable to the plaintiff for damages. The plaintiff has a duty to mitigate damages. The total amount of damages recoverable under this section is the lesser of $1,000,000

($100,000 in the case of negligence), or the sum of—

(1) Actual, direct economic damages as defined in § 301.7433–1(b) sustained as a proximate result of the reckless, intentional, or negligent actions of the officer or employee, reduced by the amount of any damages awarded under § 301.7426–1(b); and

(2) Costs of the action as defined in § 301.7433–1(c).

(b) *Administrative remedies must be exhausted.* The court may not award a judgment for damages under paragraph (a) of this section unless the court determines that the plaintiff has filed an administrative claim pursuant to paragraph (d) of this section, and has satisfied the requirements of paragraph (c) of this section.

(c) *No request for damages in a district court of the United States prior to filing an administrative claim.* (1) Except as provided in paragraph (c)(2) of this section, no request for damages under paragraph (a) of this section shall be maintained in any district court of the United States before the earlier of the following dates—

(i) The date the decision is rendered on a claim filed in accordance with paragraph (d) of this section; or

(ii) The date that is six months after the date an administrative claim is filed in accordance with paragraph (d) of this section.

(2) If an administrative claim is filed in accordance with paragraph (d) of this section during the last six months of the period of limitations described in paragraph (f) of this section, the claimant may file an action in a district court of the United States any time after the administrative claim is filed and before the expiration of the period of limitations.

(d) *Procedures for an administrative claim*—(1) *Manner.* An administrative claim for the lesser of $1,000,000 ($100,000 in the case of negligence) or actual, direct economic damages as defined in § 301.7433–1(b) shall be sent in writing to the Area Director, Attn: Compliance Technical Support Manager of the area in which the taxpayer currently resides.

(2) *Form.* The administrative claim shall include—

(i) The name, taxpayer identification number, current address and current home and work telephone numbers (indicating any convenient times to be contacted) of the person making the claim;

(ii) The grounds, in reasonable detail, for the claim (include copies of any available substantiating documentation or correspondence with the Internal Revenue Service);

(iii) A description of the damages incurred by the claimant filing the claim (include copies of any available substantiating documentation or evidence);

(iv) The dollar amount of the claim, including any damages that have not yet been incurred but which are reasonably foreseeable (include copies of any available substantiating documentation or evidence); and

(v) The signature of the claimant or duly authorized representative.

(3) *Duly authorized representative.* For purposes of this paragraph (d), a duly authorized representative is any attorney, certified public accountant, enrolled actuary, or any other person permitted to represent the claimant before the Internal Revenue Service who is not disbarred or suspended from practice before the Internal Revenue Service and who has a written power of attorney executed to the claimant.

(e) *No liability for damages for any sum in excess of the dollar amount sought in the administrative claim. See* § 301.7433–1(f).

(f) *Period of limitations*—(1) *Time for filing.* A civil action under paragraph (a) of this section must be brought in a district court of the United States within two years after the date the cause of action accrues.

(2) *Right of action accrues.* A cause of action under paragraph (a) of this section accrues when the plaintiff has had a reasonable opportunity to discover all essential elements of a possible cause of action.

(g) *Recovery of costs under section 7430. See* § 301.7433–1(h).

(h) *Effective date.* This section is applicable March 25, 2003.

[T.D. 9050, 68 FR 14319, Mar. 25, 2003]

§ 301.7429–1 Review of jeopardy and termination assessment and jeopardy levy procedures; information to taxpayer.

Not later than 5 days after the day on which an assessment is made under section 6851(a), 6852(a), 6861(a), or 6862, or a levy is made under section 6331(a) without complying with the notice before levy provisions of section 6331(d), the district director shall provide the taxpayer a written statement setting forth the information upon which the district director relies in authorizing such assessment or levy.

[T.D. 8453, 57 FR 58985, Dec. 14, 1992]

§ 301.7429–2 Review of jeopardy and termination assessment and jeopardy levy procedures.

(a) *Request for administrative review.* Any request for the review of a jeopardy or termination assessment or jeopardy levy provided for by section 7429(a)(2) shall be filed with the district director within 30 days after the statement described in § 301.7429–1 is given to the taxpayer. However, if no statement is given within the 5 day period described in § 301.7429–1, any request for review of the jeopardy or termination assessment or jeopardy levy shall be filed within 35 days after the date such assessment or levy is made. Such request shall be in writing, shall state fully the reasons for the request, and shall be supported by such evidence as will enable the district director to make the redetermination described in section 7429(a)(3).

(b) *Administrative review.* In determining whether the assessment is reasonable and the amount assessed is appropriate, or whether the jeopardy levy is reasonable, the district director shall take into account not only information available at the time the assessment or jeopardy levy is made but also information which subsequently becomes available.

(c) *Abatement of assessment.* For rules relating to the abatement of assessments made under sections 6851 and 6861 see §§ 301.6861–1(e), 301.6861–1(f) and 1.6851–1(d) of this chapter.

[T.D. 8453, 57 FR 58985, Dec. 14, 1992]

§ 301.7429–3 Review of jeopardy and termination assessment and jeopardy levy procedures; judicial action.

(a) *Time for bringing judicial action.* An action for judicial review described in section 7429(b) may be instituted by the taxpayer during the period beginning on the earlier of—

(1) The date the district director notifies the taxpayer of the determination described in section 7429(a)(3) and ending on the 90th day thereafter; or

(2) The 16th day after the request described in section 7429(a)(2) was made by the taxpayer and ending on the 90th day thereafter.

(b) *Extension of period for judicial review.* The United States Government may not by itself seek an extension of the 20 day period described in section 7429(b)(3), but it may join with the taxpayer in seeking such an extension.

(c) *Jurisdiction for determination.* In general, the United States district court will have exclusive jurisdiction over any civil action for a determination described in section 7429(b). However, if a petition for a redetermination of a deficiency has been timely filed with the Tax Court prior to the making of an assessment or levy that is subject to the section 7429 review procedures, and one or more of the taxes and tax periods before the Tax Court as a result of the petition is also included in the written statement that was provided to the taxpayer, then the Tax Court will have jurisdiction concurrent with the district courts over any civil action for a judicial determination with respect to all the taxes and tax periods included in the written statement. In all other cases, the appropriate United States district court continues to have exclusive jurisdiction over such an action.

[T.D. 8453, 57 FR 58985, Dec. 14, 1992]

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[T.D. 8542, 59 FR 29360, June 7, 1994, as amended by T.D. 8725, 62 FR 39118, July 22, 1997; T.D. 9756, 81 FR 10483, Mar. 1, 2016]

§ 301.7430–1 Exhaustion of administrative remedies.

(a) *In general.* Section 7430(b)(1) provides that a court shall not award reasonable litigation costs in any civil tax proceeding under section 7430(a) unless the court determines that the prevailing party has exhausted the administrative remedies available to the party within the Internal Revenue Service. This section sets forth the circumstances in which such administrative remedies shall be deemed to have been exhausted.

(b) *Requirements*—(1) *In general.* A party has not exhausted the administrative remedies available within the Internal Revenue Service with respect to any tax matter for which an Appeals office conference is available under §§ 601.105 and 601.106 of this chapter (other than a tax matter described in paragraph (c) of this section) unless—

(i) The party, prior to filing a petition in the Tax Court or a civil action for refund in a court of the United States (including the Court of Federal Claims), participates, either in person or through a qualified representative described in § 601.502 of this chapter, in an Appeals office conference; or

(ii) If no Appeals office conference is granted, the party, prior to the issuance of a statutory notice in the case of a petition in the Tax Court or the issuance of a notice of disallowance in the case of a civil action for refund in a court of the United States (including the Court of Federal Claims)—

(A) Requests an Appeals office conference in accordance with §§ 601.105 and 601.106 of this chapter or any successor published guidance; and

(B) Files a written protest if a written protest is required to obtain an Appeals office conference.

(2) *Participates.* For purposes of this section, a party or qualified representative of the party described in § 601.502 of this chapter participates in an Appeals office conference if the party or qualified representative discloses to the Appeals office all relevant information regarding the party's tax matter to the extent such information and its relevance were known or should have been known to the party or qualified representative at the time of such conference.

(3) *Tax matter.* For purposes of this section, ''tax matter'' means a matter in connection with the determination, collection or refund of any tax, interest, penalty, addition to tax or additional amount under the Internal Revenue Code.

(4) *Failure to agree to extension of time for assessments.* Any failure by the prevailing party to agree to an extension of the time for the assessment of any tax will not be taken into account for purposes of determining whether the prevailing party has exhausted the administrative remedies available to the party within the Internal Revenue Service.

(c) *Revocation of a determination that an organization is described in section 501(c)(3).* A party has not exhausted the administrative remedies available within the Internal Revenue Service with respect to a revocation of a determination that it is an organization described in section 501(c)(3) unless, prior to filing a declaratory judgment action under section 7428, the party has exhausted its administrative remedies in accordance with section 7428, and any

regulations, rules, and revenue procedures thereunder.

(d) *Actions involving summonses, levies, liens, jeopardy and termination assessments, etc.* (1) A party has not exhausted the administrative remedies available within the Internal Revenue Service with respect to a matter other than one to which paragraph (b) or (c) of this section applies (including summonses, levies, liens, and jeopardy and termination assessments) unless, prior to filing an action in a court of the United States (including the Tax Court and the Court of Federal Claims)—

(i) The party follows all applicable Internal Revenue Service procedures for contesting the matter (including filing a written protest or claim, requesting an administrative appeal, and participating in an administrative hearing or conference); or

(ii) If there are no applicable Internal Revenue Service procedures, the party submits to the Area Director of the area having jurisdiction over the dispute a written claim for relief reciting facts and circumstances sufficient to show the nature of the relief requested and that the party is entitled to the requested relief, and the Area Director denies the claim for relief in writing or fails to act on the claim within a reasonable period after the claim is received by the Area Director.

(2) For purposes of paragraph (d)(1)(ii) of this section, a *reasonable period* is—

(i) The 5-day period preceding the filing of a petition to quash an administrative summons issued under section 7609;

(ii) The 5-day period preceding the filing of a wrongful levy action in which a demand for the return of property is made;

(iii) The period expressly provided for administrative review of the party's claim by an applicable provision of the Internal Revenue Code that expressly provides for the pursuit of administrative remedies (such as the 16-day period provided under section 7429(b)(1)(B) relating to review of jeopardy assessment procedures); or

(iv) The 60-day period following receipt of the claim for relief in all other cases.

(e) *Actions involving willful violations of the automatic stay under section 362 or the discharge provisions under section 524 of the Bankruptcy Code*—(1) *Section 7433 claims.* A party has not exhausted administrative remedies within the Internal Revenue Service with respect to asserted violations of the automatic stay under section 362 of the Bankruptcy Code or the discharge provisions under section 524 of the Bankruptcy Code unless it files an administrative claim for damages or for relief from a violation of section 362 or 524 of the Bankruptcy Code with the Chief, Local Insolvency Unit, for the judicial district in which the bankruptcy petition that is the basis for the asserted automatic stay or discharge violation was filed pursuant to § 301.7433–2(e) and satisfies the other conditions set forth in § 301.7433–2(d) prior to filing a petition under section 7433.

(2) *Section 362(h) claims.* A party has not exhausted administrative remedies within the Internal Revenue Service with respect to asserted violations of the automatic stay under section 362 of the Bankruptcy Code unless it files an administrative claim for relief from a violation of section 362 of the Bankruptcy Code with the Chief, Local Insolvency Unit, for the judicial district in which the bankruptcy petition that is the basis for the asserted automatic stay violation was filed pursuant to § 301.7433–2(e) and satisfies the other conditions set forth in § 301.7433–2(d) prior to filing a petition under section 362(h) of the Bankruptcy Code.

(f) *Exception to requirement that party pursue administrative remedies.* If the conditions set forth in paragraph (f)(1), (f)(2), (f)(3), or (f)(4) of this section are satisfied, a party's administrative remedies within the Internal Revenue Service shall be deemed to have been exhausted for purposes of section 7430.

(1) The Internal Revenue Service notifies the party in writing that the pursuit of administrative remedies in accordance with paragraphs (b), (c), and (d) of this section is unnecessary.

(2) In the case of a petition in the Tax Court—

(i) The party did not receive a notice of proposed deficiency (30-day letter) prior to the issuance of the statutory notice and the failure to receive such

notice was not due to actions of the party (such as a failure to supply requested information or a current mailing address to the Internal Revenue Service office or service center having jurisdiction over the tax matter); and

(ii) The party does not refuse to participate in an Appeals office conference while the case is in docketed status.

(3) In the case of a civil action for refund involving a tax matter other than a tax matter described in paragraph (e)(4) of this section, the party—

(i) Participates in an Appeals office conference with respect to the tax matter prior to issuance of a statutory notice of deficiency with respect to such tax matter; or

(ii) Did not receive written notification that an Appeals office conference was available prior to issuance of a notice of disallowance and the failure to receive such a notification was not due to the actions of the party (such as the failure to supply requested information or a current mailing address to the Internal Revenue Service office or service center having jurisdiction over the tax matter); or

(iii) Did not receive either written or oral notification that an Appeals office conference had been granted within six months from the date of the filing of the claim for refund and the failure to receive such notice was not due to actions of the party (such as the failure to supply requested information or a current mailing address to the Internal Revenue Service office or service center having jurisdiction over the tax matter).

(4) In the case of a civil action for refund involving a tax matter under sections 6703 or 6694—

(i) The party did not receive a notice of proposed disallowance prior to issuance of a notice of disallowance and the failure to receive such notice was not due to actions of the party (such as the failure to supply requested information or a current mailing address to the Internal Revenue Service office or service center having jurisdiction over the tax matter); or

(ii) During the six-month period following the day on which the party's claim for refund is filed, the party's claim for refund is not denied, and the Internal Revenue Service has failed to process the claim with due diligence.

(g) *Examples.* The provisions of this section may be illustrated by the following examples:

Example 1. Taxpayer A exchanges property held for investment for similar property and claims that the gain on the exchange is not recognized under section 1031. The Internal Revenue Service conducts a field examination and determines that there has not been a like-kind exchange. No agreement is reached on the matter and a notice of proposed deficiency (30-day letter) is sent to A. A does not file a request for an Appeals office conference. A pays the amount of the proposed deficiency and files a claim for refund. A notice of proposed disallowance is issued by the Internal Revenue Service. A does not request an Appeals office conference and, instead, files a civil action for refund in a United States District Court. A has not exhausted the administrative remedies available within the Internal Revenue Service.

Example 2. Assume the same facts as in *Example 1* except that, after receiving the notice of proposed deficiency (30-day letter), A files a request for an Appeals office conference. No agreement is reached at the conference. A pays the amount of the proposed deficiency and files a claim for refund. A notice of proposed disallowance is issued by the Internal Revenue Service. A does not request an Appeals office conference and files a civil action for refund in a United States District Court. A has exhausted the administrative remedies available within the Internal Revenue Service.

Example 3. Assume the same facts as in *Example 1* except A first requests an Appeals office conference after A's receipt of the notice of proposed disallowance. A is granted an Appeals office conference and A participates in such conference. A has exhausted the administrative remedies available within the Internal Revenue Service.

Example 4. Taxpayer B receives a notice of proposed deficiency (30-day letter) after completion of a field examination. B provided to the Internal Revenue Service during the examination all relevant information under the taxpayer's control and all relevant legal arguments supporting the taxpayer's position. B properly requests an Appeals office conference. The Appeals office, to obtain an additional period of time to consider the tax matter, requests that B sign Form 872 to extend the time for an assessment of tax, but B declines. Appeals then denies the request for a conference and issues a notice of deficiency. B has exhausted the administrative remedies available within the Internal Revenue Service.

Example 5. Taxpayer C receives a notice of proposed deficiency (30-day letter) and a written statement that C need not file a

written protest or request an Appeals office conference since a conference will not be granted. C files a petition in the Tax Court after receiving the statutory notice of deficiency. C's administrative remedies within the Internal Revenue Service are deemed to have been exhausted.

Example 6. On January 2, the Internal Revenue Service serves a summons issued under section 7609 on third-party recordkeeper D to produce records of taxpayer E. On January 5, notice of the summons is given to E. The last day on which E may file a petition in a court of the United States to quash the summons is January 25. Thereafter, E files a written claim for relief with the Internal Revenue Service office having jurisdiction over the matter together with a copy of the summons. The claim and copy are received by the Internal Revenue Service office on January 20. On January 25, E files a petition to quash the summons. E has exhausted the administrative remedies available within the Internal Revenue Service.

Example 7. A notice of Federal tax lien is filed in County M on March 3, in the name of F. On April 2, F pays the entire liability thereby satisfying the lien. On May 2, F files a written claim with the Internal Revenue Service office having jurisdiction over the tax matter demanding a certificate of release of lien. Thereafter, F provides the Internal Revenue Service office with a copy of the notice of Federal tax lien and a copy of the canceled check in satisfaction of the lien, which are received by the district director on May 15. F's claim is deemed to have been filed on May 15. Accordingly, F must wait until after July 14 (60 days following the filing of the claim for relief on May 15) to commence an action, in order to have exhausted the administrative remedies available within the Internal Revenue Service.

Example 8. A revenue officer seizes an automobile to effect collection of G's liability on January 10. On January 22, H submits a written claim to the Internal Revenue Service office having jurisdiction over the tax matter claiming that H purchased the automobile from G for an adequate consideration before the tax lien against G arose, and demands immediate return of the automobile. A copy of the title certificate and H's canceled check are submitted with the claim. The claim is received by the Internal Revenue Service office on January 25. On January 30, H brings a wrongful levy action. H has exhausted the administrative remedies available within the Internal Revenue Service.

Example 9. The Internal Revenue Service issues a revenue ruling which holds that ear piercing does not affect a function or structure of the body within the meaning of section 213 and therefore is not deductible. Taxpayer I deducts the costs of ear piercing and, following an examination, receives a notice of proposed deficiency (30-day letter) disallowing the treatment of these costs. Because of the revenue ruling, I believes a conference would not aid in the resolution of the tax dispute. Accordingly, I does not request an Appeals office conference. After receiving a statutory notice of deficiency, I files a petition in the Tax Court. I has not exhausted the administrative remedies available within the Internal Revenue Service. The issuance of a revenue ruling covering the same fact situation but taking a contrary position does not constitute notification by the Internal Revenue Service to I that the pursuit of administrative remedies is unnecessary. Similarly, the issuance to I of a private letter ruling or technical advice does not constitute notification by the Internal Revenue Service that the pursuit of administrative remedies is unnecessary.

Example 10. Taxpayer J is assessed a penalty under section 6701 for aiding in the understatement of the tax liability of another person. J pays 15% of the penalty in accordance with section 6703 and files a claim for refund on June 15. J is not issued a notice of proposed disallowance and thus cannot participate in an Appeals office conference within six months of the filing of the claim for refund. J brings an action on December 23. J has exhausted the administrative remedies available within the Internal Revenue Service.

Example 11. Taxpayer K receives a notice of proposed deficiency (30-day letter) and neither requests nor participates in an Appeals office conference. The Service then issues a statutory notice of deficiency (90-day letter). Upon receiving the statutory notice, and after filing a petition with the Tax Court, K requests an Appeals office conference. K has not exhausted the administrative remedies available within the Internal Revenue Service because the request for an Appeals office conference was made after the issuance of the statutory notice.

(h) *Effective date*. This section applies to court proceedings described in section 7430 filed in a court of the United States (including the Tax Court) after May 7, 1992.

[T.D. 8543, 59 FR 29357, June 7, 1994, as amended by T.D. 8725, 62 FR 39118, July 22, 1997; T.D. 9050, 68 FR 14319, Mar. 25, 2003; T.D. 9050, 68 FR 16351, Apr. 3, 2003; T.D. 9756, 81 FR 10484, Mar. 1, 2016]

§ 301.7430–2 Requirements and procedures for recovery of reasonable administrative costs.

(a) *Introduction*. Section 7430(a)(1) provides for the recovery, under certain circumstances, of reasonable administrative costs incurred in connection with an administrative proceeding before the Internal Revenue Service. Paragraph (b) of this section lists the requirements that a taxpayer must meet to be entitled to an award of reasonable administrative costs from the Internal Revenue Service. Paragraph (c) of this section describes the procedures that a taxpayer must follow to recover reasonable administrative costs. Paragraphs (b) and (c) apply to requests for administrative costs regarding all administrative proceedings within the Internal Revenue Service.

(b) *Requirements for recovery*—(1) *Determination by the Internal Revenue Service*. The Internal Revenue Service will grant a taxpayer's request for recovery of reasonable administrative costs incurred in connection with an administrative proceeding under section 7430 and this section only if—

(i) *Jurisdiction*. The underlying substantive issues or the issue of reasonable administrative costs are not, and have never been, before any court of the United States (including the Tax Court or United States Court of Federal Claims) with jurisdiction over those issues;

(ii) *Administrative proceeding*. The costs were incurred in connection with an administrative proceeding as defined in § 301.7430–3(a);

(iii) *Administrative proceeding date*. The costs were incurred on or after the administrative proceeding date as defined in § 301.7430–3(c);

(iv) *Reasonable administrative costs*. The costs were reasonable administrative costs as defined in § 301.7430–4;

(v) *Prevailing party*. The taxpayer is a prevailing party as defined in § 301.7430–5;

(vi) *Not unreasonably protracted*. The administrative proceeding was not unreasonably protracted by the taxpayer as discussed in paragraph (d) of this section; and

(vii) *Procedural requirements*. The taxpayer follows the procedures set forth in paragraph (c) of this section.

(2) *Determination by court*. Although the Internal Revenue Service will not grant a request for reasonable administrative costs where the requirements of paragraph (b)(1)(i) of this section are not met, a taxpayer may file a claim for reasonable administrative costs with the court with jurisdiction over the judicial proceeding. The court may award the taxpayer reasonable administrative costs under section 7430(a). Under section 7430(c)(4)(C)(ii), where the final determination with respect to the tax, interest, or penalty at issue is made by a court, the court determines whether the taxpayer qualifies as a prevailing party. Thus, where the requirements of paragraph (b)(1)(i) of this section are not met, the taxpayer's only possibility of obtaining an award of reasonable administrative costs is to obtain an award of these costs from the court. In the event the court awards reasonable administrative costs, it may also award litigation costs for the reasonable costs of pursuing the claim for reasonable administrative costs, provided the requirements under section 7430 regarding an award of reasonable administrative costs are satisfied with respect to these costs. A claim filed with the court should be made in accordance with the rules of the court.

(c) *Procedure for recovering reasonable administrative costs*—(1) *In general*. The Internal Revenue Service will not award administrative costs under section 7430 unless the taxpayer files a written request to recover reasonable administrative costs in accordance with the provisions of this section.

(2) *Where request must be filed*. A request required by paragraph (c)(1) of this section must be filed with the Internal Revenue Service personnel who have jurisdiction over the tax matter underlying the claim for the costs, except that requests with respect to administrative proceedings defined by § 301.7430–8(c) should be made to the Chief, Local Insolvency Unit. However, if those persons are unknown to the taxpayer making the request, the taxpayer may send the request to the Internal Revenue Service office that considered the underlying matter.

(3) *Contents of request*. The request must be in writing and must contain the following statements, affidavits,

documentation, and information with regard to the taxpayer's administrative proceeding—

(i) *Statements.* (A) A statement that the underlying substantive issues or the issue of reasonable administrative costs are not, and have never been, before any court of the United States (including the Tax Court or United States Court of Federal Claims) with jurisdiction over those issues;

(B) A clear and concise statement of the reasons why the taxpayer alleges that the position of the Internal Revenue Service in the administrative proceeding was not substantially justified. For administrative proceedings commenced after July 30, 1996, if the taxpayer alleges that the Internal Revenue Service did not follow any applicable published guidance, the statement must identify all applicable published guidance that the taxpayer alleges that the Internal Revenue Service did not follow. For purposes of this paragraph (c)(3)(i)(B), the term applicable published guidance means final or temporary regulations, revenue rulings, revenue procedures, information releases, notices, announcements, and, if issued to the taxpayer, private letter rulings, technical advice memoranda, and determination letters. Also, for purposes of this paragraph (c)(3)(i)(B), the term administrative proceeding includes only those administrative proceedings or portions of administrative proceedings occurring on or after the administrative proceeding date as defined in § 301.7430–3(c). For costs incurred after January 18, 1999, if the taxpayer alleges that the United States has lost in courts of appeal for other circuits on substantially similar issues, the taxpayer must provide, for each such case, the full name of the case, volume and pages of the reporter in which the opinion appears, the circuit in which the case was decided, and the year of the opinion;

(C) A statement sufficient to demonstrate that the taxpayer has substantially prevailed as to the amount in controversy or with respect to the most significant issue or set of issues presented in the proceeding;

(D) A statement that the taxpayer has not unreasonably protracted the portion of the administrative proceeding for which the taxpayer is requesting costs; and

(E) A statement supported by a detailed affidavit executed by the taxpayer or the taxpayer's representative that sets forth the nature and amount of each specific item of reasonable administrative costs for which the taxpayer is seeking recovery. This statement must identify whether the representation is on a pro bono basis as defined in § 301.7430–4(d) and, if so, to whom payment should be made. Specifically, the statement must direct whether payment should be made to the taxpayer's representative or to the representative's employer.

(ii) *Affidavit or affidavits.* (A) An affidavit executed by the taxpayer stating that the taxpayer meets the net worth and size limitations of § 301.7430–5(f);

(B) An affidavit supporting the statement described in paragraph (c)(3)(i)(E) of this section; and

(C) For costs incurred after January 18, 1999, if more than $125 per hour (as adjusted for an increase in the cost of living pursuant to § 301.7430–4(b)(3)) is claimed for the fees of a representative in connection with the administrative proceeding, an affidavit is necessary stating that a special factor described in § 301.7430–4(b)(3) is applicable, such as the difficulty of the issues presented in the case or the lack of local availability of tax expertise. If a special factor is claimed based on specialized skills and distinctive knowledge as described in § 301.7430–4(b)(2)(ii), the affidavit should state—

(*1*) Why the specialized skills and distinctive knowledge were necessary in the representation;

(*2*) That there is a limited availability of representatives possessing these specialized skills and distinctive knowledge; and

(*3*) How the representative's education and experience qualifies the representative as someone with the necessary specialized skills and distinctive knowledge.

(iii) *Documentation and information.* (A) A copy of the billing records of the representative for the requested fees; and

(B) An address at which the taxpayer wishes to receive notice of the determination of the Internal Revenue Service with regard to the request for reasonable administrative costs.

(C) In cases of pro bono representation, time records similar to billing records, detailing the time spent and work completed, must be submitted for the requested fees.

(4) *Form of Request.* No specific form is required for the request other than one that satisfies the requirements of paragraph (c)(3) of this section. Where practicable the required statements may be included in a single document. Similarly, where practicable, the required affidavits may be combined in a single affidavit to the extent they are to be executed by the same person.

(5) *Period for requesting costs from the Internal Revenue Service.* To recover reasonable administrative costs pursuant to section 7430 and this section, the taxpayer must file a written request for costs within 90 days after the date the final adverse decision of the Internal Revenue Service with respect to all tax, additions to tax, interest, and penalties at issue in the administrative proceeding is mailed or otherwise furnished to the taxpayer. For purposes of this section, *interest* means the interest that is specifically at issue in the administrative proceeding independent of the taxpayer's objections to the underlying tax, additions to tax, and penalties imposed. The final decision of the Internal Revenue Service for purposes of this section is the document that resolves the taxpayer's liability with regard to all tax, additions to tax, interest, and penalties at issue in the administrative proceeding (such as a Form 870 or closing agreement), or a notice of assessment for that liability (such as the notice and demand under section 6303), whichever is earlier mailed or otherwise furnished to the taxpayer. For purposes of this section, if the 90th day falls on a Saturday, Sunday, or a legal holiday, the 90-day period shall end on the next succeeding day that is not a Saturday, Sunday, or a legal holiday as defined by section 7503.

(6) *Notice.* The Internal Revenue Service is authorized, but not required, to notify the taxpayer of its decision to grant or deny (in whole or in part) an award for reasonable administrative costs under section 7430 and this section by certified mail or registered mail. If the Internal Revenue Service does not respond on the merits to a request by the taxpayer for an award of reasonable administrative costs filed under paragraph (c)(1) of this section within 6 months after the request is filed, the Internal Revenue Service's failure to respond may be considered by the taxpayer as a decision of the Internal Revenue Service denying an award for reasonable administrative costs.

(7) *Appeal to Tax Court.* A taxpayer may appeal a decision by the Internal Revenue Service denying (in whole or in part) a request for reasonable administrative costs under section 7430 and this section by filing a petition for reasonable administrative costs with the Tax Court. The petition must be in accordance with the Tax Court's Rules of Practice and Procedure and must be filed with the Tax Court after the Internal Revenue Service denies (in whole or in part) the taxpayer's request for reasonable administrative costs. Once a notice of decision denying (in whole or in part) an award for reasonable administrative costs is mailed by the Internal Revenue Service via certified mail or registered mail as required by paragraph (c)(6) of this section, a taxpayer may obtain judicial review of that decision by filing a petition for review with the Tax Court prior to the 91st day after the mailing of the notice of decision.

(d) *Unreasonable protraction of administrative proceeding.* An award of reasonable administrative costs will not be made where the taxpayer unreasonably protracted the administrative proceeding. However, a taxpayer that unreasonably protracted only a portion of the administrative proceeding, but not other portions of the administrative proceeding, may recover reasonable administrative costs for the portion(s) of the administrative proceeding that the taxpayer did not unreasonably protract, if the requirements of paragraph (b)(1) of this section are otherwise satisfied.

(e) The following examples primarily illustrate paragraph (a) of this section:

Example 1. Taxpayer A receives a notice of proposed deficiency (30-day letter). A requests and is granted Appeals office consideration. The administrative file contains certain documents provided by A as substantiation for the tax matters at issue. Appeals determines that the information submitted is insufficient. Appeals then issues a notice of deficiency. After receiving the notice of deficiency but before the 90-day period for filing a petition with the Tax Court has expired, and before filing a petition with the Tax Court, A convinces Appeals that the information previously submitted and reviewed by Appeals is sufficient and, therefore, the notice of deficiency is incorrect and A owes no additional tax. Pursuant to section 6212(d), the notice of deficiency is rescinded. Appeals then closes the case showing a zero deficiency and mails A a notice to this effect. Assuming that Appeals did not rely on any new information provided by A in rescinding the notice of deficiency and that all of the other requirements of section 7430 are satisfied, A may recover reasonable administrative costs incurred after the date of the 30-day letter (the administrative proceeding date as defined in Treas. Reg. § 301.7430–3(c)). To recover these costs, A must file a request for administrative costs with the Appeals office personnel who settled A's tax matter, or if that person is unknown to A, with the Area Director of the area that considered the underlying matter, within 90 days after the date of mailing of the Office of Appeals' final decision that A owes no additional tax.

Example 2. Taxpayer B files a request for an abatement of interest pursuant to section 6404 and the regulations thereunder. The Area Director issues a notice of proposed disallowance of the abatement request (akin to a 30-day letter). B requests and is granted Appeals office consideration. No agreement is reached with Appeals and the Office of Appeals issues a notice of disallowance of the abatement request. B does not file suit in the Tax Court, but instead contacts the Appeals office within 180 days after the mailing date of the notice of disallowance of the abatement request to attempt to reverse the decision. B convinces the Appeals office that the notice of disallowance is in error. The Appeals office agrees to abate the interest and mails the taxpayer a notification of this decision. The mailing date of the notification from Appeals of the decision to abate interest commences the 90-day period from which the taxpayer may request administrative costs. Assuming that Appeals did not rely on any new information provided by B in reversing its notice of disallowance, and that all of the other requirements of section 7430 are satisfied, B may recover reasonable administrative costs incurred after the date the Area Director issued the notice of proposed disallowance of the abatement request (the administrative proceeding date as defined in Treas. Reg. § 301.7430–3(c)). To recover these costs, B must file a request for costs with the Appeals office personnel who settled B's tax matter, or if that person is unknown to B, with the Area Director of the area that considered the underlying matter within 90 days after the date of mailing of the Office of Appeals' final decision that B is entitled to abatement of interest.

Example 3. Taxpayer C receives a notice of proposed adjustment and employment tax 30-day letter. C requests and is granted Appeals office consideration. The administrative file contains certain documents provided by C to support C's position in the tax matters at issue. Appeals determines that the documents submitted are insufficient. Appeals then issues a notice of determination of worker classification. After receiving the notice of determination of worker classification but before the 90-day period for filing a petition with the Tax Court has expired, C convinces Appeals that the documents previously submitted and reviewed by Appeals adequately support its position and, therefore, C owes no additional employment tax. Appeals then closes the case showing a zero tax adjustment and mails C a no-change letter. Assuming that Appeals did not rely on any new information provided by C in reversing its notice of determination of worker classification, and that all of the other requirements of section 7430 are satisfied, C may recover reasonable administrative costs incurred after the date of the notice of proposed adjustment and 30-day letter (the administrative proceeding date as defined in Treas. Reg. § 301.7430–3(c)). To recover these costs, C must file a request for administrative costs with the Appeals office personnel who settled C's tax matter, or if that person is unknown to C, with the Area Director of the area that considered the underlying matter, within 90 days after the date of mailing of the Office of Appeals' final decision that C owes no additional tax.

[T.D. 8542, 59 FR 29360, June 7, 1994, as amended by T.D. 8725, 62 FR 39118, July 22, 1997; T.D. 9050, 68 FR 14320, Mar. 25, 2003; T.D. 9756, 81 FR 10484, Mar. 1, 2016]

§ 301.7430–3 Administrative proceeding and administrative proceeding date.

(a) *Administrative proceeding.* For purposes of section 7430, an administrative proceeding generally means any procedure or other action before the Internal Revenue Service that is commenced after November 10, 1988. However, an administrative proceeding does not include—

(1) Proceedings involving matters of general application, including hearings

on regulations, comments on forms, or proceedings involving revenue rulings or revenue procedures;

(2) Proceedings involving requests for private letter rulings or similar determinations;

(3) Proceedings involving technical advice memoranda, except those submitted after the administrative proceeding date (as defined in paragraph (c) of this section); and

(4) Proceedings in connection with collection actions (as defined in paragraph (b) of this section), including proceedings under section 7432 or 7433, except proceedings brought under section 7433(e) and § 301.7433–2 or proceedings otherwise described in § 301.7430–8(c). See § 301.7430–8.

(b) *Collection action.* A collection action generally includes any action taken by the Internal Revenue Service to collect a tax (or any interest, additional amount, addition to tax, or penalty, together with any costs in addition to the tax) or any action taken by a taxpayer in response to the Internal Revenue Service's act or failure to act in connection with the collection of a tax (including any interest, additional amount, addition to tax, or penalty, together with any costs in addition to the tax). A collection action for purposes of section 7430 and this section includes any action taken by the Internal Revenue Service under Chapter 64 of Subtitle F to collect a tax. Collection actions also include collection due process hearings under sections 6320 and 6330 (unless the underlying tax liability is properly at issue), and those actions taken by a taxpayer to remedy the Internal Revenue Service's failure to release a lien under section 6325 or to remedy any unauthorized collection action as described by section 7433, except those collection actions described by section 7433(e). An action or procedure directly relating to a claim for refund after payment of an assessed tax is not a collection action.

(c) *Administrative proceeding date*—(1) *General rule.* For purposes of section 7430 and the regulations thereunder, the term *administrative proceeding date* means the earlier of—

(i) The date of the receipt by the taxpayer of the notice of the decision of the Internal Revenue Service Office of Appeals;

(ii) The date of the notice of deficiency; or

(iii) The date on which the first letter of proposed deficiency that allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals is sent.

(2) *Notice of the decision of the Internal Revenue Service Office of Appeals.* For purposes of section 7430 and the regulations thereunder, a notice of the decision of the Internal Revenue Service Office of Appeals is the final written document, mailed or delivered to the taxpayer, that is signed by an individual in the Office of Appeals who has been delegated the authority to settle the dispute on behalf of the Commissioner, and states or indicates that the notice is the final determination of the entire case. A notice of claim disallowance issued by the Office of Appeals is a notice of the decision of the Internal Revenue Service Office of Appeals. Solely for purposes of determining the administrative proceeding date, a notice of deficiency issued by the Office of Appeals is not a notice of the decision of the Internal Revenue Service Office of Appeals.

(3) *Notice of deficiency.* A notice of deficiency is a notice described in section 6212(a), including a notice rescinded pursuant to section 6212(d). For purposes of determining reasonable administrative costs under section 7430 and the regulations thereunder, the following will be treated as a notice of deficiency:

(i) A notice of final partnership administrative adjustment described in section 6223(a)(2).

(ii) A notice of determination of worker classification issued pursuant to section 7436.

(iii) A final notice of determination denying innocent spouse relief issued pursuant to section 6015.

(4) *First letter of proposed deficiency that allows the taxpayer an opportunity for administrative review in the Office of Appeals.* Generally, the first letter of proposed deficiency that allows the taxpayer an opportunity for administrative review in the Office of Appeals

is the first letter issued to the taxpayer that describes the proposed adjustments and advises the taxpayer of the opportunity to contact the Office of Appeals. It also may be a claim disallowance or the first letter of determination that allows the taxpayer an opportunity for administrative review in the Office of Appeals.

(d) *Examples.* The provisions of this section are illustrated by the following examples:

Example 1. Taxpayer A receives a notice of proposed deficiency (30-day letter). A files a request for and is granted an Appeals office conference. At the Appeals conference no agreement is reached on the tax matters at issue. The Office of Appeals then issues a notice of deficiency. Upon receiving the notice of deficiency, A does not file a petition with the Tax Court. Instead, A pays the deficiency and files a claim for refund. The claim for refund is considered by the Internal Revenue Service and the Area Director issues a notice of proposed claim disallowance. A requests and is granted Appeals office consideration. A convinces Appeals that A's claim is correct and Appeals allows A's claim. A may recover reasonable administrative costs incurred on or after the date of the notice of proposed deficiency (30-day letter), but only if the other requirements of section 7430 and the regulations thereunder are satisfied. A cannot recover costs incurred prior to the date of the 30-day letter because these costs were incurred before the administrative proceeding date.

Example 2. Taxpayer B files an individual income tax return showing a balance due. No payment is made with the return and the Internal Revenue Service assesses the amount shown on the return. The Internal Revenue Service issues a Notice Of Intent to Levy And Notice Of Your Right To A Hearing pursuant to sections 6330(a) and 6331(d). B timely requests and is granted a Collection Due Process (CDP) hearing. In connection with the CDP hearing, B enters into an installment agreement as a collection alternative. The costs that B incurred in connection with the CDP hearing were not incurred in an administrative proceeding, but rather in a collection action. Accordingly, B may not recover those costs as reasonable administrative costs under section 7430 and the regulations thereunder.

[T.D. 8542, 59 FR 29362, June 7, 1994, as amended by T.D. 9050, 68 FR 14320, Mar. 25, 2003; T.D. 9756, 81 FR 10485, Mar. 1, 2016]

§ 301.7430–4 Reasonable administrative costs.

(a) *In general.* For purposes of section 7430 and the regulations thereunder, reasonable administrative costs are any costs described in paragraph (b) of this section that are incurred in connection with an administrative proceeding (as defined in § 301.7430–3(a)) and incurred on or after the administrative proceeding date (as defined in § 301.7430–3(c)).

(b) *Costs described*—(1) *In general.* The costs described in this paragraph are the reasonable and necessary amount of costs incurred by the taxpayer to present the taxpayer's position with respect to the merits of the tax controversy or the recovery of reasonable administrative costs. These costs include—

(i) Any administrative fees or similar charges imposed by the Internal Revenue Service;

(ii) Reasonable expenses of expert witnesses;

(iii) Reasonable costs of any study, analysis, engineering report, test or project that is necessary for, and incurred in preparation of, the taxpayer's case; and

(iv) Reasonable fees paid or incurred for the services of a representative (as defined in paragraph (b)(2) of this section) in connection with the administrative proceeding.

(2) *Representative and specially qualified representative*—(i) *Representative.* A representative is a person compensated for services rendered in connection with the administrative proceeding, who is authorized to practice before the Internal Revenue Service or the Tax Court.

(ii) *Specially qualified representative.* For purposes of paragraphs (b)(3)(iii) and (c)(2)(ii) of this section, a specially qualified representative is a representative (as defined in paragraph (b)(2)(i) of this section) possessing a distinctive knowledge or a unique and specialized skill that is necessary to adequately represent the taxpayer in the proceeding. Examples of a unique and specialized skill or distinctive knowledge would be an identifiable practice specialty such as patent law or knowledge of a foreign law or language where that specialty or knowledge is necessary to

adequately represent the taxpayer in the proceeding. For purposes of this paragraph, neither knowledge of tax law nor experience in representing taxpayers before the Internal Revenue Service is considered distinctive knowledge or a unique and specialized skill. An extraordinary level of general representational knowledge and ability that is useful in all proceedings is not considered, in and of itself, distinctive knowledge or a unique and specialized skill. Specially qualified representatives also do not include those who have a distinctive knowledge of the underlying subject matter of the controversy in circumstances where that distinctive knowledge could reasonably be supplied through the use of an expert, or could readily be obtained through literature pertaining to the subject.

(3) *Limitation on fees for a representative*—(i) *In general*. Except as otherwise provided in this section, fees incurred after January 18, 1999, and described in paragraph (b)(1)(iv) of this section that are recoverable under section 7430 and the regulations thereunder as reasonable administrative costs may not exceed $125 per hour (as adjusted for an increase in the cost of living and, if appropriate, a special factor adjustment).

(ii) *Cost of living adjustment*. The Internal Revenue Service will make a cost of living adjustment to the $125 per hour limitation for fees incurred in any calendar year beginning after December 31, 1996. The cost of living adjustment will be an amount equal to $125 multiplied by the cost of living adjustment determined under section 1(f)(3) for the calendar year (substituting ''calendar year 1995'' for ''calendar year 1992'' in section 1(f)(3)(B)). If the dollar limitation as adjusted by this cost of living increase is not a multiple of $10, the dollar amount will be rounded to the nearest multiple of $10 (rounding up if the amount is a multiple of $5).

(B) *Percentage adjustment*. For purposes of paragraph (b)(3)(ii)(A) of this section, the base year for determining the cost of living adjustment is the calendar year 1986. The cost of living adjustment for fees incurred in any calendar year subsequent to 1986 is the percentage (if any) by which the yearly average CPI—U for the calendar year immediately prior to the year in which the fees are incurred exceeds the January CPI—U for the calendar year 1986.

(iii) *Special factor adjustment*—(A) *In general*. If the presence of a special factor is demonstrated by the taxpayer, the amount reimbursable is the amount of reasonable fees paid or incurred by the taxpayer in connection with the proceeding for the services of a representative as defined in paragraph (b)(2)(i) of this section.

(B) *Special factor*. A *special factor* is a factor, other than an increase in the cost of living, that justifies an increase in the $125 per hour limitation of section 7430(c)(1)(B)(iii). The undesirability of the case, the work and the ability of counsel, the results obtained, and customary fees and awards in other cases, are factors applicable to a broad spectrum of litigation and do not constitute special factors for the purpose of increasing the $125 per hour limitation. By contrast, the limited availability of a specially qualified representative for the proceeding, the limited local availability of tax expertise, and the difficulty of the issues are special factors justifying an increase in the $125 per hour limitation.

(C) *Limited availability*. Limited availability of a specially qualified representative is established by demonstrating that a specially qualified representative for the proceeding is not available at the $125 per hour rate (as adjusted for an increase in the cost of living). The representative's special qualification must be based on nontax expertise. Initially, this showing may be made by submission of an affidavit signed by the taxpayer or by the taxpayer's counsel, that in a case similar to the taxpayer's, a specially qualified representative that practices within a reasonable distance from the taxpayer's principal residence or principal office would normally charge a client similar to the taxpayer at a rate in excess of this amount. If the Internal Revenue Service challenges this initial showing, the taxpayer may submit additional evidence to establish the limited availability of a specially qualified representative at the rate specified above.

(D) *Limited local availability of tax expertise*. Limited local availability of tax expertise is established by demonstrating that a representative possessing tax expertise is not available in the taxpayer's geographical area. Initially, this showing may be made by submission of an affidavit signed by the taxpayer, or by the taxpayer's counsel, that no representative possessing tax expertise practices within a reasonable distance from the taxpayer's principal residence or principal office. The hourly rate charged by representatives in the geographical area is not relevant in determining whether tax expertise is locally available. If the Internal Revenue Service challenges this initial showing, the taxpayer may submit additional evidence to establish the limited local availability of a representative possessing tax expertise.

(E) *Difficulty of the issues*. In determining whether the difficulty of the issues justifies an increase in the $125 per hour limitation on the applicable hourly rate, the Internal Revenue Service will consider the following factors:

(*1*) The number of different provisions of law involved in each issue.

(*2*) The complexity of the particular provision or provisions of law involved in each issue.

(*3*) The number of factual issues present in the proceeding.

(*4*) The complexity of the factual issues present in the proceeding.

(F) *Example*. The provisions of this section are illustrated by the following example:

Example. Taxpayer A is represented by B, a CPA and attorney with a LL.M. Degree in Taxation with Highest Honors who regularly handles cases dealing with TEFRA partnership issues. B represents A in an administrative proceeding involving TEFRA partnership issues that is subject to the provisions of this section. Assuming A qualifies for an award of reasonable administrative costs by meeting the requirements of section 7430, the amount of the award attributable to the fees of B may not exceed the $125 per hour limitation (as adjusted for an increase in the cost of living), absent a special factor. B is not a specially qualified representative because extraordinary knowledge of the tax laws does not constitute distinctive knowledge or a unique and specialized skill constituting a special factor. A higher rate may be justified by another special factor, that is, the limited local availability of tax expertise or the difficulty of the issues.

(c) *Certain costs excluded*—(1) *Costs not incurred in an administrative proceeding*. Costs that are not reasonable administrative costs for purposes of section 7430 include any costs incurred in connection with a proceeding that is not an administrative proceeding within the meaning of § 301.7430–3.

(2) *Costs incurred in an administrative proceeding but not reasonable*—(i) *In general*. Costs incurred in an administrative proceeding that are incurred on or after the administrative proceeding date, and that are otherwise described in paragraph (b) of this section, are not recoverable unless they are reasonable in both nature and amount. For example, costs normally included in the hourly rate of the representative by the custom and usage of the representative's profession, when billed separately, are not recoverable separate and apart from the representative's hourly rate. These costs typically include costs such as secretarial and overhead expenses. In contrast, costs that are normally billed separately may be reasonable administrative costs that may be recoverable in addition to the representative's hourly rate. Therefore, necessary costs incurred for travel; expedited mail delivery; messenger service; expenses while on travel; long distance telephone calls; and necessary copying fees imposed by the Internal Revenue Service, any court, bank or other third party, when normally billed separately from the representative's hourly rate, may be reasonable administrative costs.

(ii) *Special Rule for Expert Witness' Fees on Issue of Prevailing Market Rates*. Under paragraph (b)(3)(iii)(C) of this section, the taxpayer may initially establish a limited availability of specially qualified representatives for the proceeding by submission of an affidavit signed by the taxpayer or by the taxpayer's representative. The Internal Revenue Service may endeavor to rebut the affidavit submitted on this issue by demonstrating either that a specially qualified representative was not necessary to represent the taxpayer in the proceeding, that the taxpayer's representative is not a specially qualified representative or that

the prevailing rate for specially qualified representatives does not exceed $125 per hour (as adjusted for an increase in the cost of living). Unless the Internal Revenue Service endeavors to demonstrate that the prevailing rate for specially qualified representatives does not exceed $125 per hour (as adjusted for an increase in the cost of living), fees for expert witnesses used to establish prevailing market rates are not included in the term reasonable administrative costs.

(3) *Litigation costs.* Litigation costs are not reasonable administrative costs because they are not incurred in connection with an administrative proceeding. Litigation costs include—

(i) Costs incurred in connection with the preparation and filing of a petition with the United States Tax Court or in connection with the commencement of any other court proceeding; and

(ii) Costs incurred after the filing of a petition with the United States Tax Court or after the commencement of any other court proceeding.

(4) *Examples.* The provisions of this section are illustrated by the following examples:

Example 1. After incurring fees for representation during the Internal Revenue Service's examination of A's income tax return, A receives a notice of proposed deficiency (30-day letter). A files a request for and is granted an Appeals office conference. At the conference no agreement is reached on the tax matters at issue. The Internal Revenue Service then issues a notice of deficiency. Upon receiving the notice of deficiency, A discontinues A's administrative efforts and files a petition with the Tax Court. A's costs incurred before the date of the mailing of the 30-day letter are not reasonable administrative costs because they were incurred before the administrative proceeding date. Similarly, A's costs incurred in connection with the preparation and filing of a petition with the Tax Court are litigation costs and not reasonable administrative costs.

Example 2. Assume the same facts as in *Example 1* except that after A receives the notice of deficiency, in addition to petitioning the Tax Court, A recontacts Appeals and A convinces Appeals that the information previously submitted during the review by Appeals is sufficient and, therefore, the notice of deficiency is incorrect and A owes no additional tax. The Internal Revenue Service and A agree to a stipulated decision in the Tax Court case to reflect Appeals' decision. The Tax Court enters the decision. If A seeks administrative costs, A may recover costs incurred after the date of the mailing of the 30-day letter, costs incurred in recontacting Appeals after the issuance of the notice of deficiency, and costs incurred up to the time the Tax Court petition was filed, as reasonable administrative costs, but only if the other requirements of section 7430 and the regulations thereunder are satisfied. The costs incurred before the date of the mailing of the 30-day letter are not reasonable administrative costs because they were incurred before the administrative proceeding date, as set forth in § 301.7430–3(c)(1)(iii). A's costs incurred in connection with the filing of a petition with the Tax Court are not reasonable administrative costs because those costs are litigation costs. Similarly, A's costs incurred after the filing of the petition are not reasonable administrative costs, as they are litigation costs.

(d) *Pro bono representation*—(1) *In general.* Fees recoverable under section 7430 and the regulations thereunder as reasonable administrative costs may exceed the attorneys' fees paid or incurred by the prevailing party if such fees are less than the reasonable attorneys' fees because an individual is representing the prevailing party on a pro bono basis. In addition to attorneys' fees, reasonable costs incurred or paid by the individual providing the pro bono representation that are normally billed separately also may be recovered under this section. The Treasury Department and the Internal Revenue Service may, in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin, provide for additional rules that apply for awards of costs for pro bono representation for purposes of this paragraph (d).

(2) *Requirements.* Pro bono representation is established by demonstrating—

(i) Representation was provided for no fee or for a fee that (taking into account all the facts and circumstances) constitutes a nominal fee;

(ii) The representative intended to provide representation for no fee or for a nominal fee from the commencement of the representation. Intent to provide representation for no fee or for a nominal fee may be demonstrated through documentation such as a retainer agreement. An individual will not be considered to have represented a client

on a pro bono basis if the facts demonstrate that the individual anticipated a fee greater than a nominal fee or provided representation on a contingency fee basis. The fact that the representative intended to seek recovery of fees under section 7430 will not prevent the representative from satisfying this requirement.

(3) *Nominal fee.* A *nominal fee* is defined as a fee that is insignificantly small or minimal. A nominal fee is a trivial payment, bearing no relation to the value of the representation provided, taking into account all the facts and circumstances.

(4) *Payment when representation provided at no charge or for a nominal fee.* A prevailing party who receives representation at no charge or for a nominal fee and who satisfies the requirements under this section is eligible to receive reasonable fees in excess of the fees actually paid or incurred. Payment will be made to the representative or the representative's employer.

(5) *Recordkeeping.* Contemporaneous records must be maintained, demonstrating the work performed and the time allocated to each task. These records should contain similar information to billing records.

(6) *Examples.* The provisions of this section are illustrated by the following example:

Example 1. Taxpayer A, an attorney, files a petition with the Tax Court and pays a $60 filing fee. A appears pro se in the court proceeding. If A prevails, he will not be entitled to an award of reasonable litigation costs for his services. A is rendering services on his own behalf, not providing pro bono representation. His lost opportunity costs are not compensable under section 7430. A may recover the filing fee as a litigation cost, but only if the other requirements of section 7430 and the regulations thereunder are satisfied.

[T.D. 8542, 59 FR 29363, June 7, 1994, as amended by T.D. 8725, 62 FR 39118, July 22, 1997; T.D. 9756, 81 FR 10486, Mar. 1, 2016]

§ 301.7430–5 Prevailing party.

(a) *In general.* For purposes of an award of reasonable administrative costs under section 7430 in the case of administrative proceedings commenced after July 30, 1996, a taxpayer is a prevailing party (other than by reason of section 7430(c)(4)(E)) only if—

(1) At least one issue (other than recovery of administrative costs) remains in dispute as of the date that the Internal Revenue Service takes a position in the administrative proceeding, as described in paragraph (b) of this section;

(2) The position of the Internal Revenue Service was not substantially justified;

(3) The taxpayer substantially prevails as to the amount in controversy or with respect to the most significant issue or set of issues presented; and

(4) The taxpayer satisfies the net worth and size limitations referenced in paragraph (f) of this section.

(b) *Position of the Internal Revenue Service.* The position of the Internal Revenue Service in an administrative proceeding is the position taken by the Internal Revenue Service as of the earlier of—

(1) The date of the receipt by the taxpayer of the notice of the decision of the Internal Revenue Service Office of Appeals; or

(2) The date of the notice of deficiency or any date thereafter.

(c) *Examples.* The provisions of this section may be illustrated by the following examples:

Example 1. Taxpayer A receives a notice of proposed deficiency (30-day letter). A pays the amount of the proposed deficiency and files a claim for refund. A's claim is considered and a notice of proposed claim disallowance is issued by the Area Director. A does not request an Appeals office conference and the Area Director issues a notice of claim disallowance. A then files suit in a United States District Court. A cannot recover reasonable administrative costs because the notice of claim disallowance is not a notice of the decision of the Internal Revenue Service Office of Appeals or a notice of deficiency. Accordingly, the Internal Revenue Service has not taken a position in the administrative proceeding pursuant to section 7430(c)(7)(B).

Example 2. Taxpayer B receives a notice of proposed deficiency (30-day letter). B disputes the proposed adjustments and requests an Appeals office conference. The Appeals office determines that B has no additional tax liability. B requests administrative costs from the date of the 30-day letter. B is not the prevailing party and may not recover administrative costs because all of the proposed adjustments in the case were resolved as of the date that the Internal Revenue

Service took a position in the administrative proceeding.

(d) *Substantially justified*—(1) *In general*. The position of the Internal Revenue Service is substantially justified if it has a reasonable basis in both fact and law. A significant factor in determining whether the position of the Internal Revenue Service is substantially justified as of a given date is whether, on or before that date, the taxpayer has presented all relevant information under the taxpayer's control and relevant legal arguments supporting the taxpayer's position to the appropriate Internal Revenue Service personnel. The appropriate Internal Revenue Service personnel are personnel responsible for reviewing the information or arguments, or personnel who would transfer the information or arguments in the normal course of procedure and administration to the personnel who are responsible.

(2) *Position in courts of appeal*. Whether the United States has won or lost an issue substantially similar to the one in the taxpayer's case in courts of appeal for circuits other than the one to which the taxpayer's case would be appealable should be taken into consideration in determining whether the Internal Revenue Service's position was substantially justified.

(3) *Example*. The provisions of this section (d) are illustrated by the following example:

Example. The Internal Revenue Service, in the conduct of a correspondence examination of taxpayer A's individual income tax return, requests substantiation from A of claimed medical expenses. A does not respond to the request and the Internal Revenue Service issues a notice of deficiency. After receiving the notice of deficiency, A presents sufficient information and arguments to convince a tax compliance officer that the notice of deficiency is incorrect and that A owes no tax. The revenue agent then closes the case showing no deficiency. Although A incurred costs after the issuance of the notice of deficiency, A is unable to recover these costs because, as of the date these costs were incurred, A had not presented relevant information under A's control and relevant legal arguments supporting A's position to the appropriate Internal Revenue Service personnel. Accordingly, the position of the Internal Revenue Service was substantially justified at the time the costs were incurred.

(4) *Included costs*. (i) An award of reasonable administrative costs shall only include costs incurred on or after the administrative proceeding date as defined in section 301.7430–3(c) of this chapter.

(ii) If the Internal Revenue Service takes a position in an administrative proceeding, as defined in paragraph (b) of this section, and the position is not substantially justified, the taxpayer may be permitted to recover costs incurred before the position was taken, but not before the dates set forth in this paragraph (d)(4).

(5) *Examples*. The provisions of this section may be illustrated by the following examples:

Example 1. Pursuant to section 6672, taxpayer D receives from the Area Director Collection Operations (Collection) a proposed assessment of trust fund taxes (Trust Fund Recovery Penalty). D requests and is granted Appeals office consideration. Appeals considers the issues and decides to uphold Collection's recommended assessment. Appeals notifies D of this decision in writing. Collection then assesses the tax and notice and demand is made. D timely pays the minimum amount required to commence a court proceeding, files a claim for refund, and furnishes the required bond. Collection disallows the claim, but Appeals, on reconsideration, reverses its original position, thus upholding D's position. If Appeals' initial determination was not substantially justified, D may recover administrative costs incurred on or after the mailing of the proposed assessment of trust fund taxes, because the proposed assessment is the first determination letter that allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals.

Example 2. Taxpayer E receives a notice of proposed deficiency (30-day letter). E pays the amount of the proposed deficiency and files a claim for refund. E's claim is considered and a notice of proposed disallowance is issued by the Area Director. E requests and is granted Appeals office consideration. No agreement is reached with Appeals and the Office of Appeals issues a notice of claim disallowance. E does not file suit in a United States District Court but instead contacts the Appeals office to attempt to reverse the decision. E convinces the Appeals officer that the notice of claim disallowance is in error. The Appeals officer then abates the assessment. E may recover reasonable administrative costs if the position taken in the notice of claim disallowance issued by the Office of Appeals was not substantially justified and the other requirements of section

7430 and the regulations thereunder are satisfied. If so, E may recover administrative costs incurred from the mailing date of the 30-day letter because the requirements of paragraph (c)(2) of this section are met. E cannot recover the costs incurred prior to the mailing of the 30-day letter because they were incurred before the administrative proceeding date.

(6) *Exception*. If the position of the Internal Revenue Service was substantially justified with respect to some issues in the proceeding and not substantially justified with respect to the remaining issues, any award of reasonable administrative costs to the taxpayer may be limited to only reasonable administrative costs attributable to those issues with respect to which the position of the Internal Revenue Service was not substantially justified. If the position of the Internal Revenue Service was substantially justified for only a portion of the period of the proceeding and not substantially justified for the remaining portion of the proceeding, any award of reasonable administrative costs to the taxpayer may be limited to only reasonable administrative costs attributable to that portion during which the position of the Internal Revenue Service was not substantially justified. Where an award of reasonable administrative costs is limited to that portion of the administrative proceeding during which the position of the Internal Revenue Service was not substantially justified, whether the position of the Internal Revenue Service was substantially justified is determined as of the date any cost is incurred.

(7) *Presumption*. If the Internal Revenue Service did not follow any applicable published guidance in an administrative proceeding commenced after July 30, 1996, the position of the Internal Revenue Service, on those issues to which the guidance applies and for all periods during which the guidance was not followed, will be presumed not to be substantially justified. This presumption may be rebutted. For purposes of this paragraph (d)(7), the term *applicable published guidance* means final or temporary regulations, revenue rulings, revenue procedures, information releases, notices, and announcements published in the Internal Revenue Bulletin and, if issued to or with respect to the taxpayer, private letter rulings, technical advice memoranda, and determination letters (§ 601.601(d)(2) of this chapter). Also, for purposes of this paragraph (d)(7), the term administrative proceeding includes only those administrative proceedings or portions of administrative proceedings occurring on or after the administrative proceeding date as defined in § 301.7430–3(c).

(e) *Amount in controversy*. The amount in controversy shall include the amount in issue as of the administrative proceeding date as increased by any amounts subsequently placed in issue by any party. The amount in controversy is determined without increasing or reducing the amount in controversy for amounts of loss, deduction, or credit carried over from years not in issue.

(f) *Most significant issue or set of issues presented*. (1) *In general*. Where the taxpayer has not substantially prevailed with respect to the amount in controversy the taxpayer may nonetheless be a prevailing party if the taxpayer substantially prevails with respect to the most significant issue or set of issues presented. The issues presented include those raised as of the administrative proceeding date and those raised subsequently. Only in a multiple issue proceeding can a most significant issue or set of issues presented exist. However, not all multiple issue proceedings contain a most significant issue or set of issues presented. An issue or set of issues constitutes the most significant issue or set of issues presented if, despite involving a lesser dollar amount in the proceeding than the other issue or issues, it objectively represents the most significant issue or set of issues for the taxpayer or the Internal Revenue Service. This may occur because of the effect of the issue or set of issues on other transactions or other taxable years of the taxpayer or related parties.

(2) *Example*. The provisions of this section may be illustrated by the following example:

Example. In the purchase of an ongoing business, Taxpayer F obtains from the previous owner of the business a covenant not to compete for a period of five years. On audit of F's individual income tax return for

the year in which the business was acquired, the Internal Revenue Service challenges the basis assigned to the covenant not to compete and a deduction taken as a business expense for a seminar attended by F. Both parties agree that the covenant not to compete is amortizable over a period of five years; however, the Internal Revenue Service asserts that the proper basis of the covenant is $25,000, while F asserts the basis is $50,000 and claims a deduction of $10,000 in the year in which the business was acquired. F deducted $12,000 for the seminar. The Internal Revenue Service determines that the deduction for the seminar should be disallowed entirely. In the notice of deficiency, the Internal Revenue Service adjusts the amortization deduction to reflect the change to the basis of the covenant not to compete, and disallows the seminar expense. Thus, of the two adjustments determined for the year under audit, the adjustment attributable to the disallowance of the seminar is larger than that attributable to the covenant not to compete. Due to the impact on the next succeeding four years, however, the covenant not to compete adjustment is the most significant issue to both F and the Internal Revenue Service.

(g) *Net worth and size limitations*—(1) *Individuals.* A taxpayer who is a natural person meets the net worth and size limitations of this paragraph if the taxpayer's net worth does not exceed two million dollars. For purposes of determining net worth, individuals filing a joint return, and jointly incurring administrative or litigation costs shall have their net worth determined jointly, with all assets and liabilities treated as joint for purposes of the net worth evaluation, and applying a joint cap of four million dollars. Individuals who file a joint return, but incur separate administrative or litigation costs, by retaining separate representation, and/or seeking individual administrative review or petitioning the court individually, such as under section 6015, shall have their net worth determined separately, with only those assets and liabilities reasonably attributable to each spouse considered against separate caps of two million dollars per spouse.

(2) *Estates and trusts.* An estate or a trust meets the net worth and size limitations of this paragraph if the estate or trust's net worth does not exceed two million dollars. The net worth of an estate shall be determined as of the date of the decedent's death provided the date of death is prior to the date the court proceeding is commenced. The net worth of a trust shall be determined as of the last day of the last taxable year involved in the proceeding.

(3) *Others.* (i) A taxpayer that is a partnership, corporation, association, unit of local government, or organization (other than an organization described in paragraph (g)(4) of this section) meets the net worth and size limitations of this paragraph if, as of the administrative proceeding date:

(A) The taxpayer's net worth does not exceed seven million dollars; and

(B) The taxpayer does not have more than 500 employees.

(ii) A taxpayer who is a natural person and owns an unincorporated business is subject to the net worth and size limitations contained in paragraph (g)(3)(i) of this section if the tax at issue (or any interest, additional amount, addition to tax, or penalty, together with any costs in addition to the tax) relates directly to the business activities of the unincorporated business.

(4) *Special rule for charitable organizations and certain cooperatives.* An organization described in section 501(c)(3) exempt from taxation under section 501(a), or a cooperative association as defined in section 15(a) of the Agricultural Marketing Act, 12 U.S.C. 1141j(a) (as in effect on October 22, 1986), meets the net worth and size limitations of this paragraph if, as of the administrative proceeding date, the organization or cooperative association does not have more than 500 employees.

(5) *Special rule for TEFRA partnership proceedings.* (i) In cases involving partnerships subject to the unified audit and litigation procedures of subchapter C of chapter 63 of the Internal Revenue Code (TEFRA partnership cases), the TEFRA partnership meets the net worth and size limitations requirements of this paragraph (g) if, on the administrative proceeding date—

(A) The partnership's net worth does not exceed seven million dollars; and

(B) The partnership does not have more than 500 employees.

(ii) In addition, each partner requesting fees pursuant to section 7430 must meet the appropriate net worth and size limitations set forth in paragraph

(g)(1), (g)(2), or (g)(3) of this section. For example, if a partner is an individual, his or her net worth must not exceed two million dollars as of the administrative proceeding date. If the partner is a corporation, its net worth must not exceed seven million dollars and it must not have more than 500 employees.

(6) *Determining net worth.* For purposes of determining net worth under this paragraph (g), assets are valued based on the cost of their acquisition.

(h) *Determination of prevailing party.* If the final decision with respect to the tax, interest, or penalty is made at the administrative level, the determination of whether a taxpayer is a prevailing party shall be made by agreement of the parties, or absent an agreement, by the Internal Revenue Service. See § 301.7430–2(c)(7) regarding the right to appeal the decision of the Internal Revenue Service denying (in whole or in part) a request for reasonable administrative costs to the Tax Court.

[T.D. 9756, 81 FR 10487, Mar. 1, 2016]

§ 301.7430–6 Effective/applicability dates.

Sections 301.7430–2 through 301.7430–6, other than §§ 301.7430–2(b)(2), (c)(3)(i)(B), (c)(3)(i)(E), (c)(3)(ii)(C), (c)(3)(iii)(C), (c)(5), (c)(7), and (e); §§ 301.7430–3(c)(1), (c)(3), (c)(4), and (d); §§ 301.7430–4(b)(3)(i), (b)(3)(ii), (b)(3)(iii)(B), (b)(3)(iii)(C), (b)(3)(iii)(D), (b)(3)(iii)(E), (b)(3)(iii)(F), (c)(2)(ii), (c)(4), and (d); and §§ 301.7430–5(a), (b), (c)(3), (d)(2), (d)(3), (d)(4), (d)(5), (d)(7), (f)(2), (g)(1), (g)(2), (g)(3), (g)(5), and (g)(6) apply to claims for reasonable administrative costs filed with the Internal Revenue Service after December 23, 1992, with respect to costs incurred in administrative proceedings commenced after November 10, 1988. Section 301.7430–2(c)(5) is applicable to costs incurred and services performed in cases in which the petition was filed on or after March 1, 2016, except for the last two sentences, which are applicable March 23, 1993. Sections 301.7430–2(b)(2), and (c)(3)(i)(B) (except the last sentence); 301.7430–4(b)(3)(ii), (b)(3)(iii)(C) (except the first two sentences), and (c)(2)(ii) (except for references to the statutory cap as $125); and 301.7430–5(a) (except the parenthetical of 5(a) and all of 5(a)(1)), and the first and last sentence of (d)(7) are applicable for administrative proceedings commenced after July 30, 1996. Sections 301.7430–1(e), 301.7430–2(c)(2), 7430–3(a)(4) and (b) are applicable with respect to actions taken by the Internal Revenue Service after July 22, 1998. The last sentence of § 301.7430–2(c)(3)(i)(B), the first two sentences of § 301.7430–2(b)(3)(iii)(C), §§ 301.7430–2(c)(3)(i)(E), (c)(3)(ii)(C), (c)(3)(iii)(C), (c)(7), (e); 301.7430–3(c)(1), (c)(3), (c)(4), (d); 301.7430–4(b)(3)(i), (b)(3)(iii)(B), (b)(3)(iii)(E), (b)(3)(iii)(F), (c)(2)(ii) (to the extent it references the statutory cap as $125), (c)(4), (d); the parenthetical of § 301.7430–5(a) and §§ 301.7430–5(a)(1), (b), (d)(2), (d)(3), (d)(4), (d)(5), (d)(7), except the first and last sentences, (f)(2), (g)(1), (g)(2), (g)(3), (g)(5), and (g)(6) apply to costs incurred and services performed in cases in which the petition was filed on or after March 1, 2016.

[T.D. 9756, 81 FR 10489, Mar. 1, 2016]

§ 301.7430–7 Qualified offers.

(a) *In general.* Section 7430(c)(4)(E) (the qualified offer rule) provides that a party to a court proceeding satisfying the timely filing and net worth requirements of section 7430(c)(4)(A)(ii) shall be treated as the prevailing party if the liability of the taxpayer pursuant to the judgment in the proceeding (determined without regard to interest) is equal to or less than the liability of the taxpayer which would have been so determined if the United States had accepted the last qualified offer of the party as defined in section 7430(g). For purposes of this section, the term *judgment* means the cumulative determinations of the court concerning the adjustments at issue and litigated to a determination in the court proceeding. In making the comparison between the liability under the qualified offer and the liability under the judgment, the taxpayer's liability under the judgment is further modified by the provisions of paragraph (b)(3) of this section. The provisions of the qualified offer rule do not apply if the taxpayer's liability under the judgment, as modified by the provisions of paragraph (b)(3) of this

section, is determined exclusively pursuant to a settlement, or to any proceeding in which the amount of tax liability is not in issue, including any declaratory judgment proceeding, any proceeding to enforce or quash any summons issued pursuant to the Internal Revenue Code (Code), and any action to restrain disclosure under section 6110(f). If the qualified offer rule applies to the court proceeding, the determination of whether the liability under the qualified offer would have equaled or exceeded the liability pursuant to the judgment is made by reference to the last qualified offer made with respect to the tax liability at issue in the administrative or court proceeding. An award of reasonable administrative and litigation costs under the qualified offer rule only includes those costs incurred on or after the date of the last qualified offer and is limited to those costs attributable to the adjustments at issue at the time the last qualified offer was made that were included in the court's judgment other than by reason of settlement. The qualified offer rule is inapplicable to reasonable administrative or litigation costs otherwise awarded to a taxpayer who is a prevailing party under any other provision of section 7430(c)(4). This section sets forth the requirements to be satisfied for a taxpayer to be treated as a prevailing party by reason of the taxpayer making a qualified offer, as well as the circumstances leading to the application of the exceptions, special rules, and coordination provisions of the qualified offer rule. Furthermore, this section sets forth the elements necessary for an offer to be treated as a qualified offer under section 7430(g).

(b) *Requirements for treatment as a prevailing party based upon having made a qualified offer*—(1) *In general.* In order to be treated as a prevailing party by reason of having made a qualified offer, the liability of the taxpayer for the type or types of tax and the taxable year or years at issue in the proceeding (as calculated pursuant to paragraph (b)(2) of this section), based on the last qualified offer (as defined in paragraph (c) of this section) made by the taxpayer in the court or administrative proceeding, must equal or exceed the liability of the taxpayer pursuant to the judgment by the court for the same type or types of tax and the same taxable year or years (as calculated pursuant to paragraph (b)(3) of this section). Furthermore, the taxpayer must meet the timely filing and net worth requirements of section 7430(c)(4)(A)(ii). If all of the adjustments subject to the last qualified offer are settled prior to the entry of the judgment by the court, the taxpayer is not a prevailing party by reason of having made a qualified offer. The taxpayer may, however, still qualify as a prevailing party if the requirements of section 7430(c)(4)(A) are met. If one or more adjustments covered by a qualified offer (see paragraph (c)(3)) are settled following a ruling by the court that substantially resolves those adjustments, then those adjustments will not be treated as having been settled prior to the entry of the judgment by the court and instead will be treated as amounts included in the judgment as a result of the court's determinations. For purposes of the preceding sentence, rulings relating to discovery, admissibility of evidence, and burden of proof are not rulings that substantially resolve adjustments covered by a qualified offer.

(2) *Liability under the last qualified offer.* For purposes of paragraph (b)(1) of this section, the taxpayer's liability under the last qualified offer is the change in the taxpayer's liability that would have resulted if the United States had accepted the taxpayer's last qualified offer on all of the adjustments that were at issue in the administrative or court proceeding at the time that the offer was made compared to the amount shown on the return or returns (or as previously adjusted). The portion of a taxpayer's liability that is attributable to adjustments raised by either party after the making of the last qualified offer is not included in the calculation of the liability under that offer. The taxpayer's liability under the last qualified offer is calculated without regard to adjustments that the parties have stipulated will be resolved in accordance with the outcome of a separate pending Federal, state, or other judicial or administrative proceeding. For example, the parties may stipulate that the taxpayer's

liability will be resolved in accordance with the outcome of an alternative dispute resolution proceeding or a separate court proceeding, such as a probate, tort liability, or trademark action. Furthermore, the taxpayer's liability under the last qualified offer is calculated without regard to interest, unless the taxpayer's liability for, or entitlement to, interest is a contested issue in the administrative or court proceeding and is one of the adjustments included in the last qualified offer.

(3) *Liability pursuant to the judgment.* For purposes of paragraph (b)(1) of this section, the taxpayer's liability pursuant to the judgment is the change in the taxpayer's liability resulting from amounts contained in the judgment as a result of the court's determinations, and amounts contained in settlements not included in the judgment, that are attributable to all adjustments that were included in the last qualified offer compared to the amount shown on the return or returns (or as previously adjusted). This liability includes amounts attributable to adjustments included in the last qualified offer and settled by the parties prior to the entry of judgment regardless of whether those amounts are actually included in the judgment entered by the court. The taxpayer's liability pursuant to the judgment does not include amounts attributable to adjustments that are not included in the last qualified offer, even if those amounts are actually included in the judgment entered by the court. The taxpayer's liability under the judgment is calculated without regard to adjustments that the parties have stipulated will be resolved in accordance with the outcome of a separate pending Federal, state, or other judicial or administrative proceeding. Furthermore, the taxpayer's liability pursuant to the judgment is calculated without regard to interest, unless the taxpayer's liability for, or entitlement to, interest is a contested issue in the administrative or court proceeding and is one of the adjustments included in the last qualified offer. Where adjustments raised by either party subsequent to the making of the last qualified offer are included in the judgment entered by the court, or are settled prior to the court proceeding, the taxpayer's liability pursuant to the judgment is calculated by treating the subsequently raised adjustments as if they had never been raised.

(c) *Qualified offer*—(1) *In general.* A qualified offer is defined in section 7430(g) to mean a written offer which—

(i) Is made by the taxpayer to the United States during the qualified offer period;

(ii) Specifies the offered amount of the taxpayer's liability (determined without regard to interest, unless interest is a contested issue in the proceeding);

(iii) Is designated at the time it is made as a qualified offer for purposes of section 7430(g); and

(iv) By its terms, remains open during the period beginning on the date it is made and ending on the earliest of the date the offer is rejected, the date the trial begins, or the 90th day after the date the offer is made.

(2) *To the United States.* (i) A qualified offer is made to the United States when it is delivered to the office or personnel within the Internal Revenue Service, Office of Appeals, Office of Chief Counsel (including field personnel) or Department of Justice that has jurisdiction over the tax matter at issue in the administrative or court proceeding. If those offices or persons are unknown to the taxpayer making the qualified offer, the taxpayer may deliver the offer to the appropriate office, as follows:

(A) If the taxpayer's initial pleading in a court proceeding has been answered, the taxpayer may deliver the offer to the office that filed the answer.

(B) If the taxpayer's petition in the Tax Court has not yet been answered, the taxpayer may deliver the offer to the Office of Chief Counsel, 1111 Constitution Avenue, NW., Washington, DC 20224.

(C) If the taxpayer's initial pleading in any Federal court, other than the Tax Court, has not yet been answered, the taxpayer may deliver the offer to the Attorney General of the United States, 950 Pennsylvania Ave., NW., Washington, DC 20530–0001. For a suit brought in a United States district court, a copy of the offer should also be

delivered to the United States Attorney for the district in which the suit was brought.

(D) In any other situation, the taxpayer may deliver the offer to the office that sent the taxpayer the first letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals.

(ii) Until an offer is received by the appropriate personnel or office under this paragraph (c)(2), it is not considered to have been made, with the following exception. If the offer is deposited in the United States mail, in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the appropriate personnel or office under this paragraph (c)(2), the date of the United States postmark stamped on the cover in which the offer is mailed shall be deemed to be the date of receipt of that offer by the addressee. If any offer is deposited with a designated delivery service, as defined in section 7502(f)(2), in lieu of the United States mail, the provisions of section 7502(f)(1) shall apply in determining whether that offer qualifies for this exception.

(3) *Specifies the offered amount.* A qualified offer specifies the offered amount if it clearly specifies the amount for the liability of the taxpayer, calculated as set forth in paragraph (b)(2) of this section. The offer may be a specific dollar amount of the total liability or a percentage of the adjustments at issue in the proceeding at the time the offer is made. This amount must be with respect to all of the adjustments at issue in the administrative or court proceeding at the time the offer is made and only those adjustments. The specified amount must be an amount, the acceptance of which by the United States will fully resolve the taxpayer's liability, and only that liability (determined without regard to adjustments that the parties have stipulated will be resolved in accordance with the outcome of a separate pending Federal, state, or other judicial or administrative proceeding, or interest, unless interest is a contested issue in the proceeding) for the type or types of tax and the taxable year or years at issue in the proceeding. In cases involving multiple tax years, if adjustments in different tax years arise from separate and distinct issues such that the resolution of issues in one or more tax years will not affect the taxpayer's liability in one or more of the other tax years in the proceeding, then a qualified offer may be made for less than all of the tax years involved. A qualified offer, however, must resolve all of the issues for the tax years covered by the offer and also must cover all tax years in the proceeding affected by those issues. A tax year (affected year) is affected by an issue if the treatment of the issue in another tax year involved in the proceeding necessarily affects the treatment of the issue in the affected year.

(4) *Designated at the time it is made as a qualified offer.* An offer is not a qualified offer unless it designates in writing at the time it is made that it is a qualified offer for purposes of section 7430(g). An offer made at a time when one or more adjustments not included in the first letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals have been raised by the taxpayer and remain unresolved, is not considered to be a qualified offer unless contemporaneously or prior to the making of the offer, the taxpayer has provided the United States with the substantiation and legal and factual arguments necessary to allow for informed consideration of the merits of those adjustments. For example, a taxpayer will be considered to have provided the United States with the necessary substantiation and legal and factual arguments if the taxpayer (or a recognized representative of the taxpayer described in § 601.502 of this chapter) participates in an Appeals office conference, participates in an Area Counsel conference, or confers with the Department of Justice, and at that time, discloses all relevant information. All relevant information includes, but is not limited to, the legal and factual arguments supporting the taxpayer's position on any adjustments raised by the taxpayer after the issuance of the first letter of proposed deficiency which allows the taxpayer

an opportunity for administrative review in the Internal Revenue Service Office of Appeals. A taxpayer has disclosed all relevant information if the taxpayer has supplied sufficient information to allow informed consideration of the taxpayer's tax matter to the extent the information and its relevance were known or should have been known to the taxpayer at the time of the conference.

(5) *Remains open*. A qualified offer must, by its terms, remain open for acceptance by the United States from the date it is made, as defined in paragraph (c)(2)(ii) of this section, until the earliest of the date it is rejected in writing by a person with authority to reject the offer, the date the trial begins, or the 90th day after being received by the United States. The offer, by its written terms, may remain open after the occurrence of one or more of the above-referenced events. Once made, the period during which a qualified offer remains open may be extended by the taxpayer prior to its expiration, but an extension cannot be used to make an offer meet the minimum period for remaining open required by this paragraph (c)(5).

(6) *Last qualified offer*. A taxpayer may make multiple qualified offers during the qualified offer period. For purposes of the comparison under paragraph (b) of this section, the making of a qualified offer supersedes any previously made qualified offers. In making the comparison described in paragraph (b) of this section, only the qualified offer made most closely in time to the end of the qualified offer period is compared to the taxpayer's liability under the judgment.

(7) *Qualified offer period*. To constitute a qualified offer, an offer must be made during the qualified offer period. The qualified offer period begins on the date on which the first letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals is sent to the taxpayer. For this purpose, the date of the notice of claim disallowance will begin the qualified offer period in a refund case. If there has been no notice of claim disallowance in a refund case, the qualified offer period begins on the date on which the answer or other responsive pleading is filed with the court. The qualified offer period ends on the date which is thirty days before the date the case is first set for trial. In determining when the qualified offer period ends for cases in the Tax Court and other Federal courts using calendars for trial, a case will be considered set for trial on the date scheduled for the calendar call. A case may be removed from a trial calendar at any time. Thus, a case may be removed from a trial calendar before the date that precedes by thirty days the date scheduled for that trial calendar. The qualified offer period does not end until the case remains on a trial calendar on the date that precedes by 30 days the scheduled date of the calendar call for that trial session. The qualified offer period may not be extended beyond the periods set forth in this paragraph (c)(7), although the period during which a qualified offer remains open may extend beyond the end of the qualified offer period.

(8) *Interest as a contested issue*. To constitute a qualified offer, an offer must specify the offered amount of the taxpayer's liability (determined without regard to interest, unless interest is a contested issue in the proceeding), as provided in paragraphs (c)(1)(ii) and (c)(3) of this section. Therefore, a qualified offer generally may only include an offer to compromise tax, penalties, additions to the tax, and additional amounts. Interest may only be included in a qualified offer if interest is a contested issue in the proceeding. For purposes of this section, interest is a contested issue in the proceeding only if the court in which the proceeding could be brought would have jurisdiction to determine the amount of interest due on the underlying tax, penalties, additions to the tax, and additional amounts. Examples of proceedings in which interest might be a contested issue include proceedings in which the increased interest rate for large corporate underpayments under section 6621(c) is imposed by the Internal Revenue Service and interest abatement proceedings brought under section 6404. Interest is not a contested issue in the proceeding if the court that would have jurisdiction over the

proceeding would not have jurisdiction to determine the amount or rate of interest, regardless of whether the taxpayer attempts to raise interest as an issue in the proceeding. Consequently, interest will not be a contested issue in the vast majority of tax cases because they merely involve the straightforward application of statutory interest under section 6601. Accordingly, in those cases, interest may not be included in the offer.

(d) [Reserved]

(e) *Examples*. The following examples illustrate the provisions of this section:

Example 1. Definition of a judgment, The Internal Revenue Service (IRS) audits Taxpayer A for year X and issues a notice of proposed deficiency (30-day letter) proposing to disallow deductions 1, 2, 3, and 4. A files a protest and participates in a conference with the Internal Revenue Service Office of Appeals (Appeals). Appeals allows deduction 1, and issues a statutory notice of deficiency for deductions 2, 3, and 4. A's petition to the United States Tax Court for year X never mentions deduction 2. Prior to trial, A concedes deduction 3. After the trial, the Tax Court issues an opinion allowing A to deduct a portion of deduction 4. As used in paragraph (a) of this section, the term judgment means the cumulative determinations of the court concerning the adjustments at issue in the court proceeding. Thus, the term judgment does not include deduction 1 because it was never at issue in the court proceeding. Similarly, the term judgment does not include deduction 2 because it was not placed at issue by A in the court proceeding. Although deduction 3 was at issue in the court proceeding, it is not included in the term judgment because it was not determined by the court, but rather by concession or settlement. For purposes of section 7430(c)(4)(E), the term judgment only includes the portion of deduction 4 disallowed by the Tax Court.

Example 2. Liability under the offer and liability under the judgment, Assume the same facts as in *Example 1* except that A makes a qualified offer after the Appeals conference, which is not accepted by the IRS. A's offer is with respect to all adjustments at issue at that time. Those adjustments are deductions 2, 3, and 4. At the conclusion of the litigation, A's entitlement to an award based upon the qualified offer will depend, among other things, on a comparison of the change in A's liability for income tax for year X resulting from the judgment of the Tax Court with the change that would have resulted had the IRS accepted A's qualified offer. In making this comparison, the term judgment (as discussed in *Example 1*) is modified by including the amounts of settled or conceded adjustments that were at issue at the time the qualified offer was made. Any settled or conceded adjustments that were not at issue at the time the qualified offer was made, either because the settlement or concession occurred before the offer or because the adjustment was not raised until after the offer, are not included in the comparison. Thus, A's offer on deductions 2, 3, and 4 is compared with the change in A's liability resulting from the Tax Court's determination of deduction 4, and the concessions of issues 2 and 3 by A.

Example 3. Offer must resolve full liability, Assume the same facts as in *Example 2* except that A's offer after the Appeals conference explicitly states that it is only with respect to adjustments 2 and 3 and not with respect to adjustment 4. Even if A's liability pursuant to the judgment, calculated under paragraph (b)(3) of this section as illustrated in *Example 2*, is equal to or less than it would have been had the IRS accepted A's offer after the Appeals conference, A is not a prevailing party under section 7430(c)(4)(E). A qualified offer must include all adjustments at issue at the time the offer is made. Since A's offer excluded adjustment 4, which was an adjustment at issue at the time the offer was made, it does not constitute a qualified offer pursuant to paragraph (b)(2) of this section.

Example 4. Offer must resolve full liability, Assume the same facts as in *Example 1*, except that A makes a qualified offer that is accepted by the IRS. After the offer is accepted, A attempts to reduce the amount A will pay pursuant to the offer by applying net operating loss carryovers to the years in issue. Because the net operating losses were not at issue when the offer was made, A's offer was a qualified offer. Whether A is entitled to apply net operating losses to reduce the amount stated in the offer will depend upon the application of contract principles, local court rules, and, because net operating losses are at issue, section 6511(d) and related provisions.

Example 5. Qualified offer rule for multiple tax years, partial resolution offer is a qualified offer, Taxpayer B receives a notice of deficiency for taxable years 2001, 2002, and 2003. For 2001, the statutory notice disallows business deductions. For 2002, the statutory notice increases income for unreported lottery winnings. For 2003, the statutory notice disallows a child care credit. B submits a qualified offer only with respect to 2002. Since the adjustments for the three tax years are separate and distinct, B may submit a qualified offer for a single year. If B's liability under the judgment is equal to or less than the qualified offer with respect to 2002, irrespective of 2001 and 2003, B is a prevailing party

for 2002 for purposes of section 7430(g). Assuming B satisfies the remaining requirements of section 7430, B may recover reasonable administrative and litigation costs that are attributable to 2002 from the date of the qualified offer. To qualify for any costs with respect to 2001 or 2003, B must satisfy the requirements of section 7430(c)(4).

Example 6. Qualified offer rule for multiple tax years, partial resolution offer is not a qualified offer, Assume the same facts as in *Example 5* except that with respect to 2002, in addition to increasing B's income for the unreported lottery winnings, the statutory notice also disallows a charitable contribution deduction. B submits a settlement offer that purports to be a qualified offer, but only covers the unreported lottery winnings. B's offer is not a qualified offer because it does not address the charitable contribution issue, and thus, does not fully resolve B's liability for 2002.

Example 7. Qualified offer rule for multiple tax years, partial resolution offer is not a qualified offer, Taxpayer C receives a notice of deficiency for taxable years 2001, 2002, and 2003 adjusting the amount of a depreciation deduction due to the Internal Revenue Service's increase to the recovery period. C submits a settlement offer relating only to 2003 that purports to be a qualified offer. C's offer is not a qualified offer because the issue in the three tax years is not separable given that the treatment of the issue in one of the years necessarily affects the treatment of the issue in the other years, and C's offer only applies to one of the years in the proceeding. In cases involving multiple tax years with nonseparable tax issues affecting all tax years, an offer is not a qualified offer unless it resolves the liability for all tax years at issue in the administrative or judicial proceeding.

Example 8. Qualified offer rule inapplicable when all issues settled, Taxpayer D receives a notice of proposed deficiency (30-day letter) proposing to disallow both a personal interest deduction in the amount of $10,000 (Adjustment 1), and a charitable contribution deduction in the amount of $2,000 (Adjustment 2), and to include in income $4,000 of unreported interest income (Adjustment 3). D timely files a protest with Appeals. At the Appeals conference, D presents substantiation for the charitable contribution and presents arguments that the interest paid was deductible mortgage interest and that the interest received was held in trust for Taxpayer E. At the conference, D also provides the Appeals officer assigned to D's case a written offer to settle the case for a deficiency of $2,000, exclusive of interest. The offer states that it is a qualified offer for purposes of section 7430(g) and that it will remain open for acceptance by the IRS for a period in excess of 90 days. After considering D's substantiation and arguments, the Appeals Officer accepts the $2,000 offer to settle the case in full. Although D's offer is a qualified offer, because all three adjustments contained in the qualified offer were settled, the qualified offer rule is inapplicable.

Example 9. Qualified offer rule inapplicable when all issues contained in the qualified offer are settled; subsequently raised adjustments ignored, Assume the same facts as in *Example 8* except that D's qualified offer was for a deficiency of $1,800 and the IRS rejected that offer. Subsequently, the IRS issued a statutory notice of deficiency disallowing the three adjustments contained in *Example 8*, and, in addition, disallowing a home office expense in the amount of $5,000 (Adjustment 4). After petitioning the Tax Court, D presents the field attorney assigned to the case with a written offer, which is not designated as a qualified offer for purposes of section 7430(g), to settle the three adjustments that had been the subject of the qualified offer, plus adjustment 4, for a total deficiency of $2,500. After negotiating with D, a settlement is reached on the three adjustments that were the subject of the rejected qualified offer, for a deficiency of $1,800. Adjustment 4 is litigated in the Tax Court and the court determines that D is entitled to the full $5,000 deduction for that adjustment. Consequently, a decision is entered by the Tax Court reflecting the $1,800 settlement amount, which matches exactly the amount of D's only qualified offer in the case. Although the determined liability for adjustments 1, 2, and 3 equals that of the rejected qualified offer, because all three adjustments contained in the qualified offer were settled, the qualified offer rule is inapplicable.

Example 10. Exclusion of adjustments made after the qualified offer is made, Assume the same facts as in *Example 9* except the settlement is reached only on adjustments 1 and 2, for a liability of $1,500. Adjustments 3 and 4 are tried in the Tax Court and in accordance with the court's opinion, the taxpayer has a $300 deficiency attributable to adjustment 3, and a $1,550 deficiency attributable to adjustment 4. Consequently, a decision is entered reflecting the $1,500 settled amount, the $300 liability on adjustment 3, and the $1,550 liability on adjustment 4. The $3,350 deficiency reflected in the Tax Court's decision exceeds the last (and only) qualified offer made by D. For purposes of determining whether D is a prevailing party as a result of having made a qualified offer in the proceeding, the liability attributable to adjustment 4, which was raised after the last qualified offer was made, is not included in the comparison of D's liability under the judgment with D's offered liability under the last qualified offer. Thus, D's $1,800 liability under the judgment, as modified for purposes of the qualified offer rule comparison, is equal to D's offered liability under the last qualified offer. Because D's liability under the last qualified

offer equals or exceeds D's liability under the judgment, as calculated under paragraph (b)(3) of this section, D is a prevailing party for purposes of section 7430. Assuming D satisfies the remaining requirements of section 7430, D may recover those reasonable administrative and litigation costs attributable to adjustment 3. To qualify for any further award of reasonable administrative and litigation costs, D must satisfy the requirements of section 7430(c)(4)(A).

Example 11. Qualified offer in a refund case, Taxpayer E timely files an amended return claiming a refund of $1,000. This refund claim results from several omitted deductions which, if allowed, would reduce E's tax liability from $10,000 to $9,000. E receives a notice of claim disallowance and files a complaint with the appropriate United States District Court. Subsequently, E makes a qualified offer for a refund of $500. The offer is rejected and after trial the court finds E is entitled to a refund of $700. The change in E's liability from the tax shown on the return that would have resulted from the acceptance of E's qualified offer is a reduction in that liability of $500. The change in E's liability from the tax shown on the return resulting from the judgment of the court is a reduction in that liability of $700. Because E's liability under the qualified offer exceeds E's liability under the judgment, E is a prevailing party for purposes of section 7430. Assuming E satisfies the remaining requirements of section 7430, E may recover those reasonable litigation costs incurred on or after the date of the qualified offer. To qualify for any further award of reasonable administrative and litigation costs E must satisfy the requirements of section 7430(c)(4)(A).

Example 12. End of qualified offer period when case is removed from Tax Court trial calendar more than 30 days before scheduled trial calendar, Taxpayer F has petitioned the Tax Court in response to the issuance of a notice of deficiency. F receives notice that the case will be heard on the July trial session in F's city of residence. The scheduled date for the calendar call for that trial session is July 1st. On May 15th, F's motion to remove the case from the July trial session and place it on the October trial session for that city is granted. The scheduled date for the calendar call for the October trial session is October 1st. On May 31st, F delivers a qualified offer to the field attorney assigned to the case. On August 31st, F delivers a revised qualified offer to the field attorney assigned to the case. Neither offer is accepted. The case is tried during the October trial session, and at some time thereafter, a decision is entered by the court. Assume the judgment in the case, as calculated under paragraph (b)(3) of this section, is greater than the amount offered, as calculated under paragraph (b)(2) of this section, in the qualified offer delivered on May 31st, but less than the amount offered, as similarly calculated, in the qualified offer delivered on August 31st. Because the qualified offer period did not end until September 1st, and the offer of August 31st otherwise satisfied the requirements of paragraph (c) of this section, the offer delivered on August 31st is a qualified offer. Furthermore, because the August 31st qualified offer is closer in time to the end of the qualified offer period than the May 31st qualified offer, the August 31st qualified offer is the last qualified offer made by F. Consequently, the August 31st offer is the qualified offer that is compared to the judgment for purposes of determining whether F is a prevailing party under section 7430(c)(4)(E). Because F's liability under the August 31st qualified offer equals or exceeds F's liability under the judgment as calculated under paragraph (b)(3) of this section, F is a prevailing party for purposes of section 7430.

Example 13. End of qualified offer period when case is removed from Tax Court trial calendar less than 30 days before scheduled trial calendar, Assume the same facts as in *Example 12* except that F's motion was granted on June 15th. Because the qualified offer period ended on June 1st when the case remained on the July trial session on the date that preceded by 30 days the scheduled date of the calendar call for that trial session, the offer delivered on May 31st was F's last qualified offer. The August 31st offer is not a qualified offer for purposes of this rule. Consequently, F is not a prevailing party under the qualified offer rule. Therefore, F must satisfy the requirements of section 7430(c)(4)(A) to qualify for any award of reasonable administrative and litigation costs.

Example 14. When a qualified offer can be made and to whom it must be made, During the examination of Taxpayer G's return, the IRS issues a notice of deficiency without having first issued a 30-day letter. After receiving the notice of deficiency G timely petitions the Tax Court. The next day G mails an offer to the office that issued the notice of deficiency, which offer satisfies the requirements of paragraphs (c)(3) through (6) of this section. This is the only written offer made by G during the administrative or court proceeding, and by its terms it is to remain open for a period in excess of 90 days after the date of mailing to the office issuing the notice of deficiency. The office that issued the notice of deficiency transmitted the offer to the field attorney with jurisdiction over the Tax Court case. After answering the case, the field attorney refers the case to Appeals pursuant to Rev. Proc. 87–24 (1987–1 C.B. 720). See § 601.601(d)(2)(ii)(*b*) of this chapter. After careful consideration, Appeals rejects the offer and holds a conference with G during which some adjustments are settled. The remainder of the adjustments are tried in the Tax Court and G's liability resulting from the Tax Court's determinations, when

added to G's liability resulting from the settled adjustments, is less than G's liability would have been under the offer rejected by Appeals. Because the Tax Court case had not yet been answered when the offer was sent, G properly mailed the offer to the office that issued the notice of deficiency. Thus, G's offer satisfied the requirements of paragraph (c)(2) of this section. Furthermore, even though G did not receive a 30-day letter, G's offer was made after the beginning of the qualified offer period, satisfying the requirements of paragraph (c)(7) of this section, because the issuance of the statutory notice provided G with notice of the IRS's determination of a deficiency, and the docketing of the case provided G with an opportunity for administrative review in the Internal Revenue Service Office of Appeals under Rev. Proc. 87–24. See § 601.601(d)(2)(ii)(*b*) of this chapter. Because G's offer satisfied all of the requirements of paragraph (c) of this section, the offer was a qualified offer and G is a prevailing party.

Example 15. Substitution of parties permitted under last qualified offer, Taxpayer H receives a 30-day letter and participates in a conference with the Office of Appeals but no agreement is reached. Subsequently, H receives a notice of deficiency and petitions the Tax Court. Upon receiving the Internal Revenue Service's answer to the petition, H sends a qualified offer to the field attorney who signed the answer, by United States mail. The qualified offer stated that it would remain open for more than 90 days. Thirty days after making the offer, H dies and, on motion under Rule 63(a) of the Tax Court's Rules of Practice and Procedure by H's personal representative, I is substituted for H as a party in the Tax Court proceeding. I makes no qualified offers to settle the case and the case proceeds to trial, with the Tax Court issuing an opinion partially in favor of I. Even though I was not a party when the qualified offer was made by H, that offer constitutes a qualified offer because by its terms, when made, it was to remain open until at least the earlier of the date it is rejected, the date of trial, or 90 days. If the liability of I under the qualified offer, as determined under paragraph (b)(2) of this section, equals or exceeds the liability under the judgment of the Tax Court, as determined under paragraph (b)(3) of this section, I will be a prevailing party for purposes of an award of reasonable litigation costs under section 7430.

Example 16. Qualified offer may not compromise interest unless it is a contested issue. Taxpayer J receives a notice of deficiency making an adjustment resulting in a deficiency in tax of $6,500 plus a penalty of $500. Interest is not a contested issue in the proceeding. Within the qualified offer period, J submits a written offer to settle the case for a deficiency of $1,000, including all taxes, penalties, and interest. The offer states that it is a qualified offer for purposes of section 7430(g) and that it will remain open for acceptance by the Internal Revenue Service for a period of 90 days. Section 7430(g)(2)(B) and paragraph (c)(3) of this section state that the amount of a qualified offer must be without regard to interest unless interest is at issue in the proceeding. Since J's offer attempts to compromise interest, which is not a contested issue in the proceeding, it is not a qualified offer.

Example 17. Qualified offer based on new defense or legal theory. Taxpayers K and L received a statutory notice of deficiency for tax year 2005, a tax year when they were married and filed a joint income tax return. Taxpayer K files a separate petition claiming innocent spouse relief and simultaneously submits an offer purporting to be a qualified offer. The offer states that K is entitled to innocent spouse relief and offers to settle the 2005 deficiency as to K. K's innocent spouse claim was not raised during K and L's audit, nor was it raised during their appeals conference. Additionally, at no time prior to or contemporaneously with submitting the offer did K file with the Internal Revenue Service a Form 8857, Request for Innocent Spouse Relief, or otherwise provide the information specified in § 1.6015–5(a) of this chapter. K's offer is not a qualified offer because K did not file a Form 8857 or otherwise provide substantiation or legal and factual arguments necessary to allow for informed consideration of the merits of the innocent spouse claim as required by paragraph (c)(4) of this section, contemporaneously with the offer or prior to making the offer.

(f) *Effective/applicability date*. This section is applicable with respect to qualified offers made in administrative or court proceedings described in section 7430 after December 24, 2003, except that paragraph (c)(8) is effective as of *March 1, 2016*.

[T.D. 9106, 68 FR 74850, Dec. 29, 2003; T.D. 9106, 69 FR 4059, Jan. 28, 2004; T.D. 9756, 81 FR 10489, Mar. 1, 2016]

§ 301.7430–8 Administrative costs incurred in damage actions for violations of section 362 or 524 of the Bankruptcy Code.

(a) *In general*. The Internal Revenue Service may grant a taxpayer's request for recovery of reasonable administrative costs incurred in connection with the administrative proceeding before the Internal Revenue Service relating to the willful violation of section 362 or

524 of the Bankruptcy Code only if the taxpayer is a prevailing party.

(b) *Prevailing party*. A taxpayer is a prevailing party for purposes of this section only if—

(1) The taxpayer satisfies the net worth and size limitations in paragraph (f) of § 301.7430–5;

(2) The taxpayer establishes that in connection with the collection of his or her federal tax an officer or employee of the Internal Revenue Service has willfully violated a provision of section 362 or 524 of the Bankruptcy Code; and

(3) The position of the Internal Revenue Service in the proceeding was not substantially justified.

(c) *Administrative proceeding*. For purposes of this section, an administrative proceeding is a proceeding related to an administrative claim presented to the Internal Revenue Service seeking relief from a violation of section 362 or 524 of the Bankruptcy Code by the Internal Revenue Service or recovery of damages from the Internal Revenue Service under § 301.7433–2(e).

(d) *Costs incurred after filing of bankruptcy petition*. Administrative costs may be recovered only if incurred on or after the date of filing of the bankruptcy petition that formed the basis for the stay on collection under Bankruptcy Code section 362 or the discharge injunction under Bankruptcy Code section 524, as the case might be.

(e) *Time for filing claim for administrative costs*. (1) For purposes of this section, the taxpayer must file a claim for administrative costs before the Internal Revenue Service not later than 90 days after the date the Internal Revenue Service mails to the taxpayer, or otherwise notifies the taxpayer of, the decision regarding the claim for relief from or damages relating to a violation of the collection stay or the discharge injunction.

(2) If the Internal Revenue Service denies the claim for administrative costs in whole or in part, the taxpayer must file a petition with the Bankruptcy Court for administrative costs no later than 90 days after the date on which the denial of the claim for administrative costs is mailed, or otherwise furnished, to the taxpayer. If the Internal Revenue Service does not respond on the merits to a request by the taxpayer for an award of reasonable administrative costs within six months after such request is filed, the Internal Revenue Service's failure to respond may be considered by the taxpayer as a denial of an award of reasonable administrative costs.

(3) For purposes of paragraphs (e)(1) and (2) of this section, if the 90th day falls on a Saturday, Sunday, or a legal holiday, the 90-day period shall end on the next succeeding day which is not a Saturday, Sunday, or a legal holiday. The term legal holiday means a legal holiday in the District of Columbia. If the request for costs is to be filed with the Internal Revenue Service at an office of the Internal Revenue Service located outside the District of Columbia, the term legal holiday also means a statewide legal holiday in the state where such office is located.

(f) *Effective date*. This section is applicable with respect to actions taken by the Internal Revenue Service after July 22, 1998.

[T.D. 9050, 68 FR 14320, Mar. 25, 2003]

§ 301.7432–1 Civil cause of action for failure to release a lien.

(a) *In general*. If any officer or employee of the Internal Revenue Service knowingly, or by reason of negligence, fails to release a lien on property of the taxpayer in accordance with section 6325 of the Internal Revenue Code, such taxpayer may bring a civil action for damages against the United States in federal district court. The total amount of damages recoverable is the sum of:

(1) The actual, direct economic damages sustained by the taxpayer which, but for the officer's or the employee's knowing or negligent failure to release the lien under section 6325, would not have been sustained; and

(2) Costs of the action.

The amount of actual, direct economic damages that are recoverable is reduced to the extent such damages reasonably could have been mitigated by the plaintiff. An action for damages filed in federal district court may not be maintained unless the taxpayer has filed an administrative claim pursuant to paragraph (f) of this section and has waited the period required under paragraph (e) of this section.

(b) *Finding of satisfaction or unenforceability*. For purposes of this section, a finding under section 6325(a)(1) that the liability for the amount assessed, together with all interest in respect thereof, has been fully satisfied or has become legally unenforceable is treated as made on the earlier of:

(1) The date on which the district director of the district in which the taxpayer currently resides or the district in which the lien was filed finds full satisfaction or legal unenforceability; or

(2) The date on which such district director receives a request for a certificate of release of lien in accordance with § 401.6325–1(f), together with any information which is reasonably necessary for the district director to conclude that the lien has been fully satisfied or is legally unenforceable.

(c) *Actual, direct economic damages*—(1) *Definition*. Actual, direct economic damages are actual pecuniary damages sustained by the taxpayer that would not have been sustained but for an officer's or an employee's failure to release a lien in accordance with section 6325 of the Internal Revenue Code. Injuries such as inconvenience, emotional distress and loss of reputation are compensable only to the extent that they result in actual pecuniary damages.

(2) *Litigation costs and administrative costs not recoverable*. Litigation costs and administrative costs described in this paragraph are not recoverable as actual, direct economic damages. Litigation costs may be recoverable under section 7430 (*see* paragraph (j) of this section) or, solely to the extent described in paragraph (d) of this section, as costs of the action.

(i) *Litigation costs*. For purposes of this paragraph, litigation costs are any costs incurred pursuing litigation for relief from the failure to release a lien, including costs incurred pursuing a civil action in federal district court under paragraph (a) of this section. Litigation costs include the following:

(A) Court costs;

(B) Expenses of expert witnesses in connection with a court proceeding;

(C) Cost of any study, analysis, engineering report, test, or project prepared for a court proceeding; and

(D) Fees paid or incurred for the services of attorneys, or other individuals authorized to practice before the court, in connection with a court proceeding.

(ii) *Administrative costs*. For purposes of this section, administrative costs are any costs incurred pursuing administrative relief from the failure to release a lien, including costs incurred pursuing an administrative claim for damages under paragraph (f) of this section. The term administrative costs includes:

(A) Any administrative fees or similar charges imposed by the Internal Revenue Service; and

(B) Expenses, costs, and fees described in paragraph (c)(2)(i) of this section incurred in pursuing administrative relief.

(d) *Costs of the action*. Costs of the action recoverable as damages under this section are limited to the following costs:

(1) Fees of the clerk and marshall;

(2) Fees of the court reporter for all or any part of the stenographic transcript necessarily obtained for use in the case;

(3) Fees and disbursements for printing and witnesses;

(4) Fees for exemplification and copies of paper necessarily obtained for use in the case;

(5) Docket fees; and

(6) Compensation of court appointed experts and interpreters.

(e) *No civil action in federal district court prior to filing an administrative claim*—(1) Except as provided in paragraph (e)(2) of this section, no action under paragraph (a) of this section shall be maintained in any federal district court before the earlier of the following dates:

(i) The date a decision is rendered on a claim filed in accordance with paragraph (f) of this section; or

(ii) The date 30 days after the date an administrative claim is filed in accordance with paragraph (f) of this section.

(2) If an administrative claim is filed in accordance with paragraph (f) of this section during the last 30 days of the period of limitations described in paragraph (i) of this section, the taxpayer may file an action in federal district court anytime after the administrative claim is filed and before the expiration

of the period of limitations, without waiting for 30 days to expire or for a decision to be rendered on the claim.

(f) *Procedures for an administrative claim*—(1) *Manner.* An administrative claim for actual, direct economic damages as defined in paragraph (c) of this section shall be sent in writing to the district director (marked for the attention of the Chief, Special Procedures Function) in the district in which the taxpayer currently resides or the district in which the notice of federal tax lien was filed.

(2) *Form.* The administrative claim shall include:

(i) The name, current address, current home and work telephone numbers and any convenient times to be contacted, and taxpayer identification number of the taxpayer making the claim;

(ii) A copy of the notice of federal tax lien affecting the taxpayer's property, if available;

(iii) A copy of the request for release of lien made in accordance with § 401.6325–1(f) of the Code of Federal Regulations, if applicable;

(iv) The grounds, in reasonable detail, for the claim (include copies of any available substantiating documentation or correspondence with the Internal Revenue Service);

(v) A description of the injuries incurred by the taxpayer filing the claim (include copies of any available substantiating documentation or evidence);

(vi) The dollar amount of the claim, including any damages that have not yet been incurred but that are reasonably foreseeable (include copies of any available substantiating documentation or evidence); and

(vii) The signature of the taxpayer or duly authorized representative.

For purposes of this paragraph, a duly authorized representative is any attorney, certified public accountant, enrolled actuary, or any other person permitted to represent the taxpayer before the Internal Revenue Service who is not disbarred or suspended from practice before the Internal Revenue Service and who has a written power of attorney executed by the taxpayer.

(g) *Notice of failure to release lien*—An administrative claim under paragraph (f) of this section shall be considered a notice of failure to release a lien.

(h) *No action in federal district court for any sum in excess of the dollar amount sought in the administrative claim*—No action for actual, direct economic damages under paragraph (a) of this section shall be instituted in federal district court for any sum in excess of the amount (already incurred and estimated) of the administrative claim filed under paragraph (f) of this section, except where the increased amount is based upon newly discovered evidence not reasonably discoverable at the time the administrative claim was filed, or upon allegation and proof of intervening facts relating to the amount of the claim.

(i) *Period of limitations*—(1) *Time of filing.* A civil action under paragraph (a) of this section must be brought in federal district court within 2 years after the date the cause of action accrues.

(2) *Cause of action accrues.* A cause of action accrues when the taxpayer has had a reasonable opportunity to discover all essential elements of a possible cause of action.

(j) *Recovery of costs under section 7430*—Reasonable litigation costs, including attorney's fees, not recoverable under this section may be recoverable under section 7430. If following the Internal Revenue Service's denial of an administrative claim on the grounds that the Internal Revenue Service did not violate section 7432(a), a taxpayer brings a civil action for damages in a district court of the United States, and establishes entitlement to damages under this section, substantially prevails with respect to the amount of damages in controversy, and meets the requirements of section 7430(c)(4)(A)(iii) (relating to notice and net worth requirements), the taxpayer will be considered a ''prevailing party'' for purposes of section 7430. Such taxpayer, therefore, will generally be entitled to attorney's fees and other reasonable litigation costs not recoverable under this section. For purposes of the paragraph, if the Internal Revenue Service does not respond on the merits to an administrative claim for damages within 30 days after the claim is filed, the Internal Revenue Service's failure to respond shall be considered a denial

of the administrative claim on the grounds that the Internal Revenue Service did not violate section 7432(a). Administrative costs, including attorney's fees incurred pursuing an administrative claim under paragraph (f) of this section, are not recoverable under section 7430.

(k) *Effective date*—This section applies with respect to civil actions under section 7432 filed in federal district court after January 30, 1992.

[T.D. 8393, 57 FR 3539, Jan. 30, 1992; 57 FR 6061, Feb. 19, 1992]

§ 301.7433–1 Civil cause of action for certain unauthorized collection actions.

(a) *In general*. If, in connection with the collection of a federal tax with respect to a taxpayer, an officer or an employee of the Internal Revenue Service recklessly or intentionally , or by reason of negligence, disregards any provision of the Internal Revenue Code or any regulation promulgated under the Internal Revenue Code, such taxpayer may bring a civil action for damages against the United States in federal district court. The taxpayer has a duty to mitigate damages. The total amount of damages recoverable is the lesser of $1,000,000 ($100,000 in the case of negligence), or the sum of:

(1) The actual, direct economic damages sustained as a proximate result of the reckless or international actions of the officer or employee; and

(2) Costs of the action.

An action for damages filed in federal district court may not be maintained unless the taxpayer has filed an administrative claim pursuant to paragraph (e) of this section, and has waited for the period required under paragraph (d) of this section.

(b) *Actual, direct economic damages*—(1) *Definition*. Actual, direct economic damages are actual pecuniary damages sustained by the taxpayer as the proximate result of the reckless or intentional, or negligent, actions of an officer or an employee of the Internal Revenue Service. Injuries such as inconvenience, emotional distress and loss of reputation are compensable only to the extent that they result in actual pecuniary damages.

(2) *Litigation costs and administrative costs not recoverable*. Litigation costs and administrative costs are not recoverable as actual, direct economic damages. Litigation costs may be recoverable under section 7430 (*see* paragraph (h) of this section) or, solely to the extent described in paragraph (c) of this section, as costs of the action.

(i) *Litigation costs*. For purposes of this paragraph, litigation costs are any costs incurred pursuing litigation for relief from the action taken by the officer or employee of the Internal Revenue Service, including costs incurred pursuing a civil action in federal district court under paragraph (a) of this section. The term litigation costs includes the following:

(A) Court costs;

(B) Expenses of expert witnesses in connection with a court proceeding;

(C) Cost of any study, analysis, engineering report, test, or project prepared for a court proceeding; and

(D) Fees paid or incurred for the services of attorneys, or other individuals authorized to practice before the court, in connection with a court proceeding.

(ii) *Administrative costs*. For purposes of this section, administrative costs are any costs incurred pursuing administrative relief from the action taken by an officer or employee of the Internal Revenue Service, including costs incurred pursuing an administrative claim for damages under paragraph (e) of this section. The term administrative costs includes:

(A) Any administrative fees or similar charges imposed by the Internal Revenue Service; and

(B) Expenses, costs, and fees described in paragraph (b)(2)(i) of this section incurred pursuing administrative relief.

(c) *Costs of the action*. Costs of the action recoverable as damages under this section are limited to the following costs:

(1) Fees of the clerk and marshall;

(2) Fees of the court reporter for all or any part of the stenographic transcript necessarily obtained for use in the case;

(3) Fees and disbursements for printing and witnesses;

(4) Fees for exemplification and copies of paper necessarily obtained for use in the case;

(5) Docket fees; and

(6) Compensation of court appointed experts and interpreters.

(d) *No civil action in federal district court prior to filing an administrative claim*—(1) Except as provided in paragraph (d)(2) of this section, no action under paragraph (a) of this section shall be maintained in any federal district court before the earlier of the following dates:

(i) The date the decision is rendered on a claim filed in accordance with paragraph (e) of this section; or

(ii) The date six months after the date an administrative claim is filed in accordance with paragraph (e) of this section.

(2) If an administrative claim is filed in accordance with paragraph (e) of this section during the last six months of the period of limitations described in paragraph (g) of this section, the taxpayer may file an action in federal district court any time after the administrative claim is filed and before the expiration of the period of limitations.

(e) *Procedures for an administrative claim*—(1) *Manner*. An administrative claim for the lesser of $1,000,000 ($100,000 in the case of negligence) or actual, direct economic damages as defined in paragraph (b) of this section shall be sent in writing to the Area Director, Attn: Compliance Technical Support Manager of the area in which the taxpayer currently resides.

(2) *Form*. The administrative claim shall include:

(i) The name, current address, current home and work telephone numbers and any convenient times to be contacted, and taxpayer identification number of the taxpayer making the claim;

(ii) The grounds, in reasonable detail, for the claim (include copies of any available substantiating documentation or correspondence with the Internal Revenue Service);

(iii) A description of the injuries incurred by the taxpayer filing the claim (include copies of any available substantiating documentation or evidence);

(iv) The dollar amount of the claim, including any damages that have not yet been incurred but which are reasonably foreseeable (include copies of any available substantiating documentation or evidence); and

(v) The signature of the taxpayer or duly authorized representative.

For purposes of this paragraph, a duly authorized representative is any attorney, certified public accountant, enrolled actuary, or any other person permitted to represent the taxpayer before the Internal Revenue Service who is not disbarred or suspended from practice before the Internal Revenue Service and who has a written power of attorney executed by the taxpaper.

(f) *No action in federal district court for any sum in excess of the dollar amount sought in the administrative claim*. No action for actual, direct economic damages under paragraph (a) of this section shall be instituted in federal district court for any sum in excess of the amount (already incurred and estimated) of the administrative claim filed under paragraph (e) of this section, except where the increased amount is based upon newly discovered evidence not reasonably discoverable at the time the administrative claim was filed, or upon allegation and proof of intervening facts relating to the amount of the claim.

(g) *Period of limitations*—(1) *Time for filing*. A civil action under paragraph (a) of this section must be brought in federal district court within 2 years after the date the cause of action accrues.

(2) *Right of action accrues*. A cause of action under paragraph (a) of this section accrues when the taxpayer has had a reasonable opportunity to discover all essential elements of a possible cause of action.

(h) *Recovery of costs under section 7430*. Reasonable litigation costs, including attorney's fees, not recoverable under this section may be recoverable under section 7430. If following the Internal Revenue Service's denial of an administrative claim on the grounds that the Internal Revenue Service did not violate section 7433(a), a taxpayer brings a civil action for damages in a district court of the United States, and establishes entitlement to damages under

this section, substantially prevails with respect to the amount of damages in controversy and meets the requirements of section 7430(c)(4)(A)(iii) (relating to notice and net worth requirements), the taxpayer will be considered a ''prevailing party'' for purposes of section 7430. Such taxpayer, therefore, will generally be entitled to attorney's fees and other reasonable litigation costs not recoverable under this section. For purposes of this paragraph, if the Internal Revenue Service does not respond on the merits to an administrative claim for damages within six months after the claim is filed, the Internal Revenue Service's failure to respond shall be considered a denial of the claim on the grounds that the Internal Revenue Service did not violate section 7433(a). Administrative costs, including attorney's fees incurred pursuing an administrative claim under paragraph (e) of this section, are not recoverable under section 7430.

(i) *Effective dates*. The portions of this section relating to reckless or intentional acts are applicable to actions taken by Internal Revenue Service officials after July 30, 1996. The portions of this section relating to negligent acts are applicable to actions taken by the Internal Revenue Service officials after July 22, 1998.

[T.D. 8392, 57 FR 3536, Jan. 30, 1992; 57 FR 5931, Feb. 18, 1992, as amended by T.D. 9050, 68 FR 14320, Mar. 25, 2003]

§ 301.7433–2 Civil cause of action for violation of section 362 or 524 of the Bankruptcy Code.

(a) *In general*. (1) If, in connection with the collection of a federal tax with respect to a taxpayer, an officer or employee of the Internal Revenue Service willfully violates any provision of section 362 (relating to the automatic stay) or section 524 (relating to discharge) of title 11, United States Code, or any regulation promulgated under such provision, the taxpayer may file a petition for damages against the United States in Federal bankruptcy court. The taxpayer has a duty to mitigate damages. The total amount of damages recoverable under this section is the lesser of $1,000,000, or the sum of—

(i) Actual, direct economic damages sustained as a proximate result of the willful actions of the officer or employee; and

(ii) Costs of the action.

(2) An action under this section constitutes the exclusive remedy under the Internal Revenue Code for violations of sections 362 and 524 of the Bankruptcy Code. In addition, taxpayers injured by violations of section 362 of the Bankruptcy Code may maintain actions under section 362(h) of the Bankruptcy Code (relating to an individual injured by a willful violation of the stay). However, any administrative or litigation costs in connection with an action under section 362(h) may be awarded, if at all, only under section 7430 of the Internal Revenue Code.

(b) *Actual, direct economic damages*—(1) *Definition*. See § 301.7433–1(b)(1).

(2) *Litigation costs and administrative costs not recoverable as actual, direct economic damages*. Litigation costs and administrative costs are not recoverable as actual, direct economic damages. These costs may be recoverable under section 7430 (see paragraph (h) of this section), or, solely to the extent described in paragraph (c) of this section, as costs of the action.

(c) *Costs of the action*. Costs of the action recoverable as damages under this section are limited to the costs set forth in § 301.7433–1(c).

(d) *No civil action in federal bankruptcy court prior to filing an administrative claim*—(1) *In general*. Except as provided in paragraph (d)(2) of this section, no action under paragraph (a)(1) of this section shall be maintained in any bankruptcy court before the earlier of the following dates—

(i) The date the decision is rendered on a claim filed in accordance with paragraph (e) of this section; or

(ii) The date that is six months after the date an administrative claim is filed in accordance with paragraph (e) of this section.

(2) *When administrative claim filed in last six months of period of limitations*. If an administrative claim is filed in accordance with paragraph (e) of this section during the last six months of the period of limitations described in paragraph (g) of this section, the taxpayer may petition the bankruptcy court any

time after the administrative claim is filed and before the expiration of the period of limitations.

(e) *Procedures for an administrative claim*—(1) *Manner*. An administrative claim for the lesser of $1,000,000 or actual, direct economic damages as defined in paragraph (b) of this section shall be sent in writing to the Chief, Local Insolvency Unit, for the judicial district in which the taxpayer filed the underlying bankruptcy case giving rise to the alleged violation.

(2) *Form*. The administrative claim shall include—

(i) The name, taxpayer identification number, current address, and current home and work telephone numbers (with an identification of any convenient times to be contacted) of the taxpayer making the claim;

(ii) The location of the bankruptcy court in which the underlying bankruptcy case was filed and the case number of the case in which the violation occurred;

(iii) A description, in reasonable detail, of the violation (include copies of any available substantiating documentation or correspondence with the Internal Revenue Service);

(iv) A description of the injuries incurred by the taxpayer filing the claim (include copies of any available substantiating documentation or evidence);

(v) The dollar amount of the claim, including any damages that have not yet been incurred but which are reasonably foreseeable (include copies of any available documentation or evidence); and

(vi) The signature of the taxpayer or duly authorized representative.

(3) *Duly authorized representative defined*. For purposes of this paragraph (e), a duly authorized representative is any attorney, certified public accountant, enrolled actuary, or any other person permitted to represent the taxpayer before the Internal Revenue Service who is not disbarred or suspended from practice before the Internal Revenue Service and who has a written power of attorney executed by the taxpayer.

(f) *No action in bankruptcy court for any sum in excess of the dollar amount sought in the administrative claim*. No action for actual, direct economic damages under paragraph (a) of this section may be instituted in federal bankruptcy court for any sum in excess of the amount (already incurred and estimated) of the administrative claim filed under paragraph (e) of this section, except where the increased amount is based upon newly discovered evidence not reasonably discoverable at the time the administrative claim was filed, or upon allegation and proof of intervening facts relating to the amount of the claim.

(g) *Period of limitations*—(1) *Time for filing*. A petition for damages under paragraph (a) of this section must be filed in bankruptcy court within two years after the date the cause of action accrues.

(2) *Right of action accrues*. A cause of action under paragraph (a) of this section accrues when the taxpayer has had a reasonable opportunity to discover all essential elements of a possible cause of action.

(h) *Recovery of litigation costs and administrative costs under section 7430*—(1) *In general*. Litigation costs, as defined in § 301.7433–1(b)(2)(i), including attorneys fees, not recoverable under this section may be recoverable under section 7430 if a taxpayer challenges in whole or in part an Internal Revenue Service denial of an administrative claim for damages by filing a petition in the bankruptcy court. If, following the Internal Revenue Service's denial of an administrative claim for damages, a taxpayer files a petition in the bankruptcy court challenging that denial in whole or in part, substantially prevails with respect to the amount of damages in controversy, and meets the requirements of section 7430(c)(4)(A)(ii) (relating to net worth and size requirements), the taxpayer will be considered a prevailing party for purposes of section 7430, unless the Internal Revenue Service establishes that the position of the Internal Revenue Service in the proceeding was substantially justified. Such taxpayer will generally be entitled to attorneys' fees and other reasonable litigation costs not recoverable under this section. For purposes of this paragraph (h), if the Internal Revenue Service does not respond on the merits to an administrative claim for damages

within six months after the claim is filed, the Internal Revenue Service's failure to respond will be considered a denial of the claim on the grounds that the Internal Revenue Service did not willfully violate Bankruptcy Code section 362 or 524.

(2) *Administrative costs*—(i) *In general.* Administrative costs, as defined in § 301.7433–1(b)(2)(ii), including attorneys' fees, not recoverable under this section may be recoverable under section 7430. *See* § 301.7430–8.

(ii) *Limitation regarding recoverable administrative costs.* Administrative costs may be awarded only if incurred on or after the date of filing of the bankruptcy petition that formed the basis for the stay on collection under Bankruptcy Code section 362 or the discharge injunction under Bankruptcy Code section 524, as the case might be.

(i) *Effective date.* This section is applicable to actions taken by the Internal Revenue Service officials after July 22, 1998.

[T.D. 9050, 68 FR 14321, Mar. 25, 2003]

THE TAX COURT

PROCEDURE

§ 301.7452–1 Representation of parties.

The Commissioner shall be represented by the Chief Counsel for the Internal Revenue Service in the same manner before the Tax Court as he has heretofore been represented in proceedings before such Court. The taxpayer shall continue to be represented in accordance with the rules of practice prescribed by the Court.

§ 301.7454–1 Burden of proof in fraud and transferee cases.

In any proceeding involving the issue whether the petitioner has been guilty of fraud with intent to evade tax, the burden of proof in respect of such issue shall be upon the Commissioner.

§ 301.7454–2 Burden of proof in foundation manager, etc. cases.

(a) *Foundation manager.* In any proceeding involving the issue whether a foundation manager as defined in section 4946(b) has ''knowingly'' participated in an act of self-dealing within the meaning of section 4941, participated in an investment which jeopardizes the carrying out of exempt purposes within the meaning of section 4944, or agreed to the making of a taxable expenditure within the meaning of section 4945 or whether an organization manager (as defined in section 4958(f)(2)) has ''knowingly'' participated in an excess benefit transaction (as defined in section 4958(c)), the burden of proof in respect of such issue shall be upon the Commissioner.

(b) *Trustee of a black lung benefit trust.* In any proceeding involving the issue whether a trustee of a trust described in section 501(c)(21) has ''knowingly'' participated in an act of self-dealing within the meaning of section 4951 or agreed to the making of a taxable expenditure within the meaning of section 4952, the burden of proof in respect of such issue shall be upon the Commissioner.

[T.D. 7838, 47 FR 44253, Oct. 7, 1982, as amended by T.D. 8920, 66 FR 2171, Jan. 10, 2001]

§ 301.7456–1 Administration of oaths and procurement of testimony; production of records of foreign corporations, foreign trusts or estates and nonresident alien individuals.

Upon motion and notice by the Commissioner and upon good cause shown therefor, the Tax Court or any division thereof shall order any foreign corporation, foreign trust or estate, or nonresident alien individual, who has filed a petition with the Tax Court, to produce, or, upon satisfactory proof to the Tax Court or any of its divisions that the petitioner is unable to produce, to make available to the Commissioner, and, in either case, to permit the inspection, copying, or photographing of, such books, records, documents, memoranda, correspondence and other papers, wherever situated, as the Tax Court or any of its divisions may deem relevant to the proceedings and which are in the possession, custody or control of the petitioner, or of any person directly or indirectly under his control or having control over him or subject to the same common control.

§ 301.7457–1 Witness fees.

Any witness summoned for the Commissioner or whose deposition is taken

under section 7456 shall receive the same fees and mileage as witnesses in courts of the United States. Such fees and mileage and the expense of taking any such deposition shall be paid by the Commissioner out of any moneys appropriated for the collection of internal revenue taxes, and may be paid in advance.

§ 301.7458–1 Hearings.

Notice and opportunity to be heard upon any proceeding instituted before the Tax Court shall be given to the taxpayer and the Commissioner. If an opportunity to be heard upon the proceeding is given before a division of the Tax Court, neither the taxpayer nor the Commissioner shall be entitled to notice and opportunity to be heard before the Tax Court upon review, except upon a specific order of the chief judge.

§ 301.7461–1 Publicity of proceedings.

All reports of the Tax Court and all evidence received by the Tax Court and its divisions, including a transcript of the stenographic report of the hearings, shall be public records open to the inspection of the public; except that after the decision of the Tax Court in any proceeding has become final the Tax Court may, upon motion of the taxpayer or the Commissioner, permit the withdrawal by the party entitled thereto of the originals of books, documents, and records, and of models, diagrams, and other exhibits, introduced in evidence before the Tax Court or any of its divisions; or the Tax Court may, on its own action, make such other disposition thereof as it deems advisable.

DECLARATORY JUDGMENTS RELATING TO QUALIFICATION OF CERTAIN RETIREMENT PLANS

§ 301.7476–1 Declaratory judgments.

See the regulations under section 7476 contained in part 1 of this chapter (Income Tax Regulations) for provisions relating to declaratory judgments, for provisions relating to the qualification of an employee as an ''interested party'', and for a requirement that the applicant for an advance determination by the Internal Revenue Service of the qualification of certain retirement plans give notice of such application to interested parties.

[T.D. 7421, 41 FR 20878, May 21, 1976]

§ 301.7477–1 Declaratory judgments relating to the value of certain gifts for gift tax purposes.

(a) *In general.* If the adjustment(s) proposed by the Internal Revenue Service (IRS) will not result in any deficiency in or refund of the donor's gift tax liability for the calendar year, and if the requirements contained in paragraph (d) of this section are satisfied, then the declaratory judgment procedure under section 7477 is available to the donor for determining the amount of one or more of the donor's gifts during that calendar year for Federal gift tax purposes.

(b) *Declaratory judgment procedure*—(1) *In general.* If a donor does not resolve a dispute with the IRS concerning the value of a transfer for gift tax purposes at the Examination level, the donor will be sent a notice of preliminary determination of value (Letter 950–G or such other document as may be utilized by the IRS for this purpose from time to time, but referred to in this section as Letter 950–G), inviting the donor to file a formal protest and to request consideration by the appropriate IRS Appeals office. See §§ 601.105 and 601.106 of this chapter. Subsequently, the donor will be sent a notice of determination of value (Letter 3569, or such other document as may be utilized from time to time by the IRS for this purpose in cases where no deficiency or refund would result, but referred to in this section as Letter 3569) if—

(i) The donor requests Appeals consideration in writing within 30 calendar days after the mailing date of the Letter 950–G, or by such later date as determined pursuant to IRS procedures, and the matter is not resolved by Appeals;

(ii) The donor does not request Appeals consideration within the time provided in paragraph (b)(1)(i) of this section; or

(iii) The IRS does not issue a Letter 950–G in circumstances described in paragraph (d)(4)(iv) of this section.

(2) *Notice of determination of value.* The Letter 3569 will notify the donor of the adjustment(s) proposed by the IRS,

and will advise the donor that the donor may contest the determination made by the IRS by filing a petition with the Tax Court before the 91st day after the date on which the Letter 3569 was mailed to the donor by the IRS.

(3) *Tax Court petition*. If the donor does not file a timely petition with the Tax Court, the IRS determination as set forth in the Letter 3569 will be considered the final determination of value, as defined in sections 2504(c) and 2001(f). If the donor files a timely petition with the Tax Court, the Tax Court will determine whether the donor has exhausted available administrative remedies. Under section 7477, the Tax Court is not authorized to issue a declaratory judgment unless the Tax Court finds that the donor has exhausted all administrative remedies within the IRS. See paragraph (d)(4) of this section regarding the exhaustion of administrative remedies.

(c) *Adjustments subject to declaratory judgment procedure*. The declaratory judgment procedures set forth in this section apply to adjustments involving all issues relating to the transfer, including without limitation valuation issues and legal issues involving the interpretation and application of the gift tax law.

(d) *Requirements for declaratory judgment procedure*—(1) *In general*. The declaratory judgment procedure provided in this section is available to a donor with respect to a transfer only if all the requirements of paragraphs (d)(2) through (5) of this section with regard to that transfer are satisfied.

(2) *Reporting*. The transfer is shown or disclosed on the return of tax imposed by chapter 12 for the calendar year during which the transfer was made or on a statement attached to such return. For purposes of this paragraph (d)(2), the term *return of tax imposed by chapter 12* means the last gift tax return (Form 709, ''United States Gift (and Generation–Skipping Transfer) Tax Return'' or such other form as may be utilized for this purpose from time to time by the IRS) for the calendar year filed on or before the due date of the return, including extensions granted if any, or, if a timely return is not filed, the first gift tax return for that calendar year filed after the due date. For purposes of satisfying this requirement, the transfer need not be reported in a manner that constitutes adequate disclosure within the meaning of § 301.6501(c)–1(e) or (f) (and thus for which, under §§ 20.2001–1(b) and 25.2504–2(b) of this chapter, the period during which the IRS may adjust the value of the gift will not expire). The issuance of a Letter 3569 with regard to a transfer disclosed on a return does not constitute a determination by the IRS that the transfer was adequately disclosed, or otherwise cause the period of limitations on assessment to commence to run with respect to that transfer. In addition, in the case of a transfer that is shown on the return, the IRS may in its discretion defer until a later time making a determination with regard to such transfer. If the IRS exercises its discretion to defer such determination in that case, the transfer will not be addressed in the Letter 3569 (if any) sent to the donor currently, and the donor is not yet eligible for a declaratory judgment with regard to that transfer under section 7477.

(3) *IRS determination and actual controversy*. The IRS makes a determination regarding the gift tax treatment of the transfer that results in an actual controversy. The IRS makes a determination that results in an actual controversy with respect to a transfer by mailing a Letter 3569 to the donor, thereby notifying the donor of the adjustment(s) proposed by the IRS with regard to that transfer and of the donor's rights under section 7477.

(4) *Exhaustion of administrative remedies*—(i) *In general*. The Tax Court determines whether the donor has exhausted all administrative remedies available within the IRS for resolving the controversy.

(ii) *Appeals office consideration*. For purposes of this section, the IRS will consider a donor to have exhausted all administrative remedies if, prior to filing a petition in Tax Court (except as provided in paragraphs (d)(4)(iii) and (iv) of this section), the donor, or a qualified representative of the donor described in § 601.502 of this chapter, timely requests consideration by Appeals and participates fully (within the meaning of paragraph (d)(4)(vi) of this

section) in the Appeals consideration process. A timely request for consideration by Appeals is a written request from the donor for Appeals consideration made within 30 days after the mailing date of the Letter 950–G, or by such later date for responding to the Letter 950–G as is agreed to between the donor and the IRS.

(iii) *Request for Appeals office consideration not granted.* If the donor, or a qualified representative of the donor described in § 601.502 of this chapter, timely requests consideration by Appeals and Appeals does not grant that request, the IRS nevertheless will consider the donor to have exhausted all administrative remedies within the IRS for purposes of section 7477 upon the issuance of the Letter 3569, provided that the donor, or a qualified representative of the donor described in § 601.502 of this chapter, after the filing of a petition in Tax Court for a declaratory judgment pursuant to section 7477, participates fully (within the meaning of paragraph (d)(4)(vi) of this section) in the Appeals office consideration if offered by the IRS while the case is in docketed status.

(iv) *No Letter 950–G issued.* If the IRS does not issue a Letter 950–G to the donor prior to the issuance of Letter 3569, the IRS nevertheless will consider the donor to have exhausted all administrative remedies within the IRS for purposes of section 7477 upon the issuance of the Letter 3569, provided that—

(A) The IRS decision not to issue the Letter 950–G was not due to actions or inactions of the donor (such as a failure to supply requested information or a current mailing address to the Area Director having jurisdiction over the tax matter); and

(B) The donor, or a qualified representative of the donor described in § 601.502 of this chapter, after the filing of a petition in Tax Court for a declaratory judgment pursuant to section 7477, participates fully (within the meaning of paragraph (d)(4)(vi) of this section) in the Appeals office consideration if offered by the IRS while the case is in docketed status.

(v) *Failure to agree to extension of time for assessment.* For purposes of section 7477, the donor's refusal to agree to an extension of the time under section 6501 within which gift tax with respect to the transfer at issue (if any) may be assessed will not be considered by the IRS to constitute a failure by the donor to exhaust all administrative remedies available to the donor within the IRS.

(vi) *Participation in Appeals consideration process.* For purposes of this section, the donor or a qualified representative of the donor described in § 601.502 of this chapter participates fully in the Appeals consideration process if the donor or the qualified representative timely submits all information related to the transfer that is requested by the IRS in connection with the Appeals consideration and discloses to the Appeals office all relevant information regarding the controversy to the extent such information and its relevance is known or should be known by the donor or the qualified representative during the time the issue is under consideration by Appeals.

(5) *Timely petition in Tax Court.* The donor files a pleading with the Tax Court requesting a declaratory judgment under section 7477. This pleading must be filed with the Tax Court before the 91st day after the date of mailing of the Letter 3569 by the IRS to the donor. The pleading must be in the form of a petition subject to Tax Court Rule 211(d).

(e) *Examples.* The following examples illustrate the provisions of this section, and assume that in each case the Tax Court petition is filed on or after September 9, 2009.

These examples, however, do not address any other situations that might affect the Tax Court's jurisdiction over the proceeding:

Example 1. Exhaustion of administrative remedies. The donor (D) timely files a Form 709, ''United States Gift (and Generation-Skipping Transfer) Tax Return,'' on which D reports D's completed gift of closely held stock. After conducting an examination, the IRS concludes that the value of the stock on the date of the gift is greater than the value reported on the return. Because the amount of D's available applicable credit amount under section 2505 is sufficient to cover any resulting tax liability, no gift tax deficiency will result from the adjustment. D is unable to resolve the matter with the IRS examiner. The IRS sends a Letter 950–G to D informing

D of the proposed adjustment. D, within 30 calendar days after the mailing date of the letter, submits a written request for Appeals consideration. During the Appeals process, D provides to the Appeals office all additional information (if any) requested by Appeals relevant to the determination of the value of the stock in a timely fashion. The Appeals office and D are unable to reach an agreement regarding the value of the stock as of the date of the gift. The Appeals office sends D a notice of determination of value (Letter 3569). For purposes of section 7477, the IRS will consider D to have exhausted all available administrative remedies within the IRS, and thus will not contest the allegation in D's petition that D has exhausted all such administrative remedies.

Example 2. Exhaustion of administrative remedies, Assume the same facts as in *Example 1,* except that D does not timely request consideration by Appeals after receiving the Letter 950–G. A Letter 3569 is mailed to D more than 30 days after the mailing of the Letter 950–G and prior to the expiration of the period of limitations for assessment of gift tax. D timely files a petition in Tax Court pursuant to section 7477. After the case is docketed, D requests Appeals consideration. In this situation, because D did not respond timely to the Letter 950–G with a written request for Appeals consideration, the IRS will not consider D to have exhausted all administrative remedies available within the IRS for purposes of section 7477 prior to filing the petition in Tax Court, and thus may contest any allegation in D's petition that D has exhausted all such administrative remedies.

Example 3. Exhaustion of administrative remedies, D timely files a Form 709 on which D reports D's completed gifts of interests in a family limited partnership. After conducting an examination, the IRS proposes to adjust the value of the gifts as reported on the return. No gift tax deficiency will result from the adjustments, however, because D has a sufficient amount of available applicable credit amount under section 2505. D declines to consent to extend the time for the assessment of gift tax with respect to the gifts at issue. Because of the pending expiration of the period of limitation on assessment within which a gift tax, if any, could be assessed, the IRS determines that there is not adequate time for Appeals consideration. Accordingly, the IRS mails to D a Letter 3569, even though a Letter 950–G had not first been issued to D. D timely files a petition in Tax Court pursuant to section 7477. After the case is docketed in Tax Court, D is offered the opportunity for Appeals to consider any dispute regarding the determination and participates fully in the Appeals consideration process. However, the Appeals office and D are unable to resolve the issue. The IRS will consider D to have exhausted all administrative remedies available within the IRS, and thus will not assert that D has not exhausted all such administrative remedies.

Example 4. Legal issue, D transfers nonvested stock options to a trust for the benefit of D's child. D timely files a Form 709 reporting the transfer as a completed gift for Federal gift tax purposes and complies with the adequate disclosure requirements for purposes of triggering the commencement of the applicable statute of limitations. Pursuant to § 301.6501(c)–1(f)(5), adequate disclosure of a transfer that is reported as a completed gift on the Form 709 will commence the running of the period of limitations for assessment of gift tax on D, even if the transfer is ultimately determined to be an incomplete gift for purposes of § 25.2511–2 of this chapter. After conducting an examination, the IRS concurs with the reported valuation of the stock options, but concludes that the reported transfer is not a completed gift for Federal gift tax purposes. D is unable to resolve the matter with the IRS examiner. The IRS sends a Letter 950–G to D, who timely mails a written request for Appeals consideration. Assuming that the IRS mails to D a Letter 3569 with regard to this transfer, and that D complies with the administrative procedures set forth in this section, including the exhaustion of all administrative remedies available within the IRS, then D may file a petition for declaratory judgment with the Tax Court pursuant to section 7477.

Example 5. Transfers in controversy, On April 16, 2007, D timely files a Form 709 on which D reports gifts made in 2006 of fractional interests in certain real property and of interests in a family limited partnership (FLP). However, although the gifts are disclosed on the return, the return does not contain information sufficient to constitute adequate disclosure under § 301.6501(c)–1(e) or (f) for purposes of the application of the statute of limitations on assessment of gift tax with respect to the reported gifts. The IRS conducts an examination and concludes that the value of both the interests in the real property and the FLP interests on the date(s) of the transfers are greater than the values reported on the return. No gift tax deficiency will result from the adjustments because D has a sufficient amount of remaining applicable credit amount under section 2505. However, D does not agree with the adjustments. The IRS sends a Letter 950–G to D informing D of the proposed adjustments in the value of the reported gifts. D, within 30 calendar days after the mailing date of the letter, submits a written request for Appeals consideration. The Appeals office and D are unable to reach an agreement regarding the value of any of the gifts. In the exercise of its discretion, the IRS decides to resolve currently only the value of the real property interests, and to defer the resolution of the value of the FLP interests. On May 28, 2009, the Appeals office

sends D a Letter 3569 addressing only the value of the gifts of interests in the real property. Because none of the gifts reported on the return filed on April 16, 2007 were adequately disclosed for purposes of § 301.6501(c)–1(e) or (f), the period of limitations during which the IRS may adjust the value of those gifts has not begun to run. Accordingly, the Letter 3569 is timely mailed. If D timely files a petition in Tax Court pursuant to section 7477 with regard to the value of the interests in the real property, then, assuming the other requirements of section 7477 are satisfied with regard to those interests, the Tax Court's declaratory judgment, once it becomes final, will determine the value of the gifts of the interests in the real property. Because the IRS has not yet put the gift tax value of the interests in the FLP into controversy, the procedure under section 7477 is not yet available with regard to those gifts.

(f) *Effective/applicability date.* This section applies to civil proceedings described in section 7477 filed in the United States Tax Court on or after September 9, 2009.

[T.D. 9460, 74 FR 46347, Sept. 9, 2009; 74 FR 55136, Oct. 27, 2009]

COURT REVIEW OF TAX COURT DECISIONS

§ 301.7481–1 Date when Tax Court decision becomes final; decision modified or reversed.

(a) *Upon mandate of Supreme Court.* Under section 7481(3)(A) of the Code, if the Supreme Court directs that the decision of the Tax Court be modified or reversed, the decision of the Tax Court rendered in accordance with the mandate of the Supreme Court shall become final upon the expiration of 30 days from the time it was rendered, unless within such 30 days either the Commissioner or the taxpayer has instituted proceedings to have such decision corrected to accord with the mandate, in which event the decision of the Tax Court shall become final when so corrected.

(b) *Upon mandate of the Court of Appeals.* Under section 7481(3)(B) of the Code, if the decision of the Tax Court is modified or reversed by the U.S. Court of Appeals, and if—

(i) The time allowed for filing a petition for certiorari has expired and no such petition has been duly filed, or

(ii) The petition for certiorari has been denied, or

(iii) The decision of the U.S. Court of Appeals has been affirmed by the Supreme Court, then the decision of the Tax Court rendered in accordance with the mandate of the U.S. Court of Appeals shall become final on the expiration of 30 days from the time such decision of the Tax Court was rendered, unless within such 30 days either the Commissioner or the taxpayer has instituted proceedings to have such decision corrected so that it will accord with the mandate, in which event the decision of the Tax Court shall become final when so corrected.

§ 301.7482–1 Courts of review; venue.

Under section 7482(b)(2) of the Code, decisions of the Tax Court may be reviewed by any U.S. Court of Appeals which may be designated by the Commissioner and the taxpayer by stipulation in writing.

§ 301.7483–1 Petition for review.

The decision of the Tax Court may be reviewed by a U.S. Court of Appeals as provided in section 7482 of the Code if a petition for such review is filed by either the Commissioner or the taxpayer within 3 months after the decision is rendered. If, however, a petition for such review is so filed by one party to the proceeding, a petition for review of the decision of the Tax Court may be filed by any other party to the proceeding within 4 months after such decision is rendered.

§ 301.7484–1 Change of incumbent in office.

When the incumbent of the office of Commissioner changes, no substitution of the name of his successor shall be required in proceedings pending before any appellate court reviewing the action of the Tax Court.

MISCELLANEOUS PROVISIONS

§ 301.7502–1 Timely mailing of documents and payments treated as timely filing and paying.

(a) *General rule.* Section 7502 provides that, if the requirements of that section are met, a document or payment is deemed to be filed or paid on the date of the postmark stamped on the envelope or other appropriate wrapper

(envelope) in which the document or payment was mailed. Thus, if the envelope that contains the document or payment has a timely postmark, the document or payment is considered timely filed or paid even if it is received after the last date, or the last day of the period, prescribed for filing the document or making the payment. Section 7502 does not apply in determining whether a failure to file a return or pay a tax has continued for an additional month or fraction thereof for purposes of computing the penalties and additions to tax imposed by section 6651. Except as provided in section 7502(e) and § 301.7502–2, relating to the timely mailing of deposits, and paragraph (d) of this section, relating to electronically filed documents, section 7502 is applicable only to those documents or payments as defined in paragraph (b) of this section and only if the document or payment is mailed in accordance with paragraph (c) of this section and is delivered in accordance with paragraph (e) of this section.

(b) *Definitions*—(1) *Document defined.* (i) The term *document,* as used in this section, means any return, claim, statement, or other document required to be filed within a prescribed period or on or before a prescribed date under authority of any provision of the internal revenue laws, except as provided in paragraph (b)(1)(ii), (iii), or (iv) of this section.

(ii) The term does not include returns, claims, statements, or other documents that are required under any provision of the internal revenue laws or the regulations thereunder to be delivered by any method other than mailing.

(iii) The term does not include any document filed in any court other than the Tax Court, but the term does include any document filed with the Tax Court, including a petition and a notice of appeal of a decision of the Tax Court.

(iv) The term does not include any document that is mailed to an authorized financial institution under section 6302. However, see § 301.7502–2 for special rules relating to the timeliness of deposits and documents required to be filed with deposits.

(2) *Claims for refund*—(i) *In general.* In the case of certain taxes, a return may constitute a claim for credit or refund. Section 7502 is applicable to the determination of whether a claim for credit or refund is timely filed for purposes of section 6511(a) if the conditions of section 7502 are met, irrespective of whether the claim is also a return. For rules regarding claims for refund on late filed tax returns, see paragraph (f) of this section. Section 7502 is also applicable when a claim for credit or refund is delivered after the last day of the period specified in section 6511(b)(2)(A) or in any other corresponding provision of law relating to the limit on the amount of credit or refund that is allowable.

(ii) *Example.* The rules of paragraph (b)(2)(i) of this section are illustrated by the following example:

Example. (A) Taxpayer A, an individual, mailed his 2004 Form 1040, ''U.S. Individual Income Tax Return,'' on May 10, 2005, but no tax was paid at that time because the tax liability disclosed by the return had been completely satisfied by the income tax that had been withheld on A's wages. On April 15, 2008, A mails, in accordance with the requirements of this section, a Form 1040X, ''Amended U.S. Individual Income Tax Return,'' claiming a refund of a portion of the tax that had been paid through withholding during 2004. The date of the postmark on the envelope containing the claim for refund is April 15, 2008. The claim is received by the IRS on April 18, 2008.

(B) Under section 6511(a), A's claim for refund is timely if filed within three years from May 10, 2005, the date on which A's 2004 return was filed. As a result of the limitations of section 6511(b)(2)(A), if A's claim is not filed within three years after April 15, 2005, the date on which A is deemed under section 6513 to have paid his 2004 tax, A is not entitled to any refund. Because A's claim for refund is postmarked and mailed in accordance with the requirements of this section and is delivered after the last day of the period specified in section 6511(b)(2)(A), section 7502 is applicable and the claim is deemed to have been filed on April 15, 2008.

(3) *Payment defined.* (i) The term *payment,* as used in this section, means any payment required to be made within a prescribed period or on or before a prescribed date under the authority of any provision of the internal revenue laws, except as provided in paragraph (b)(3)(ii), (iii), (iv), or (v) of this section.

(ii) The term does not include any payment that is required under any provision of the internal revenue laws or the regulations thereunder to be delivered by any method other than mailing. See, for example, section 6302(h) and the regulations thereunder regarding electronic funds transfer.

(iii) The term does not include any payment, whether it is made in the form of currency or other medium of payment, unless it is actually received and accounted for. For example, if a check is used as the form of payment, this section does not apply unless the check is honored upon presentation.

(iv) The term does not include any payment to any court other than the Tax Court.

(v) The term does not include any deposit that is required to be made with an authorized financial institution under section 6302. However, see § 301.7502–2 for rules relating to the timeliness of deposits.

(4) *Last date or last day prescribed*. As used in this section, the term *the last date, or the last day of the period, prescribed for filing the document or making the payment* includes any extension of time granted for that action. When the last date, or the last day of the period, prescribed for filing the document or making the payment falls on a Saturday, Sunday or legal holiday, section 7503 applies. Therefore, in applying the rules of this paragraph (b)(4), the next succeeding day that is not a Saturday, Sunday, or legal holiday is treated as the last date, or the last day of the period, prescribed for filing the document or making the payment. Also, when the last date, or the last day of the period, prescribed for filing the document or making the payment falls within a period disregarded under section 7508 or section 7508A, the next succeeding day after the expiration of the section 7508 period or section 7508A period that is not a Saturday, Sunday, or legal holiday is treated as the last date, or the last day of the period, prescribed for filing the document or making the payment.

(c) *Mailing requirements*—(1) *In general*. Section 7502 does not apply unless the document or payment is mailed in accordance with the following requirements:

(i) *Envelope and address*. The document or payment must be contained in an envelope, properly addressed to the agency, officer, or office with which the document is required to be filed or to which the payment is required to be made.

(ii) *Timely deposited in U.S. mail*. The document or payment must be deposited within the prescribed time in the mail in the United States with sufficient postage prepaid. For this purpose, a document or payment is deposited in the mail in the United States when it is deposited with the domestic mail service of the U.S. Postal Service. The domestic mail service of the U.S. Postal Service, as defined by the Domestic Mail Manual as incorporated by reference in the postal regulations, includes mail transmitted within, among, and between the United States of America, its territories and possessions, and Army post offices (APO), fleet post offices (FPO), and the United Nations, NY. (See Domestic Mail Manual, section G011.2.1, as incorporated by reference in 39 CFR 111.1.) Section 7502 does not apply to any document or payment that is deposited with the mail service of any other country.

(iii) *Postmark*—(A) *U.S. Postal Service postmark*. If the postmark on the envelope is made by the U.S. Postal Service, the postmark must bear a date on or before the last date, or the last day of the period, prescribed for filing the document or making the payment. If the postmark does not bear a date on or before the last date, or the last day of the period, prescribed for filing the document or making the payment, the document or payment is considered not to be timely filed or paid, regardless of when the document or payment is deposited in the mail. Accordingly, the sender who relies upon the applicability of section 7502 assumes the risk that the postmark will bear a date on or before the last date, or the last day of the period, prescribed for filing the document or making the payment. See, however, paragraph (c)(2) of this section with respect to the use of registered mail or certified mail to avoid this risk. If the postmark on the envelope is made by the U.S. Postal Service but is not legible, the person who is required to file the document or make

the payment has the burden of proving the date that the postmark was made. Furthermore, if the envelope that contains a document or payment has a timely postmark made by the U.S. Postal Service, but it is received after the time when a document or payment postmarked and mailed at that time would ordinarily be received, the sender may be required to prove that it was timely mailed.

(B) *Postmark made by other than U.S. Postal Service*—(*1*) *In general.* If the postmark on the envelope is made other than by the U.S. Postal Service—

(*i*) The postmark so made must bear a legible date on or before the last date, or the last day of the period, prescribed for filing the document or making the payment; and

(*ii*) The document or payment must be received by the agency, officer, or office with which it is required to be filed not later than the time when a document or payment contained in an envelope that is properly addressed, mailed, and sent by the same class of mail would ordinarily be received if it were postmarked at the same point of origin by the U.S. Postal Service on the last date, or the last day of the period, prescribed for filing the document or making the payment.

(*2*) *Document or payment received late.* If a document or payment described in paragraph (c)(1)(iii)(B)(*1*) is received after the time when a document or payment so mailed and so postmarked by the U.S. Postal Service would ordinarily be received, the document or payment is treated as having been received at the time when a document or payment so mailed and so postmarked would ordinarily be received if the person who is required to file the document or make the payment establishes—

(*i*) That it was actually deposited in the U.S. mail before the last collection of mail from the place of deposit that was postmarked (except for the metered mail) by the U.S. Postal Service on or before the last date, or the last day of the period, prescribed for filing the document or making the payment;

(*ii*) That the delay in receiving the document or payment was due to a delay in the transmission of the U.S. mail; and

(*iii*) The cause of the delay.

(*3*) *U.S. and non-U.S. postmarks.* If the envelope has a postmark made by the U.S. Postal Service in addition to a postmark not so made, the postmark that was not made by the U.S. Postal Service is disregarded, and whether the envelope was mailed in accordance with this paragraph (c)(1)(iii)(B) will be determined solely by applying the rule of paragraph (c)(1)(iii)(A) of this section.

(2) *Registered or certified mail.* If the document or payment is sent by U.S. registered mail, the date of registration of the document or payment is treated as the postmark date. If the document or payment is sent by U.S. certified mail and the sender's receipt is postmarked by the postal employee to whom the document or payment is presented, the date of the U.S. postmark on the receipt is treated as the postmark date of the document or payment. Accordingly, the risk that the document or payment will not be postmarked on the day that it is deposited in the mail may be eliminated by the use of registered or certified mail.

(3) *Private delivery services.* Under section 7502(f)(1), a service of a private delivery service (PDS) may be treated as an equivalent to United States mail for purposes of the postmark rule if the Commissioner determines that the service satisfies the conditions of section 7502(f)(2). Thus, the Commissioner may, in guidance published in the Internal Revenue Bulletin (see § 601.601(d)(2)(ii)(*b*) of this chapter), prescribe procedures and additional rules to designate a service of a PDS for purposes of the postmark rule of section 7502(a).

(d) *Electronically filed documents*—(1) *In general.* A document filed electronically with an electronic return transmitter (as defined in paragraph (d)(3)(i) of this section and authorized pursuant to paragraph (d)(2) of this section) in the manner and time prescribed by the Commissioner is deemed to be filed on the date of the electronic postmark (as defined in paragraph (d)(3)(ii) of this section) given by the authorized electronic return transmitter. Thus, if the

electronic postmark is timely, the document is considered filed timely although it is received by the agency, officer, or office after the last date, or the last day of the period, prescribed for filing such document.

(2) *Authorized electronic return transmitters.* The Commissioner may enter into an agreement with an electronic return transmitter or prescribe in forms, instructions, or other appropriate guidance the procedures under which the electronic return transmitter is authorized to provide taxpayers with an electronic postmark to acknowledge the date and time that the electronic return transmitter received the electronically filed document.

(3) *Definitions*—(i) *Electronic return transmitter.* For purposes of this paragraph (d), the term *electronic return transmitter* has the same meaning as contained in section 3.01(4) of Rev. Proc. 2000–31 (2000–31 I.R.B. 146 (July 31, 2000))(see § 601.601(d)(2) of this chapter) or in procedures prescribed by the Commissioner.

(ii) *Electronic postmark.* For purposes of this paragraph (d), the term *electronic postmark* means a record of the date and time (in a particular time zone) that an authorized electronic return transmitter receives the transmission of a taxpayer's electronically filed document on its host system. However, if the taxpayer and the electronic return transmitter are located in different time zones, it is the taxpayer's time zone that controls the timeliness of the electronically filed document.

(e) *Delivery*—(1) *General rule.* Except as provided in section 7502(f) and paragraphs (c)(3) and (d) of this section, section 7502 is not applicable unless the document or payment is delivered by U.S. mail to the agency, officer, or office with which the document is required to be filed or to which payment is required to be made.

(2) *Exceptions to actual delivery*—(i) *Registered and certified mail.* In the case of a document (but not a payment) sent by registered or certified mail, proof that the document was properly registered or that a postmarked certified mail sender's receipt was properly issued and that the envelope was properly addressed to the agency, officer, or office constitutes prima facie evidence that the document was delivered to the agency, officer, or office. Other than direct proof of actual delivery, proof of proper use of registered or certified mail, and proof of proper use of a duly designated PDS as provided for by paragraph (e)(2)(ii) of this section, are the exclusive means to establish prima facie evidence of delivery of a document to the agency, officer, or office with which the document is required to be filed. No other evidence of a postmark or of mailing will be prima facie evidence of delivery or raise a presumption that the document was delivered.

(ii) *Equivalents of registered and certified mail.* Under section 7502(f)(3), the Secretary may extend the prima facie evidence of delivery rule of section 7502(c)(1)(A) to a service of a designated PDS, which is substantially equivalent to United States registered or certified mail. Thus, the Commissioner may, in guidance published in the Internal Revenue Bulletin (see § 601.601(d)(2)(ii)(*b*) of this chapter), prescribe procedures and additional rules to designate a service of a PDS for purposes of demonstrating prima facie evidence of delivery of a document pursuant to section 7502(c).

(f) *Claim for credit or refund on late filed tax return*—(1) *In general.* Generally, an original income tax return may constitute a claim for credit or refund of income tax. See § 301.6402–3(a)(5). Other original tax returns can also be considered claims for credit or refund if the liability disclosed on the return is less than the amount of tax that has been paid. If section 7502 would not apply to a return (but for the operation of paragraph (f)(2) of this section) that is also considered a claim for credit or refund because the envelope that contains the return does not have a postmark dated on or before the due date of the return, section 7502 will apply separately to the claim for credit or refund if—

(i) The date of the postmark on the envelope is within the period that is three years (plus the period of any extension of time to file) from the day the tax is paid or considered paid (see section 6513), and the claim for credit

or refund is delivered after this three-year period; and

(ii) The conditions of section 7502 are otherwise met.

(2) *Filing date of late filed return.* If the conditions of paragraph (f)(1) of this section are met, the late filed return will be deemed filed on the postmark date.

(3) *Example.* The rules of this paragraph (f) are illustrated by the following example:

Example. (i) Taxpayer A, an individual, mailed his 2001 Form 1040, ''U.S. Individual Income Tax Return,'' on April 15, 2005, claiming a refund of amounts paid through withholding during 2001. The date of the postmark on the envelope containing the return and claim for refund is April 15, 2005. The return and claim for refund are received by the Internal Revenue Service (IRS) on April 18, 2005. Amounts withheld in 2001 exceeded A's tax liability for 2001 and are treated as paid on April 15, 2002, pursuant to section 6513.

(ii) Even though the date of the postmark on the envelope is after the due date of the return, the claim for refund and the late filed return are treated as filed on the postmark date for purposes of this paragraph (f). Accordingly, the return will be treated as filed on April 15, 2005. In addition, the claim for refund will be treated as timely filed on April 15, 2005. Further, the entire amount of the refund attributable to withholding is allowable as a refund under section 6511(b)(2)(A).

(g) *Effective date*—(1) *In general.* Except as provided in paragraphs (g)(2) and (3) of this section, the rules of this section apply to any payment or document mailed and delivered in accordance with the requirements of this section in an envelope bearing a postmark dated after January 11, 2001.

(2) *Claim for credit or refund on late filed tax return.* Paragraph (f) of this section applies to any claim for credit or refund on a late filed tax return described in paragraph (f)(1) of this section except for those claims for credit or refund which (without regard to paragraph (f) of this section) were barred by the operation of section 6532(a) or any other law or rule of law (including res judicata) as of January 11, 2001.

(3) *Electronically filed documents.* This section applies to any electronically filed return, claim, statement, or other document transmitted to an electronic return transmitter that is authorized to provide an electronic postmark pursuant to paragraph (d)(2) of this section after January 11, 2001.

(4) *Registered or certified mail as the means to prove delivery of a document.* Section 301.7502–1(e)(2) will apply to all documents mailed after September 21, 2004.

[T.D. 8932, 66 FR 2258, Jan. 11, 2001, as amended by T.D. 9543, 76 FR 52563, Aug. 23, 2011]

§ 301.7503–1 Time for performance of acts where last day falls on Saturday, Sunday, or legal holiday.

(a) *In general.* Section 7503 provides that when the last day prescribed under authority of any internal revenue law for the performance of any act falls on a Saturday, Sunday, or legal holiday, such act shall be considered performed timely if performed on the next succeeding day which is not a Saturday, Sunday, or legal holiday. For this purpose, any authorized extension of time shall be included in determining the last day for performance of any act. Section 7503 is applicable only in case an act is required under authority of any internal revenue law to be performed on or before a prescribed date or within a prescribed period. For example, if the 2-year period allowed by section 6532(a)(1) to bring a suit for refund of any internal revenue tax expires on Thursday, November 23, 1995 (Thanksgiving Day), the suit will be timely if filed on Friday, November 24, 1995, in the Court of Federal Claims, or in a district court. Section 7503 applies to acts to be performed by the taxpayer (such as, the filing of any return of, and the payment of, any income, estate, or gift tax; the filing of a petition with the Tax Court for redetermination of a deficiency, or for review of a decision rendered by such Court; the filing of a claim for credit or refund of any tax) and acts to be performed by the Commissioner, a district director, or the director of a regional service center (such as, the giving of any notice with respect to, or making any demand for the payment of, any tax; the assessment or collection of any tax).

(b) *Legal holidays.* For the purpose of section 7503, the term *legal holiday* includes the legal holidays in the District of Columbia as found in D.C. Code Ann. 28–2701. In the case of any return,

statement, or other document required to be filed, or any other act required under the authority of the internal revenue laws to be performed, at an office of the Internal Revenue Service, or any other office or agency of the United States, located outside the District of Columbia but within an internal revenue district, the term *legal holiday* includes, in addition to the legal holidays in the District of Columbia, any statewide legal holiday of the state where the act is required to be performed. If the act is performed in accordance with law at an office of the Internal Revenue Service or any other office or agency of the United States located in a territory or possession of the United States, the term *legal holiday* includes, in addition to the legal holidays in the District of Columbia, any legal holiday that is recognized throughout the territory or possession in which the office is located.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7309, 39 FR 11537, Mar. 29, 1974; T.D. 8681, 61 FR 42179, Aug. 14, 1996]

§ 301.7505–1 Sale of personal property acquired by the United States.

(a) *Sale*—(1) *In general*. Any personal property (except bonds, notes, checks, and other securities) acquired by the United States in payment of or as security for debts arising under the internal revenue laws may be sold by the district director who acquired such property for the United States. United States savings bonds shall not be sold by the district director but shall be transferred to the appropriate office of the Treasury Department for redemption. Other bonds, notes, checks, and other securities shall be disposed of in accordance with instructions issued by the Commissioner.

(2) *Time, place, manner, and terms of sale*. The time, place, manner, and terms of sale of personal property acquired for the United States shall be as follows:

(i) *Time, notice, and place of sale*. The property may be sold at any time after it has been acquired by the United States. A public notice of sale shall be posted at the post office nearest the place of sale and in at least two other public places. The notice shall specify the property to be sold and the time, place, manner, and conditions of sale. In addition, the district director may use such other methods of advertising as he believes will result in obtaining the highest price for the property. The place of sale shall be within the internal revenue district where the property was originally acquired by the United States. However, if the district director believes that a substantially higher price may be obtained, the sale may be held outside his district.

(ii) *Rejection of bids and adjournment of sale*. The internal revenue officer conducting the sale reserves the right to reject any and all bids and withdraw the property from the sale. When it appears to the internal revenue officer conducting the sale that an adjournment of the sale will best serve the interest of the United States, he may order the sale adjourned from time to time. If the sale is adjourned for more than 30 days in the aggregate, public notice of the sale must again be given in accordance with subdivision (i) of this subparagraph.

(iii) *Liquidated damages*. The notice shall state whether, in the case of default in payment of the bid price, any amount deposited with the United States will be retained as liquidated damages. In case liquidated damages are provided, the amount thereof shall not exceed $200.

(3) *Agreement to bid*. The district director may, before giving notice of sale, solicit offers from prospective bidders and enter into agreements with such persons that they will bid at least a specified amount in case the property is offered for sale. In such cases, the district director may also require such persons to make deposits to secure the performance of their agreements. Any such deposit, but not more than $200, shall be retained as liquidated damages in case such person fails to bid the specified amount and the property is not sold for as much as the amount specified in such agreement.

(4) *Terms of payment*. The property shall be offered for sale upon whichever of the following terms is fixed by the district director in the public notice of sale—

(i) Payment in full upon acceptance of the highest bid, without regard to the amount of such bid, or

(ii) If the aggregate price of all property purchased by a successful bidder at the sale is more than $200, an initial payment of $200 or 20 percent of the purchase price, whichever is the greater, and payment of the balance (including all costs incurred for the protection or preservation of the property subsequent to the sale and prior to final payment) within a specified period, not to exceed one month from the date of the sale.

(5) *Method of sale.* The property may be sold either—

(i) At public auction, at which open competitive bids shall be received, or

(ii) At public sale under sealed bids.

(6) *Sales under sealed bids.* The following rules, in addition to the other rules provided in this paragraph, shall be applicable to public sales under sealed bids.

(i) *Invitation to bidders.* Bids shall be solicited through a public notice of sale.

(ii) *Form for use by bidders.* A bid shall be submitted on a form which will be furnished by the district director upon request. The form shall be completed in accordance with the instructions thereon.

(iii) *Remittance with bid.* If the total bid is $200 or less, the full amount of the bid shall be submitted therewith. If the total bid is more than $200, 20 percent of such bid or $200, whichever is greater, shall be submitted therewith. Such remittance shall be by a certified, cashier's, or treasurer's check drawn on any bank or trust company incorporated under the laws of the United States or under the laws of any State, Territory, or possession of the United States, or by a U.S. postal, bank, express, or telegraph money order.

(iv) *Time for receiving and opening bids.* Each bid shall be submitted in a securely sealed envelope. The bidder shall indicate in the upper left hand corner of the envelope his name and address and the time and place of sale as announced in the public notice of sale. A bid will not be considered unless it is received by the internal revenue officer conducting the sale prior to the opening of the bids. The bids will be opened at the time and place stated in the notice of sale, or at the time fixed in the announcement of the adjournment of the sale.

(v) *Consideration of bids.* The internal revenue officer conducting the sale shall have the right to waive any technical defects in a bid. After the opening, examination, and consideration of all bids, the internal revenue officer conducting the sale shall announce the amount of the highest bid or bids and the name of the successful bidder or bidders, unless in the opinion of the officer a higher price can be obtained for the property than has been bid. In the event the highest bids are equal in amount (and unless in the opinion of the internal revenue officer conducting the sale a higher price can be obtained for the property than has been bid), the officer shall determine the successful bidder by drawing lots. Any remittance submitted in connection with an unsuccessful bid shall be returned to the bidder at the conclusion of the sale.

(vi) *Withdrawal of bids.* A bid may be withdrawn on written or telegraphic request received from the bidder prior to the time fixed for opening the bids. A technical defect in a bid confers no right on the bidder for the withdrawal of his bid after it has been opened.

(7) *Payment of bid price.* All payments for property sold pursuant to this section shall be made by cash or by a certified, cashier's, or treasurer's check drawn on any bank or trust company incorporated under the laws of the United States or under the laws of any State, Territory, or possession of the United States, or by a U.S. postal, bank, express, or telegraph money order. If payment in full is required upon acceptance of the highest bid, the payment shall be made at such time. If payment in full is not made at such time, the internal revenue officer conducting the sale may forthwith proceed again to sell the property in the manner provided in subparagraph (5) of this paragraph (a). If deferred payment is permitted, the initial payment shall be made upon acceptance of the bid, and the balance shall be paid on or before the date fixed for payment thereof. Any remittance submitted with a successful sealed bid shall be applied toward the purchase price.

(8) *Delivery and removal of personal property*. The risk of loss is on the purchaser of the property upon acceptance of his bid. Possession of any property shall not be delivered to the purchaser until the purchase price has been paid in full. If payment of part of the purchase price for the property is deferred, the United States will retain possession of such property as security for the payment of the balance of the purchase price and, as agent for the purchaser, will cause the property to be cared for until the purchase price has been paid in full or the sale is declared null and void for failure to make full payment of the purchase price. In such case, all charges and expenses incurred in caring for the property after acceptance of the bid shall be borne by the purchaser.

(9) *Certificate of sale*. The internal revenue officer conducting the sale shall issue a certificate of sale to the purchaser upon payment in full of the purchase price.

(b) *Accounting*. In case of the resale of such property, the proceeds of the sale shall be paid into the Treasury as internal revenue collections, and there shall be rendered by the district director a distinct account of all charges incurred in such sale. For additional accounting rules, see section 7809 and the instructions thereunder.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7305, 39 FR 9952, Mar. 15, 1974]

§ 301.7506–1 Administration of real estate acquired by the United States.

(a) *Persons charged with*. The district director for the internal revenue district in which the property is situated shall have charge of all real estate which is or shall become the property of the United States by judgment of forfeiture under the internal revenue laws, or which has been or shall be assigned, set off, or conveyed by purchase or otherwise to the United States in payment of debts or penalties arising under the laws relating to internal revenue or which has been or shall be vested in the United States by mortgage, or other security for payment of such debts, or which has been redeemed by the United States, or which has been or shall be acquired by the United States in payment of or as security for debts arising under the internal revenue laws, and of all trusts created for the use of the United States in payment of such debts due the United States.

(b) *Sale*. The district director for the internal revenue district in which the property is situated may sell any real estate owned or held by the United States as aforesaid, subject to the following rules—

(1) *Property purchased at sale under levy*. If the property was acquired as a result of being declared purchased for the United States at a sale under section 6335, relating to sale of seized property, the property shall not be sold until after the expiration of 120 days (or 1 year in the case of such sale under levy before November 3, 1966) after such sale under levy.

(2) *Notice of sale*. A notice of sale shall be published in some newspaper published or generally circulated within the county where the property is situated, or a notice shall be posted at the post office nearest the place where the property is situated and in at least two other public places. The notice shall specify the property to be sold and the time, place, manner, and conditions of sale. In addition, the district director may use other methods of advertising and of giving notice of sale if he believes such methods will enhance the possibility of obtaining a higher price for the property.

(3) *Time and place of sale*. The time of the sale shall be not less than 20 days from the date of giving public notice of sale under subparagraph (2) of this paragraph (b). The place of sale shall be within the county where the property is situated. However, if the district director believes a substantially better price may be obtained, he may hold the sale outside such county.

(4) *Rejection of bids and adjournment of sale*. The internal revenue officer conducting the sale reserves the right to reject any and all bids and withdraw the property from the sale. When it appears to the internal revenue officer conducting the sale that an adjournment of the sale will best serve the interest of the United States, he may order the sale adjourned from time to time. If the sale is adjourned for more than 30 days in the aggregate, public notice of the sale must be given again

in accordance with subparagraph (2) of this paragraph (b).

(5) *Liquidated damages.* The notice shall state whether, in the case of default in payment of the bid price, any amount deposited with the United States will be retained as liquidated damages. In case liquidated damages are provided, the amount thereof shall not exceed $200.

(6) *Agreement to bid.* The district director may, before giving notice of sale, solicit offers from prospective bidders and enter into agreements with such persons that they will bid at least a specified amount in case the property is offered for sale. In such cases, the district director may also require such persons to make deposits to secure the performance of their agreements. Any such deposit, but not more than $200, shall be retained as liquidated damages in case such person fails to bid the specified amount and the property is not sold for as much as the amount specified in such agreement.

(7) *Terms.* The property shall be offered for sale upon whichever of the following terms is fixed by the district director in the public notice of sale:

(i) Payments in full upon acceptance of the highest bid, or

(ii) If the price of the property purchased by a successful bidder at the sale is more than $200, an initial payment of $200 or 20 percent of the purchase price, whichever is the greater, and payment of the balance within a specified period, not to exceed one month from the date of the sale.

(8) *Method of sale.* The property may be sold either—

(i) At public auction, at which open competitive bids shall be received, or

(ii) At public sale under sealed bids.

(9) *Sales under sealed bids.* The following rules, in addition to the other rules provided in this paragraph (b), shall be applicable at public sales under sealed bids:

(i) *Invitation to bidders.* Bids shall be solicited through a public notice of sale.

(ii) *Form for use by bidders.* A bid shall be submitted on a form which will be furnished by the district director upon request. The form shall be completed in accordance with the instructions thereon.

(iii) *Remittance with bid.* If the total bid is $200 or less, the full amount of the bid shall be submitted therewith. If the total bid is more than $200, 20 percent of such bid or $200, whichever is greater, shall be submitted therewith. Such remittance shall be by a certified, cashier's, or treasurer's check drawn on any bank or trust company incorporated under the laws of the United States or under the laws of any State, Territory, or possession of the United States, or by a U.S. postal, bank, express, or telegraph money order.

(iv) *Time for receiving and opening bids.* Each bid shall be submitted in a securely sealed envelope. The bidder shall indicate in the upper left hand corner of the envelope his name and address and the time and place of sale as announced in the public notice of sale. A bid shall not be considered unless it is received by the internal revenue officer conducting the sale prior to the opening of the bids. The bids will be opened at the time and place stated in the notice of sale, or at the time fixed in the announcement of the adjournment of the sale.

(v) *Consideration of bids.* The internal revenue officer conducting the sale shall have the right to waive any technical defects in a bid. After the opening, examination, and consideration of all bids, the internal revenue officer conducting the sale shall announce the amount of the highest bid or bids and the name of the successful bidder or bidders, unless in the opinion of the officer a higher price can be obtained for the property that has been bid. In the event the highest bids are equal in amount (and unless in the opinion of the internal revenue officer conducting the sale a higher price can be obtained for the property than has been bid), the officer shall determine the successful bidder by drawing lots. Any remittance submitted in connection with an unsuccessful bid shall be returned to the bidder at the conclusion of the sale.

(vi) *Withdrawal of bids.* A bid may be withdrawn on written or telegraphic request received from the bidder prior to the time fixed for opening the bids. A technical defect in a bid confers no right on the bidder for the withdrawal of his bid after it has been opened.

(10) *Payment of bid price.* All payments for property sold pursuant to this section shall be made by cash or by a certified, cashier's, or treasurer's check drawn on any bank or trust company incorporated under the laws of the United States or under the laws of any State, Territory, or possession of the United States, or by U.S. postal, bank, express, or telegraph money order. If payment in full is required upon acceptance of the highest bid, the payment shall be made at such time. If payment in full is not made at such time, the internal revenue officer conducting the sale may forthwith proceed again to sell the property in the manner provided in subparagraph (8) of this paragraph (b). If deferred payment is permitted, the initial payment shall be made upon acceptance of the bid, and the balance shall be paid on or before the date fixed for payment thereof. Any remittance submitted with a successful sealed bid shall be applied toward the purchase price.

(11) *Deed.* Upon payment in full of the purchase price, the district director shall execute a quitclaim deed to the purchaser.

(c) *Lease.* Until real estate is sold, the district director for the internal revenue district in which the property is situated may, in accordance with instructions issued by the Commissioner, lease such property.

(d) *Release to debtor.* In cases where real estate has or may become the property of the United States by conveyance or otherwise, in payment of or as security for a debt arising under the laws relating to internal revenue, and such debt shall have been paid, together with the interest thereon (at the rate of 1 percent per month), to the United States within 2 years from the date of the acquisition of such real estate, the district director for the internal revenue district in which the property is located may release by deed or otherwise convey such real estate to the debtor from whom it was taken, or to his heirs or other legal representatives. If property is declared purchased by the United States under section 6335, then, for the purpose of this paragraph, the date of such declaration shall be deemed to be the date of acquisition of such real estate.

(e) *Accounting.* The district director for the internal revenue district in which the property is situated shall, in accordance with section 7809 and the instructions thereunder, account for the proceeds of all sales or leases of the property and all expenses connected with the maintenance, sale, or lease of the property.

(f) *Authority of Commissioner.* Notwithstanding the other paragraphs of this section, the Commissioner may, when he deems it advisable, take charge of and assume responsibility for any real estate to which this section is applicable. In such case, the Commissioner will notify in writing the district director for the internal revenue district in which the property is situated. In any case where a single parcel of real estate is situated in more than one internal revenue district, the Commissioner may designate in writing a district director who shall have charge of and be responsible for the entire property.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7027, 35 FR 3806, Feb. 27, 1970; T.D. 7305, 39 FR 9953, Mar. 15, 1974]

§ 301.7507–1 Banks and trust companies covered.

(a) Section 7507 applies to any national bank, or bank or trust company organized under State law, a substantial portion of the business of which consists of receiving deposits and making loans and discounts, and which has—

(1) Ceased to do business by reason of insolvency or bankruptcy, or

(2) Been released or discharged from its liability to its depositors for any part of their deposit claims, and the depositors have accepted in lieu thereof a lien upon its subsequent earnings or claims against its assets either (i) segregated and held by it for benefit of the depositors or (ii) transferred to an individual or corporate trustee or agent who liquidates, holds or operates the assets for the benefit of the depositors.

(b) As used in this section and §§ 301.7507–2 to 301.7507–11, inclusive:

(1) The term *bank,* unless otherwise indicated by the context, means any national bank, or bank or trust company organized under State law, within the scope of section 7507.

(2) The terms *statute of limitations* and *limitations* mean all applicable provisions of law (including section 7507) which impose, change, or affect the limitations, conditions, or requirements relative to the allowance of refunds and abatements or the assessment or collection of tax, as the case may be.

(3) The term *segregated assets* includes transferred or trusteed assets, or assets set aside or earmarked, to all or a portion of which, or the proceeds of which, the depositors are absolutely or conditionally entitled.

(4) The term *ceased to do business* means the bank no longer accepts deposits or makes loans and discounts, and is winding up its affairs and is in the process of liquidating its assets to pay depositors. A bank will not be considered to have ceased to do business on account of a transaction in which the bank—

(i) Transfers assets and liabilities to a Bridge Bank in a transfer described in § 1.597–4 of this chapter;

(ii) Transfers assets and liabilities to any person in a transaction to which section 381(a) applies or in which the transferee receives property with a transferred basis;

(iii) Transfers assets or liabilities to any person in a transaction in which Federal Financial Assistance (as defined in section 597) is provided to any party to the transaction, unless all the Federal Financial Assistance is deposit insurance under § 301.7507–9(d); or

(iv) Transfers assets or liabilities to any person in a transaction similar to any transaction described in paragraphs (b)(4)(i) through (iii) of this section. This paragraph (b)(4) applies to taxable years ending on or after April 22, 1992.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 8641, 60 FR 66105, Dec. 21, 1995]

§ 301.7507–2 Scope of section generally.

(a) *Purpose*. Section 7507 is intended to assist depositors of a bank which had ceased to do business by reason of insolvency to recover their deposits, by prohibiting collection of taxes of the bank which would diminish the assets necessary for payment of its depositors and also assist depositors of banks which are in financial difficulties but which, in certain conditions, continue in business.

(b) *Requisites of application*. In order that section 7507 shall operate in a case where the bank continues business it is necessary that the depositors shall agree to accept, in lieu of all or a part of their deposit claims as such, claims against segregated assets, or a lien upon subsequent earnings of the bank, or both. When such an agreement exists, no tax diminishing such assets or earnings, or both, otherwise available and necessary for payment of depositors, may be collected therefrom. If, under such an agreement, the depositors have the right also to look to the unsegregated assets of the bank for recovery, in whole or in part, the unsegregated assets are likewise, until they exceed the amount of the depositors' claims chargeable thereto, unavailable for tax collection. Any tax of such a bank, or part of any tax, which is once uncollectible under section 7507, cannot thereafter be collected except from any residue of segregated assets remaining after claims of depositors against such assets have been paid.

(c) *Interest*. For the purposes of section 7507, depositors' claims include bona fide interest, either on the deposits as such, or on the claims accepted in lieu of deposits as such.

(d) *Limitations on immunity*. Section 7507 is not primarily intended for the relief of banks as such. It does not prevent tax collection, from assets not necessary, or not available, for payment of depositors, from a bank within section 7507(a), at any time within the statute of limitations. In other words, the immunity of such a bank is not complete, but ceases whenever, within the statutory period for collection, it becomes possible to make collection without diminishing assets necessary for payment of depositors. In the case of a bank within section 7507(b), any immunity to which the bank is entitled is absolute except as to segregated assets. Any tax coming within such immunity may never be collected. With respect to segregated assets, such a bank is subject to the same rule as a bank within section 7507(a), that is to say, after claims of depositors against segregated assets have been paid, any surplus is subject, within the statute of

limitations, to collection of any tax, due at any time, the collection of which was suspended by the section. The section is not for the relief of creditors other than depositors, although it may incidentally operate for their benefit. See § 301.7507–4 and paragraph (b) of § 301.7507–9.

§ 301.7507–3 Segregated or transferred assets.

(a) *In general*. In a case involving segregated or transferred assets, it is not necessary, for application of section 7507, that the assets shall technically constitute a trust fund. It is sufficient that segregated assets be definitely separated from other assets of the bank and that transferred assets be definitely separated both from other assets of the bank and from other assets held or owned by the trustee or agent to whom assets of the bank have been transferred; that the bank be wholly or partially released from liability for repayment of deposits as such; and that the depositors have claims against the separated assets. Any excess of separated assets over the amount necessary for payment of such depositors will be available for tax collection after full payment of depositors' claims under the agreement against such assets. But see paragraph (a) of § 301.7507–9.

(b) *Corporate transferees*. Where the segregated assets are transferred to a separate corporate trustee or corporate agent, the assets and earnings therefrom are within the protection of the section, until full payment of depositors' claims against such assets and earnings, no matter by whom the stock of such corporation is held, and no matter whether the assets be liquidated or operated or held for benefit of the depositors.

§ 301.7507–4 Unsegregated assets.

(a) *Depositors' claims against assets*. (1) Claims of depositors, to the extent that they are to be satisfied out of segregated assets, will not be considered in determining the availability of unsegregated assets for tax collection. If depositors have agreed to accept payment out of segregated assets only, collection of tax from unsegregated assets will not diminish the assets available and necessary for payment of the depositors' claims. Thus, it may be possible to collect taxes from the unsegregated assets of a bank although the segregated assets are immune under the section.

(2) If the unsegregated assets of the bank are subject to any portion of the depositors' claims, such unsegregated assets will be within the immunity of the section only to the extent necessary to satisfy the claims to which such assets are subject. Taxes will still be collectible from the unsegregated assets to the extent of the amount by which the total value of such assets exceeds the liability to depositors to be satisfied therefrom. Therefore, if, for example, in the case of a bank having a tax liability, not previously immune under the section, of $50,000, the deposit claims against the bank are in the amount of $75,000, and the assets available for satisfaction of deposit claims amount to $100,000, the $50,000 tax is collectible to the extent of the $25,000 excess of assets over deposit claims. Collection is not to be postponed until the full amount of the tax is collectible.

(b) *Depositors' claims against earnings*. Even though under a bona fide agreement a bank has been released from depositors' claims as to unsegregated assets, if all or a portion of its earnings are subject to depositors' claims, all assets the earnings from which, in whole or part, are charged with the payment of depositors' claims, will be immune from tax collection. But see paragraph (a) of § 301.7507–5.

§ 301.7507–5 Earnings.

(a) *Availability for tax collection*. Earnings of a bank within section 7507(b), whether from segregated or unsegregated assets, which are necessary for, applicable to, and actually used for, payment of depositors' claims under an agreement, are within the immunity of the section. If only a portion or percentage of income from segregated or unsegregated assets is available and necessary for payment of depositors' claims, the remaining income is available for tax collection. Earnings of the bank's first fiscal year ending after the making of the agreement not applicable to payment of depositors will be assumed to be applicable for collection of

any tax due prior or subsequent to execution of the agreement. Earnings of subsequent fiscal periods from unsegregated assets not applicable to depositors' claims will be assumed to be applicable to payment of taxes as to which immunity under the section has not previously attached. Earnings from segregated assets are available for collection of tax, whether previously uncollectible under the section or not, after depositors' claims against such assets have been paid in full. See paragraph (a) of § 301.7507–3 and paragraph (a) of § 301.7507–9.

(b) *Tax computation.* The fact that earnings of a given year may be wholly or partly unavailable under section 7507 for collection of taxes does not exempt the income for that year, or any part thereof, from tax liability. The section affects collectibility only, and is not concerned with taxability. Accordingly, the taxpayer's income tax return shall correctly compute the tax liability, even though in the opinion of the taxpayer it is immune from tax collection under the section. The tax shall be determined with respect to the entire gross income and not merely with respect to the portion of the earnings out of which tax may be collected. As to establishment of immunity from tax collection see § 301.7507–7.

Example. (1) An agreement, executed in the year 1954 between a bank and its depositors, provides (i) that certain assets are to be segregated for the benefit of the depositors who have waived (as claims against unsegregated assets of the bank) a percentage of the deposits; (ii) that 40 percent of the bank's net earnings, for years beginning with 1954, from unsegregated assets, shall be paid to the depositors until the portion of their claims waived with respect to unsegregated assets of the bank has been paid; and (iii) that the unsegregated assets shall not be subject to depositors' claims. The net income of the bank for the calendar year 1954 is $10,000, $4,000 produced by the segregated, and $6,000 produced by the unsegregated assets. Such amount shall be considered the net earnings for the purpose of section 7507 in computing the portion of the earnings to be paid to depositors. The bank has an outstanding tax liability for prior years of $7,000. The income tax liability of the bank for 1954 is 30 percent of $10,000, or $3,000, making a total outstanding tax liability of $10,000. The portion of the earnings of the bank for 1954 remaining after provision for depositors is $3,600 ($6,000 less 40 percent thereof, or $2,400). It will be assumed that of the total outstanding tax liability of $10,000, $3,600 may be assessed and collected, leaving $6,400 to be collected from any excess of the segregated assets after claims of depositors against such segregated assets have been paid in full. No part of the $6,400 immune from collection from 1954 earnings may be collected thereafter from unsegregated assets of the bank or earnings therefrom, so that except for any possible surplus of the segregated assets the $6,400 is uncollectible.

(2) In the year 1955, the earnings are again $10,000, $4,000 from segregated and $6,000 from unsegregated assets, as in 1954. However, the return filed shows income of $5,000 and a tax liability of $1,500. An investigation shows the true income to be $10,000, on which the tax is $3,000. The full $3,000 will be assumed to be collectible. The $600 difference between $3,600 (the excess of earnings from unsegregated assets over the amount going to the depositors), and the $3,000 tax for 1955, is not available for collection of the tax for prior years, which became immune as described above, but may be available for collection of tax for subsequent years.

(c) No significance attaches to the selection of the years 1954 and 1955 in the example set forth in paragraph (b) of this section. The rules indicated by the example are equally applicable to subsequent or prior years not excluded by limitations.

§ 301.7507–6 Abatement and refund.

(a) An assessment or collection, no matter when made, if contrary to section 7507, is subject to abatement or refund within the applicable statutory period of limitations.

(b) Collection from a bank within section 7507(b) which diminishes assets necessary for payment of depositors, if made prior to agreement with depositors, is not contrary to the section, and affords no ground for refund.

(c) Any abatement or refund is subject to existing statutory periods of limitation, which periods are not suspended or extended by section 7507. In order to secure a refund of any taxes paid for any taxable year during the period of immunity the bank must file claim therefor.

§ 301.7507–7 Establishment of immunity.

(a) The mere allegation of insolvency, or that depositors have claims against segregated or other assets or

earnings, will not of itself secure immunity from tax collection. It must be affirmatively established to the satisfaction of the district director that collection of tax will be contrary to section 7507. See also § 301.7507–8.

(b) Any claim, by a bank, of immunity under section 7507(b), shall be supported by a statement, under oath or affirmation, which shall show: (1) The total of depositors' claims outstanding, and (2) separately and in detail, the amount of each of the following, and the amount of depositors' claims properly chargeable against each: (i) Segregated or transferred assets; (ii) unsegregated assets; (iii) estimated future average annual earnings and profits; (iv) amount collectible from shareholders; and (v) any other resources available for payment of depositors' claims. The detail shall show the full amount of depositors' claims chargeable against each of the items in subdivisions (i) to (v), inclusive, of this subparagraph even though part or all of the amount chargeable against a particular item is also chargeable against some other item or items. There shall also be filed a copy of any agreement between the bank and its depositors, and any other agreement or document bearing on the claim of immunity. The statement shall show the basis, as ''book,'' ''market,'' etc., of valuation of the assets.

§ 301.7507–8 Procedure during immunity.

(a) *Statements to be filed.* As long as complete or partial immunity is claimed, a bank within section 7507(b) shall file with each income tax return a statement as required by § 301.7507–7, in duplicate, and shall also file such additional statements as the district director may require. Whether or not additional statements shall be required, and the frequency thereof, will depend on the circumstances, including the financial status and apparent prospects of the bank, and the time which is available for assessment and collection. If a copy of an agreement or document has once been filed, a copy of the same agreement or document need not again be filed with a subsequent statement, if it is shown by the subsequent statement, when and where and with what return the copy was filed. In case of amendment a copy of the amendment must be filed with the return for the taxable year in which the amendment is made.

(b) *Failure to file.* Failure of a bank to file any required statement will be treated as indicating that the bank is not entitled to immunity.

§ 301.7507–9 Termination of immunity.

(a) *In general.* (1) In the case of a bank within section 7507(a), immunity will end whenever, and to the extent that, taxes may be assessed and collected, within the applicable limitation periods as extended by section 7507, without diminishing the assets available and necessary for payment of depositors. Immunity of a bank within section 7507 (b) is terminated, as to segregated assets, whenever claims of depositors against such assets have been paid in full. See § 301.7507–3. As to segregated assets, the termination of immunity is complete, and any balance remaining after payment of depositors is available, within statutory limitations, for collection of tax due at any time. However, taxes of the bank will be collectible from segregated assets only to the extent that the bank has a legal or equitable interest therein. Assets as to which there has been a complete conveyance for benefit of depositors, and the bank has bonafide been divested of all legal and equitable interest, are not available for collection of the bank's tax liability.

(2) As to unsegregated assets of a bank within section 7507(b), immunity terminates only as to taxes thereafter becoming due. When taxes are once immune from collection, the immunity as to unsegregated assets is absolute. But see paragraph (a) of § 301.7507–4.

(b) *General creditors.* While the immunity from tax collection is for protection of depositors, and not for benefit of general creditors, in some cases the immunity will not end until the assets are sufficient to cover indebtedness of creditors generally. This situation will exist where under applicable law the claims of general creditors are on a parity with those of depositors, so that to pay depositors in full it is necessary to pay all creditors in full.

(c) *Shareholder liability*. In determining the sufficiency of the assets to satisfy the depositors' claims, shareholders' liability to the extent collectible shall be treated as available assets. See § 301.7507–7.

(d) *Deposit insurance*. Deposit insurance payable to depositors shall not be treated as an asset of the bank and shall be disregarded in determining the sufficiency of the assets to meet the claims of depositors. For taxable years ending on or after April 22, 1992, deposit insurance does not include Federal Financial Assistance (as defined in section 597) and other payments described in section 597(a) prior to its amendment by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 and, therefore, such payments must be taken into account to determine whether a bank's assets are sufficient to meet claims of depositors.

(e) *Notice by bank*. A bank within section 7507(b), upon termination of immunity with respect to (1) earnings, (2) segregated or transferred assets, or (3) unsegregated assets, shall immediately notify the district director for the internal revenue district in which the taxpayer's returns were filed of such termination of immunity. See paragraph (b) of § 301.7507–8.

(f) *Payment by bank*. As immunity terminates with respect to any assets, it will be the duty of the bank, without notice from the district director, to make payment of taxes collectible from such assets.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 8641, 60 FR 66105, Dec. 21, 1995]

§ 301.7507–10 Collection of tax after termination of immunity.

If, in the case of a bank within section 7507(b), segregated assets (including earnings therefrom), in excess of those necessary for payment of outstanding deposits become available, such excess of segregated assets shall be applied toward satisfaction of accumulated outstanding taxes previously immune under the section, and not barred by the statute of limitations. But see § 301.7507–3. Where sufficient segregated or unsegregated assets are available, statutory interest shall be collected with the tax. When unsegregated assets or earnings therefrom previously immune become available for tax collection, they will be available only for collection of taxes (including interest and other additions) becoming due after immunity ceases. See the example in paragraph (b) of § 301.7507–5.

§ 301.7507–11 Exception of employment taxes.

The immunity granted by section 7507 does not apply to taxes imposed by chapter 21 or chapter 23 of the Code.

§ 301.7508–1 Time for performing certain acts postponed by reason of service in a combat zone.

(a) *General rule*. The period of time that may be disregarded for performing certain acts under section 7508 applies to acts described in section 7508(a)(1) and to other acts specified in a revenue ruling, revenue procedure, notice, or other guidance published in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter).

(b) *Effective date*. This section applies to any period for performing an act that has not expired before December 30, 1999.

[T.D. 8911, 65 FR 78411, Dec. 15, 2000]

§ 301.7508A-1 Postponement of certain tax-related deadlines by reasons of a federally declared disaster or terroristic or military action.

(a) *Scope*. This section provides rules by which the Internal Revenue Service (IRS) may postpone deadlines for performing certain acts with respect to taxes other than taxes not administered by the IRS such as firearms tax (chapter 32, section 4181); harbor maintenance tax (chapter 36, section 4461); and alcohol and tobacco taxes (subtitle E).

(b) *Postponed deadlines*—(1) *In general*. In the case of a taxpayer determined by the Secretary to be affected by a federally declared disaster (as defined in section 1033(h)(3)) or a terroristic or military action (as defined in section 692(c)(2)), the Secretary may specify a postponement period (as defined in paragraph (d)(1) of this section) of up to one year that may be disregarded in determining under the internal revenue laws, in respect of any tax liability of

the affected taxpayer (as defined in paragraph (d)(1) of this section)—

(i) Whether any or all of the acts described in paragraph (c) of this section were performed within the time prescribed;

(ii) The amount of interest, penalty, additional amount, or addition to the tax; and

(iii) The amount of credit or refund.

(2) *Effect of postponement period.* When an affected taxpayer is required to perform a tax-related act by a due date that falls within the postponement period, the affected taxpayer is eligible for postponement of time to perform the act until the last day of the period. The affected taxpayer is eligible for relief from interest, penalties, additional amounts, or additions to tax during the postponement period.

(3) *Interaction between postponement period and extensions of time to file or pay*—(i) *In general.* The postponement period under section 7508A runs concurrently with extensions of time to file and pay, if any, under other sections of the Internal Revenue Code.

(ii) *Original due date prior to, but extended due date within, the postponement period.* When the original due date precedes the first day of the postponement period and the extended due date falls within the postponement period, the following rules apply. If an affected taxpayer received an extension of time to file, filing will be timely on or before the last day of the postponement period, and the taxpayer is eligible for relief from penalties or additions to tax related to the failure to file during the postponement period. Similarly, if an affected taxpayer received an extension of time to pay, payment will be timely on or before the last day of the postponement period, and the taxpayer is eligible for relief from interest, penalties, additions to tax, or additional amounts related to the failure to pay during the postponement period.

(4) *Due date not extended.* The postponement of the deadline of a tax-related act does not extend the due date for the act, but merely allows the IRS to disregard a time period of up to one year for performance of the act. To the extent that other statutes may rely on the date a return is due to be filed, the postponement period will not change the due date of the return.

(5) *Additional relief.* The rules of this paragraph (b) demonstrate how the IRS generally implements section 7508A. The IRS may determine, however, that additional relief to taxpayers is appropriate and may provide additional relief to the extent allowed under section 7508A. To the extent that the IRS grants additional relief, the IRS will provide specific guidance on the scope of relief in the manner provided in paragraph (e) of this section.

(c) *Acts for which a period may be disregarded*—(1) *Acts performed by taxpayers.* Paragraph (b) of this section applies to the following acts performed by affected taxpayers (as defined in paragraph (d)(1) of this section)—

(i) Filing any return of income tax, estate tax, gift tax, generation-skipping transfer tax, excise tax (other than firearms tax (chapter 32, section 4181); harbor maintenance tax (chapter 36, section 4461); and alcohol and tobacco taxes (subtitle E)), or employment tax (including income tax withheld at source and income tax imposed by subtitle C or any law superseded thereby);

(ii) Paying any income tax, estate tax, gift tax, generation-skipping transfer tax, excise tax (other than firearms tax (chapter 32, section 4181); harbor maintenance tax (chapter 36, section 4461); and alcohol and tobacco taxes (subtitle E)), employment tax (including income tax withheld at source and income tax imposed by subtitle C or any law superseded thereby), any installment of those taxes (including payment under section 6159 relating to installment agreements), or of any other liability to the United States in respect thereof, but not including deposits of taxes pursuant to section 6302 and the regulations under section 6302;

(iii) Making contributions to a qualified retirement plan (within the meaning of section 4974(c)) under section 219(f)(3), 404(a)(6), 404(h)(1)(B), or 404(m)(2); making distributions under section 408(d)(4); recharacterizing contributions under section 408A(d)(6); or making a rollover under section 402(c), 403(a)(4), 403(b)(8), or 408(d)(3);

(iv) Filing a petition with the Tax Court, or for review of a decision rendered by the Tax Court;

(v) Filing a claim for credit or refund of any tax;

(vi) Bringing suit upon a claim for credit or refund of any tax; and

(vii) Any other act specified in a revenue ruling, revenue procedure, notice, announcement, news release, or other guidance published in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter).

(2) *Acts performed by the government.* Paragraph (b) of this section applies to the following acts performed by the government—

(i) Assessing any tax;

(ii) Giving or making any notice or demand for the payment of any tax, or with respect to any liability to the United States in respect of any tax;

(iii) Collecting by the Secretary, by levy or otherwise, of the amount of any liability in respect of any tax;

(iv) Bringing suit by the United States, or any officer on its behalf, in respect of any liability in respect of any tax;

(v) Allowing a credit or refund of any tax; and

(vi) Any other act specified in a revenue ruling, revenue procedure, notice, or other guidance published in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter).

(d) *Definitions*—(1) *Affected taxpayer* means—

(i) Any individual whose principal residence (for purposes of section 1033(h)(4)) is located in a covered disaster area;

(ii) Any business entity or sole proprietor whose principal place of business is located in a covered disaster area;

(iii) Any individual who is a relief worker affiliated with a recognized government or philanthropic organization and who is assisting in a covered disaster area;

(iv) Any individual whose principal residence (for purposes of section 1033(h)(4)), or any business entity or sole proprietor whose principal place of business is not located in a covered disaster area, but whose records necessary to meet a deadline for an act specified in paragraph (c) of this section are maintained in a covered disaster area;

(v) Any estate or trust that has tax records necessary to meet a deadline for an act specified in paragraph (c) of this section and that are maintained in a covered disaster area;

(vi) The spouse of an affected taxpayer, solely with regard to a joint return of the husband and wife; or

(vii) Any individual, business entity, or sole proprietorship not located in a covered disaster area, but whose records necessary to meet a deadline for an act specified in paragraph (c) of this section are located in the covered disaster area;

(viii) Any individual visiting the covered disaster area who was killed or injured as a result of the disaster; or

(ix) Any other person determined by the IRS to be affected by a federally declared disaster (within the meaning of section 1033(h)(3)).

(2) *Covered disaster area* means an area of a federally declared disaster (within the meaning of section 1033(h)(3)) to which the IRS has determined paragraph (b) of this section applies.

(3) *Postponement period* means the period of time (up to one year) that the IRS postpones deadlines for performing tax-related acts under section 7508A.

(e) *Notice of postponement of certain acts.* If a tax-related deadline is postponed under section 7508A and this section, the IRS will publish a revenue ruling, revenue procedure, notice, announcement, news release, or other guidance (see § 601.601(d)(2) of this chapter) describing the acts postponed, the postponement period, and the location of the covered disaster area. Guidance under this paragraph (e) will be published as soon as practicable after the occurrence of a terroristic or military action or declaration of a federally declared disaster.

(f) *Examples.* The rules of this section are illustrated by the following examples:

Example 1. (i) Corporation X, a calendar year taxpayer, has its principal place of business in County M in State W. Pursuant to a timely filed request for extension of time to file, Corporation X's 2008 Form 1120, ''U.S. Corporation Income Tax Return,'' is due on September 15, 2009. Also due on September

15, 2009, is Corporation X's third quarter estimated tax payment for 2009. Corporation X's 2009 third quarter Form 720, ''Quarterly Federal Excise Tax Return,'' and third quarter Form 941, ''Employer's Quarterly Federal Tax Return,'' are due on October 31, 2009. In addition, Corporation X has an employment tax deposit due on September 15, 2009.

(ii) On September 1, 2009, a hurricane strikes County M in State W. On September 7, 2009, certain counties in State W (including County M) are determined to be disaster areas within the meaning of section 1033(h)(3) that are eligible for assistance by the Federal government under the Stafford Act. Also on September 7, 2009, the IRS determines that County M in State W is a covered disaster area and publishes guidance announcing that the time period for affected taxpayers to file returns, pay taxes, and perform other time-sensitive acts falling on or after September 1, 2009, and on or before November 30, 2009, has been postponed to November 30, 2009, pursuant to section 7508A.

(iii) Because Corporation X's principal place of business is in County M, Corporation X is an affected taxpayer. Accordingly, Corporation X's 2008 Form 1120 will be timely if filed on or before November 30, 2009. Corporation X's 2009 third quarter estimated tax payment will be timely if made on or before November 30, 2009. In addition, pursuant to paragraph (c) of this section, Corporation X's 2009 third quarter Form 720 and third quarter Form 941 will be timely if filed on or before November 30, 2009. However, because deposits of taxes are excluded from the scope of paragraph (c) of this section, Corporation X's employment tax deposit is due on September 15, 2009. In addition, Corporation X's deposits relating to the third quarter Form 720 are not postponed. Absent reasonable cause, Corporation X is subject to the failure to deposit penalty under section 6656 and accrual of interest.

Example 2. The facts are the same as in *Example 1*, except that because of the severity of the hurricane, the IRS determines that postponement of government acts is necessary. During 2009, Corporation X's 2005 Form 1120 is being examined by the IRS. Pursuant to a timely filed request for extension of time to file, Corporation X timely filed its 2005 Form 1120 on September 15, 2006. Without application of this section, the statute of limitation on assessment for the 2005 income tax year will expire on September 15, 2009. However, pursuant to paragraph (c) of this section, assessment of tax is one of the government acts for which up to one year may be disregarded. Because September 15, 2009, falls within the period in which government acts are postponed, the statute of limitation on assessment for Corporation X's 2005 income tax will expire on November 30, 2009. Because Corporation X did not timely file an extension of time to pay, payment of its 2005 income tax was due on March 15, 2006. As such, Corporation X will be subject to the failure to pay penalty and related interest beginning on March 15, 2006. The due date for payment of Corporation X's 2005 income tax preceded the postponement period. Therefore, Corporation X is not entitled to the suspension of interest or penalties during the disaster period with respect to its 2005 income tax liability.

Example 3. The facts are the same as in *Example 2*, except that the examination of the 2005 taxable year was completed earlier in 2009, and on July 28, 2009, the IRS mailed a statutory notice of deficiency to Corporation X. Without application of this section, Corporation X has 90 days (or until October 26, 2009) to file a petition with the Tax Court. However, pursuant to paragraph (c) of this section, filing a petition with the Tax Court is one of the taxpayer acts for which a period of up to one year may be disregarded. Because Corporation X is an affected taxpayer, Corporation X's petition to the Tax Court will be timely if filed on or before November 30, 2009, the last day of the postponement period.

Example 4. (i) H and W, individual calendar year taxpayers, intend to file a joint Form 1040, ''U.S. Individual Income Tax Return,'' for the 2008 taxable year and are required to file a Schedule H, ''Household Employment Taxes.'' The joint return is due on April 15, 2009. H and W's principal residence is in County M in State Q.

(ii) On April 2, 2009, a severe ice storm strikes County M. On April 5, 2009, certain counties in State Q (including County M) are determined to be disaster areas within the meaning of section 1033(h)(3) that are eligible for assistance by the Federal government under the Stafford Act. Also on April 5, 2009, the IRS determines that County M in State Q is a covered disaster area and publishes guidance announcing that the time period for affected taxpayers to file returns, pay taxes, and perform other time-sensitive acts falling on or after April 2, 2009, and on or before June 2, 2009, has been postponed to June 2, 2009.

(iii) Because H and W's principal residence is in County M, H and W are affected taxpayers. April 15, 2009, the due date for the filing of H and W's 2008 Form 1040 and Schedule H, falls within the postponement period described in the IRS published guidance. Thus, H and W's return will be timely if filed on or before June 2, 2009. If H and W request an extension of time to file under section 6081 on or before June 2, 2009, the extension is deemed to have been filed by April 15, 2009. Thus, H and W's return will be timely if filed on or before October 15, 2009.

(iv) April 15, 2009, is also the due date for the payment due on the return. This date falls within the postponement period described in the IRS published guidance. Thus,

the payment of tax due with the return will be timely if paid on or before June 2, 2009 the last day of the postponement period. If H and W fail to pay the tax due on the 2008 Form 1040 by June 2, 2009, and do not receive an extension of time to pay under section 6161, H and W will be subject to failure to pay penalties and accrual of interest beginning on June 3, 2009.

Example 5. (i) H and W, residents of County D in State G, intend to file an amended return to request a refund of 2008 taxes. H and W timely filed their 2008 income tax return on April 15, 2009. Under section 6511(a), H and W's amended 2008 tax return must be filed on or before April 16, 2012 (because April 15, 2012 falls on a Sunday, H and W's amended return was due to be filed on April 16, 2012).

(ii) On April 2, 2012, an earthquake strikes County D. On April 6, 2012, certain counties in State G (including County D) are determined to be disaster areas within the meaning of section 1033(h)(3) that are eligible for assistance by the Federal government under the Stafford Act. Also on April 6, 2012, the IRS determines that County D in State G is a covered disaster area and publishes guidance announcing that the time period for affected taxpayers to file returns, pay taxes, and perform other time-sensitive acts falling on or after April 2, 2012, and on or before October 2, 2012, has been postponed to October 2, 2012.

(iii) Under paragraph (c) of this section, filing a claim for refund of tax is one of the taxpayer acts for which the IRS may disregard a period of up to one year. The postponement period for this disaster begins on April 2, 2012, and ends on October 2, 2012. Accordingly, H and W's claim for refund for 2008 taxes will be timely if filed on or before October 2, 2012. Moreover, in applying the lookback period in section 6511(b)(2)(A), which limits the amount of the allowable refund, the period from October 2, 2012, back to April 2, 2012, is disregarded under paragraph (b)(1)(iii) of this section. Thus, if the claim is filed on or before October 2, 2012, amounts deemed paid on April 15, 2009, under section 6513(b), such as estimated tax and tax withheld from wages, will have been paid within the lookback period of section 6511(b)(2)(A).

Example 6. (i) A is an unmarried, calendar year taxpayer whose principal residence is located in County W in State Q. A intends to file a Form 1040 for the 2008 taxable year. The return is due on April 15, 2009. A timely files Form 4868, ''Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.'' Due to A's timely filing of Form 4868, the extended filing deadline for A's 2008 tax return is October 15, 2009. Because A timely requested an extension of time to file, A will not be subject to the failure to file penalty under section 6651(a)(1), if A files the 2008 Form 1040 on or before October 15, 2009. However, A failed to pay the tax due on the return by April 15, 2009 and did not receive an extension of time to pay under section 6161. Absent reasonable cause, A is subject to the failure to pay penalty under section 6651(a)(2) and accrual of interest.

(ii) On September 30, 2009, a blizzard strikes County W. On October 5, 2009, certain counties in State Q (including County W) are determined to be disaster areas within the meaning of section 1033(h)(3) that are eligible for assistance by the Federal government under the Stafford Act. Also on October 5, 2009, the IRS determines that County W in State Q is a covered disaster area and announces that the time period for affected taxpayers to file returns, pay taxes, and perform other time-sensitive acts falling on or after September 30, 2009, and on or before December 2, 2009, has been postponed to December 2, 2009.

(iii) Because A's principal residence is in County W, A is an affected taxpayer. Because October 15, 2009, the extended due date to file A's 2008 Form 1040, falls within the postponement period described in the IRS's published guidance, A's return is timely if filed on or before December 2, 2009. However, the payment due date, April 15, 2009, preceded the postponement period. Thus, A will continue to be subject to failure to pay penalties and accrual of interest during the postponement period.

Example 7. (i) H and W, individual calendar year taxpayers, intend to file a joint Form 1040 for the 2008 taxable year. The joint return is due on April 15, 2009. After credits for taxes withheld on wages and estimated tax payments, H and W owe tax for the 2008 taxable year. H and W's principal residence is in County J in State W.

(ii) On March 3, 2009, severe flooding strikes County J. On March 6, 2009, certain counties in State W (including County J) are determined to be disaster areas within the meaning of section 1033(h)(3) that are eligible for assistance by the Federal government under the Stafford Act. Also on March 6, 2009, the IRS determines that County J in State W is a covered disaster area and publishes guidance announcing that the time period for affected taxpayers to file returns, pay taxes, and perform other time-sensitive acts falling on or after March 3, 2009, and on or before June 1, 2009, has been postponed to June 1, 2009.

(iii) Because H and W's principal residence is in County J, H and W are affected taxpayers. April 15, 2009, the due date for filing the 2008 joint return, falls within the postponement period described in the IRS published guidance. Therefore, H and W's joint return without extension will be timely if filed on or before June 1, 2009. Similarly, H and W's 2008 income taxes will be timely paid if paid on or before June 1, 2009.

(iv) On April 30, 2009, H and W timely file Form 4868, ''Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.'' H and W's extension will be deemed to have been filed on April 15, 2009. Thus, H and W's 2008 income tax return will be timely if filed on or before October 15, 2009.

(v) H and W did not request or receive an extension of time to pay. Therefore, the payment of tax due with the 2008 joint return will be timely if paid on or before June 1, 2009. If H and W fail to pay the tax due on the 2008 joint return by June 1, 2009, H and W will be subject to failure to pay penalties and accrual of interest beginning on June 2, 2009.

Example 8. (i) H and W, individual calendar year taxpayers, entered into an installment agreement with respect to their 2006 tax liabilities. H and W's installment agreement required H and W to make regularly scheduled installment payments on the 15th day of the month for the next 60 months. H and W's principal residence is in County K in State X.

(ii) On May 1, 2009, severe flooding strikes County K. On May 5, 2009, certain counties in State X including County K) are determined by the Federal government to be disaster areas within the meaning of section 1033(h)(3), and are eligible for assistance under the Stafford Act. Also on May 5, 2009, the IRS determines that County K in State X is a covered disaster area and publishes guidance announcing that the time period for affected taxpayers to file returns, pay taxes, and perform other time-sensitive acts falling on or after May 1, 2009 and on or before July 1, 2009, has been postponed to July 1, 2009.

(iii) Because H and W's principal residence is in County K, H and W are affected taxpayers. Pursuant to the IRS's grant of relief under section 7508A, H and W's installment agreement payments that become due during the postponement period are suspended until after the postponement period has ended. H and W will be required to resume payments no later than August 15, 2009. Skipped payments will be tacked on at the end of the installment payment period. Because the installment agreement pertains to prior year tax liabilities, interest and penalties will continue to accrue. H and W may, however, be entitled to abatement of the failure to pay penalties incurred during the postponement period upon establishing reasonable cause.

(g) *Effective/applicability date.* This section applies to disasters declared after January 15, 2009.

[T.D. 8911, 65 FR 78411, Dec. 15, 2000; 66 FR 10365, Feb. 15, 2001; T.D. 9443, 74 FR 2371, Jan. 15, 2009; 74 FR 66915, Dec. 17, 2009]

§ 301.7510–1 Exemption from tax of domestic goods purchased for the United States.

For any regulations under section 7510, see the applicable regulations with respect to the various taxes.

§ 301.7512–1 Separate accounting for certain collected taxes.

(a) *Scope.* The provisions of section 7512 and this section apply to—

(1) The following taxes imposed by subtitle C of the Code in respect of wages or compensation paid after February 11, 1958, for pay periods beginning after such date:

(i) The employee tax imposed by section 3101 of chapter 21 (Federal Insurance Contributions Act),

(ii) The employee tax imposed by section 3201 of chapter 22 (Railroad Retirement Tax Act), and

(iii) The income tax required to be withheld on wages by section 3402 of chapter 24 (Collection of Income Tax at Source on Wages); and

(2) The following taxes imposed by chapter 33 of the Code in respect of taxable payments made, except as otherwise specifically provided in this subparagraph, after February 11, 1958:

(i) The taxes imposed by section 4231 (1), (2), and (3) on amounts paid for admissions, and the tax imposed by section 4231(6) on amounts paid for admission, refreshment, service, or merchandise, at any roof garden, cabaret, or other similar place, to the extent that such tax on amounts paid on or after January 1, 1959, is required to be collected by the proprietor of the roof garden, cabaret, or similar place from a concessionaire in such establishment,

(ii) The taxes imposed by section 4241 on amounts paid as club dues,

(iii) The taxes imposed by section 4251 on amounts paid for communications services or facilities,

(iv) The tax imposed by section 4261 on amounts paid for transportation of persons and the tax imposed by section 4271 on amounts paid before August 1, 1958, for the transportation of property, and

(v) The tax imposed by section 4286 on amounts collected for the use of safe deposit boxes.

(b) *Requirement*. If the district director determines that any person required to collect, account for, and pay over any tax described in paragraph (a) of this section has, at the time and in the manner prescribed by law or regulations, failed to collect, truthfully account for, or pay over any such tax, or make deposits, payments, or returns of any such tax, such person, if notified to do so by the district director in accordance with section 7512 and paragraph (d) of this section, shall—

(1) Collect, at the times and in the manner provided by the law and the regulations in respect of the various taxes described in paragraph (a) of this section, all of the taxes described in such paragraph which become collectible by him after receipt of such notice;

(2) Deposit the taxes so collected, not later than the end of the second banking day after collection, with a bank, as defined in section 581, in a separate account established in accordance with paragraph (c) of this section; and

(3) Keep in such account the taxes so deposited until payment thereof is made to the United States as required by the law and the regulations in respect of such taxes.

The separate accounting requirements contained in subparagraphs (1), (2), and (3) of this paragraph (b), are applicable, in the case of the taxes described in paragraph (a)(1) of this section, to taxes with respect to wages or compensation paid after receipt of the notice from the district director, irrespective of whether such wages or compensation was earned prior to or after receipt of the notice; and, in the case of the taxes described in paragraph (a)(2) of this section, to taxes with respect to taxable payments made after receipt of the notice from the district director, irrespective of whether the transactions with respect to which such payments were made occurred prior to or after receipt of the notice.

(c) *Trust fund account*. The separate bank account referred to in paragraph (b) of this section shall be established under the designation, ''(Name of person required to establish account), Trustee, Special Fund in Trust for U.S. under section 7512, I.R.C.''. The taxes deposited in such account shall constitute a fund in trust for the United States payable only to the Internal Revenue Service on demand by the trustee.

(d) *Notice*. Notice to any person requiring his compliance with the provisions of section 7512(b) and this section shall be in writing and shall be delivered in hand to such person by an internal revenue officer or employee. In the case of a trade or business carried on other than as a sole proprietorship, such as a corporation, partnership, or trust, notice delivered in hand to an officer, partner, or trustee shall be deemed to be notice delivered in hand to such corporation, partnership, or trust and to all officers, partners, trustees, and employees thereof.

(e) *Cancellation of notice*. The district director may relieve a person to whom notice requiring separate accounting has been given pursuant to section 7512 and this section from further compliance with such separate accounting requirements whenever he is satisfied that such person will comply with all requirements of the Code and the regulations applicable, in respect of the taxes to which the notice relates, in the case of persons not required to comply with the provisions of section 7512(b). Notice of cancellation of the requirement for separate accounting shall be made in writing and shall take effect at such time as is specified in the notice of cancellation.

(f) *Penalties*. For criminal penalty for failure to comply with any provision of section 7512, see section 7215. For criminal penalties for failure to file return, supply information, or pay tax, for failure to collect or pay over tax, and for attempt to evade or defeat tax, see sections 7203, 7202, and 7201, respectively.

§ 301.7513–1 Reproduction of returns and other documents.

(a) *In general*. The Commissioner, district directors, and other authorized officers and employees of the Internal Revenue Service may contract with any Federal agency or any person to have such agency or person process films and other photoimpressions of any return, statement, document, or of any card, record, or other matter, and make reproductions from such films and photoimpressions.

(b) *Safeguards*—(1) *By private contractor*. Any person entering into a contract with the Internal Revenue Service for the performance of any of the services described in paragraph (a) of this section shall agree to comply, and to assume responsibility for compliance by his employees, with the following requirements:

(i) The films or photoimpressions, and reproductions made therefrom, shall be used only for the purpose of carrying out the provisions of the contract, and information contained in such material shall be treated as confidential and shall not be divulged or made known in any manner to any person except as may be necessary in the performance of the contract;

(ii) All the services shall be performed under the supervision of the person with whom the contract is made or his responsible employees;

(iii) All material received for processing and all processed and reproduced material shall be kept in a locked and fireproof compartment in a secure place when not being worked upon;

(iv) All spoilage of reproductions made from the film or photoimpressions supplied to the contractor shall be destroyed, and a statement under the penalties of perjury shall be submitted to the Internal Revenue Service that such destruction has been accomplished; and

(v) All film, photoimpressions, and reproductions made therefrom, shall be transmitted to the Internal Revenue Service by personal delivery, first-class mail, parcel post, or express.

(2) *By Federal agency*. Any Federal agency entering into a contract with the Internal Revenue Service for the performance of any services described in paragraph (a) of this section, shall treat as confidential all material processed or reproduced pursuant to such contract.

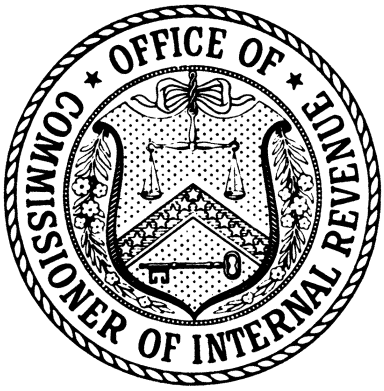
(3) *Inspection*. The Internal Revenue Service shall have the right to send its officers and employees into the offices and plants of Federal agencies and other contractors for inspection of the facilities and operations provided for the performance of any work contracted or to be contracted for under this section.

(4) *Criminal sanctions*. For penalty provisions relating to the unauthorized use and disclosure of information in violation of the provisions of this section, see section 7213(c).

(c) *Legal status of reproductions*. Section 7513 provides that any reproduction made in accordance with such section of any return, document, or other matter shall have the same legal status as the original and requires that any such reproduction shall, if properly authenticated, be admissible in evidence in any judicial or administrative proceeding, as if it were the original, whether or not the original is in existence.

§ 301.7514–1 Seals of office.

(a) *Establishment of seals*—(1) *Commissioner of Internal Revenue*. There is hereby established in and for the office of the Commissioner of Internal Revenue an official seal. The seal is described as follows, and illustrated below: A circle within which shall appear that part of the seal of the Treasury Department represented by the shield and side wreaths. Exterior to this circle and within a circumscribed circle in the form of a rope shall appear in the upper part the words ''Office of'' and in the lower part the words ''Commissioner of Internal Revenue.''



(2) *Establishment of uniform seal*. (i) In addition to the seals of office prescribed for those offices set forth in paragraphs (a)(3) through (8) of this section, a uniform seal for use by any office of internal revenue is established. The uniform seal is described as

follows, and is illustrated in this paragraph (a)(2)(i). A circle within which shall appear that part of the seal of the Treasury Department represented by the shield with a dark background. Exterior to this circle and within a circumscribed circle forming the exterior of the seal shall appear words describing the specific office of internal revenue authorized to use the seal under this section. This paragraph (a)(2) is effective on October 27, 1995. The uniform seal is as follows:

(ii) The uniform seal may be used by any office of internal revenue set forth in paragraphs (a) (3) through (8) of this section, and any other office designated by the Commissioner to use a seal, including the following internal revenue offices resulting from a reorganization of the IRS that will be implemented beginning October 1, 1995:

Office of Regional Commissioner for:
- Midstates Region (Dallas)
- Northeast Region (Manhattan)
- Southeast Region (Atlanta)
- Western Region (San Francisco)

Office of District Director for:
- Arkansas-Oklahoma District (Oklahoma City)
- Brooklyn District
- Central California District (San Jose)
- Connecticut-Rhode Island District (Hartford)
- Delaware-Maryland District (Baltimore)
- Georgia District (Atlanta)
- Gulf Coast District (New Orleans)
- Houston District
- Illinois District (Chicago)
- Indiana District (Indianapolis)
- Kansas-Missouri District (St. Louis)
- Kentucky-Tennessee District (Nashville)
- Los Angeles District
- Manhattan District
- Michigan District (Detroit)
- Midwest District (Milwaukee)
- New Jersey District (Newark)
- New England District (Boston)
- North Central District (St. Paul)
- North Florida District (Jacksonville)
- North-South Carolina District (Greensboro)
- North Texas District (Dallas)

Northern California District (Oakland)
Ohio District (Cincinnati)
Pacific-Northwest District (Seattle)
Pennsylvania District (Philadelphia)
Rocky Mountain District (Denver)
South Florida District (Fort Lauderdale)
South Texas District (Austin)
Southern California District (Laguna Niguel)
Southwest District (Phoenix)
Upstate New York District (Buffalo)
Virginia-West Virginia District (Richmond)

Office of Director of Computing Centers in:
Detroit
Memphis
Martinsburg

Office of Director of Submission Processing Centers in:
Austin
Cincinnati
Memphis
Kansas City
Ogden

Office of Director of Customer Service Centers in:

Andover	Jacksonville
Atlanta	Kansas City
Austin	Memphis
Baltimore	Nashville
Brookhaven	Ogden
Buffalo	Philadelphia
Cincinnati	Pittsburgh
Cleveland	Portland, OR
Dallas	Richmond
Denver	St. Louis
Fresno	Seattle.
Indianapolis	

(3) *District Directors of Internal Revenue.* (i) There is hereby established an official seal in and for each of the offices of District Director of Internal Revenue listed in subdivision (ii) of this subparagraph. The seal is described as follows, and one such seal is illustrated below: A circle within which shall appear that part of the seal of the Treasury Department represented by the shield and side wreaths. Exterior to this circle and within a circumscribed circle in the form of a rope shall appear in the upper part the words ''District Director of Internal Revenue'' and in the lower part the location of the office for which the seal is established.

(ii) The offices of District Director of Internal Revenue for which seals are established in subdivision (i) of this subparagraph are as follows:

District Director of Internal Revenue, Birmingham, Ala.
District Director of Internal Revenue, Anchorage, Alaska.
District Director of Internal Revenue, Phoenix, Ariz.
District Director of Internal Revenue, Little Rock, Ark.
District Director of Internal Revenue, Los Angeles, Calif.
District Director of Internal Revenue, San Francisco, Calif.
District Director of Internal Revenue, Denver, Colo.
District Director of Internal Revenue, Hartford, Conn.
District Director of Internal Revenue, Wilmington, Del.
District Director of Internal Revenue, Ft. Lauderdale, Fla.
District Director of Internal Revenue, Jacksonville, Fla.
District Director of Internal Revenue, Atlanta, Ga.
District Director of Internal Revenue, Honolulu, Hawaii.
District Director of Internal Revenue, Boise, Idaho.
District Director of Internal Revenue, Chicago, Ill.
District Director of Internal Revenue, Springfield, Ill.
District Director of Internal Revenue, Indianapolis, Ind.
District Director of Internal Revenue, Des Moines, Iowa.
District Director of Internal Revenue, Wichita, Kans.
District Director of Internal Revenue, Louisville, Ky.
District Director of Internal Revenue, New Orleans, La.

District Director of Internal Revenue, Augusta, Maine.
District Director of Internal Revenue, Baltimore, Md.
District Director of Internal Revenue, Boston, Mass.
District Director of Internal Revenue, Detroit, Mich.
District Director of Internal Revenue, St. Paul, Minn.
District Director of Internal Revenue, Jackson, Miss.
District Director of Internal Revenue, St. Louis, Mo.
District Director of Internal Revenue, Helena, Mont.
District Director of Internal Revenue, Omaha, Nebr.
District Director of Internal Revenue, Portsmouth, N.H.
District Director of Internal Revenue, Newark, N.J.
District Director of Internal Revenue, Albuquerque, N. Mex.
District Director of Internal Revenue, Albany, N.Y.
District Director of Internal Revenue, Brooklyn, N.Y.
District Director of Internal Revenue, Buffalo, N.Y.
District Director of Internal Revenue, Manhattan, New York, N.Y.
District Director of Internal Revenue, Greensboro, N.C.
District Director of Internal Revenue, Fargo, N. Dak.
District Director of Internal Revenue, Cincinnati, Ohio.
District Director of Internal Revenue, Cleveland, Ohio.
District Director of Internal Revenue, Oklahoma City, Okla.
District Director of Internal Revenue, Portland, Oreg.
District Director of Internal Revenue, Philadelphia, Pa.
District Director of Internal Revenue, Pittsburgh, Pa.
District Director of Internal Revenue, Providence, R.I.
District Director of Internal Revenue, Columbia, S.C.
District Director of Internal Revenue, Aberdeen, S. Dak.
District Director of Internal Revenue, Nashville, Tenn.
District Director of Internal Revenue, Austin, Tex.
District Director of Internal Revenue, Dallas, Tex.
District Director of Internal Revenue, Houston, Tex.
District Director of Internal Revenue, Salt Lake City, Utah.
District Director of Internal Revenue, Richmond, Va.
District Director of Internal Revenue, Burlington, Vt.
District Director of Internal Revenue, Seattle, Wash.
District Director of Internal Revenue, Parkersburg, W. Va.
District Director of Internal Revenue, Milwaukee, Wis.
District Director of Internal Revenue, Cheyenne, Wyo.

(iii) There is hereby established an official seal in and for each of the offices of district director of internal revenue listed in paragraph (a)(2)(iv) of this section. The seal is described as follows, and one such seal is illustrated below: A circle within which shall appear that part of the seal of the Treasury Department represented by the shield. Exterior to this circle and within a circumscribed circle in the form of a rope shall appear in the upper part the words ''DISTRICT DIRECTOR OF INTERNAL REVENUE'' and in the lower part the location of the office for which the seal is established.

(iv) The offices of district director of internal revenue for which seals are established in paragraph (a)(2)(iii) of this section are as follows:

District Director of Internal Revenue, Laguna Niguel, CA.,
District Director of Internal Revenue, Sacramento, CA.,
District Director of Internal Revenue, San Jose Dist.

(v) There is hereby established an official seal in and for the office of district director of internal revenue listed in paragraph (a)(2)(vi) of this section.

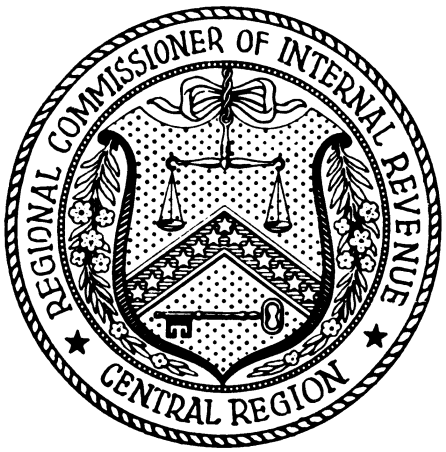
The seal is described as follows, and illustrated below: A circle within which shall appear the Internal Revenue emblem. Exterior to this circle and within a circumscribed circle in the form of a rope shall appear in the upper part the words ''DISTRICT DIRECTOR OF INTERNAL REVENUE'' and in the lower part the location of the office for which the seal is established.

(vi) The office of district director of internal revenue for which the seal is established in paragraph (a)(2)(v) of this section is as follows:

District Director of Internal Revenue, Las Vegas, Nevada.

(4) *Assistant Commissioner (International).* There is hereby established in and for the office of the Assistant Commissioner (International) an official seal. The seal is described as follows, and illustrated below: A circle within which shall appear that part of the seal of the Treasury Department represented by the shield and side wreaths. Exterior to this circle and within a circumscribed circle in the form of a rope shall appear in the upper part the words ''ASSISTANT COMMISSIONER (INTERNATIONAL)'' and in the lower part ''Washington, D.C. Internal Revenue Service''.

(5) *Regional Commissioners of Internal Revenue.* (i) There is hereby established an official seal in and for each of the offices of Regional Commissioner of Internal Revenue listed in subdivision (ii) of this subparagraph. The seal is described as follows, and one such seal is illustrated below: A circle within which shall appear that part of the seal of the Treasury Department represented by the shield and side wreaths. Exterior to this circle and within a circumscribed circle in the form of a rope shall appear in the upper part the words ''Regional Commissioner of Internal Revenue'' and in the lower part the title of the region for which the seal is established.



(ii) The offices of the Regional Commissioner of Internal Revenue for

which seals are established in subdivision (i) of this subparagraph are as follows:

Regional Commissioner of Internal Revenue, Central Region.
Regional Commissioner of Internal Revenue, Mid-Atlantic Region.
Regional Commissioner of Internal Revenue, Midwest Region.
Regional Commissioner of Internal Revenue, North-Atlantic Region.
Regional Commissioner of Internal Revenue, Southeast Region.
Regional Commissioner of Internal Revenue, Southwest Region.
Regional Commissioner of Internal Revenue, Western Region.

(6) *Directors of Internal Revenue Service Centers*. (i) There is hereby established an official seal in and for each of the offices of Director of Internal Revenue Service Center listed in subdivision (ii) of this subparagraph. The seal is described as follows, and one such seal is illustrated below: A circle within which shall appear that part of the seal of the Treasury Department represented by the shield and side wreaths. Exterior to this circle and within a circumscribed circle in the form of a rope shall appear in the upper part the words ''Director, Internal Revenue Service Center'' and in the lower part the name of the region and the name of the principal city in or near which the service center is located.

(ii) The offices of Director of Internal Revenue Service Center for which seals are established in subdivision (i) of this subparagraph are as follows:

Director, Internal Revenue Service Center, Central Region, Covington, Ky.
Director, Internal Revenue Service Center, Mid-Atlantic Region, Philadelphia, Pa.
Director, Internal Revenue Service Center, Midwest Region, Kansas City, Mo.
Director, Internal Revenue Service Center, North-Atlantic Region, Andover, Mass.
Director, Internal Revenue Service Center, North-Atlantic Region, Brookhaven, N.Y.
Director, Internal Revenue Service Center, Southeast Region, Chamblee, Ga.
Director, Internal Revenue Service Center, Southeast Region, Memphis, Tenn.
Director, Internal Revenue Service Center, Southwest Region, Austin, Tex.
Director, Internal Revenue Service Center, Southwest Region, Ogden, Utah
Director, Internal Revenue Service Center, Western Region, Fresno, Calif.

(7) *Director of Internal Revenue Computing Center*. There is hereby established in and for the office of the Director of the Internal Revenue Computing Center an official seal. The seal is described as follows, and illustrated below: A circle within which shall appear that part of the seal of the Treasury Department represented by the shield. Exterior to this circle and within a circumscribed circle in the form of a rope shall appear in the upper part the words ''DIRECTOR, INTERNAL REVENUE SERVICE'' and in the lower part ''Detroit Computing Center Detroit, Michigan''.

(8) *Director of Internal Revenue Compliance Center*. There is hereby established in and for the office of the Director of

the Internal Revenue Compliance Center an official seal. The seal is described as follows, and illustrated below: A circle within which shall appear that part of the seal of the Treasury Department represented by the shield and side wreaths. Exterior to this circle and within a circumscribed circle in the form of a rope shall appear in the upper part the words ''DIRECTOR, INTERNAL REVENUE COMPLIANCE CENTER'' and in the lower part ''Southwest Region Austin, Tex''.

(b) *Custody of seal.* Each seal established by this section shall be in the custody of the officer for whose office such seal is established.

(c) *Use of official seal.* Each seal of office established by this section may be affixed in lieu of the seal of the Treasury Department to any certificate or attestation required to be made by the officer for whose office such seal is established in authentication of originals and copies of books, records, papers, writings, and documents of the Internal Revenue Service in the custody of such officer, for all purposes, including the purposes of 28 U.S.C. 1733 (b), Rule 44 of the Federal Rules of Civil Procedure, and Rule 27 of the Federal Rules of Criminal Procedure, except that—

(1) No such seal shall be affixed to material to be published in the FEDERAL REGISTER, and

(2) The seal of the office of a District Director of Internal Revenue or the Director of International Operations shall not be affixed to the certification of copies of books, records, papers, writings, or documents in his custody in any case in which, pursuant to Executive order, Treasury decision, or part 601 of this chapter (Statement of Procedural Rules), such copies may be furnished to applicants only by the Commissioner.

(d) *Judicial notice.* In accordance with the provisions of section 7514, judicial notice shall be taken of the seals established under this section.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 6933, 32 FR 15483, Nov. 7, 1967; T.D. 6974, 33 FR 14779, Oct. 3, 1968; T.D. 7147, 36 FR 20510, Oct. 23, 1971; T.D. 8414, 57 FR 15015, Apr. 24, 1992; T.D. 8625, 60 FR 54945, Oct. 27, 1995]

§ 301.7515–1 Special statistical studies and compilations on request.

The Commissioner is authorized within his discretion, upon written request of any person and payment by such person of the cost of the work to be performed, to make special statistical studies and compilations involving data from returns, declarations, statements, or other documents required by the Code or regulations or from records established or maintained in connection with the administration and enforcement of the Code; to engage in any such special study or compilation jointly with the party or parties requesting it; and to furnish transcripts of any such study or compilation. The requests for services should be addressed to the Commissioner of Internal Revenue, Attention: PR, Washington, D.C. 20224. The requests should describe fully the nature of the study or compilation desired, giving detailed specifications for all tables to be prepared, and should include a general statement regarding the use to be made of the data requested.

§ 301.7516–1 Training and training aids on request.

The Commissioner is authorized, within his discretion, upon written request, to admit employees and officials of any State, the Commonwealth of Puerto Rico, any possession of the United States, any political subdivision or instrumentality of any of the foregoing, the District of Columbia, or any foreign government to training

courses conducted by the Internal Revenue Service, and to supply them with texts and other training aids. Requests for such training or training aids should be addressed to the Commissioner of Internal Revenue, Washington, D.C. 20224, Attention: A: T, except that requests involving officials or visitors of foreign governments should be addressed to the Commissioner of Internal Revenue, Washington, D.C. 20224. Attention: C: FA. The Commissioner may require payment from the party or parties making the request of a reasonable fee not to exceed the cost of the training and training aids supplied pursuant to such request.

§ 301.7517–1 Furnishing on request of statement explaining estate or gift valuation.

(a) *In general.* Section 7517 requires the Service to furnish to a taxpayer, at the request of that taxpayer, a statement explaining the estate, gift or generation-skipping transfer valuation of any item contained on a return filed by the taxpayer as to which a determination or proposed determination of value has been made. The request must be filed no later than the latest time to file a claim for refund of the tax which is dependent on the value with respect to which the determination has been made. The request should be filed with the district director's office that has jurisdiction over the return of the taxpayer.

(b) *Effective date*—(1) *Estates of decedents.* Section 7517 applies to estates of decedents dying after December 31, 1976.

(2) *Gifts.* Section 7517 applies to gifts made after December 31, 1976.

(3) *Generation-skipping transfer.* Section 7517 applies to any generation-skipping transfer subject to chapter 13.

[T.D. 7757, 46 FR 6930, Jan. 22, 1981]

Discovery of Liability and Enforcement of Title

EXAMINATION AND INSPECTION

§ 301.7601–1 Canvass of districts for taxable persons and objects.

Each district director shall, to the extent he deems it practicable, cause officers or employees under his supervision and control to proceed, from time to time, through his district and inquire after and concerning all persons therein who may be liable to pay any internal revenue tax, and all persons owning or having the care and management of any objects with respect to which any tax is imposed.

[T.D. 7297, 38 FR 34803, Dec. 19, 1973]

§ 301.7602–1 Examination of books and witnesses.

(a) *In general.* For the purpose of ascertaining the correctness of any return, making a return where none has been made, determining the liability of any person for any internal revenue tax (including any interest, additional amount, addition to the tax, or civil penalty) or the liability at law or in equity of any transferee or fiduciary of any person in respect of any internal revenue tax, collecting any such liability or inquiring into any offense connected with the administration or enforcement of the internal revenue laws, any authorized officer or employee of the Internal Revenue Service may examine any books, papers, records or other data which may be relevant or material to such inquiry; and take such testimony of the person concerned, under oath, as may be relevant to such inquiry.

(b) *Summons*—(1) *In general.* For the purposes described in § 301.7602–1(a), the Commissioner is authorized to summon the person liable for tax or required to perform the act, or any officer or employee of such person or any person having possession, custody, or care of books of accounts containing entries relating to the business of the person liable for tax or required to perform the act, or any other person deemed proper, to appear before one or more officers or employees of the Internal Revenue Service at a time and place named in the summons and to produce such books, papers, records, or other data, and to give such testimony, under oath, as may be relevant or material to such inquiry; and take such testimony of the person concerned, under oath, as may be relevant or material to such inquiry. This summons power may be used in an investigation of either civil or criminal tax-related

liability. The Commissioner may designate one or more officers or employees of the IRS as the individuals before whom a person summoned pursuant to section 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7602 shall appear. Any such officer or employee is authorized to take testimony under oath of the person summoned and to receive and examine books, papers, records, or other data produced in compliance with the summons.

(2) *Officer or employee of the IRS.* For purposes of this paragraph (b), officer or employee of the IRS means all officers and employees of the United States, who are engaged in the administration and enforcement of the internal revenue laws or any other laws administered by the IRS, and who are appointed or employed by, or subject to the directions, instructions, or orders of the Secretary of the Treasury or the Secretary's delegate. An officer or employee of the IRS, for purposes of this paragraph (b), shall include an officer or employee of the Office of Chief Counsel.

(3) *Participation of a person described in section 6103(n).* For purposes of this paragraph (b), a person authorized to receive returns or return information under section 6103(n) and § 301.6103(n)–1(a) of the regulations may receive and review books, papers, records, or other data produced in compliance with a summons and, in the presence and under the guidance of an IRS officer or employee, participate fully in the interview of a witness summoned by the IRS to provide testimony under oath. Fully participating in an interview includes, but is not limited to, receipt, review, and use of summoned books, papers, records, or other data; being present during summons interviews; questioning the person providing testimony under oath; and asking a summoned person's representative to clarify an objection or assertion of privilege.

(c) *Proscription on issuing of administrative summons when a Justice Department referral is in effect*—(1) *In general.* The Commissioner may neither issue a summons under this title nor initiate a proceeding to enforce a previously issued summons by way of section 7604 with respect to any person whose tax liability is in issue, if a Justice Department referral is in effect with respect to that person for that liability.

(2) *Justice Department referral in effect.* A Justice Department referral is in effect with respect to any person when:

(i) The Secretary recommends, within the meaning of this paragraph, that the Attorney General either commence a grand jury investigation of or criminal prosecution of such person for any alleged offense connected with the administration or enforcement of the internal revenue laws, or

(ii) The Attorney General (or Deputy Attorney General or Assistant Attorney General) under section 6103(h)(3)(B) requests in writing that the Secretary disclose a return of, or return information relating to, such person. The request must set forth that the need for disclosure is for the purpose of a grand jury investigation of or potential or pending criminal prosecution of such person for any alleged offense connected with the administration or enforcement of the internal revenue laws.

The referral is effective at the time the document recommending criminal prosecution or grand jury investigation is signed by the Secretary or upon the Secretary's receipt of the section 6103(h)(3)(B) request.

(3) *Cessation of Justice Department referral.* A Justice Department referral ceases to be in effect with respect to a person:

(i) When the Secretary receives written notification from the Attorney General that the Justice Department:

(A) Will not prosecute that person for any offense connected with the administration or enforcement of the internal revenue laws that gave rise to the referral under paragraph (2)(i) of this section, or

(B) Will not authorize a grand jury investigation of that person with respect to such offense, or

(C) Will discontinue any grand jury investigation of that person with respect to such offense;

(ii) When a final disposition with respect to a criminal proceeding brought against that person has been made; or

(iii) When the Secretary receives written notification from the Attorney General, Deputy Attorney General, or an Assistant Attorney General, that

the Justice Department will not prosecute such person for any offense connected with the administration or enforcement of the internal revenue laws, based upon a previous request for disclosure under section 6103(h)(3)(B).

(4) *Taxable years and taxes imposed by separate chapters of the Code treated separately*—(i) *In general.* For purposes of this section, each taxable period (or, if there is no taxable period, each taxable event) and each tax imposed by a separate chapter of the Code is treated separately.

(ii) *Examples.* The following examples illustrate the application of this paragraph (c)(4):

Example 1. A Justice Department referral is in effect for D's criminal evasion of income tax for the taxable year 1979. The Commission may issue a summons respecting D's 1980 criminal and/or civil tax liability. The Commissioner may not issue a summons respecting D's 1979 income tax liability.

Example 2. A referral has been made to the Department of Justice for the criminal prosecution of F with regard to F's income tax liability for the taxable year 1978. The Commissioner may issue a summons respecting F's gift tax liability for the taxable year 1978.

Example 3. A referral has been made to the Department of Justice for a grand jury investigation respecting G's 1980 income tax liability. The Commissioner may issue a summons related to an investigation of G's liability for Federal Insurance Contribution Act (FICA) taxes for the taxable year 1980.

Example 4. A referral has been made to the Department of Justice respecting J's criminal evasion of windfall profit tax for all quarters of the calendar year 1982. The Commissioner may issue a summons respecting J's liability for highway motor vehicle use tax covering the same periods.

Example 5. A referral has been made to the Department of Justice for a grand jury investigation respecting L's 1983 income tax liability. The Commissioner may issue a summons related to the investigation of L's liability under sections 6700 (abusive tax shelter promoter penalty) and 7408 of the Code for his conduct during 1983.

(d) *Applicability date.* This section is applicable after September 3, 1982, except for paragraphs (b)(1) and (2) of this section which are applicable on and after April 1, 2005 and paragraph (b)(3) of this section which applies to summons interviews conducted on or after July 14, 2016. For rules under paragraphs (b)(1) and (2) that are applicable to summonses issued on or after September 10, 2002 or under paragraph (b)(3) that are applicable to summons interviews conducted on or after June 18, 2014, see 26 CFR 301.7602–1T (revised as of April 1, 2016).

[T.D. 8091, 51 FR 23053, June 25, 1986, as amended by T.D. 9015, 67 FR 57331, Sept. 10, 2002; T.D. 9195, 70 FR 16711, Apr. 1, 2005; T.D. 9778, 81 FR 45414, July 14, 2016]

§ 301.7602–2 Third party contacts.

(a) *In general.* Subject to the exceptions in paragraph (f) of this section, no officer or employee of the Internal Revenue Service (IRS) may contact any person other than the taxpayer with respect to the determination or collection of such taxpayer's tax liability without giving the taxpayer reasonable notice in advance that such contacts may be made. A record of persons so contacted must be made and given to the taxpayer upon the taxpayer's request.

(b) *Third-party contact defined.* Contacts subject to section 7602(c) and this regulation shall be called ''third-party contacts.'' A third-party contact is a communication which—

(1) Is initiated by an IRS employee;

(2) Is made to a person other than the taxpayer;

(3) Is made with respect to the determination or collection of the tax liability of such taxpayer;

(4) Discloses the identity of the taxpayer being investigated; and

(5) Discloses the association of the IRS employee with the IRS.

(c) *Elements of third-party contact explained*—(1) *Initiation by an IRS employee*—(i) *Explanation*—(A) *Initiation.* An IRS employee initiates a communication whenever it is the employee who first tries to communicate with a person other than the taxpayer. Returning unsolicited telephone calls or speaking with persons other than the taxpayer as part of an attempt to speak to the taxpayer are not initiations of third-party contacts.

(B) *IRS employee.* For purposes of this section, an IRS employee includes all officers and employees of the IRS, the Chief Counsel of the IRS and the National Taxpayer Advocate, as well as a person described in section 6103(n), an officer or employee of such person, or a

person who is subject to disclosure restrictions pursuant to a written agreement in connection with the solicitation of an agreement described in section 6103(n) and its implementing regulations. No inference about the employment or contractual relationship of such other persons with the IRS may be drawn from this regulation for any purpose other than the requirements of section 7602(c).

(ii) *Examples*. The following examples illustrate this paragraph (c)(1):

Example 1. An IRS employee receives a message to return an unsolicited call. The employee returns the call and speaks with a person who reports information about a taxpayer who is not meeting his tax responsibilities. Later, the employee makes a second call to the person and asks for more information. The first call is not a contact initiated by an IRS employee. Just because the employee must return the call does not change the fact that it is the other person, and not the employee, who initiated the contact. The second call, however, is initiated by the employee and so meets the first element.

Example 2. An IRS employee wants to hire an appraiser to help determine the value of a taxpayer's oil and gas business. At the initial interview, the appraiser signs an agreement that prohibits him from disclosing return information of the taxpayer except as allowed by the agreement. Once hired, the appraiser initiates a contact by calling an industry expert in Houston and discusses the taxpayer's business. The IRS employee's contact with the appraiser does not meet the first element of a third-party contact because the appraiser is treated, for section 7602(c) purposes only, as an employee of the IRS. For the same reason, however, the appraiser's call to the industry expert does meet the first element of a third-party contact.

Example 3. A revenue agent trying to contact the taxpayer to discuss the taxpayer's pending examination twice calls the taxpayer's place of business. The first call is answered by a receptionist who states that the taxpayer is not available. The IRS employee leaves a message with the receptionist stating only his name and telephone number, and asks that the taxpayer call him. The second call is answered by the office answering machine, on which the IRS employee leaves the same message. Neither of these phone calls meets the first element of a third-party contact because the IRS employee is trying to initiate a communication with the taxpayer and not a person other than the taxpayer. The fact that the IRS employee must either speak with a third party (the receptionist) or leave a message on the answering machine, which may be heard by a third party, does not mean that the employee is initiating a communication with a person other than the taxpayer. Both the receptionist and the answering machine are only intermediaries in the process of reaching the taxpayer.

(2) *Person other than the taxpayer*—(i) *Explanation*. The phrases ''person other than the taxpayer'' and ''third party'' are used interchangeably in this section, and do not include—

(A) An officer or employee of the IRS, as defined in paragraph (c)(1)(i)(B) of this section, acting within the scope of his or her employment;

(B) Any computer database or website regardless of where located and by whom maintained, including databases or web sites maintained on the Internet or in county courthouses, libraries, or any other real or virtual site; or

(C) A current employee, officer, or fiduciary of a taxpayer when acting within the scope of his or her employment or relationship with the taxpayer. Such employee, officer, or fiduciary shall be conclusively presumed to be acting within the scope of his or her employment or relationship during business hours on business premises.

(ii) *Examples:* The following examples illustrate this paragraph (c)(2):

Example 1. A revenue agent examining a taxpayer's return speaks with another revenue agent who has previously examined the same taxpayer about a recurring issue. The revenue agent has not contacted a ''person other than the taxpayer'' within the meaning of section 7602(c).

Example 2. A revenue agent examining a taxpayer's return speaks with one of the taxpayer's employees on business premises during business hours. The employee is conclusively presumed to be acting within the scope of his employment and is therefore not a ''person other than the taxpayer'' for section 7602(c) purposes.

Example 3. A revenue agent examining a corporate taxpayer's return uses a commercial online research service to research the corporate structure of the taxpayer. The revenue agent uses an IRS account, logs on with her IRS user name and password, and uses the name of the corporate taxpayer in her search terms. The revenue agent later explores several Internet web sites that may have information relevant to the examination. The searches on the commercial online research service and Internet websites are

not contacts with ''persons other than the taxpayer.''

(3) *With respect to the determination or collection of the tax liability of such taxpayer*—(i) *Explanation*—(A) *With respect to.* A contact is ''with respect to'' the determination or collection of the tax liability of such taxpayer when made for the purpose of either determining or collecting a particular tax liability and when directly connected to that purpose. While a contact made for the purpose of determining a particular taxpayer's tax liability may also affect the tax liability of one or more other taxpayers, such contact is not for that reason alone a contact ''with respect to'' the determination or collection of those other taxpayers' tax liabilities. Contacts to determine the tax status of a pension plan under chapter 1, subchapter D (Deferred Compensation) of the Internal Revenue Code, are not ''with respect to'' the determination of plan participants'' tax liabilities. Contacts to determine the tax status of a bond issue under chapter 1, subchapter B, Part IV (Tax Exemption Requirements for State and Local Bonds) of the Internal Revenue Code, are not ''with respect to'' the determination of the bondholders' tax liabilities. Contacts to determine the tax status of an organization under chapter 1, subchapter F (Exempt Organizations) of the Internal Revenue Code, are not ''with respect to'' the determination of the contributors' liabilities, nor are any similar determinations ''with respect to'' any persons with similar relationships to the taxpayer whose tax liability is being determined or collected.

(B) *Determination or collection.* A contact is with respect to the ''determination or collection'' of the tax liability of such taxpayer when made during the administrative determination or collection process. For purposes of this paragraph (c) only, the administrative determination or collection process may include any administrative action to ascertain the correctness of a return, make a return when none has been filed, or determine or collect the tax liability of any person as a transferee or fiduciary under chapter 71 of title 26.

(C) *Tax liability.* A *tax liability* means the liability for any tax imposed by title 26 of the United States Code (including any interest, additional amount, addition to the tax, or penalty) and does not include the liability for any tax imposed by any other jurisdiction nor any liability imposed by other Federal statutes.

(D) *Such taxpayer.* A contact is with respect to the determination or collection of the tax liability of ''such taxpayer'' when made while determining or collecting the tax liability of a particular, identified taxpayer. Contacts made during an investigation of a particular, identified taxpayer are third-party contacts only as to the particular, identified taxpayer under investigation and not as to any other taxpayer whose tax liabilities might be affected by such contacts.

(ii) *Examples.* The following examples illustrate the operation of this paragraph (c)(3):

Example 1. As part of a compliance check on a return preparer, an IRS employee visits the preparer's office and reviews the preparer's client files to ensure that the proper forms and records have been created and maintained. This contact is not a third-party contact ''with respect to'' the preparer's clients because it is not for the purpose of determining the tax liability of the preparer's clients, even though the agent might discover information that would lead the agent to recommend an examination of one or more of the preparer's clients.

Example 2. A revenue agent is assigned to examine a taxpayer's return, which was prepared by a return preparer. As in all such examinations, the revenue agent asks the taxpayer routine questions about what information the taxpayer gave the preparer and what advice the preparer gave the taxpayer. As a result of the examination, the revenue agent recommends that the preparer be investigated for penalties under section 6694 or 6695. Neither the examination of the taxpayer's return nor the questions asked of the taxpayer are ''with respect to'' the determination of the preparer's tax liabilities within the meaning of section 7602(c) because the purpose of the contacts was to determine the taxpayer's tax liability, even though the agent discovered information that may result in a later investigation of the preparer.

Example 3. To help identify taxpayers in the florist industry who may not have filed proper returns, an IRS employee contacts a company that supplies equipment to florists and asks for a list of its customers in the past year in order to cross-check the list

against filed returns. The employee later contacts the supplier for more information about one particular florist who the employee believes did not file a proper return. The first contact is not a contact with respect to the determination of the tax liability of ''such taxpayer'' because no particular taxpayer has been identified for investigation at the time the contact is made. The later contact, however, is with respect to the determination of the tax liability of ''such taxpayer'' because a particular taxpayer has been identified. The later contact is also ''with respect to'' the determination of that taxpayer's liability because, even though no examination has been opened on the taxpayer, the information sought could lead to an examination.

Example 4. A revenue officer, trying to collect the trust fund portion of unpaid employment taxes of a corporation, begins to investigate the liability of two corporate officers for the section 6672 Trust Fund Recovery Penalty (TFRP). The revenue officer obtains the signature cards for the corporation's bank accounts from the corporation's bank. The contact with the bank to obtain the signature cards is a contact with respect to the determination of the two identified corporate officers' tax liabilities because it is directly connected to the purpose of determining a tax liability of two identified taxpayers. It is not, however, a contact with respect to any other person not already under investigation for TFRP liability, even though the signature cards might identify other potentially liable persons.

Example 5. The IRS is asked to rule on whether a certain pension plan qualifies under section 401 so that contributions to the pension plan are excludable from the employees' incomes under section 402 and are also deductible from the employer's income under section 404. Contacts made with the plan sponsor (and with persons other than the plan sponsor) are not contacts ''with respect to'' the determination of the tax liabilities of the pension plan participants because the purpose of the contacts is to determine the status of the plan, even though that determination may affect the participants' tax liabilities.

Example 6(a). The IRS audits a TEFRA partnership at the partnership (entity) level pursuant to sections 6221 through 6233. The tax treatment of partnership items is at issue, but the respective tax liabilities of the partners may be affected by the results of the TEFRA partnership audit. With respect to the TEFRA partnership, contacts made with employees of the partnership acting within the scope of their duties or any partner are not section 7602(c) contacts because they are considered the equivalent of contacting the partnership. Contacts relating to the tax treatment of partnership items made with persons other than the employees of the partnership who are acting within the scope of their duties or the partners are section 7602(c) contacts with respect to the TEFRA partnership, and reasonable advance notice should be provided by sending the appropriate Letter 3164 to the partnership's tax matters partner (TMP). Individual partners who are merely affected by the partnership audit but who are not identified as subject to examination with respect to their individual tax liabilities need not be sent Letters 3164.

Example 6(b). In the course of an audit of a TEFRA partnership at the partnership (entity) level, the IRS intends to contact third parties regarding transactions between the TEFRA partnership and specific, identified partners. In addition to the partnership's TMP, the specific, identified partners should also be provided advance notice of any third-party contacts relating to such transactions.

(4) *Discloses the identity of the taxpayer being investigated*—(i) *Explanation.* An IRS employee discloses the taxpayer's identity whenever the employee knows or should know that the person being contacted can readily ascertain the taxpayer's identity from the information given by the employee.

(ii) *Examples.* The following examples illustrate this paragraph (c)(4):

Example 1. A revenue agent seeking to value the taxpayer's condominium calls a real estate agent and asks for a market analysis of the taxpayer's condominium, giving the unit number of the taxpayer's condominium. The revenue agent has revealed the identity of the taxpayer, regardless of whether the revenue agent discloses the name of the taxpayer, because the real estate agent can readily ascertain the taxpayer's identity from the address given.

Example 2. A revenue officer seeking to value the taxpayer's condominium calls a real estate agent and, without identifying the taxpayer's unit, asks for the sales prices of similar units recently sold and listing prices of similar units currently on the market. The revenue officer has not revealed the identity of the taxpayer because the revenue officer has not given any information from which the real estate agent can readily ascertain the taxpayer's identity.

(5) *Discloses the association of the IRS employee with the IRS.* An IRS employee discloses his association with the IRS whenever the employee knows or should know that the person being contacted can readily ascertain the association from the information given by the employee.

(d) *Pre-contact notice*—(1) *In general.* An officer or employee of the IRS may

not make third-party contacts without providing reasonable notice in advance to the taxpayer that contacts may be made. The pre-contact notice may be given either orally or in writing. If written notice is given, it may be given in any manner that the IRS employee responsible for giving the notice reasonably believes will be received by the taxpayer in advance of the third-party contact. Written notice is deemed reasonable if it is—

(i) Mailed to the taxpayer's last known address;

(ii) Given in person;

(iii) Left at the taxpayer's dwelling or usual place of business; or

(iv) Actually received by the taxpayer.

(2) *Pre-contact notice not required.* Pre-contact notice under this section need not be provided to a taxpayer for third-party contacts of which advance notice has otherwise been provided to the taxpayer pursuant to another statute, regulation or administrative procedure. For example, Collection Due Process notices sent to taxpayers pursuant to section 6330 and its regulations constitute reasonable advance notice that contacts with third parties may be made in order to effectuate a levy.

(e) *Post-contact reports*—(1) *Requested reports.* A taxpayer may request a record of persons contacted in any manner that the Commissioner reasonably permits. The Commissioner may set reasonable limits on how frequently taxpayer requests need be honored. The requested report may be mailed either to the taxpayer's last known address or such other address as the taxpayer specifies in the request.

(2) *Contents of record*—(i) *In general.* The record of persons contacted should contain information, if known to the IRS employee making the contact, which reasonably identifies the person contacted. Providing the name of the person contacted fully satisfies the requirements of this section, but this section does not require IRS employees to solicit identifying information from a person solely for the purpose of the post-contact report. The record need not contain any other information, such as the nature of the inquiry or the content of the third party's response. The record need not report multiple contacts made with the same person during a reporting period.

(ii) *Special rule for employees.* For contacts with the employees, officers, or fiduciaries of any entity who are acting within the scope of their employment or relationship, it is sufficient to record the entity as the person contacted. A fiduciary, officer or employee shall be conclusively presumed to be acting within the scope of his employment or relationship during business hours on business premises. For purposes of this paragraph (e)(2)(ii), the term *entity* means any business (whether operated as a sole proprietorship, disregarded entity under § 301.7701–2 of the regulations, or otherwise), trust, estate, partnership, association, company, corporation, or similar organization.

(3) *Post-contact record not required.* A post-contact record under this section need not be made, or provided to a taxpayer, for third-party contacts of which the taxpayer has already been given a similar record pursuant to another statute, regulation, or administrative procedure.

(4) *Examples.* The following examples illustrate this paragraph (e):

Example 1. An IRS employee trying to find a specific taxpayer's assets in order to collect unpaid taxes talks to the owner of a marina. The employee asks whether the taxpayer has a boat at the marina. The owner gives his name as John Doe. The employee may record the contact as being with John Doe and is not required by this regulation to collect or record any other identifying information.

Example 2. An IRS employee trying to find a specific taxpayer and his assets in order to collect unpaid taxes talks to a person at 502 Fernwood. The employee asks whether the taxpayer lives next door at 500 Fernwood, as well as where the taxpayer works, what kind of car the taxpayer drives and whether the camper parked in front of 500 Fernwood belongs to the taxpayer. The person does not disclose his name. The employee may record the contact as being with a person at 502 Fernwood. If the employee then makes the same inquiries of another person on the street in front of 500 Fernwood, and does not learn that person's name, the latter contact may be reported as being with a person on the street in front of 500 Fernwood.

Example 3. An IRS employee examining a return obtains loan documents from a bank where the taxpayer applied for a loan. After reviewing the documents, the employee

talks with the loan officer at the bank who handled the application. The employee has contacted only one ''person other than the taxpayer.'' The bank and not the loan officer is the ''person other than the taxpayer'' for section 7602(c) purposes. The contact with the loan officer is treated as a contact with the bank because the loan officer was an employee of the bank and was acting within the scope of her employment with the bank.

Example 4. An IRS employee issues a summons to a third party with respect to the determination of a taxpayer's liability and properly follows the procedures for such summonses under section 7609, which requires that a copy of the summons be given to the taxpayer. This third-party contact need not be maintained in a record of contacts available to the taxpayer because providing a copy of the third-party summons to the taxpayer pursuant to section 7609 satisfies the post-contact recording and reporting requirement of this section.

Example 5. An IRS employee serves a levy on a third party with respect to the collection of a taxpayer's liability. The employee provides the taxpayer with a copy of the notice of levy form that shows the identity of the third party. This third-party contact need not be maintained in a record of contacts available to the taxpayer because providing a copy of the notice of levy to the taxpayer satisfies the post-contact recording and reporting requirement of this section.

(f) *Exceptions*—(1) *Authorized by taxpayer*—(i) *Explanation.* Section 7602(c) does not apply to contacts authorized by the taxpayer. A contact is ''authorized'' within the meaning of this section if—

(A) The contact is with the taxpayer's authorized representative, that is, a person who is authorized to speak or act on behalf of the taxpayer, such as a person holding a power of attorney, a corporate officer, a personal representative, an executor or executrix, or an attorney representing the taxpayer; or

(B) The taxpayer or the taxpayer's authorized representative requests or approves the contact.

(ii) *No prevention or delay of contact.* This section does not entitle any person to prevent or delay an IRS employee from contacting any individual or entity.

(2) *Jeopardy*—(i) *Explanation.* Section 7602(c) does not apply when the IRS employee making a contact has good cause to believe that providing the taxpayer with either a general pre-contact notice or a record of the specific person contacted may jeopardize the collection of any tax. For purposes of this section only, good cause includes a reasonable belief that providing the notice or record will lead to—

(A) Attempts by any person to conceal, remove, destroy, or alter records or assets that may be relevant to any tax examination or collection activity;

(B) Attempts by any person to prevent other persons, through intimidation, bribery, or collusion, from communicating any information that may be relevant to any tax examination or collection activity; or

(C) Attempts by any person to flee, or otherwise avoid testifying or producing records that may be relevant to any tax examination or collection activity.

(ii) *Record of contact.* If the circumstances described in this paragraph (f)(2) exist, the IRS employee must still make a record of the person contacted, but the taxpayer need not be provided the record until it is no longer reasonable to believe that providing the record would cause the jeopardy described.

(3) *Reprisal*—(i) *In general.* Section 7602(c) does not apply when the IRS employee making a contact has good cause to believe that providing the taxpayer with either a general pre-contact notice or a specific record of the person being contacted may cause any person to harm any other person in any way, whether the harm is physical, economic, emotional or otherwise. A statement by the person contacted that harm may occur against any person is sufficient to constitute good cause for the IRS employee to believe that reprisal may occur. The IRS employee is not required to further question the contacted person about reprisal or otherwise make further inquiries regarding the statement.

(ii) *Examples.* The following examples illustrate this paragraph (f)(3):

Example 1. An IRS employee seeking to collect unpaid taxes is told by the taxpayer that all the money in his and his brother's joint bank account belongs to the brother. The IRS employee contacts the brother to verify this information. The brother refuses to confirm or deny the taxpayer's statement. He states that he does not believe that reporting the contact to the taxpayer would result in harm to anyone but further states

that he does not want his name reported to the taxpayer because it would appear that he gave information. This contact is not excepted from the statute merely because the brother asks that his name be left off the list of contacts.

Example 2. Assume the same facts as in *Example 1*, except that the brother states that he fears harm from the taxpayer should the taxpayer learn of the contact, even though the brother gave no information. This contact is excepted from the statute because the third party has expressed a fear of reprisal. The IRS employee is not required to make further inquiry into the nature of the brothers' relationship or otherwise question the brother's fear of reprisal.

Example 3. An IRS employee is examining a joint return of a husband and wife, who recently divorced. From reading the court divorce file, the IRS employee learns that the divorce was acrimonious and that the ex-husband once violated a restraining order issued to protect the ex-wife. This information provides good cause for the IRS employee to believe that reporting contacts which might disclose the ex-wife's location may cause reprisal against any person. Therefore, when the IRS employee contacts the ex-wife's new employer to verify salary information provided by the ex-wife, the IRS employee has good cause not to report that contact to the ex-husband, regardless of whether the new employer expresses concern about reprisal against it or its employees.

(4) *Pending criminal investigations*—(i) *IRS criminal investigations.* Section 7602(c) does not apply to contacts made during an investigation, or inquiry to determine whether to open an investigation, when the investigation or inquiry is—

(A) Made against a particular, identified taxpayer for the primary purpose of evaluating the potential for criminal prosecution of that taxpayer; and

(B) Made by an IRS employee whose primary duties include either identifying or investigating criminal violations of the law.

(ii) *Other criminal investigations.* Section 7602(c) does not apply to contacts which, if reported to the taxpayer, could interfere with a known pending criminal investigation being conducted by law enforcement personnel of any local, state, Federal, foreign or other governmental entity.

(5) *Governmental entities.* Section 7602(c) does not apply to any contact with any office of any local, state, Federal or foreign governmental entity except for contacts concerning the taxpayer's business with the government office contacted, such as the taxpayer's contracts with or employment by the office. The term *office* includes any agent or contractor of the office acting in such capacity.

(6) *Confidential informants.* Section 7602(c) does not apply when the employee making the contact has good cause to believe that providing either the pre-contact notice or the record of the person contacted would identify a confidential informant whose identity would be protected under section 6103(h)(4).

(7) *Nonadministrative contacts*—(i) *Explanation.* Section 7602(c) does not apply to contacts made in the course of a pending court proceeding.

(ii) *Examples.* The following examples illustrate this paragraph (f)(7):

Example 1. An attorney for the Office of Chief Counsel needs to contact a potential witness for an upcoming Tax Court proceeding involving the 1997 and 1998 taxable years of the taxpayer. Section 7602(c) does not apply because the contact is being made in the course of a pending court proceeding.

Example 2. While a Tax Court case is pending with respect to a taxpayer's 1997 and 1998 income tax liabilities, a revenue agent is conducting an examination of the taxpayer's excise tax liabilities for the fiscal year ending 1999. Any third-party contacts made by the revenue agent with respect to the excise tax liabilities would be subject to the requirements of section 7602(c) because the Tax Court proceeding does not involve the excise tax liabilities.

Example 3. A taxpayer files a Chapter 7 bankruptcy petition and receives a discharge. A revenue officer contacts a third party in order to determine whether the taxpayer has any exempt assets against which the IRS may take collection action to enforce its federal tax lien. At the time of the contact, the bankruptcy case has not been closed. Although the bankruptcy proceeding remains pending, the purpose of this contact relates to potential collection action by the IRS, a matter not before or related to the bankruptcy court proceeding.

(g) *Effective Date.* This section is applicable on December 18, 2002.

[T.D. 9028, 67 FR 77421, Dec. 18, 2002]

§ 301.7603–1 Service of summons.

(a) *In general*—(1) *Hand delivery or delivery to place of abode.* Except as otherwise provided in paragraph (a)(2) of this

section, a summons issued under section 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7602 shall be served by an attested copy delivered in hand to the person to whom it is directed, or left at such person's last and usual place of abode.

(2) *Summonses issued to third-party recordkeepers.* A summons issued under section 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7602 for the production of records (or testimony about such records) by a third-party recordkeeper, as described in section 7603(b)(2) and § 301.7603–2, may also be served by certified or registered mail to the third-party recordkeeper's last known address, as defined in § 301.6212–2. If service to a third-party recordkeeper is made by certified or registered mail, the date of service is the date on which the summons is mailed.

(b) *Persons who may serve a summons.* The officers and employees of the Internal Revenue Service whom the Commissioner has designated to carry out the authority described in § 301.7602–1(b) to issue a summons are authorized to serve a summons issued under section 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7602.

(c) *Effect of certificate of service.* The certificate of service signed by the person serving the summons shall be evidence of the facts it states on the hearing of an application for the enforcement of the summons.

(d) *Sufficiency of description of summoned records.* When a summons requires the production of records, it shall be sufficient if such records are described with reasonable certainty.

(e) *Records.* For purposes of this section and § 301.7603–2, the term *records* includes books, papers, or other data.

(f) *Effective/applicability date.* This section is applicable on April 30, 2008.

[T.D. 9395, 73 FR 23344, Apr. 30, 2008]

§ 301.7603–2 Third-party recordkeepers.

(a) *Definitions*—(1) *Accountant.* A person is an accountant under section 7603(b)(2)(F) for purposes of determining whether that person is a third-party recordkeeper if, on the date the records described in the summons were created, the person was registered, licensed, or certified as an accountant under the authority of any state, commonwealth, territory, or possession of the United States, or of the District of Columbia.

(2) *Attorney.* A person is an attorney under section 7603(b)(2)(E) for purposes of determining whether that person is a third-party recordkeeper if, on the date the records described in the summons were created, the person was registered, licensed, or certified as an attorney under the authority of any state, commonwealth, territory, or possession of the United States, or of the District of Columbia.

(3) *Credit cards*—(i) *Person extending credit through credit cards.* The term *person extending credit through the use of credit cards or similar devices* under section 7603(b)(2)(C) generally includes any person who issues a credit card. The term does not include a seller of goods or services who honors credit cards issued by other parties but who does not extend credit through the use of credit cards or similar devices.

(ii) *Devices similar to credit cards.* An object is a device similar to a credit card under section 7603(b)(2)(C) only if it is physical in nature, such as a charge plate or similar device that may be tendered to obtain an extension of credit. Thus, a person who extends credit by requiring customers to sign sales slips without requiring the use of, or reference to, a physical object issued by that person is not a third-party recordkeeper under section 7603(b)(2)(C).

(iii) *Debit cards.* A debit card is not a credit card or similar device because a debit card is not tendered to obtain an extension of credit.

(4) *Enrolled agent.* A person is an enrolled agent under section 7603(b)(2)(I) for purposes of determining whether that person is a third-party recordkeeper if the person is enrolled as an agent authorized to practice before the Internal Revenue Service pursuant to Circular 230, 31 CFR Part 10.

(5) *Owner or developer of certain computer code and data.* An owner or developer of computer software source code under section 7603(b)(2)(J) is a third-party recordkeeper when summoned to produce a computer software source code (as defined in section 7612(d)(2)), or an executable code and associated data described in section 7612(b)(1)(A)(ii), even if that person did

not make or keep records of another person's business transactions or affairs.

(b) *When third-party recordkeeper status arises*—(1) *In general.* Except as provided in paragraph (a)(5) of this section, a person listed in section 7603(b)(2) is a third-party recordkeeper for purposes of section 7609(c)(2)(E) and § 301.7603–1 only if the summons served on that person seeks records (or testimony regarding such records) of a third party's business transactions or affairs and such recordkeeper made or kept the records in the capacity of a third-party recordkeeper. For instance, an accountant is not a third-party recordkeeper (by reason of being an accountant) with respect to the accountant's records of a sale of property by the accountant to another person. Similarly, a credit card issuer is not a third-party recordkeeper (by reason of being a person extending credit through the use of credit cards or similar devices) with respect to—

(i) Records relating to non-credit card transactions, such as a cash sale by the issuer to a holder of the issuer's credit card; or

(ii) Records relating to transactions involving the use of another issuer's credit card.

(2) *Examples.* The rules of paragraph (b)(1) of this section are illustrated by the following examples:

Example 1. V issues a credit card (the V card) that is honored by R, a retailer. When using the V card, C, a customer, signs a sales slip in triplicate. C, R, and V each retain one copy. Only the copy held by V is held by a third-party recordkeeper under section 7603(b)(2), even though R may issue its own credit card.

Example 2. R, a retailer, issues its own credit card (the R card) to C, a customer. When C makes a credit purchase from R using the R card, C signs a sales slip in duplicate. C and R each retain one copy. Because R keeps the copy in its capacity as credit card issuer, as well as in its capacity as a retailer, it is a third-party recordkeeper under section 7603(b)(2) with respect to its copy of the sales slip.

(c) *Effective/applicability date.* This section is applicable on April 30, 2008.

[T.D. 9395, 73 FR 23345, Apr. 30, 2008]

§ 301.7604–1 Enforcement of summons.

(a) *In general.* Whenever any person summoned under section 6420(e)(2), 6421(f)(2), or 7602 neglects or refuses to obey such summons, or to produce books, papers, records, or other data, or to give testimony, as required, application may be made to the judge of the district court or to a U.S. commissioner for the district within which the person so summoned resides or is found for an attachment against him as for a contempt.

(b) *Persons who may apply for an attachment.* The officers and employees of the Internal Revenue Service whom the Commissioner has designated to carry out the authority given him by § 301.7602–1(b) to issue a summons are authorized to apply for an attachment as provided in paragraph (a) of this section.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7297, 38 FR 34803, Dec. 19, 1973]

§ 301.7605–1 Time and place of examination.

(a) *Time and place of examination to be reasonable*—(1) *In general.* The time and place of examination pursuant to the provisions of sections 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7602 of the Internal Revenue Code are to be fixed by an officer or employee of the Internal Revenue Service, and officers and employees are to endeavor to schedule a time and place that are reasonable under the circumstances. This section sets forth general criteria for the Service to apply in determining whether a particular time and place for an examination are reasonable under the circumstances. Officers and employees should exercise sound judgment in applying these criteria to the circumstances at hand and should balance convenience of the taxpayer with the requirements of sound and efficient tax administration.

(2) *International examinations.* Except for the provisions of paragraph (b)(2) of this section, this section does not apply to examinations that fall under the jurisdiction of the Office of the Assistant Commissioner (International).

(3) *Criminal investigations.* Except for the provisions of paragraph (b)(2) of

this section, this section does not apply to criminal investigations.

(b) *Time of examination*—(1) *Date and time of examination*. It is reasonable for the Service to schedule the day (or days) for an examination during a normally scheduled workday (or workdays) of the Service, during the Service's normal business hours. It is reasonable for the Service to schedule examinations throughout the year, without regard to seasonal fluctuations in the businesses of particular taxpayers or their representatives. However, the Service will work with taxpayers or their representatives to try to minimize any adverse effects in scheduling the date and time of an examination.

(2) *Date of appearance when summons is used*. If a summons is issued under authority of section 7602(a)(2) of the Internal Revenue Code, or under the corresponding authority of sections 6420(e)(2), 6421(g)(2), or 6427(j)(2), the date fixed for appearance before an officer or employee of the Service must be no less than 10 days from the date of the summons.

(c) *Type of examination*—(1) *In general*. The Service will determine whether an examination will be an office examination (*i.e.*, an examination conducted at a Service office) or a field examination (*i.e.*, an examination conducted at the taxpayer's residence or place of business, or some other location that is not a Service office), based upon the complexity of the return and which form of examination will be more conducive to effective and efficient tax administration.

(2) *Office examination held in location other than Service office in case of clear need*. The Service will grant a request to hold an office examination at a location other than a Service office in a case of clear need, such as when it would be unreasonably difficult for the taxpayer to travel to a Service office because of the taxpayer's advanced age or infirm physical condition, or when the taxpayer's books, records, and source documents are too cumbersome for the taxpayer to bring to a Service office.

(d) *Place of examination*—(1) *In general*. The Service generally will make an initial determination of the place for an examination, including the Internal Revenue Service district to which an examination will be assigned, based upon the address shown on the return for the period selected for examination. Requests by taxpayers to transfer the place of examination will be resolved on a case-by-case basis, using the criteria set forth in paragraph (e) of this section.

(2) *Office examinations*—(i) *In general*. An office examination of an individual or sole proprietorship generally is based on the residence of the individual taxpayer. An office examination of a taxpayer that is an entity generally is based on the location where the taxpayer entity's original books, records, and source documents are maintained. An office examination generally will take place at the closest Service office within the district encompassing the taxpayer's residence or at the closest Service office within the district where the taxpayer entity's books, records, and source documents are maintained. It generally is not reasonable for the Service to require a taxpayer to attend an examination at an office within an assigned district other than the closest Service office.

(ii) *Exception*. If the office within the assigned district closest to an individual taxpayer's residence or the location where a taxpayer entity's books, records and source documents are maintained does not have an examination group or the appropriate personnel to conduct the examination, it generally is reasonable for the Service to require the taxpayer to attend an examination at the closest Service office within the assigned district that has an examination group or the appropriate personnel.

(iii) *Travel considerations*. In scheduling office examinations, the Service in appropriate circumstances will take into account the distance a taxpayer would have to travel.

(3) *Field examinations*—(i) *In general*. A field examination will generally take place at the location where the taxpayer's original books, records, and source documents pertinent to the examination are maintained. In the case of a sole proprietorship or taxpayer entity, this will usually be the taxpayer's principal place of business.

(ii) *Exception for certain small businesses.* If an examination is scheduled by the Service at the taxpayer's place of business and the taxpayer represents to the Service in writing that conducting the examination at the place of business would essentially require the business to close or would unduly disrupt business operations, the Service, upon verification, will change the place of examination to a Service office within the district where the taxpayer's books, records, and source documents are maintained.

(iii) *Site visitations.* Regardless of where an examination takes place, the Service may visit the taxpayer's place of business or residence to establish facts that can only be established by direct visit, such as inventory or asset verification. The Service generally will visit for these purposes on a normal workday of the Service during the Service's normal duty hours.

(e) *Requests by taxpayers to change place of examination*—(1) *In general.* The Service will consider, on a case-by-case basis, written requests by taxpayers or their representatives to change the place that the Service has set for an examination. In considering these requests, the Service will take into account the following factors—

(i) The location of the taxpayer's current residence;

(ii) The location of the taxpayer's current principal place of business;

(iii) The location at which the taxpayer's books, records, and source documents are maintained;

(iv) The location at which the Service can perform the examination most efficiently;

(v) The Service resources available at the location to which the taxpayer has requested a transfer; and

(vi) Other factors that indicate that conducting the examination at a particular location could pose undue inconvenience to the taxpayer.

(2) *Circumstances in which the Service normally will permit transfers.* A request by a taxpayer to transfer the place of examination will generally be granted under the following circumstances:

(i) *Office examination*—(A) If the current residence of the taxpayer, in the case of an individual or sole proprietorship, or the location where the taxpayer's books, records, and source documents are maintained, in the case of a taxpayer entity, is closer to a different Service office in the same district as the office where the examination has been scheduled, the Service normally will agree to transfer the examination to the closer Service office.

(B) If the current residence of a taxpayer, in the case of an individual or sole proprietorship, or the location where a taxpayer entity's books, records, and source documents are maintained, is in a district other than the district where the examination has been scheduled, the Service normally will agree to transfer the examination to the closest Service office in the other district.

(ii) *Field examinations*—(A) If a taxpayer does not reside at the residence where an examination has been scheduled, the Service will agree to transfer the examination to the taxpayer's current residence.

(B) If, in the case of an individual, a sole proprietorship, or a taxpayer entity, the taxpayer's books, records, and source documents are maintained at a location other than the location where the examination has been scheduled, the Service will agree to transfer the examination to the location where the taxpayer's books, records, and source documents are maintained.

(3) *Transfer for convenience of taxpayer's representative.* The location of the place of business of a taxpayer's representative will generally not be considered in determining the place for an examination. However, the Service in its sole discretion may determine, based on the factors described in paragraph (e)(1) of this section, to transfer the place of examination to the representative's office.

(4) *Transfer within thirteen months of expiration of limitations period.* If any applicable period of limitations on assessment or collection provided in the Internal Revenue Code will expire within thirteen months from the date of a taxpayer's request to transfer the place of an examination, the Service may require, as a condition for an otherwise permissible transfer, that the taxpayer first agree in writing to extend the limitations period for up to one year.

(5) *Transfer to office with insufficient resources*. The Service is not required to transfer an examination to an office or district that does not have adequate resources to conduct the examination.

(f) *Safety of Service officers and employees*. Notwithstanding any other provision of this regulation, officers and employees of the Service may decline to conduct an examination at a particular location if it appears that the possibility of physical danger may exist at that location. In these circumstances, the Service may transfer an examination to a Service office and take any other steps necessary to protect its officers and employees.

(g) *Transfers initiated by Service*. Nothing in this section shall be interpreted as precluding the Service from initiating the transfer of an examination if the transfer would promote the effective and efficient conduct of the examination. Should a taxpayer request that such a transfer not be made, the Service will consider the request according to the principles and criteria set forth in paragraph (e) of this section.

(h) *Restrictions on examination of taxpayer*. No taxpayer shall be subjected to unnecessary examination or investigations, and only one inspection of a taxpayer's books of account shall be made for each taxable year unless the taxpayer requests otherwise or unless an authorized internal revenue officer, after investigation, notifies the taxpayer in writing that an additional inspection is necessary. The inspection of a taxpayer's books of account pursuant to the procedures of § 1.1441–4(b) (3) and (4) is not an inspection of a taxpayer's books of account for purposes of section 7605(b) and this section.

(i) *Restriction on examination of churches*—(1) *In general*. This section imposes certain restrictions upon the examination of the books of account and religious activities of a church or convention or association of churches for the purpose of determining whether such organization may be engaged in activities the income from which is subject to tax under section 511 as unrelated business taxable income. The purposes of these restrictions are to protect such organizations from undue interference in their internal financial affairs through unnecessary examinations to determine the existence of unrelated business taxable income, and to limit the scope of examination for this purpose to matters directly relevant to a determination of the existence or amount of such income. This section also imposes additional restrictions upon other examinations of such organizations.

(2) *Books of account*. No examination of the books of account of an organization which claims to be a church or a convention or association of churches shall be made except after the giving of notice as provided in this subparagraph and except to the extent necessary (i) to determine the initial or continuing qualification of the organization under section 501(c)(3); (ii) to determine whether the organization qualifies as one, contributions to which are deductible under section 170, 545, 556, 642, 2055, 2106, or 2522; (iii) to obtain information for the purpose of ascertaining or verifying payments made by the organization to another person in determining the tax liability of the recipient, such as payments of salaries, wages, or other forms of compensation; or (iv) to determine the amount of tax, if any, imposed by the Code upon such organization. No examination of the books of account of a church or convention or association of churches shall be made unless the Regional Commissioner believes that such examination is necessary and so notifies the organization in writing at least 30 days in advance of examination. The Regional Commissioner will conclude that such examination is necessary only after reasonable attempts have been made to obtain information from the books of account by written request and the Regional Commissioner has determined that the information cannot be fully or satisfactorily obtained in that manner. In any examination of a church or convention or association of churches for the purpose of determining unrelated business income tax liability pursuant to such notice, no examination of the books of account of the organization shall be made except to the extent necessary to determine such liability.

(3) *Religious activities.* No examination of the religious activities of an organization which claims to be a church or convention or association of churches shall be made except (i) to the extent necessary to determine the initial or continuing qualification of the organization under section 501(c)(3); (ii) to determine whether the organization qualifies as one, contributions to which are deductible under section 170, 545, 556, 642, 2055, 2106, or 2522; or (iii) to determine whether the organization is a church or convention or association of churches subject to the provisions of part III of subchapter F of chapter 1. The requirements of subparagraph (2) of this paragraph that the Regional Commissioner give notice prior to examination of the books of account of an organization do not apply to an examination of the religious activities of the organization for any purpose described in this subparagraph. Once it has been determined that the organization is a church or convention or association of churches, no further examination of its religious activities may be made in connection with determining its liability, if any, for unrelated business income tax.

(4) *Effective date.* The provisions of this paragraph shall apply to audits and examinations of taxable years beginning after December 31, 1969.

(j) *Effective date.* Paragraphs (a) through (g) of this section, inclusive, are effective for examinations scheduled after April 2, 1993.

(Secs. 1441(c)(4) (80 Stat. 1553; 26 U.S.C. 1441(c)(4)), 3401(a)(6) (80 Stat. 1554; 26 U.S.C. 3401(a)(6)), and 7805 (68A Stat. 917; 26 U.S.C. 7805), Internal Revenue Code of 1954)

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7146, 36 FR 20599, Oct. 27, 1971; T.D. 7977, 49 FR 36836, Sept. 20, 1984; T.D. 8297, 55 FR 12346, Apr. 3, 1990; T.D. 8469, 58 FR 17519, Apr. 5, 1993]

§ 301.7606–1 Entry of premises for examination of taxable objects.

Any officer or employee of the Internal Revenue Service may, in the performance of his duty, enter in the daytime any building or place where any articles or objects subject to tax are made, produced, or kept, so far as it may be necessary for the purpose of examining said articles or objects and also enter at night any such building or place, while open, for a similar purpose.

[T.D. 7297, 38 FR 34804, Dec. 19, 1973]

§ 301.7609–1 Special procedures for third-party summonses.

(a) *In general*—(1) Section 7609 requires the Internal Revenue Service (IRS) to follow special procedures when summoning a third party's testimony, records, or computer software source code. Except as provided in § 301.7609–2(b), the IRS must provide notice of a third-party summons to any person identified in the summons, other than the person summoned. A person entitled to notice of a third-party summons may intervene in any proceeding brought to enforce the summons or may bring a proceeding to quash the summons, regardless of whether they receive notice of the summons from the IRS pursuant to section 7609(a) and § 301.7609–2.

(2) Neither section 7609 nor the regulations hereunder limit the IRS's ability to obtain information, other than by summons, through formal or informal procedures authorized by sections 7601 and 7602.

(b) *Cross references.* See § 301.7609–2 for rules relating to persons who must be notified of a third-party summons and exceptions to the notification requirements. See § 301.7609–3 for rules relating to the rights and duties of summoned parties. See § 301.7609–4 for rules relating to actions to quash a summons or to intervene in a summons enforcement proceeding. See § 301.7609–5 for rules relating to the suspension of periods of limitations.

(c) *Records.* For purposes of §§ 301.7609–1 through 301.7609–5, the term *records* includes books, papers, or other data.

(d) *Effective/applicability date.* This section is applicable on April 30, 2008.

[T.D. 9395, 73 FR 23345, Apr. 30, 2008]

§ 301.7609–2 Notification of persons identified in third-party summonses.

(a) *In general*—(1) *Persons entitled to notice.* Except as provided in § 301.7609–2(b), the Internal Revenue Service (IRS) shall give notice of a third-party

summons to any person, other than the person summoned, who is identified in the summons. The only persons so identified are the person with respect to whose liability the summons is issued and any other person identified in the description of summoned records or testimony. For example, if the IRS issues a summons to a bank with respect to the liability of C that requires the production of account records of A and B, both of whom are named in the summons, the IRS must notify A, B and C of the summons.

(2) *Time for providing notice.* If notice is required by this paragraph, such notice must be given within three days of the date on which the summons is served on the third party, but no later than 23 days prior to the date fixed in the summons as the date on which the examination of the summoned person or records is scheduled.

(3) *Methods for serving notice.* Notice may be served by hand delivery to any person entitled to notice or by leaving notice at such person's last and usual place of abode. Notice also may be served by certified or registered mail to the person's last known address, as defined in § 301.6212–2. If service to a person entitled to notice is made by certified or registered mail, the date of service is the date on which the notice is mailed.

(4) *Content of the notice.* Notice required to be given to any person entitled to notice must be accompanied by a copy of the summons that has been served and must include an explanation of the right to bring a proceeding to quash the summons. The copy of the summons accompanying the notice is not required to contain the attestation that appears pursuant to section 7603 on the copy of the summons served on the summoned person.

(b) *Exceptions.* The IRS is not required to provide notice to persons identified in the following third-party summonses:

(1) *Summons served on the taxpayer.* The IRS is not required to provide notice of a summons served on the person with respect to whose liability the summons was issued, or any officer or employee of such person.

(2) *Existence of records.* The IRS is not required to provide notice in the case of a summons issued to determine whether or not records of the business transactions or affairs of a person identified in the summons have been made or kept.

(3) *Numbered account or similar arrangement.* The IRS is not required to provide notice in the case of a summons issued solely to determine the identity of a person having a numbered account or similar arrangement with a bank or other institution. An account is a numbered account or similar arrangement within the meaning of this paragraph if it is an account through which a person may authorize transactions solely through the use of a number, symbol, code name, or other device not involving the disclosure of the person's identity. The term *person having a numbered account or similar arrangement* includes the person who opened the account and any person authorized to access the account or to receive records or statements concerning it.

(4) *Summonses in aid of the collection of liabilities*—(i) *In general.* The IRS is not required to provide notice in the case of a summons issued in aid of the collection of liabilities. A summons is in aid of the collection of liabilities within the meaning of this paragraph if it is issued in connection with the collection of—

(A) An assessment or judgment against the person with respect to whose liability the summons is issued; or

(B) The liability determined at law or in equity of any transferee or fiduciary of a person described in paragraph (b)(4)(i)(A) of this section.

(ii) *Examples.* The rules of paragraph (b)(4) of this section are illustrated by the following examples:

Example 1. A third-party summons is issued to a bank to determine the amount held in an account in the name of A, against whom unpaid income taxes have been assessed. Notice of the summons is not required to be given to A or any other persons identified in the summons because the summons is issued in connection with the collection of taxes that have been assessed.

Example 2. A third-party summons is issued to determine whether assessments should be made against A, who is potentially liable for a trust fund recovery penalty under section 6672 with respect to the assessed but unpaid

withholding tax liability of employer E. The summons is captioned: In the matter of A. Notice of the summons must be provided to A and to any other persons identified in the summons because the summons was issued with respect to A's potential, unassessed liability under section 6672.

(5) *Summonses issued by a criminal investigator*. The IRS is not required to provide notice in the case of a summons issued by a criminal investigator to a person other than a third-party recordkeeper, as defined in section 7603(b). For purposes of section 7609(c)(2)(E), a summons issued by a criminal investigator is any summons issued as part of a criminal investigation by an IRS officer or employee having authority to conduct a criminal investigation and to issue a summons.

(6) *John Doe summons*. The IRS is not required to provide notice in the case of a John Doe summons issued under section 7609(f).

(7) *Summons issued pursuant to a court order to prevent spoliation of evidence*. The IRS is not required to provide notice in the case of a summons for which a court determines there is reasonable cause to believe the giving of notice may lead to attempts to conceal, destroy, or alter records relevant to the examination, to prevent communication of information from other persons through intimidation, bribery, or collusion, or to flee to avoid prosecution, testifying, or production of records.

(c) *Effective/applicability date*. This section is applicable on April 30, 2008.

[T.D. 9395, 73 FR 23345, Apr. 30, 2008]

§ 301.7609–3 Duty of and protection for the summoned party.

(a) *Duty of the summoned party*. Upon receipt of a summons, the summoned party must begin to assemble the summoned records. The summoned party must be prepared to produce the summoned records on the date on which the summons states that they are to be examined, regardless of the institution or anticipated institution of a proceeding to quash or the summoned party's intervention in a proceeding to quash, as allowed under section 7609(b)(2)(C).

(b) *Disclosing summoned party not liable*—(1) *In general*. A summoned party, or an agent or employee thereof, who makes a disclosure of records or gives testimony as required by a summons in good faith reliance on the certificate of the Secretary (as defined in paragraph (b)(2) of this section) or an order of a court requiring production of records or giving of testimony, will not be liable for any claim arising from such disclosure brought by any customer, any party with respect to whose tax liability the summons was issued, or any other person.

(2) *Certificate of the Secretary*. The Secretary may issue to the summoned party a certificate if the person with respect to whose liability the summons was issued expressly consents to the examination of the records summoned and the taking of testimony. The Secretary also may issue to the summoned party a certificate stating that—

(i) The 20-day period within which a person entitled to notice of the summons may institute a proceeding to quash the summons has expired; and

(ii) No proceeding has been instituted within that period.

(c) *Reimbursement of costs*. Summoned third parties may be entitled to reimbursement of their costs of assembling and preparing to produce summoned records, to the extent allowed by section 7610 and § 301.7610–1.

(d) *Notification of suspension of periods of limitations in connection with a John Doe summons*—(1) *Requirement of notification*. If any periods of limitations are suspended under section 7609(e)(2) and § 301.7609–5(d) with respect to a John Doe summons described in section 7609(f), the summoned party is required under section 7609(i)(4) to provide notice of such suspension to all persons with respect to whose liability the summons was issued.

(2) *Content of notification*. A summoned party required to notify a person of the suspension of the periods of limitations shall provide the following information to such person—

(i) A John Doe summons was served on the summoned party seeking records that may be relevant to the person's tax liability;

(ii) The date on which the summons was served;

(iii) The tax period(s) to which the summons relates;

(iv) Six months have passed since service of the summons and the summoned party's response to the summons has not been finally resolved;

(v) The periods of limitations under section 6501 (relating to assessment and collection) and section 6531 (relating to criminal prosecution), have been suspended; and

(vi) The date on which suspension of the periods of limitations under sections 6501 and 6531 began.

(3) *Time and manner of notification.* The notification must be made in writing and may be delivered in person, by mail sent to the address last known by the summoned party, or by use of any electronic means of transmission. Notification should be made as soon as possible after the suspension of the periods of limitations begins. Failure by a summoned party to give notice of the suspension of periods of limitations as required by section 7609(i)(4) does not prevent the suspension of the periods of limitations under section 7609(e)(2).

(e) *Effective/applicability date.* This section is applicable on April 30, 2008.

[T.D. 9395, 73 FR 23345, Apr. 30, 2008]

§ 301.7609–4 Right to intervene; right to institute a proceeding to quash.

(a) *Intervention in proceeding with respect to enforcement of a summons.* Under section 7609(b)(1), a person entitled to notice of a summons under section 7609(a) and § 301.7609–2 is entitled to intervene in any proceeding brought under section 7604 with respect to the enforcement of that summons.

(b) *Right to institute a proceeding to quash*—(1) *In general.* Under section 7609(b), a person entitled to notice of a summons under section 7609(a) and § 301.7609–2 may institute a proceeding to quash the summons in the United States district court for the district in which the summoned person resides or is found.

(2) *Requirements for a proceeding to quash.* To institute a proceeding to quash a summons, a person entitled to notice of the summons must, not later than the 20th day following the day the notice of the summons was served on or mailed to such person—

(i) File a petition to quash a summons in the name of the person entitled to notice of the summons in the proper district court;

(ii) Notify the Internal Revenue Service (IRS) by sending a copy of that petition to quash by registered or certified mail to the IRS employee and office designated in the notice of summons to receive the copy; and

(iii) Notify the summoned person by sending by registered or certified mail a copy of the petition to quash to the summoned person.

(3) *Failure to give timely notice.* If a person entitled to notice of the summons fails to give proper and timely notice to either the summoned person or the IRS in the manner described in this paragraph, that person has failed to institute a proceeding to quash and the district court lacks jurisdiction to hear the proceeding. For example, if the person entitled to notice mails a copy of the petition to the summoned person, but fails to mail a copy of the petition to the designated IRS employee and office, the person entitled to notice has failed to institute a proceeding to quash. Similarly, if the person entitled to notice mails a copy of such petition to the summoned person but, instead of sending a copy of the petition by registered or certified mail to the designated IRS employee and office, the person entitled to notice provides the designated IRS employee and office the petition by some other means, the person entitled to notice has failed to institute a proceeding to quash.

(4) *Failure to institute a proceeding to quash.* If a person entitled to notice fails to institute a proceeding to quash within 20 days following the day the notice of the summons was served on or mailed to such person, the IRS may examine the summoned records and take summoned testimony following the 23rd day after notice of the summons was served on or mailed to the person entitled to notice.

(c) *Presumption no notice has been mailed.* Section 7609(b)(2)(B) permits a person entitled to notice to institute a proceeding to quash by filing a petition in district court and notifying both the IRS and the summoned person. Unless the person entitled to notice has notified both the IRS and the summoned person in the appropriate manner, the

person entitled to notice has failed to institute a proceeding to quash. For the purpose of permitting the IRS to examine the summoned witnesses and records, it is presumed that the notification was not timely mailed if the copy of the petition was not delivered to the summoned person or to the person and office designated to receive the notice on behalf of the IRS within three days after the close of the 20-day period allowed for instituting a proceeding to quash.

(d) *Effective/applicability date.* This section is applicable on April 30, 2008.

[T.D. 9395, 73 FR 23345, Apr. 30, 2008]

§ 301.7609–5 Suspension of periods of limitations.

(a) *In general.* Except in the case of a summons that is a designated or related summons described in section 6503(j), the following rules relating to the suspension of certain periods of limitations apply to all third-party summonses subject to the notice requirements of section 7609(a) and to all John Doe summonses subject to the requirements of section 7609(f).

(b) *Intervention in an action to enforce the summons*—(1) In general. If a person entitled to notice of a summons under section 7609(a) and § 301.7609–2 with respect to whose liability the summons was issued, or such person's agent, nominee, or other person acting under the direction or control of the person entitled to notice, takes any action to intervene in a proceeding with respect to enforcement of such summons brought pursuant to section 7604, that person's periods of limitations under sections 6501 (relating to assessment and collection) and 6531 (relating to criminal prosecutions) for the tax period or periods that are the subject of the summons are suspended for the period during which such proceeding is pending.

(2) *Action to intervene.* A person entitled to notice takes any action to intervene in a proceeding to enforce a summons within the meaning of § 301.7609–4(a) on the date when a motion to intervene is filed with the court.

(c) *Institution of a proceeding to quash a summons*—(1) *In general.* If a person entitled to notice of a summons under section 7609(a) and § 301.7609–2 with respect to whose liability the summons was issued, or such person's agent, nominee, or other person acting under the direction or control of such person, takes any action described in § 301.7609–4(b) to institute a proceeding to quash such summons, that person's periods of limitations under sections 6501 and 6531 for the tax period or periods that are the subject of the summons are suspended for the period during which such proceeding is pending.

(2) *Action to institute a proceeding to quash a summons.* A person entitled to notice takes any action to institute a proceeding to quash if he or she files a petition to quash the summons in any district court, regardless of whether the timely filing requirements of section 7609(b)(2)(A) or the notice requirements of section 7609(b)(2)(B) are satisfied. For example, a person entitled to notice takes an action to institute a proceeding to quash a summons for purposes of this section if that person files a petition to quash the summons in district court and notifies the summoned person by sending a copy of the petition by registered or certified mail, but fails to mail a copy of that notice to the appropriate Internal Revenue Service (IRS) person and office.

(d) *Summoned party's failure to finally resolve the response to a summons after six months from service*—(1) *In general.* If a third party's response to a summons for which the IRS was required to provide notice to persons identified in the summons, or to a John Doe summons described in section 7609(f), is not finally resolved within six months after the date of service of the summons, the periods of limitations are suspended under sections 6501 and 6531, for the person with respect to whose liability the summons was issued and for any person whose identity is sought to be obtained by a John Doe summons, for the tax period or periods that are the subject of the summons. The suspension shall begin on the date which is six months after the service of the summons and shall end on the date on which there is a final resolution of the summoned party's response to the summons.

(2) *Example*. The rules of paragraph (d)(1) of this section are illustrated by the following example:

A John Doe summons is issued on April 1, 2004, to the promoter of a tax shelter and seeks the names of all participants in the shelter in order to investigate the participants' income tax liabilities for 2001 and 2002. The district court approves service of the summons on April 30, 2004, and the summons is served on the promoter on May 3, 2004. The promoter does not provide the names of the participants. The periods of limitations for the participants' income tax liabilities and criminal prosecution for 2001 and 2002 are suspended under section 7609(e)(2) beginning on November 3, 2004, the date which is six months after the date the John Doe summons was served until the date on which the promoter's response to the summons is finally resolved.

(e) *Definitions*—(1) *Agent, nominee, etc.* A person is the agent, nominee, or other person of a person entitled to notice under section 7609(a) and § 301.7609–2, and is acting under the direction or control of the person entitled to notice for purposes of section 7609(e)(1), if the person entitled to notice has the ability in fact or at law to cause the agent, nominee or other person, to take the actions permitted under section 7609(b).

(2) *Period during which a proceeding is pending*—(i) *Intervention in an enforcement proceeding*. The period during which the periods of limitations under sections 6501 and 6531 are suspended under section 7609(e)(1) begins on the date any person described in paragraph (b) of this section intervenes in an action to enforce the summons. The periods of limitations remain suspended until all appeals are disposed of, or until the expiration of the period during which an appeal may be taken or a request for further review may be made. The periods of limitations remain suspended for the period during which a proceeding is pending, regardless of compliance (or partial compliance) with the summons during that period. If, following issuance of an order to enforce a third-party summons, a collateral proceeding is brought challenging whether production made by the summoned party fully satisfied the court order and whether sanctions should be imposed against the summoned party for a failure to satisfy that order, the periods of limitations remain suspended until all appeals of the collateral proceeding are disposed of, or until the expiration of the period during which an appeal may be taken or a request for further review of the collateral proceeding may be made. Any collateral proceeding to the original proceeding shall be considered to be a continuation of the original proceeding.

(ii) *Proceeding to quash a summons*. The period during which the periods of limitations under sections 6501 and 6531 are suspended under section 7609(e)(1) begins on the date any person described in paragraph (c) of this section files a petition to quash the summons in district court. The periods of limitations remain suspended until all appeals are disposed of, or until expiration of the period in which an appeal may be taken or a request for further review may be made. The periods of limitations remain suspended for the period during which a proceeding is pending, regardless of compliance (or partial compliance) with the summons during that period.

(iii) *Examples*. The rules of paragraph (e)(2) are illustrated by the following examples:

Example 1. A revenue agent issues a summons to A, an accountant for B, requiring production of records relating to B's income tax liabilities for 2002. The summons is served on A on March 1, 2004. B files a petition to quash the summons in district court on March 15, 2004. The district court dismisses B's petition on July 1, 2004. B fails to appeal this decision by filing a notice of appeal within 60 days from the date of the district court's order of dismissal. The revenue agent notifies A that B did not appeal the district court's order. A turns over all of the records requested in the summons. The periods of limitations applicable to B for 2002 under sections 6501 and 6531 are suspended under section 7609(e)(1) from March 15, 2004, the date B filed a petition to quash, until August 30, 2004, the last day on which B could have filed a notice of appeal.

Example 2. A revenue agent issues a summons to A, an accountant for B, requiring production of records relating to B's income tax liabilities for 2003. The summons is served on A on June 1, 2005. B files an untimely petition to quash the summons in district court on June 29, 2005. The district court dismisses B's petition on July 29, 2005. B does not file an appeal of the district court's order. The periods of limitations applicable to B for 2003 under sections 6501 and

6531 are suspended under section 7609(e)(1) from June 29, 2005, the date B filed an untimely petition to quash, until September 27, 2005, the last day on which B could have filed a notice of appeal.

(3) *Final resolution of the summoned third party's response to a summons.* For purposes of section 7609(e)(2)(B), final resolution with respect to a summoned party's response to a third-party summons occurs when the summons or any order enforcing any part of the summons is fully complied with and all appeals or requests for further review are disposed of, the period in which an appeal may be taken has expired or the period in which a request for further review may be made has expired. The determination of whether there has been full compliance will be made within a reasonable time, given the volume and complexity of the records produced, after the later of the giving of all testimony or the production of all records requested by the summons or required by any order enforcing any part of the summons. If, following an enforcement order, collateral proceedings are brought challenging whether the production made by the summoned party fully satisfied the court order and whether sanctions should be imposed against the summoned party for a failing to do so, the suspension of the periods of limitations shall continue until the summons or any order enforcing any part of the summons is fully complied with and the decision in the collateral proceeding becomes final. A decision in a collateral proceeding becomes final when all appeals are disposed of, the period in which an appeal may be taken has expired or the period in which a request for further review may be made has expired.

(f) *Effective/applicability date.* This section is applicable on *April 30, 2008.*

[T.D. 9395, 73 FR 23345, Apr. 30, 2008]

§ 301.7610–1 Fees and costs for witnesses.

(a) *Introduction.* Section 7610 provides that the Internal Revenue Service may make payments to certain persons who are asked to give information to the Service. Under section 7610 witnesses generally will not be reimbursed for actual expenses incurred but instead will be paid in accordance with the payment rates established by regulations. Paragraph (b) of this section contains elaborations of certain terms found in section 7610 and definitions of other terms used in the regulations under section 7610(a)(b); and paragraphs (c) and (d) contain rules and rates applicable to payments under section 7610. Section 7610 and its regulations are effective for summonses issued after February 28, 1977, except as otherwise provided.

(b) *Definitions*—(1) Directly incurred costs. Directly incurred costs are costs incurred solely, immediately, and necessarily as a consequence of searching for, reproducing, or transporting records in order to comply with a summons. They do not include a proportionate allocation of fixed costs, such as overhead, equipment depreciation, etc. However, where a third party's records are stored at an independent storage facility that charges the third party a search fee to search for, reproduce, or transport particular records requested, these fees are considered to be directly incurred by the summoned third party.

(2) *Reproduction cost.* Reproduction costs are costs incurred in making copies or duplicates of summoned documents, transcripts, and other similar material.

(3) *Search costs.* Search costs include only the total-cost of personnel time directly incurred in searching for records or information and the cost of retrieving information stored by computer. Salaries of persons locating and retrieving summoned material are not includible in search costs. Also, search costs do not include salaries, fees, or similar expenditures for analysis of material or for managerial or legal advice, expertise, or research, or time spent for these activities.

(4) *Third party.* A third party is any person served with a summons, other than a person with respect to whose liability a summons is issued, or an officer, employee, agent, accountant, or attorney of that person.

(5) *Third party records.* Third party records are books, papers, records, or other data in which the person with respect to whose liability a summons is

issued does not have a proprietary interest at the time the summons is served.

(6) *Transportation costs.* Transportation costs include only costs incurred to transport personnel to search for records or information requested and costs incurred solely by the need to transport the summoned material to the place of examination. These costs do not include the cost of transporting the summoned witness for appearance at the place of examination. See paragraph (c)(2) of this section for payment of travel expenses.

(c) *Conditions and rates of payments*—(1) *Basis for payment.* Payment for search, reproduction, and transportation costs will be made only to third parties served with a summons to produce third party records or information and only for material requested by the summons. Payment will be made only for these costs that are both directly incurred and reasonably necessary. Search, reproduction, and transportation costs must be considered separately in determining whether costs are reasonably necessary. No payment will be made until the third party has satisfactorily complied with the summons and has submitted an itemized bill or invoice showing specific details concerning the costs to the Internal Revenue Service employee before whom the third party was summoned. If a third party charges any other person for any cost for which the third party is seeking payment from the Service, the amount charged to the other person must be subtracted from the amount the Internal Revenue Service must pay.

(2) *Payment rates.* The following rates are established.

(i) *Search costs.* (A) For the total amount of personnel time required to locate records or information, $8.50 per person hour for summonses issued after July 19, 1983. For summonses issued on or before such date, $5.00 per person hour.

(B) For retrieval of information stored by computer in the format in which it is normally produced, actual costs, based on computer time and necessary supplies, except that personnel time for computer search is payable only under subparagraph (2)(i)(A) of this paragraph.

(ii) *Reproductions costs.* (A) For copies of documents $.20 per page for summonses issued after July 19, 1983. For copies of documents issued on or before such date, $.10 per page.

(B) For photographers, films and other materials, actual cost, except that personnel time is payable only under subparagraph (2)(i)(A) of this paragraph.

(iii) *Transportation costs.* For transportation costs, actual cost, except that personnel time is payable only under subparagraph (2)(i)(A) of this paragraph.

(d) *Appearance fees and allowances*—(1) In general. Under section 7610(a)(1) and this paragraph, the Service shall pay a summoned person certain fees and allowances. No payments will be made until after the party summoned appears and has submitted any necessary receipts or other evidence of costs to the Service employee before whom the person was summoned. This paragraph is effective with respect to appearances made after October 26, 1978.

(2) *Attendance fees.* A summoned person shall be paid an attendance fee for each day's attendance. A summoned person shall also be paid the attendance fee for the time necessarily occupied in going to and returning from the place of attendance at the beginning and end of the attendance or at any time during the attendance. The attendance fee is the higher of $30 per day or the amount paid under 28 U.S.C. 1821(b) to witnesses in attendance at courts of the United States at the time of the summoned person's appearance.

(3) *Travel allowances.* A summoned person who travels by common carrier shall be paid for the actual expenses of travel on the basis of the means of transportation reasonably utilized and the distance necessarily traveled to and from the summoned person's residence by the shortest pratical route in going to and returning from the place of attendance. Such a summoned person shall utilize a common carrier at the most economical rate reasonably available. A receipt or other evidence of actual cost shall be furnished. A travel allowance equal to the mileage

allowance which the Administrator of General Services has prescribed, under 5 U.S.C. 5704, for offical travel of employees of the Federal Government shall be paid to each summoned person who travels by privately owned vehicle. That rate is $.20 per mile as of April 20, 1980. Computation of mileage under this paragraph shall be made on the basis of a uniform table of distances adopted by the Administrator of General Services. Toll charges for toll roads, bridges, tunnels, and ferries, taxicab fares between places of lodging and carrier terminals, and parking fees (upon presentation of a valid parking receipt) shall be paid in full to a summoned person incurring those expenses.

(4) *Subsistence allowances.* A subsistence allowance shall be paid to a summoned person (other than a summoned person who is incarcerated) when an overnight stay is required at the place of attendance because the place is so far removed from the residence of the summoned person as to prohibit return thereto from day to day. A subsistence allowance for a summoned person shall be paid in an amount not to exceed the maximum per diem allowance prescribed by the Administrator of General Services, under 5 U.S.C. 5702(a), for official travel in the area of attendance by employees of the Federal Government. As of April 30, 1979, that maximum per diem allowance is $35 per day. A subsistence allowance for a summoned person attending in an area designated by the Administrator of General Services as a high-cost area shall be paid in an amount not to exceed the maximum actual subsistence allowance prescribed by the Administrator, under 5, U.S.C. 5702(c)(B), for official travel in that area by employees of the Federal Government. As of April 30, 1979, maximum rates of up to $50 per day have been prescribed by the Administrator for certain areas. An alien who has been paroled into the United States for prosecution, under section 212 (d)(5) of the Immigration and Nationality Act (8 U.S.C. 1182(d)(5)), or an alien who either has admitted belonging to a class of aliens who are deportable or has been determined under section 242(b) of that Act (8 U.S.C. 1252(b)) to be deportable, shall be ineligible to receive the fees or allowances provided for under section 7610(a)(1).

(Secs. 7610(a) and 7805 of the Internal Revenue Code of 1954 (26 U.S.C. 7610(a) and 7805))

[T.D. 7899, 48 FR 32773, July 19, 1983; 48 FR 36449, Aug. 11, 1983]

§ 301.7611–1 Questions and answers relating to church tax inquiries and examinations.

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CHURCH TAX INQUIRY

Q-1: When may the Internal Revenue Service begin an inquiry of a church's tax liability?

A-1: Under section 7611 of the Internal Revenue Code, the Internal Revenue Service may begin a church tax inquiry only when the appropriate Regional Commissioner (or higher Treasury official) reasonably believes, on the basis of facts and circumstances recorded in writing, that the organization (1) may not qualify for tax exemption as a church; (2) may be carrying on an unrelated trade or business (within the meaning of section 513); or (3) may be otherwise engaged in activities subject to tax. Information received by the Internal Revenue Service at its request may not be used to form the basis of a reasonable belief to begin a church tax inquiry, unless the Service's request is made within the procedures of section 7611, is a request permitted by these questions and answers to be made without application of the procedures of section 7611, or is a request to which the procedures of section 7611 do not apply.

Q-2: What is a church tax inquiry within the meaning of section 7611?

A-2: A church tax inquiry is any inquiry to a church (other than a routine request described in Q and A-4, an inquiry described in Q and A-5, an investigation described in Q and A-6 or an examination described in Qs and As 10 and 14), to serve as a basis for determining whether the organization qualifies for tax exemption as a church or whether it is carrying on an unrelated trade or business or is otherwise engaged in activities subject to tax. An inquiry is considered to commence when the Internal Revenue Service requests information or materials from a church of a type contained in church records. The term ''church tax inquiry'' does not include routine requests for information or inquiries regarding matters which do not primarily concern the tax status or liability of the church itself. See Q and A-4 with respect to routine requests regarding, among other things, withholding responsibilities for income tax or FICA (social security) tax liabilities. See Q and A-6 with respect to the types of investigations, other than routine requests, that are outside the scope of the procedures of section 7611. See Q and A-5 with respect to requests for third party records that are outside the scope of the procedures of section 7611.

Q-3: What is a ''church'' for purposes of the church tax inquiry and examination procedures of section 7611?

A-3: Solely for purposes of applying the procedures of section 7611, and as used in these questions and answers, the term ''church'' includes any organization claiming to be a church and any convention or association of churches. For purposes of the procedures of section 7611 and these questions and answers a church does not include separately incorporated church-supported schools or other organizations incorporated separately from the church.

ROUTINE REQUESTS

Q-4: What is a routine request to a church that is outside the scope of and does not necessitate application of the procedures set forth in section 7611?

A-4: Routine requests to a church will not be considered to commence a church tax inquiry and will not necessitate application of the procedures set forth in section 7611. Routine requests for this purpose include (but are not limited to) questions regarding (1) the filing or failure to file any tax return or information return by the church; (2) compliance with income tax or FICA (social security) tax withholding responsibilities by the church; (3) any supplemental information needed to complete the mechanical processing of any incomplete or incorrect return filed by the church; (4) information necessary to process applications for exempt status and letter ruling requests; (5) information necessary to process and update periodically a church's (i) registrations for tax-free transactions (excise tax), (ii) elections for exemption from windfall profit tax, or (iii) employment tax exemption requests; (6) information identifying a church that is used to update the Cumulative List of Tax Exempt Organizations (Publication No. 78) and other computer files; and (7) confirmation that a specific business is or is not owned or operated by a church.

THIRD PARTY RECORDS

Q-5: To what extent may the Internal Revenue Service gain access to third party records?

A-5: The Internal Revenue Service may request a church to provide information necessary to locate third-party records (for instance, bank records), including information regarding the church's chartered name, state and year of incorporation, and location of checking and savings accounts, without application of the procedures of section 7611.

Records (for instance, cancelled checks or other records in the possession of a bank) held by third party recordkeepers, as defined in section 7609, are not considered church records. Thus, subject to the provisions set forth in section 7609 regarding third party summonses, access is permitted to such records without regard to the requirements of the procedures set forth in section 7611. The Internal Revenue Service is generally required, under other rules, to inform a church

of any Internal Revenue Service requests for materials.

Third party materials may be acquired without application of the procedures of section 7611; however, a determination that a church is not entitled to an exemption, or an assessment of tax for unrelated business income against a church, may not be made solely on the basis of third party records, without first complying with the requirements of two notices and offering of a conference (see Qs and As 9 and 10) pursuant to the procedures set forth in section 7611. This limitation does not apply to assessments of tax other than income tax resulting from loss of exemption or for unrelated business income (for instance, assessments of social security or other employment taxes). Third party bank records will not be used in a manner inconsistent with the procedures set forth in section 7611 or in these questions and answers.

SCOPE OF SECTION 7611

Q-6: What types of investigations, other than routine requests and requests for information necessary to locate and examine third party records, and examination of those records, are outside the scope of the procedures of section 7611?

A-6: The church inquiry and examination procedures described in section 7611 do not apply to (1) any inquiry or examination relating to the tax liability of any person other than a church; (2) any termination assessment under section 6851 or 6852, or jeopardy assessment under section 6861; or (3) any case involving a knowing failure to file a return or a willful attempt to defeat or evade tax (including but not limited to any case involving a failure by the church to withhold or pay social security or other employment taxes or income tax required to be withheld from wages). Additionally, the church inquiry and examination procedures do not apply to any criminal investigations.

The church tax inquiry and examination procedures also do not apply to inquiries or examinations which relate primarily to the tax status (including, but not limited to, social security or self-employment tax or income tax required to be withheld from wages) or liability of persons other than the church (including, but not limited to, the tax status or liability of a contributor or contributors to the church), rather than the tax status or liability of the church itself. These may include, but are not limited to: (1) inquiries or examinations regarding the inurement of church funds to a particular individual or individuals or to another organization, which may result in the denial of all or part of such individual's or organization's deduction for charitable contributions to a church; (2) inquiries or examinations regarding the assignment of income or services or contributions to a church; and (3) inquiries or examinations regarding a vow of poverty by an individual or individuals followed by a transfer of property or an assignment of income or services to a church. Inquiries may be made to a church regarding these matters without being considered to have commenced a church tax inquiry under section 7611, and an examination of church records may be made relating to these issues (including enforcement of a summons for access to such records) without application of the requirements contained in section 7611 applicable to church tax inquiries and examinations. Such examinations are subject to the general rules regarding examinations of taxpayer books and records.

Q-7: What action may be taken if the church or its agents fail to respond to routine requests, or questions regarding other individuals' or organizations' tax liabilities?

A-7: Repeated (two or more) failures by a church or its agents to reply to routine requests (see Q and A-4) will be considered by the appropriate Internal Revenue Service Regional Commissioner to be a reasonable basis for commencement of a church tax inquiry under the church tax inquiry and examination procedures of section 7611. The failure of a church to respond to repeated requests for information regarding individuals' or other organizations' tax liabilities (see Q and A-6) will be considered a reasonable basis for commencement of a church tax inquiry. Failure by a church to provide information necessary to locate third-party records (see Q and A-5) will be a

factor, but not a conclusive factor, in determining if there is reasonable cause for commencing a church tax inquiry. For this purpose, a failure to respond to a request means either that no response has been made or that the response does not make a reasonable attempt to submit the information called for by the specific language of the request.

Q-8: Where an inquiry or examination is outside the scope of and does not necessitate application of the procedures of section 7611, what are the limitations on the Internal Revenue Service's actions?

A-8: Inquiries or examinations which are outside the scope of the procedures of section 7611 and therefore are conducted without application of the procedures of section 7611 (for instance, those addressed in Q and A-6) will be limited to the determination of facts and circumstances specifically relating to the tax liabilities of the individuals or other organizations in question. For example, in a case against an individual or other organization, information may be requested or church records examined, if pertinent, regarding amounts of money, property, or services transferred to the individual or individuals in question (including, but not limited to wages, loans, or noncontractual transfers), the use of church funds for personal expenses, or other similar matters, without having to follow the church tax inquiry and examination procedures. As one example, in an assignment of income case against an individual or other organization, information could be requested or church records examined if relevant to an individual's assignment of particular income, donation of property, or transfer of a business to a church. However, without following the church tax inquiry and examination procedures, no examination of a contributor or membership list in the possession of the church will be made, other than under the applicable procedures of section 7611, for the purpose of determining the overall financial structure of the church, merely because such structure was relevant to the church's qualification as a tax-exempt entity and therefore indirectly relevant to the validity of contributors' deductions in general. Inquiries or examinations regarding individuals' or other organizations' tax liabilities will not be used in a manner inconsistent with the procedures set forth in section 7611 or in these questions and answers.

NOTICE REQUIREMENTS

Q-9: What satisfies the inquiry notice requirement (first notice) upon commencement of a church tax inquiry?

A-9: Upon commencing a church tax inquiry, the appropriate Regional Commissioner is required to provide written notice to the church of the beginning of the inquiry. This notice will include (1) an explanation of the concerns which gave rise to the inquiry and the general subject matter of the inquiry, which is sufficiently specific to allow the church to understand the particular area of church activities or behavior which is at issue; (2) a general explanation of the provisions of the Internal Revenue Code which authorize the inquiry or which may otherwise be involved in the inquiry; and (3) a general explanation of applicable administrative and constitutional provisions with respect to the inquiry, including the right to a conference with the Internal Revenue Service before an examination of church records is commenced. The inquiry notice (first notice) will generally request information in an effort to alleviate the concerns which gave rise to the inquiry.

However, the Internal Revenue Service is not precluded from expanding its inquiry beyond the concerns expressed in the inquiry notice (first notice) as a result of facts and circumstances which subsequently comes to its attention (including, where appropriate, an expansion of an unrelated business income inquiry to include questions of tax-exempt status, and vice-versa).

The inquiry notice requirement (first notice) does not require the Internal Revenue Service to share particular items of evidence with the church, or to identify its sources of information regarding church activities, if providing such information would be damaging to the inquiry or to the sources of information. For example, in an inquiry regarding unrelated business income, the Internal Revenue Service might state that its inquiry was

prompted by a local newspaper advertisement regarding a church-owned business. However, the Internal Revenue Service would not be required to reveal the existence or identity of any so-called ''informers'' within a church (including present or former employees).

Q-10: What must be done to satisfy the examination notice requirement (second notice) before commencing an examination of church records or religious activities with respect to an examination conducted under section 7611?

A-10: Where an examination is conducted under section 7611, church records or religious activities of a church may be examined only if, at least 15 days prior to the examination, written notice of the proposed examination is provided to the church and to the appropriate Regional Counsel. This notice is in addition to the notice of commencement of inquiry (first notice) previously provided to the church.

The notice of examination (second notice) is required to include (1) a copy of the church tax inquiry notice (first notice) previously provided to the church; (2) a description of the church records and activities sought to be examined; and (3) a copy of all documents which were collected or prepared by the Internal Revenue Service for use in the examination, and which are required to be disclosed under the Freedom of Information Act (5 U.S.C. 552) as supplemented by section 6103 of the Code (relating to disclosure and confidentiality of tax return information). The documents to be supplied under this provision will be limited to documents specifically concerning the church whose records are to be examined and will not include documents relating to other inquiries or examinations or to Internal Revenue Service practices and procedures in general. Disclosure to the church will be subject to restrictions regarding the disclosure of the existence or identity of informants. Although a description of materials to be examined will be provided in the notice of examination (second notice), the description does not restrict the ability of the Internal Revenue Service to examine church records or religious activities which are not specifically mentioned in the notice of examination (second notice) but which are properly within the scope of the examination. Thus, the Internal Revenue Service is not precluded from expanding its inquiry beyond the concerns expressed in the examination notice (second notice) as a result of facts and circumstances which subsequently come to its attention (including, where appropriate, an expansion of an unrelated business income examination to include questions of tax—exempt status, and vice versa).

At the time the notice of examination (second notice) is provided to the church, a copy of the same notice will be provided to the appropriate Regional Counsel. The Regional Counsel is then allowed 15 days from issuance of the second notice in which to file an advisory objection to the examination. (This is concurrent with the 15-day period during which an examination of church records is prohibited pending a request for a conference.)

As part of the notice of examination (second notice), the church will be offered an opportunity to meet with an Internal Revenue Service official to discuss the concerns which gave rise to the inquiry and the general subject matter of the inquiry. An examination will not begin until 15 days after the mailing of the notice of examination (second notice). The organization may request a conference at any time prior to beginning of the examination and a conference so requested will be scheduled within a reasonable time after the request is made.

The purpose of the conference is to remind the church, in general terms, of the stages of the church tax inquiry and examination procedures and to discuss the relevant issues that may arise as part of the inquiry, in an effort to resolve the issues of tax exemption or liability without the necessity of an examination of church records or activities. Information properly excludable from a written notice of examination (second notice) (including information regarding the identity of third-party witnesses or evidence provided by such witnesses) is not a subject for discussion at, and will not be revealed during, a conference.

Once a conference request is timely made, an examination will begin only following the conference. The conference requirement may not be utilized to delay an examination beyond the time reasonably necessary to prepare for and hold the conference. The holding of one conference with the church will be sufficient to satisfy the requirements of section 7611 and these questions and answers.

ACTION AFTER ISSUANCE OF NOTICE

Q-11: What action may be taken after issuance of the examination notice (second notice)?

A-11: After the examination notice (second notice) is issued, the organization may request a conference as described in Q and A-10 (see Q and A-12 with respect to time for issuance of examination notice). If the matters of concern which gave rise to the issuance of the examination notice (second notice) are resolved at the conference, it may be determined that an examination is not necessary. If the matters of concern are not resolved at the conference, or if the organization does not request a conference, the examination will ordinarily begin.

The examination will be conducted under the Internal Revenue Service's general examination procedures and the procedures of section 7611. The outcome of such an examination will ordinarily be: (1) No change in tax-exempt status or tax liability; (2) no change in such status or liability, conditioned on compliance with a request to modify in future tax periods matters such as internal accounting practices and procedures or coupled with a caution to refrain from increasing certain activities limited by the Internal Revenue Code, such as lobbying programs aimed at influencing legislation; (3) a proposal to revoke tax-exempt status; (4) a proposal asserting unrelated business income tax liability; or (5) a proposal asserting liability for other taxes.

In certain exceptional circumstances the Internal Revenue Service may, in lieu of an examination, propose to revoke the organization's exemption based upon the facts and circumstances which form the basis for a reasonable belief to commence an inquiry under section 7611 and any other appropriate information that becomes apparent as a result of the inquiry, the conference, or both.

Pursuant to section 7611(d), the Regional Counsel is required to approve, in writing, certain final determinations that are within the scope of section 7611 and adversely affect tax-exempt status or increase any tax liability. The Regional Counsel will review and approve (1) a determination that an organization is not entitled to tax-exempt status; (2) a determination that an organization is not entitled to receive tax-deductible contributions; or (3) the issuance of a notice of tax deficiency to a church arising out of an inquiry or examination or, in cases where deficiency procedures are inapplicable, the assessment of any underpayment of tax by the church arising out of an inquiry or examination. The Regional Counsel will also state in writing that there has been substantial compliance with section 7611, when applicable.

PROCEDURAL TIME LIMITATIONS

Q-12: When may the notice of examination (second notice) be sent?

A-12. The notice of examination (second notice) may be mailed to a church not less than 15 days after the notice of commencement of a church tax inquiry (first notice). Thus, at least 30 days must pass between the first notice and the actual examination of church records since an examination may not begin until 15 days after the notice of examination (second notice). For example, if notice of commencement of an inquiry is mailed to a church on March 1st, the notice of proposed examination may be mailed to the church no earlier than the 15th day after the date of the inquiry notice, or March 16th. If the notice of examination (second notice) was mailed March 16th, no examination of church records may be made prior to day 30; thus, the earliest date the examination may commence is March 31st. If an organization does not request a conference prior to day 30, the Internal Revenue Service may proceed to examine church records and complete its investigation or make a determination based on the information already in its possession.

Q-13: What is the limitation on the amount of time the Internal Revenue

Service has to complete inquiries and examinations?

A-13: The Internal Revenue Service is required to complete any church inquiry or examination, and to make a final determination with respect thereto, not later than two years after the date on which the notice of examination (second notice) is mailed to the church. The running of this two-year period is suspended for any period during which (1) a judicial proceeding brought by the church or its officials or agents against the Internal Revenue Service with respect to the church tax inquiry or examination is pending or being appealed (even though section 7611(e)(2) describes the exclusive remedy for a violation of the church tax inquiry and examination procedures; see Q and A-17); (2) a judicial proceeding brought by the Internal Revenue Service against the church (or any official or agent thereof) to compel compliance with any reasonable request for examination of church records or religious activities is pending or being appealed; or (3) the Internal Revenue Service is unable to take actions with respect to the church tax inquiry or examination by reason of an order issued in a suit under section 7609 involving access to records held by third-party recordkeepers. The two-year period is also suspended for any period in excess of 20 days (but not in excess of 6 months) in which the church or its agents fail to comply with any reasonable request for church records or other information. The two-year period may be extended by mutual agreement of the church and the Internal Revenue Service.

In cases where the inquiry is not followed by an examination notice (second notice), the inquiry must be concluded and a final determination made within 90 days of the date of the notice of inquiry (first notice). This 90-day period is suspended during any period for which the two year period for duration of a church examination would be suspended; except that the 90-day period will not be suspended because of the church's failure to comply with requests for information made prior to the notice of examination (second notice).

Q-13a: When do the church tax inquiry and church tax examination periods commence and conclude?

A-13a: A church tax inquiry commences when the church tax inquiry notice (first notice) is mailed. A church tax inquiry must be concluded not later than 90 days after the church tax inquiry notice (first notice) date. The period is counted from the day after the inquiry notice (first notice) is mailed. A church tax inquiry is concluded when the results of the inquiry or the notice of examination, as appropriate, is mailed. For example, if the inquiry notice (first notice) is mailed on November 1, 1985, the church tax inquiry must be concluded, in the absence of a permissible suspension of the period (see Q and A-13), on or before January 30, 1986.

A church tax examination commences when the church tax examination notice (second notice) is mailed. A church tax examination must be concluded not later than the date which is 2 years after the examination notice (second notice) date. The period is counted from the day after the examination notice (second notice) is mailed. A church tax examination is concluded when the final determination is mailed. For example, if the examination notice is mailed November 16, 1985, the final determination must be made, in the absence of a permissible suspension of the period (see Q and A-13), on or before November 16, 1987.

EXAMINATION OF RECORDS OR RELIGIOUS ACTIVITIES

Q-14: To what extent may church records or religious activities of a church be examined?

A-14: In cases conducted under section 7611, an examination of church records may be made only after complying with the notice provisions of section 7611 (see Qs and As 9, 10 and 12) unless the church files a written waiver of the provisions of section 7611 or a part thereof. In cases conducted under section 7611 where no written waiver has been filed, church records may be examined only to the extent necessary to determine the liability for, and the amount of, any Federal tax. This includes examinations (1) to determine

the initial or continuing qualification of the organization whose records are being examined as a tax-exempt church under section 501(c)(3); (2) to determine whether the organization qualifies to receive tax-deductible contributions under section 170(c); or (3) to determine the amount of tax (including unrelated business income tax), if any, which is to be imposed on the organization.

Church records include all regularly kept church corporate and financial records including (but not limited to) corporate minute books, contributor or membership lists, and any materials which qualified as church books of account under section 7605(c), as in effect on December 31, 1984. Church records include private correspondence between a church and its members that is in the possession of the church. However, church records do not include records previously filed with a public official or newspapers or newsletters distributed generally to church members.

The religious activities of an organization claiming to be a church (see Q and A-3 for a definition of the term ''church'' as used in section 7611 and in these questions and answers) may be examined only to the extent necessary to determine if the organization actually is a church exempt from tax. This includes a determination of the organization's qualification as a church for any period.

LIMITATIONS ON PERIOD OF ASSESSMENT OR PROCEEDINGS FOR COLLECTION WITHOUT ASSESSMENT

Q-15: What are the special limitations on the period of assessment or proceedings for collection without assessment?

A-15: The special limitation periods for church tax liabilities are described below and are not be to construed to increase an otherwise applicable limitation period. Thus, a three-year limitation period would apply where a church filed a tax return before an examination was held and did not substantially understate income. No limitation period is to apply in any case of fraud, willful tax evasion, or knowing failure to file a return which should have been filed.

In the case of any church tax examination with respect to the revocation of tax-exempt status under section 501(a), any tax imposed by chapter 1 (other than section 511) may be assessed, or a proceeding in court for collection of such tax may be begun without assessment, only for the three most recently completed taxable years preceding the examination notice date (*i.e.*, the date the notice of examination is mailed to the church). If an organization is not a church exempt from tax under section 501(a) for any of the three years described in the preceding sentence, then the period of assessment will apply to the six most recently completed taxable years ending before the examination notice date.

For examinations concerning qualification for tax-exempt status, the examination is limited initially to an examination of church records which are relevant to a determination of tax status or liability for the three most recently completed taxable years ending before the examination notice date. If it is determined that an organization is not a church exempt from tax for one or more of the three most recently completed taxable years and no return has been filed for the three years ending before the three most recently completed taxable years, an examination of relevant records may be made, as part of the same examination, for the six most recently completed taxable years ending before the examination notice date. (This assumes that no returns were filed for any of the three years to which the examination is to be extended. If a return was timely filed for any such year, the filing of that return determines the applicable statute of limitations for that year in the absence of other factors, for example, fraud, willful tax evasion or substantial understatement, which ordinarily would extend the statute of limitations.)

For purposes of section 7611(d)(2)(A) and this question and answer, an organization is determined not to be a church exempt from tax for one or more of the three most recently completed taxable years ending before the

examination notice date, when the appropriate Regional Commissioner approves, in writing, the completed findings of the examining agent that the organization is not a church exempt from tax for one or more of such years. Such approval may not be delegated by the Regional Commissioner to a subordinate official. The completed findings of the examining agent, as approved by the appropriate Regional Commissioner for this purpose, do not constitute a final revenue agent's report under section 7611(g).

Church records of a year earlier than the third or sixth completed taxable year, as applicable, may be examined if material to a determination of tax-exempt status during the applicable three or six year period.

For examinations concerning unrelated business taxable income, where no return has been filed by the church, tax may be assessed or collected for the six most recently completed taxable years ending before the examination notice date. Church records of a year earlier than the sixth year may be examined if material to a determination of unrelated business income tax liability during the six year period.

For examinations involving issues other than revocation of exempt status or unrelated business income (e.g., examinations relating to social security or other employment taxes), no limitation period is to apply if no return has been filed.

The applicable limitation period may be extended by mutual agreement of the church and the Internal Revenue Service.

MULTIPLE EXAMINATIONS

Q-16: What are the special multiple examination rules applicable to churches?

A-16: The Assistant Commissioner (Employee Plans and Exempt Organizations) is required to approve, in writing, any second inquiry or examination of a church, if the second inquiry or examination is to be undertaken within five years of an earlier inquiry or examination and if the earlier inquiry or examination did not result in either (1) revocation of tax exemption, notice of deficiency or an assessment of tax, or (2) a request for any significant changes in church operational practices (including the adequacy or sufficiency of records maintained to reflect income). The Assistant Commissioner's approval is required only if the second inquiry or examination involves the same or similar issues as the earlier inquiry or examination. The 5-year period is counted from the examination notice date of the earlier examination or, if no notice of examination was mailed, the inquiry notice date of the earlier examination. This 5-year period is to be suspended for periods during which the two-year period for completion of an examination is suspended (as described in Q and A-13) unless the prior examination was actually concluded within 2 years of the notice of examination.

In determining whether the second church tax inquiry or examination involves the same or similar issues as the preceding inquiry or examination, the substantive factual issues involved in the two examinations, rather than legal classifications, will govern. For example, where a prior examination and a current examination of unrelated business income involve income from different sources, the current examination involves different issues than the prior examination and the approval of the Assistant Commissioner (Employee Plans and Exempt Organizations) is not necessary.

REMEDY FOR VIOLATIONS OF SECTION 7611

Q-17: What remedy is available for a violation of the church inquiry and examination procedures?

A-17: The exclusive remedy for any Internal Revenue Service violation of the church tax inquiry and examination procedures is as follows: Failure to comply substantially with the requirements that (1) two notices be sent to the church; (2) the Regional Commissioner approve the commencement of a church tax inquiry; or (3) an offer of a conference with the church be made (and a conference held if timely requested), will result in a stay of proceedings in a summons proceeding to gain access to church records (but not in dismissal of such proceeding), until these requirements are satisfied. The two-year limitation on duration of a

church tax examination will not be suspended during stays of summons proceedings resulting from violations described above; however, violations may be corrected without regard to the otherwise applicable time limits prescribed under the procedures of section 7611. In determining whether a stay is necessary, a court must consider the good faith effort of the Internal Revenue Service and the effect of any violation of the proper examination procedures.

Section 7611(e)(2) provides that no suit may be maintained and no defense may be raised, other than a stay in a summons enforcement proceeding, by reason of any noncompliance with the requirements of section 7611. Thus, failure to comply with any of these requirements may not be raised as a defense or affirmative ground for relief in any judicial proceeding including, but not limited to, a summons proceeding to gain access to church records; a declaratory judgment proceeding involving a determination of tax-exempt status under section 7428; a proceeding to collect unpaid tax; or a deficiency or refund proceeding. Additionally, failure to substantially comply with the requirements that two notices be sent, that the Regional Commissioner approve an inquiry, and that a conference be offered (and the conference held if requested) may not be raised as a defense or as an affirmative ground for relief in a summons proceeding or any other judicial proceeding other than as specifically set forth above. Therefore, a church or its representatives will not be able to litigate the issue of the reasonableness of the appropriate Regional Commissioner's belief in approving the commencement of a church tax inquiry (*i.e.*, that the church may not be tax-exempt or may be engaged in taxable activities) in a summons proceeding or any other judicial proceeding. The church retains the right to raise any substantive or procedural argument which would be available to taxpayers generally in an appropriate proceeding.

EFFECTIVE DATE

Q-18: What is the effective date of the church examination procedures?

A-18: The procedures set forth in section 7611 apply to all tax inquiries and examinations beginning after December 31, 1984. The procedures of section 7605 will apply to any examination commenced before January 1, 1985. Any activities commenced after December 31, 1984, that would constitute a new inquiry or new examination must comply with the procedures of section 7611.

APPLICATION TO SECTION 4958

Q-19: When do the church tax inquiry and examination procedures described in section 7611 apply to a determination of whether there was an excess benefit transaction described in section 4958?

A-19: See § 53.4958–8(b) of this chapter for rules governing the interaction between section 4958 excise taxes on excess benefit transactions and section 7611 church tax inquiry and examination procedures.

[T.D. 8013, 50 FR 9615, Mar. 11, 1985. Redesignated and amended by T.D. 8077, 51 FR 6220, Feb. 21, 1986; T.D. 8628, 60 FR 62213, Dec. 5, 1995; T.D. 8920, 66 FR 2171, Jan. 10, 2001; 66 FR 13013, Mar. 2, 2001; T.D. 8978, 67 FR 3099, Jan. 23, 2002; 67 FR 12472, Mar. 19, 2002]

GENERAL POWERS AND DUTIES

§ 301.7621–1 Internal revenue districts.

For delegation to the Secretary of authority to prescribe internal revenue districts for the purpose of administering the internal revenue laws, see Executive Order No. 10289, dated September 17, 1951 (16 FR 9499), as made applicable to the Code by Executive Order No. 10574, dated November 5, 1954 (19 FR 7249).

§ 301.7622–1 Authority to administer oaths and certify.

The officers and employees of the Internal Revenue Service whom the Commissioner has designated are authorized to administer such oaths or affirmations and to certify to such papers as may be necessary under the internal revenue laws or regulations issued thereunder, except that the authority to certify shall not be construed as applying to those papers or documents

the certification of which is authorized by separate order or directive.

(Sec. 7805, Internal Revenue Code of 1954, 68A Stat. 917; 26 U.S.C. 7805)

[T.D. 7359, 40 FR 23743, June 2, 1975]

§ 301.7623–1 General rules, submitting information on underpayments of tax or violations of the internal revenue laws, and filing claims for award.

(a) *In general.* In cases in which awards are not otherwise provided for by law, the Whistleblower Office may pay an award under section 7623(a), in a suitable amount, for information necessary for detecting underpayments of tax or detecting and bringing to trial and punishment persons guilty of violating the internal revenue laws or conniving at the same. In cases that satisfy the requirements of section 7623(b)(5) and (b)(6) and in which the Internal Revenue Service (IRS) proceeds with an administrative or judicial action based on information provided by an individual, the Whistleblower Office must determine and pay an award under section 7623(b)(1), (2), or (3). The awards provided for by section 7623 and this paragraph must be paid from collected proceeds, as defined in § 301.7623–2(d).

(b) *Eligibility to file claim for award.* (1) *In general.* Any individual, other than an individual described in paragraph (b)(2) of this section, is eligible to file a claim for award and to receive an award under section 7623 and §§ 301.7623–1 through 301.7623–4.

(2) *Ineligible whistleblowers.* The Whistleblower Office will reject any claim for award filed by an ineligible whistleblower and will provide written notice of the rejection to the whistleblower. The following individuals are not eligible to file a claim for award or receive an award under section 7623 and §§ 301.7623–1 through 301.7623–4—

(i) An individual who is an employee of the Department of Treasury or was an employee of the Department of Treasury when the individual obtained the information on which the claim is based;

(ii) An individual who obtained the information through the individual's official duties as an employee of the Federal Government, or who is acting within the scope of those official duties as an employee of the Federal Government;

(iii) An individual who is or was required by Federal law or regulation to disclose the information or who is or was precluded by Federal law or regulation from disclosing the information;

(iv) An individual who obtained or had access to the information based on a contract with the Federal Government; or

(v) An individual who filed a claim for award based on information obtained from an ineligible whistleblower for the purpose of avoiding the rejection of the claim that would have resulted if the claim was filed by the ineligible whistleblower.

(c) *Submission of information and claims for award.* (1) *Submitting information.* To be eligible to receive an award under section 7623 and §§ 301.7623–1 through 301.7623–4, a whistleblower must submit to the IRS specific and credible information that the whistleblower believes will lead to collected proceeds from one or more persons whom the whistleblower believes have failed to comply with the internal revenue laws. In general, a whistleblower's submission should identify the person(s) believed to have failed to comply with the internal revenue laws and should provide substantive information, including all available documentation, that supports the whistleblower's allegations. Information that identifies a pass-through entity will be considered to also identify all persons with a direct or indirect interest in the entity. Information that identifies a member of a firm who promoted another identified person's participation in a transaction described and documented in the information provided will be considered to also identify the firm and all other members of the firm. Submissions that provide speculative information or that do not provide specific and credible information regarding tax underpayments or violations of internal revenue laws do not provide a basis for an award. If documents or supporting evidence are known to the whistleblower but are not in the whistleblower's control, then the whistleblower should describe the documents or supporting evidence and identify

their location to the best of the whistleblower's ability. If all available information known to the whistleblower is not provided to the IRS by the whistleblower, then the whistleblower bears the risk that this information might not be considered by the Whistleblower Office for purposes of an award.

(2) *Filing claim for award.* To claim an award under section 7623 and §§ 301.7623–1 through 301.7623–4 for information provided to the IRS, a whistleblower must file a formal claim for award by completing and sending Form 211, ''Application for Award for Original Information,'' to the Internal Revenue Service, Whistleblower Office, at the address provided on the form, or by complying with other claim filing procedures as may be prescribed by the IRS in other published guidance. The Form 211 should be completed in its entirety and should include the following information—

(i) The date of the claim;

(ii) The whistleblower's name;

(iii) The whistleblower's address and telephone number;

(iv) The whistleblower's date of birth;

(v) The whistleblower's taxpayer identification number; and

(vi) An explanation of how the information on which the claim is based came to the attention and into the possession of the whistleblower, including, as available, the date(s) on which the whistleblower acquired the information and a complete description of the whistleblower's present or former relationship (if any) to person(s) identified on the Form 211.

(3) *Under penalty of perjury.* No award may be made under section 7623(b) unless the information on which the award is based is submitted to the IRS under penalty of perjury. All claims for award under section 7623 and §§ 301.7623–1 through 301.7623–4 must be accompanied by an original signed declaration under penalty of perjury, as follows: ''I declare under penalty of perjury that I have examined this application, my accompanying statement, and supporting documentation and aver that such application is true, correct, and complete, to the best of my knowledge.'' This requirement precludes the filing of a claim for award by a person serving as a representative of, or in any way on behalf of, another individual. Claims filed by more than one whistleblower (joint claims) must be signed by each individual whistleblower under penalty of perjury.

(4) *Perfecting claim for award.* If a whistleblower files a claim for award that does not include information described under paragraph (c)(2) of this section, does not contain specific and credible information as described in paragraph (c)(1) of this section, or is based on information that was not submitted under penalty of perjury as required by paragraph (c)(3) of this section, the Whistleblower Office may reject the claim or notify the whistleblower of the deficiencies and provide the whistleblower an opportunity to perfect the claim for award. If a whistleblower does not perfect the claim for award within the time period specified by the Whistleblower Office, then the Whistleblower Office may reject the claim. If the Whistleblower Office rejects a claim, then the Whistleblower Office will provide notice of the rejection to the whistleblower pursuant to the rules of § 301.7623–3(b)(3) or (c)(7). If the Whistleblower Office rejects a claim for the reasons described in this paragraph, then the whistleblower may perfect and resubmit the claim.

(d) *Request for assistance.* (1) *In general.* The Whistleblower Office, the IRS, or IRS Office of Chief Counsel may request the assistance of a whistleblower or the whistleblower's legal representative. Any assistance shall be at the direction and control of the Whistleblower Office, the IRS, or the IRS Office of Chief Counsel assigned to the matter. See § 301.6103(n)–2 for rules regarding written contracts among the IRS, whistleblowers, and legal representatives of whistleblowers.

(2) *No agency relationship.* Submitting information, filing a claim for award, or responding to a request for assistance does not create an agency relationship between a whistleblower and the Federal Government, nor does a whistleblower or the whistleblower's legal representative act in any way on behalf of the Federal Government.

(e) *Confidentiality of whistleblowers.* Under the informant's privilege, the IRS will use its best efforts to protect the identity of whistleblowers. In some

circumstances, the IRS may need to reveal a whistleblower's identity, for example, when it is determined that it is in the best interests of the Government to use a whistleblower as a witness in a judicial proceeding. In those circumstances, the IRS will make every effort to notify the whistleblower before revealing the whistleblower's identity.

(f) *Effective/applicability date*. This rule is effective on August 12, 2014. This rule applies to information submitted on or after August 12, 2014, and to claims for award under sections 7623(a) and 7623(b) that are open as of August 12, 2014.

[T.D. 9687, 79 FR 47264, Aug. 12, 2014]

§ 301.7623–2 Definitions.

(a) *Action*. (1) *In general*. For purposes of section 7623(b) and §§ 301.7623–1 through 301.7623–4, the term *action* means an administrative or judicial action.

(2) *Administrative action*. For purposes of section 7623(b) and §§ 301.7623–1 through 301.7623–4, the term *administrative action* means all or a portion of an Internal Revenue Service (IRS) civil or criminal proceeding against any person that may result in collected proceeds, as defined in paragraph (d) of this section, including, for example, an examination, a collection proceeding, a status determination proceeding, or a criminal investigation.

(3) *Judicial action*. For purposes of section 7623(b) and §§ 301.7623–1 through 301.7623–4, the term *judicial action* means all or a portion of a proceeding against any person in any court that may result in collected proceeds, as defined in paragraph (d) of this section.

(b) *Proceeds based on*. (1) *In general*. For purposes of section 7623(b) and §§ 301.7623–1 through 301.7623–4, the IRS *proceeds based on* information provided by a whistleblower when the information provided substantially contributes to an action against a person identified by the whistleblower. For example, the IRS proceeds based on the information provided when the IRS initiates a new action, expands the scope of an ongoing action, or continues to pursue an ongoing action, that the IRS would not have initiated, expanded the scope of, or continued to pursue, but for the information provided. The IRS does not proceed based on information when the IRS analyzes the information provided or investigates a matter raised by the information provided.

(2) *Examples*. The provisions of paragraph (b)(1) of this section may be illustrated by the following examples:

Example 1. Information provided to the IRS by a whistleblower, under section 7623 and § 301.7623–1, identifies a taxpayer, describes and documents specific facts relating to the taxpayer's foreign sales in Country A, and, based on those facts, alleges that the taxpayer was not entitled to a foreign tax credit relating to its foreign sales in Country A. The IRS receives the information after having already initiated an examination of the taxpayer. The IRS's audit plan includes foreign tax credit issues but focuses on taxpayer's foreign sales in Country B and does not specifically address the taxpayer's foreign sales in Country A. Based on the information provided, the IRS expands the examination of the foreign tax credit issue to include consideration of the amount of foreign tax credit relating to the taxpayer's foreign sales in Country A. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the portion of the IRS's examination of the taxpayer relating to the foreign tax credit issue with respect to Country A is an administrative action with which the IRS proceeds based on the information provided by the whistleblower because the information provided substantially contributed to the action by causing the expansion of the IRS's examination.

Example 2. Information provided to the IRS by a whistleblower, under section 7623 and § 301.7623–1, identifies a taxpayer, describes and documents specific facts relating to the taxpayer's activities, and, based on those facts, alleges that the taxpayer owed additional taxes in Year 1. The IRS proceeds with an examination of the taxpayer for Year 1 based on the information provided by the whistleblower. The IRS discovers that the taxpayer engaged in the same activities in Year 2 and expands the examination to Year 2. In the course of the examination, the IRS obtains, through the issuance of Information Document Requests (IDRs) and summonses, additional facts that are unrelated to the activities described in the information provided by the whistleblower. Based on these additional facts, the IRS expands the scope of the examination of the taxpayer for both Year 1 and Year 2. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the portion of the IRS's examination relating to the activities described and documented in the information provided is an administrative action with which the IRS proceeds

based on information provided by the whistleblower because the information provided substantially contributed to the action by causing the expansion of the IRS's examination of Year 1 and Year 2. The portions of the IRS's examination of the taxpayer in both Year 1 and Year 2 relating to the additional facts obtained through the issuance of IDRs and summonses are not actions with which the IRS proceeds based on the information provided by the whistleblower because the information provided did not substantially contribute to the action.

Example 3. Information provided to the IRS by a whistleblower, under section 7623 and § 301.7623–1, identifies a taxpayer, describes and documents specific facts relating to the taxpayer's activities, and, based on those facts, alleges that the taxpayer owed additional taxes in Year 1. The IRS receives the information after having already initiated an examination of the taxpayer for Year 1. During the examination, the information is provided to the Exam team and the Exam team uses the information provided to confirm the correctness of adjustments made based on other information. Although the whistleblower's information confirms the correctness of the IRS's adjustments, the IRS does not rely on the whistleblower's information when it makes the adjustments, nor does the information cause the IRS to expand the scope of its examination. The whistleblower's information merely supports information independently obtained by the IRS. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the IRS's examination is not an administrative action with which the IRS proceeds based on information provided by the whistleblower because the information provided did not substantially contribute to the action.

Example 4. Same facts as *Example 3.* During the examination, however, the Exam team identifies inconsistencies between the information provided by the whistleblower and other information already in the Exam team's possession. The Exam team uses the information provided by the whistleblower to make additional adjustments that it would not have made based solely on the other information. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the portion of the IRS's examination relating to the additional adjustments is an administrative action with which the IRS proceeds based on information provided by the whistleblower because the information provided substantially contributed to the action.

(c) *Related action.* (1) *In general.* For purposes of section 7623(b) and §§ 301.7623–1 through 301.7623–4, the term *related action* means an action against a person other than the person(s) identified in the information provided and subject to the original action(s), when—

(i) The facts relating to the underpayment of tax or violations of the internal revenue laws by the other person are substantially the same as the facts described and documented in the information provided (with respect to the person(s) subject to the original action);

(ii) The IRS proceeds with the action against the other person based on the specific facts described and documented in the information provided; and

(iii) The other, unidentified person is related to the person identified in the information provided. For purposes of this paragraph, an unidentified person is related to the person identified in the information provided if the IRS can identify the unidentified person using the information provided (without first having to use the information provided to identify any other person or having to independently obtain additional information).

(2) *Examples.* The provisions of paragraph (c)(1) of this section may be illustrated by the following examples:

Example 1. Information provided to the IRS by a whistleblower, under section 7623 and § 301.7623–1, identifies a taxpayer (Taxpayer 1), describes and documents specific facts relating to Taxpayer 1's activities, and, based on those facts, alleges tax underpayments by Taxpayer 1. The information provided also identifies an accountant (CPA 1) and describes and documents specific facts relating to CPA 1's contribution to the activities of Taxpayer 1 that the whistleblower alleges resulted in tax underpayments. The IRS proceeds with an examination of Taxpayer 1 based on the information provided by the whistleblower. Using the information provided, the IRS obtains CPA 1's client list and identifies two taxpayer/clients of CPA 1 (Taxpayer 2 and Taxpayer 3) that appear to have engaged in activities similar to Taxpayer 1. The IRS proceeds with an examination of Taxpayer 2 and finds that Taxpayer 2 engaged in the same activities as those described in the information provided with respect to Taxpayer 1. The IRS proceeds with an examination of Taxpayer 3 and finds that Taxpayer 3 engaged in different activities from those described in the information provided with respect to Taxpayer 1. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the examination of Taxpayer 2 is a related action because it satisfies the conditions of paragraph (c)(1) of this section. The

examination of Taxpayer 3 is not a related action because the relevant facts are not substantially the same as the facts relevant to the examination of Taxpayer 1.

Example 2. Same facts as *Example 1.* Using the information provided by the whistleblower, the IRS identifies a co-promoter of CPA 1 (CPA 2) that appears to have engaged in activities similar to CPA 1. CPA 2 is not a member of CPA 1's firm. The IRS subsequently obtains the client list of CPA 2 and identifies a taxpayer/client of CPA 2 (Taxpayer 4) that appears to have engaged in activities similar to Taxpayer 1. The IRS proceeds with an examination of Taxpayer 4 and finds that Taxpayer 4 engaged in the same activities as those described in the information provided with respect to Taxpayer 1, and that CPA 2 contributed to the activities in the same way as described in the information provided with respect to CPA 1. The IRS proceeds with an examination of CPA 2's liability for promoter penalties under section 6700 in connection with the activities described in the information provided with respect to Taxpayer 1 and CPA 1. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the examination of CPA 2 is a related action because it satisfies the conditions of paragraph (c)(1) of this section. The examination of Taxpayer 4 is not a related action because Taxpayer 4 was not related to a person identified in the information provided. CPA 2 was not identified in the information provided and the IRS first had to identify CPA 2 before identifying Taxpayer 4 and proceeding with the examination of Taxpayer 4.

Example 3. Same facts as *Example 1.* An accountant (CPA 3) is a member of CPA 1's firm. Using the information provided by the whistleblower, the IRS obtains the client list of CPA 3 and identifies a taxpayer/client of CPA 3 (Taxpayer 5) that appears to have engaged in activities similar to Taxpayer 1. The IRS proceeds with an examination of Taxpayer 5 and finds that Taxpayer 5 engaged in the same activities as those described in the information provided with respect to Taxpayer 1, and that CPA 3 contributed to the activities in the same way as described in the information provided with respect to CPA 1. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the examination of Taxpayer 5 is a related action because Taxpayer 5 is related to CPA 3, a person considered to be identified in the information provided under § 301.7623–1(c)(1), and the facts relating to Taxpayer 5 are substantially the same as the facts described and documented in the information provided. An IRS examination of CPA 3's liability for promoter penalties under section 6700, based on the facts described and documented in the information provided with respect to Taxpayer 1 and CPA 1, is an administrative action based on the information provided.

Example 4. Information provided to the IRS by a whistleblower, under section 7623 and § 301.7623–1, identifies a taxpayer (Taxpayer 1), describes and documents specific facts relating to Taxpayer 1's activities, and, in particular, Taxpayer 1's participation in a transaction. Based on those facts, the whistleblower alleges that Taxpayer 1 owed additional taxes. The IRS proceeds with an examination of Taxpayer 1 based on the information provided by the whistleblower. The IRS identifies the other parties to the transaction described in the information provided (Taxpayer 2 and Taxpayer 3). The IRS proceeds with examinations of Taxpayer 2 and Taxpayer 3 relating to their participation in the transaction described in the information provided. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the IRS's examinations of Taxpayer 2 and Taxpayer 3 relating to the activities described and documented in the information provided are related actions because they satisfy the conditions of paragraph (c)(1) of this section.

(d) *Collected proceeds.* (1) *In general.* For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the terms *proceeds of amounts collected* and *collected proceeds* (collectively, *collected proceeds*) include: Tax, penalties, interest, additions to tax, and additional amounts collected because of the information provided; amounts collected prior to receipt of the information if the information provided results in the denial of a claim for refund that otherwise would have been paid; and a reduction of an overpayment credit balance used to satisfy a tax liability incurred because of the information provided. Collected proceeds are limited to amounts collected under the provisions of title 26, United States Code.

(2) *Refund netting.* (i) *In general.* If any portion of a claim for refund that is substantively unrelated to the information provided is—

(A) Allowed, and

(B) Used to satisfy a tax liability attributable to the information provided instead of refunded to the taxpayer, then the allowed but non-refunded amount constitutes collected proceeds.

(ii) *Example.* The provisions of paragraph (d)(2)(i) of this section may be illustrated by the following example:

Example. Information provided to the IRS by a whistleblower, under section 7623 and § 301.7623–1, identifies a corporate taxpayer (Corporation), describes and documents specific facts relating to Corporation's activities, and, based on those facts, alleges that

Corporation owed additional taxes. Based on the information provided by the whistleblower, the IRS proceeds with an examination of Corporation and determines adjustments that would result in an unpaid tax liability of $500,000. During the examination, Corporation informally claims a refund of $400,000 based on adjustments to items of income and expense that are wholly unrelated to the information provided by the whistleblower. The IRS agrees to the unrelated adjustments. The IRS nets the adjustments and determines a tax deficiency of $100,000. Thereafter, Corporation makes full payment of the $100,000 deficiency. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the collected proceeds include the $400,000 informally claimed as a refund and netted against the adjustments attributable to the information provided, as well as the $100,000 paid by Corporation.

(3) *Amended returns.* Amounts collected based on amended returns constitute collected proceeds if—

(i) The IRS proceeds based on the information provided;

(ii) As a result, the person subject to the action(s) with which the IRS proceeds files amended returns; and

(iii) The amounts collected based on the amended returns relate to the activities or facts described in the information provided.

(4) *Criminal fines.* Criminal fines deposited into the Crime Victims Fund are not collected proceeds and cannot be used for payment of awards.

(5) *Computation of collected proceeds.* (i) *In general.* Pursuant to § 301.7623–4(d)(1), the IRS cannot make an award payment until there has been a final determination of tax. For purposes of determining the amount of an award under section 7623 and §§ 301.7623–1 through 301.7623–4, after there has been a final determination of tax as defined in § 301.7623–4(d)(2), the IRS will compute the amount of collected proceeds based on all information known with respect to the taxpayer's account, including with respect to all tax attributes, as of the date the computation is made.

(ii) *Post-determination proceeds.* If, based on all information known with respect to the taxpayer's account as of the date of the computation described in paragraph (d)(5)(i) of this section, there is a possibility that the IRS may collect additional proceeds, then the Whistleblower Office will continue to monitor the case. If the Whistleblower Office identifies additional collected proceeds, then the IRS will compute and pay accordingly.

(iii) *Partial collection.* If the IRS does not collect the full amount of taxes, penalties, interest, additions to tax, and additional amounts assessed against the taxpayer, then any amounts that the IRS does collect will constitute collected proceeds in the same proportion that the adjustments attributable to the information provided bear to the total adjustments.

(e) *Amount in dispute and gross income.* (1) *In general.* Section 7623(b) applies with respect to any action against any taxpayer in which the tax, penalties, interest, additions to tax, and additional amounts in dispute exceed $2,000,000 but, if the taxpayer is an individual, then only if the taxpayer's gross income exceeds $200,000 in at least one taxable year subject to the action.

(2) *Amount in dispute.* (i) *In general.* For purposes of section 7623(b)(5) and §§ 301.7623–1 through 301.7623–4, the term *amount in dispute* means the greater of the maximum total of tax, penalties, interest, additions to tax, and additional amounts that resulted from the action(s) with which the IRS proceeded based on the information provided, or the maximum total of such amounts that were stated in formal positions taken by the IRS in the action(s). The IRS will compute the amount in dispute, for purposes of award determinations described in § 301.7623–3(c)(6), when there has been a final determination of tax as defined in § 301.7623–4(d)(2).

(ii) *Examples.* The provisions of paragraph (e)(2)(i) of this section may be illustrated by the following examples:

Example 1. Information provided to the IRS by a whistleblower, under section 7623 and § 301.7623–1, identifies a corporate taxpayer, describes and documents specific facts relating to the taxpayer's activities, and, based on those facts, alleges that the taxpayer owed additional taxes. The IRS proceeds with an examination of the taxpayer based on the information provided by the whistleblower; makes adjustments to items of income and expense and allows certain credits; and, ultimately, determines a deficiency against the taxpayer of $1,900,000 and issues

the taxpayer a statutory notice of deficiency. The taxpayer petitions the notice to the United States Tax Court. The Tax Court sustains the IRS's position resulting in a deficiency of $1,900,000. Following the final determination of tax, the IRS computes that the total of tax, penalties, interest, additions to tax, and additional amounts that resulted from the action was $2,500,000. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the amount in dispute is $2,500,000.

Example 2. Same facts as *Example 1,* except the IRS determines a deficiency of $1,500,000; the Tax Court sustains the deficiency of $1,500,000; and, following the final determination of tax, the IRS computes that the total of tax, penalties, interest, additions to tax, and additional amounts that resulted from the action was $1,750,000. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the amount in dispute is $1,750,000.

Example 3. Same facts as *Example 1,* except the IRS determines a deficiency of $2,100,000; the Tax Court redetermines a deficiency of $1,500,000; and, following the final determination of tax, the IRS computes that the total of tax, penalties, interest, additions to tax, and additional amounts that resulted from the action was $1,750,000. For purposes of section 7623 and §§ 301.7623–1 through 301.7623–4, the amount in dispute is $2,100,000.

(3) *Gross income.* For purposes of section 7623(b)(5) and §§ 301.7623–1 through 301.7623–4, the term *gross income* has the same meaning as provided under section 61(a). The IRS will compute the individual taxpayer's gross income, for purposes of award determinations described in § 301.7623–3(c)(6), when there has been a final determination of tax as defined in § 301.7623–4(d)(2).

(f) *Effective/applicability date.* This rule is effective on August 12, 2014. This rule applies to information submitted on or after August 12, 2014, and to claims for award under sections 7623(a) and 7623(b) that are open as of August 12, 2014.

[T.D. 9687, 79 FR 47266, Aug. 12, 2014; 79 FR 57785, Sept. 26, 2014]

§ 301.7623–3 Whistleblower administrative proceedings and appeals of award determinations.

(a) *In general.* The Whistleblower Office will pay awards under section 7623(a) and determine and pay awards under section 7623(b) in whistleblower administrative proceedings pursuant to the rules of this section. The whistleblower administrative proceedings described in this section are administrative proceedings pertaining to tax administration for purposes of section 6103(h)(4). See § 301.6103(h)(4)-1 for additional rules regarding disclosures of return information in whistleblower administrative proceedings. The Whistleblower Office may determine awards for claims involving multiple actions in a single whistleblower administrative proceeding. For purposes of the whistleblower administrative proceedings for rejections and denials, described in paragraphs (b)(3), (c)(7), and (c)(8) of this section, the Internal Revenue Service (IRS) may rely on the whistleblower's description of the amount owed by the taxpayer(s). The IRS may, however, rely on other information as necessary (for example, when the alleged amount in dispute is below the $2 million threshold of section 7623(b)(5)(B), but the actual amount in dispute is above the threshold).

(b) *Awards under section 7623(a).* (1) *Preliminary award recommendation.* In cases in which the Whistleblower Office recommends payment of an award under section 7623(a), the Whistleblower Office will communicate a preliminary award recommendation under section 7623(a) and §§ 301.7623–1 through 301.7623–4 to the whistleblower by sending a preliminary award recommendation letter that states the Whistleblower Office's preliminary computation of the amount of collected proceeds, recommended award percentage, recommended award amount (even in cases when the application of § 301.7623–4 results in a reduction of the recommended award amount to zero), and a list of the factors that contributed to the recommended award percentage. The whistleblower administrative proceeding described in paragraphs (b)(1) and (2) of this section begins on the date the Whistleblower Office sends the preliminary award recommendation letter. If the whistleblower believes that the Whistleblower Office erred in evaluating the information provided, the whistleblower has 30 days from the date the Whistleblower Office sends the preliminary award recommendation to submit comments to the Whistleblower Office (this period may be extended at

the sole discretion of the Whistleblower Office). The Whistleblower Office will review all comments submitted timely by the whistleblower (or the whistleblower's legal representative, if any) and pay an award, pursuant to paragraph (b)(2) of this section.

(2) *Decision letter*. At the conclusion of the process described in paragraph (b)(1) of this section, and when there is a final determination of tax, as defined in § 301.7623–4(d)(2), the Whistleblower Office will pay an award under section 7623(a) and §§ 301.7623–1 through 301.7623–4. The Whistleblower Office will communicate the amount of the award to the whistleblower in a decision letter.

(3) *Rejections and denials*. If the Whistleblower Office rejects a claim for award under section 7623(a), pursuant to § 301.7623–1(b) or (c), or if the IRS either did not proceed based on information provided by the whistleblower, as defined in § 301.7623–2(b), or did not collect proceeds, as defined in § 301.7623–2(d), then the Whistleblower Office will not apply the rules of paragraphs (b)(1) or (2) of this section. The Whistleblower Office will provide written notice to the whistleblower of the rejection or denial of any award and, in the case of a rejection, the written notice will state the basis for the rejection.

(c) *Awards under section 7623(b)*. (1) *Preliminary award recommendation*. For claims under section 7623(b) other than those described in paragraphs (c)(7) and (c)(8) of this section (rejections and denials), the Whistleblower Office will prepare a preliminary award recommendation based on the Whistleblower Office's review of the administrative claim file and the application of the rules of section 7623 and §§ 301.7623–1 through 301.7623–4 to the facts of the case. See paragraph (e)(2) of this section for a description of the administrative claim file. The whistleblower administrative proceeding described in paragraphs (c)(1) through (6) of this section begins on the date the Whistleblower Office sends the preliminary award recommendation letter. The preliminary award recommendation is not a determination letter within the meaning of paragraph (c)(6) of this section and cannot be appealed to Tax Court under section 7623(b)(4) and paragraph (d) of this section. The preliminary award recommendation will notify the whistleblower that the IRS cannot determine or pay any award until there is a final determination of tax, as defined in § 301.7623–4(d)(2).

(2) *Contents of preliminary award recommendation*. The Whistleblower Office will communicate the preliminary award recommendation under section 7623(b) to the whistleblower by sending—

(i) A preliminary award recommendation letter that describes the whistleblower's options for responding to the preliminary award recommendation;

(ii) A summary report that states a preliminary computation of the amount of collected proceeds, the recommended award percentage, the recommended award amount (even in cases when the application of section 7623(b)(2) or section 7623(b)(3) results in a reduction of the recommended award amount to zero), and a list of the factors that contributed to the recommended award percentage;

(iii) An award consent form; and

(iv) A confidentiality agreement.

(3) *Opportunity to respond to preliminary award recommendation*. The whistleblower will have 30 days (this period may be extended at the sole discretion of the Whistleblower Office) from the date the Whistleblower Office sends the preliminary award recommendation letter to respond to the preliminary award recommendation in one of the following ways—

(i) If the whistleblower takes no action, then the Whistleblower Office will make an award determination, pursuant to paragraph (c)(6) of this section;

(ii) If the whistleblower signs, dates, and returns the award consent form agreeing to the preliminary award recommendation and waiving any and all administrative and judicial appeal rights, then the Whistleblower Office will make an award determination, pursuant to paragraph (c)(6) of this section;

(iii) If the whistleblower signs, dates, and returns the confidentiality agreement, then the Whistleblower Office will provide the whistleblower with a detailed award report, and an opportunity to review documents supporting the report pursuant to paragraphs

(c)(4) and (5) of this section, and any comments submitted by the whistleblower will be added to the administrative claim file; or

(iv) If the whistleblower submits comments on the preliminary award recommendation to the Whistleblower Office, but does not sign, date, and return the confidentiality agreement, then the comments will be added to the administrative claim file and reviewed by the Whistleblower Office in making an award determination, pursuant to paragraph (c)(6) of this section.

(4) *Detailed report.* (i) *Contents of detailed report.* If the whistleblower signs, dates, and returns the confidentiality agreement accompanying the preliminary award recommendation under section 7623(b), pursuant to paragraph (c)(3) of this section, then the Whistleblower Office will send the whistleblower—

(A) A detailed report that states a preliminary computation of the amount of collected proceeds, the recommended award percentage, and the recommended award amount, and provides a full explanation of the factors that contributed to the recommended award percentage;

(B) Instructions for scheduling an appointment for the whistleblower (and the whistleblower's legal representative, if any) to review information in the administrative claim file that is not protected by one or more common law or statutory privileges; and

(C) An award consent form.

(ii) *Opportunity to respond to detailed report.* The whistleblower will have 30 days (this period may be extended at the sole discretion of the Whistleblower Office) from the date the Whistleblower Office sends the detailed report to respond in one of the following ways—

(A) If the whistleblower takes no action, then the Whistleblower Office will make an award determination, pursuant to paragraph (c)(6) of this section;

(B) If the whistleblower requests an appointment to review information from the administrative claim file that is not protected from disclosure by one or more common law or statutory privileges, then a meeting will be arranged pursuant to paragraph (c)(5) of this section;

(C) If the whistleblower does not request an appointment but does submit comments on the detailed report to the Whistleblower Office, then the comments will be added to the administrative claim file and reviewed by the Whistleblower Office in making an award determination pursuant to paragraph (c)(6) of this section; or

(D) If the whistleblower signs, dates, and returns the award consent form agreeing to the preliminary award recommendation and waiving any and all administrative and judicial appeal rights, then the Whistleblower Office will make an award determination, pursuant to paragraph (c)(6) of this section.

(iii) *Additional rules.* The detailed report is not a determination letter within the meaning of paragraph (c)(6) of this section and cannot be appealed to Tax Court under section 7623(b)(4) and paragraph (d) of this section. The detailed report will notify the whistleblower that the IRS cannot determine or pay any award until there is a final determination of tax, as defined in § 301.7623–4(d)(2).

(5) *Opportunity to review documents supporting award report recommendations.* Appointments for the whistleblower (and the whistleblower's legal representative, if any) to review information from the administrative claim file that is not protected from disclosure by one or more common law or statutory privileges will be held at the Whistleblower Office in Washington, DC, unless the Whistleblower Office, in its sole discretion, decides to hold the meeting at another location. At the appointment, the Whistleblower Office will provide for viewing the information from the administrative claim file. The Whistleblower Office will supervise the whistleblower's review of the information and the whistleblower will not be permitted to make copies of any documents or other information. The whistleblower will have 30 days (this period may be extended at the sole discretion of the Whistleblower Office) from the date of the appointment to submit comments on the detailed report and the documents reviewed at the appointment to the Whistleblower Office. All comments will be added to

the administrative claim file and reviewed by the Whistleblower Office in making an award determination, pursuant to paragraph (c)(6) of this section.

(6) *Determination letter*. After the whistleblower's participation in the whistleblower administrative proceeding, pursuant to paragraph (c) of this section, has concluded, and there is a final determination of tax, as defined in § 301.7623–4(d)(2), a Whistleblower Office official will determine the amount of the award under section 7623(b)(1), (2), or (3), and §§ 301.7623–1 through 301.7623–4, based on the official's review of the administrative claim file. The Whistleblower Office will communicate the award to the whistleblower in a determination letter, stating the amount of the award. If, however, the whistleblower has executed an award consent form agreeing to the amount of the award and waiving the whistleblower's right to appeal the award determination, pursuant to section 7623(b)(4) and paragraph (d) of this section, then the Whistleblower Office will not send the whistleblower a determination letter and will make payment of the award as promptly as circumstances permit.

(7) *Rejections*. A rejection is a determination that relates solely to the whistleblower and the information on the face of the claim that pertains to the whistleblower. If the Whistleblower Office rejects a claim for award under section 7623(b), pursuant to § 301.7623–1(b) or (c), then the Whistleblower Office will not apply the rules of paragraphs (c)(1) through (6) of this section. The Whistleblower Office will send to the whistleblower a preliminary rejection letter that states the basis for the rejection of the claim. The whistleblower administrative proceeding described in this paragraph begins on the date the Whistleblower Office sends the preliminary rejection letter. If the whistleblower believes that the Whistleblower Office erred in evaluating the information provided, the whistleblower has 30 days from the date the Whistleblower Office sends the preliminary rejection letter to submit comments to the Whistleblower Office (this period may be extended at the sole discretion of the Whistleblower Office). The Whistleblower Office will review all comments submitted timely by the whistleblower (or the whistleblower's legal representative, if any) and, following that review, the Whistleblower Office will either provide written notice to the whistleblower of the rejection of the claim, including the basis for the rejection, or apply the rules of paragraphs (c)(1) through (c)(6) of this section.

(8) *Denials*. A denial is a determination that relates to or implicates taxpayer information. If, with respect to a claim for award under section 7623(b), the IRS either did not proceed based on the information provided by the whistleblower, as defined in § 301.7623–2(b), or did not collect proceeds, as defined in § 301.7623–2(d), then the Whistleblower Office will not apply the rules of paragraphs (c)(1) through (6) of this section. The Whistleblower Office will send to the whistleblower a preliminary denial letter that states the basis for the denial of the claim. The whistleblower administrative proceeding described in this paragraph begins on the date the Whistleblower Office sends the preliminary denial letter. If the whistleblower believes that the Whistleblower Office erred in evaluating the information provided, the whistleblower has 30 days from the date the Whistleblower Office sends the preliminary denial letter to submit comments to the Whistleblower Office (this period may be extended at the sole discretion of the Whistleblower Office). The Whistleblower Office will review all comments submitted timely by the whistleblower (or the whistleblower's legal representative, if any) and, following that review, the Whistleblower Office will either provide written notice to the whistleblower of the denial of any award, including the basis for the denial, or apply the rules of paragraphs (c)(1) through (c)(6) of this section.

(d) *Appeal of award determination*. Any determination regarding an award under section 7623(b)(1), (2), or (3) may, within 30 days of such determination, be appealed to the Tax Court.

(e) *Administrative record*. (1) *In general*. The administrative record comprises all information contained in the administrative claim file that is relevant to the award determination and

not protected by one or more common law or statutory privileges.

(2) *Administrative claim file.* The administrative claim file will include the following materials relating to the action(s) to which the determination relates—

(i) The Form 211, ''Application for Award for Original Information,'' filed by the whistleblower and all information provided by the whistleblower (whether provided with the whistleblower's original submission or through a subsequent contact with the IRS).

(ii) Copies of all debriefing notes and recorded interviews held with the whistleblower (and the whistleblower's legal representative, if any).

(iii) Form(s) 11369, ''Confidential Evaluation Report on Claim for Award,'' including narratives prepared by the relevant IRS office(s), explaining the whistleblower's contributions to the actions and documenting the actions taken by the IRS in the case(s). The Form 11369 will refer to and incorporate additional documents relating to the issues raised by the claim, as appropriate, including, for example, relevant portions of revenue agent reports, copies of agreements entered into with the taxpayer(s), tax returns, and activity records.

(iv) Copies of all contracts entered into among the IRS, the whistleblower, and the whistleblower's legal representative (if any), and an explanation of the cooperation provided by the whistleblower (or the whistleblower's legal representative, if any) under the contract.

(v) Any information that reflects actions by the whistleblower that may have had a negative impact on the IRS's ability to examine the taxpayer(s).

(vi) All correspondence and documents sent by the Whistleblower Office to the whistleblower.

(vii) All notes, memoranda, and other documents made by officers and employees of the Whistleblower Office and considered by the official making the award determination.

(viii) All correspondence and documents received by the Whistleblower Office from the whistleblower (and the whistleblower's legal representative, if any) in the course of the whistleblower administrative proceeding.

(ix) All other information considered by the official making the award determination.

(f) *Effective/applicability date.* This rule is effective on August 12, 2014. This rule applies to information submitted on or after August 12, 2014, and to claims for award under sections 7623(a) and 7623(b) that are open as of August 12, 2014.

[T.D. 9687, 79 FR 47268, Aug. 12, 2014]

§ 301.7623–4 Amount and payment of award.

(a) *In general.* The Whistleblower Office will pay all awards under section 7623(a) and determine and pay all awards under section 7623(b). For all awards under section 7623 and §§ 301.7623–1 through 301.7623–4, the Whistleblower Office will—

(1) Analyze the claim by applying the rules provided in paragraph (c) of this section to the information contained in the administrative claim file to determine an award percentage; and

(2) Multiply the award percentage by the amount of collected proceeds. If the award determination arises out of a single whistleblower administrative proceeding involving multiple actions, the Whistleblower Office may determine separate award percentages on an action-by-action basis and apply the separate award percentages to the collected proceeds attributable to the corresponding actions. The Internal Revenue Service (IRS) will pay all awards in accordance with the rules provided in paragraph (d) of this section. All relevant factors will be taken into account by the Whistleblower Office in determining whether an award will be paid and, if so, the amount of the award. No person is authorized under this section to make any offer or promise or otherwise bind the Whistleblower Office with respect to the amount or payment of an award.

(b) *Factors used to determine award percentage.* (1) *Positive factors.* The application of the following non-exclusive factors may support increasing an award percentage under paragraphs (c)(1) or (2) of this section—

(i) The whistleblower acted promptly to inform the IRS or the taxpayer of the tax noncompliance.

(ii) The information provided identified an issue or transaction of a type previously unknown to the IRS.

(iii) The information provided identified taxpayer behavior that the IRS was unlikely to identify or that was particularly difficult to detect through the IRS's exercise of reasonable diligence.

(iv) The information provided thoroughly presented the factual details of tax noncompliance in a clear and organized manner, particularly if the manner of the presentation saved the IRS work and resources.

(v) The whistleblower (or the whistleblower's legal representative, if any) provided exceptional cooperation and assistance during the pendency of the action(s).

(vi) The information provided identified assets of the taxpayer that could be used to pay liabilities, particularly if the assets were not otherwise known to the IRS.

(vii) The information provided identified connections between transactions, or parties to transactions, that enabled the IRS to understand tax implications that might not otherwise have been understood by the IRS.

(viii) The information provided had an impact on the behavior of the taxpayer, for example by causing the taxpayer to promptly correct a previously-reported improper position.

(2) *Negative factors*. The application of the following non-exclusive factors may support decreasing an award percentage under paragraphs (c)(1) or (2) of this section—

(i) The whistleblower delayed informing the IRS after learning the relevant facts, particularly if the delay adversely affected the IRS's ability to pursue an action or issue.

(ii) The whistleblower contributed to the underpayment of tax or tax noncompliance identified.

(iii) The whistleblower directly or indirectly profited from the underpayment of tax or tax noncompliance identified, but did not plan and initiate the actions that led to the underpayment of tax or actions described in section 7623(a)(2) .

(iv) The whistleblower (or the whistleblower's legal representative, if any) negatively affected the IRS's ability to pursue the action(s), for example by disclosing the existence or scope of an enforcement activity.

(v) The whistleblower (or the whistleblower's legal representative, if any) violated instructions provided by the IRS, particularly if the violation caused the IRS to expend additional resources.

(vi) The whistleblower (or the whistleblower's legal representative, if any) violated the terms of the confidentiality agreement described in § 301.7623–3(c)(2)(iv).

(vii) The whistleblower (or the whistleblower's legal representative, if any) violated the terms of a contract entered into with the IRS pursuant to § 301.6103(n)–2.

(viii) The whistleblower provided false or misleading information or otherwise violated the requirements of section 7623(b)(6)(C) or § 301.7623–1(c)(3).

(c) *Amount of award percentage*. (1) *Award for substantial contribution*. (i) *In general*. If the IRS proceeds with any administrative or judicial action based on information brought to the IRS's attention by a whistleblower, such whistleblower shall, subject to paragraphs (c)(2) and (3) of this section, receive as an award at least 15 percent but not more than 30 percent of the collected proceeds resulting from the action (including any related actions) or from any settlement in response to such action. The amount of any award under this paragraph depends on the extent of the whistleblower's substantial contribution to the action(s). See paragraph (c)(4) of this section for rules regarding multiple whistleblowers.

(ii) *Computational framework*. Starting the analysis at 15 percent, the Whistleblower Office will analyze the administrative claim file using the factors listed in paragraph (b)(1) of this section to determine whether the whistleblower merits an increased award percentage of 22 percent or 30 percent. The Whistleblower Office may increase the award percentage based on the presence and significance of positive factors. The Whistleblower Office will

then analyze the contents of the administrative claim file using the factors listed in paragraph (b)(2) of this section to determine whether the whistleblower merits a decreased award percentage of 15 percent, 18 percent, 22 percent, or 26 percent. The Whistleblower Office may decrease the award percentage based on the presence and significance of negative factors. Although the factors listed in paragraphs (b)(1) and (2) of this section are described as positive and negative factors, the Whistleblower Office's analysis cannot be reduced to a mathematical equation. The factors are not exclusive and are not weighted and, in a particular case, one factor may override several others. The presence and significance of positive factors may offset the presence and significance of negative factors. But the absence of negative factors does not constitute a positive factor.

(iii) *Examples*. The operation of the provisions of paragraph (c)(1)(ii) of this section may be illustrated by the following examples. The examples are intended to illustrate the operation of the computational framework. The examples provide simplified descriptions of the facts relating to the claims for award, the information provided, and the facts relating to the underlying tax cases. The application of section 7623(b)(1) and paragraph (c)(1)(ii) of this section will depend on the specific facts of each case.

Example 1. Facts. Whistleblower A, an employee in Corporation's sales department, submitted to the IRS a claim for award under section 7623 and information indicating that Corporation improperly claimed a credit in tax year 2006. Whistleblower A's information consisted of numerous non-privileged documents relevant to Corporation's eligibility for the credit. Whistleblower A's original submission also included an analysis of the documents, as well as information about meetings in which the claim for credit was discussed. When interviewed by the IRS, Whistleblower A clarified ambiguities in the original submission, answered questions about Corporation's business and accounting practices, and identified potential sources to corroborate the information.

Some of the documents provided by Whistleblower A were not included in Corporation's general record-keeping system and their existence may not have been easily uncovered through normal IRS examination procedures. Corporation initially denied the facts revealed in the information provided by Whistleblower A, which were essential to establishing the impropriety of the claim for credit. IRS examination of Corporation's return confirmed that the credit was improperly claimed by Corporation in tax year 2006, as alleged by Whistleblower A. Corporation agreed to the ensuing assessments of tax and interest and paid the liabilities in full.

Analysis. In this case, Whistleblower A provided specific and credible information that formed the basis for action by the IRS. Whistleblower A provided information that was difficult to detect, provided useful assistance to the IRS, and helped the IRS sustain the assessment. Based on the presence and significance of these positive factors, viewed against all the specific facts relevant to Corporation's 2006 tax year, the Whistleblower Office could increase the award percentage to 22 percent of collected proceeds. If, however, Whistleblower A's claim reflected negative factors, for example Whistleblower A violated instructions provided by the IRS and the violation caused the IRS to expend additional resources, then the Whistleblower Office could, based on this negative factor, reduce the award percentage to 18 or 15 percent (but not to lower than 15 percent of collected proceeds).

Example 2. Facts. Whistleblower B, an employee of Financial Advisory Firm 1 (Firm 1), submitted to the IRS a claim for award under section 7623 and information indicating that Firm 1 helped clients engage in activities that were intended to, and did, result in substantial tax underpayments. The activities were designed to avoid detection by the IRS, and prior IRS audits of several clients of Firm 1 had failed to detect underpayments of tax. Whistleblower B learned of the activities after being reassigned to a new position with Firm 1. Whistleblower B provided the information to the IRS soon after he understood the scope, nature and impact of the activities. The information provided consisted of numerous documents containing client profiles and marketing strategies, as well as descriptions of the transactions and structures used by Firm 1 and its clients to obscure the clients' identities and to generate the substantial tax underpayments. Whistleblower B also provided an analysis of the documents, as well as information about meetings in which the transactions and structures were discussed. When interviewed by the IRS, Whistleblower B clarified ambiguities in the original submission, answered questions about Firm 1's execution of specific client transactions, and identified potential sources to corroborate the information provided. Whistleblower B also notified the IRS of steps taken by Firm 1 to limit the disclosure of information requested by the

IRS, enabling the IRS to obtain full disclosure of the information through the targeted use of summonses.

Analysis. Ultimately, the IRS collected tax, penalties, and interest from Firm 1 and multiple clients. In addition, Treasury and the IRS issued a notice identifying the impropriety of the transactions and structures employed by Firm 1 and its clients. Whistleblower B provided specific and credible information that formed the basis for action by the IRS. The information provided identified transactions that were difficult to detect. Whistleblower B acted promptly after he understood the activities at issue and he provided useful assistance to the IRS. Whistleblower B's assistance, and the information he provided, helped the IRS overcome the efforts made to obscure the activities and the clients' identities. And the information provided by Whistleblower B contributed to the decision to issue the notice, which may have a positive effect on client behavior and save IRS resources. Based on the presence and significance of these positive factors, the Whistleblower Office could increase the award percentage to 30 percent of collected proceeds. If Whistleblower B directly or indirectly profited from Firm 1's and the clients' activities resulting in the tax underpayments, then the Whistleblower Office could, based on this negative factor, reduce the award percentage to 26, 22, 18 percent or 15 percent (but not to lower than 15 percent of collected proceeds).

(2) *Award for less substantial contribution*. (i) *In general*. If the Whistleblower Office determines that the action described in paragraph (c)(1) of this section is based principally on disclosures of specific allegations resulting from a judicial or administrative hearing; a government report, hearing, audit, or investigation; or the news media, then the Whistleblower Office will determine an award of no more than 10 percent of the collected proceeds resulting from the action (including any related actions) or from any settlement in response to such action. If the whistleblower is the original source of the information from which the disclosures of specific allegations resulted, however, then the award percentage will be determined under paragraph (c)(1) of this section.

(ii) *Computational framework*. The Whistleblower Office will analyze the administrative claim file to determine—

(A) Whether the claim involves specific allegations regarding a tax underpayment or a violation of the internal revenue laws that reasonably may be inferred to have resulted from a judicial or administrative hearing; a government report, hearing, audit, or investigation; or the news media;

(B) Whether the action described in paragraph (c)(1) of this section was based principally on the disclosure of the specific allegations; and

(C) Whether the whistleblower was the original source of the information that gave rise to the specific allegations. If the Whistleblower Office determines that the action was based principally on disclosures of specific allegations, as stated in paragraph (c)(2)(ii)(B) of this section, and that the whistleblower was not the original source of the information, then, starting at 1 percent, the Whistleblower Office will analyze the administrative claim file using the factors listed in paragraph (b)(1) of this section to determine whether the whistleblower merits an increased award percentage of 4 percent, 7 percent, or 10 percent. The Whistleblower Office will then determine whether the whistleblower merits a decreased award percentage of zero, 1 percent, 4 percent, or 7 percent using the factors listed in paragraph (b)(2) of this section. The Whistleblower Office may increase the award percentage based on the presence and significance of positive factors and may decrease (to zero) the award percentage based on the presence and significance of negative factors. Like the analysis described in paragraph (c)(1)(ii) of this section, the Whistleblower Office's analysis cannot be reduced to a mathematical equation. The factors are not exclusive and are not weighted and, in a particular case, one factor may override several others. The presence and significance of positive factors may offset the presence and significance of negative factors. But the absence of negative factors does not constitute a positive factor.

(iii) *Example*. The operation of the provisions of paragraph (c)(2)(ii) of this section may be illustrated by the following example. The example is intended to illustrate the operation of the computational framework. The example provides a simplified description of the facts relating to the claim for award, the information provided, and

the facts relating to the underlying tax case(s). The application of section 7623(b)(2) and paragraph (c)(2)(ii) of this section will depend on the specific facts of each case.

Example. Facts. Whistleblower A submitted to the IRS a claim for award under section 7623 and information indicating that Taxpayer B was the defendant in a criminal prosecution for embezzlement. Whistleblower A's information further indicated that evidence presented at Taxpayer B's trial revealed Taxpayer B's efforts to conceal the embezzled funds by depositing them in bank accounts of entities controlled by Taxpayer B. Taxpayer B's failure to pay tax on the embezzled funds was not explicitly stated during the judicial hearing, but could be reasonably inferred from the facts and circumstances, including Taxpayer B's efforts to conceal the funds.

Analysis. In this case, Whistleblower A's information is based principally on disclosures of specific allegations resulting from a judicial hearing. Absent information demonstrating that the investigation leading to the embezzlement charge was based on information provided by Whistleblower A, section 7623(b)(2) and paragraph (c)(2) of this section apply to the determination of Whistleblower A's award. In this case, there is no reason for the Whistleblower Office to increase the applicable award percentage above 1 percent, the starting point for its analysis, given the absence of positive factors. Accordingly, Whistleblower A may receive an award of 1 percent of collected proceeds.

(3) *Reduction in award and denial of award*. (i) *In general*. If the Whistleblower Office determines that a claim for award is brought by a whistleblower who planned and initiated the actions, transaction, or events (underlying acts) that led to the underpayment of tax or actions described in section 7623(a)(2), then the Whistleblower Office may appropriately reduce the amount of the award percentage that would otherwise result under section 7623(b)(1) and paragraph (c)(1) of this section or section 7623(b)(2) and paragraph (c)(2) of this section, as applicable. The Whistleblower Office will deny an award if the whistleblower is convicted of criminal conduct arising from his or her role in planning and initiating the underlying acts.

(ii) *Threshold determination*. A whistleblower *planned and initiated* the underlying acts if the whistleblower—

(A) Designed, structured, drafted, arranged, formed the plan leading to, or otherwise planned, an underlying act,

(B) Took steps to start, introduce, originate, set into motion, promote or otherwise initiate an underlying act, and

(C) Knew or had reason to know that an underpayment of tax or actions described in section 7623(a)(2) could result from planning and initiating the underlying act.

(D) The whistleblower need not have been the sole person involved in planning and initiating the underlying acts. A whistleblower who merely furnishes typing, reproducing, or other mechanical assistance in implementing one or more underlying acts will not be treated as initiating any underlying act. A whistleblower who is a junior employee acting at the direction, and under the control, of a senior employee will not be treated as initiating any underlying act.

(E) If the Whistleblower Office determines that a whistleblower has satisfied this initial threshold of planning and initiating, the Whistleblower Office will then reduce the award amount based on the extent of the whistleblower's planning and initiating, pursuant to paragraph (c)(3)(iii) of this section.

(iii) *Computational framework*. After determining the award percentage that would otherwise result from the application of section 7623(b)(1) and paragraph (c)(1) of this section or section 7623(b)(2) and paragraph (c)(2) of this section, as applicable, the Whistleblower Office will analyze the administrative claim file to make the threshold determination described in paragraph (c)(3)(ii) of this section. If the whistleblower is determined to have planned and initiated the underlying acts, then the Whistleblower Office will reduce the award based on the extent of the whistleblower's planning and initiating. The Whistleblower Office's analysis and the amount of the appropriate reduction determined in a particular case cannot be reduced to a mathematical equation. To determine the appropriate award reduction, the Whistleblower Office will—

(A) Categorize the whistleblower's role as a planner and initiator as primary, significant, or moderate; and

(B) Appropriately reduce the award percentage that would otherwise result from the application of section 7623(b)(1) and paragraph (c)(1) of this section or section 7623(b)(2) and paragraph (c)(2) of this section, as applicable, by 67 percent to 100 percent in the case of a primary planner and initiator, by 34 percent to 66 percent in the case of a significant planner and initiator, or by 0 percent to 33 percent in the case of a moderate planner and initiator. If the whistleblower is convicted of criminal conduct arising from his or her role in planning and initiating the underlying acts, then the Whistleblower Office will deny an award without regard to whether the Whistleblower Office categorized the whistleblower's role as a planner and initiator as primary, significant, or moderate.

(iv) *Factors demonstrating the extent of a whistleblower's planning and initiating.* The application of the following nonexclusive factors may support a determination of the extent of a whistleblower's planning and initiating of the underlying acts—

(A) The whistleblower's role as a planner and initiator. Was the whistleblower the sole decision-maker or one of several contributing planners and initiators? To what extent was the whistleblower acting under the direction and control of a supervisor?

(B) The nature of the whistleblower's planning and initiating activities. Was the whistleblower involved in legitimate tax planning activities? Did the whistleblower take steps to hide the actions at the planning stage? Did the whistleblower commit any identifiable misconduct (legal, ethical, etc.)?

(C) The extent to which the whistleblower knew or should have known that tax noncompliance could result from the course of conduct.

(D) The extent to which the whistleblower acted in furtherance of the noncompliance, including, for example, efforts to conceal or disguise the transaction.

(E) The whistleblower's role in identifying and soliciting others to participate in the actions reported, whether as parties to a common transaction or as parties to separate transactions.

(v) *Examples.* The operation of the provisions of paragraphs (c)(3)(ii) and (iii) of this section may be illustrated by the following examples. These examples are intended to illustrate the operation of the computational framework. The examples provide simplified descriptions of the facts relating to the claim for award, the information provided, and the facts relating to the underlying tax case. The application of section 7623(b)(3) and paragraph (c)(3) of this section will depend on the specific facts of each case.

Example 1. Facts. Whistleblower A is employed as a junior associate in a law firm and is responsible for performing research and drafting activities for, and under the direction and control of, partners of the law firm. Whistleblower A performed research on financial products for Partner B that Partner B used in advising a client (Corporation 1) on a financial strategy. After Corporation 1 executed the strategy, Whistleblower A submitted a claim for award under section 7623 along with information about the strategy to the IRS. The IRS initiated an examination of Corporation 1 based on Whistleblower A's information, determined deficiencies in tax and penalties, and ultimately assessed and collected the tax and penalties as determined.

Analysis. Whistleblower A did nothing to design or set into motion Corporation 1's activities. Whistleblower A did not know or have reason to know that an underpayment of tax or actions described in section 7623(a)(2) could result from the research and drafting activities. Accordingly, as a threshold matter, Whistleblower A was not a planner and initiator of Corporation 1's strategy, and the award that would otherwise be determined based on the application of section 7623(b)(1) and paragraph (c)(1) of this section is not subject to reduction under section 7623(b)(3) and paragraph (c)(3) of this section.

Example 2. Facts. Whistleblower C is employed in the human resources department of a corporation (Corporation 2). Corporation 2 tasked Whistleblower C with hiring a large number of temporary employees to meet Corporation 2's seasonal business demands. Whistleblower C organized, scheduled, and conducted job fairs and job interviews to hire the seasonal employees. Whistleblower C was not responsible for, had no knowledge of, and played no part in, classifying the seasonal employees for Federal income tax purposes. Whistleblower C later discovered, however, that Corporation 2 classified the seasonal employees as independent contractors. After

discovering the misclassification, Whistleblower C submitted a claim for award under section 7623 along with non-privileged information describing the employee misclassification to the IRS. The IRS initiated an examination of Corporation 2 based on Whistleblower C's information, determined deficiencies in tax and penalties, and ultimately assessed and collected the tax and penalties as determined.

Analysis. The award that would otherwise be determined based on the application of section 7623(b)(1) and paragraph (c)(1) of this section would not be subject to a reduction under section 7623(b)(3) and paragraph (c)(3) of this section because Whistleblower C did not satisfy the requirements of the threshold determination of a planner and initiator. Whistleblower C did not know and had no reason to know that her actions could result in an underpayment of tax or actions described in section 7623(a)(2) or that Corporation 2 would misclassify the employees as independent contractors.

Example 3. Facts. Whistleblower D is employed as a supervisor in the finance department of a corporation (Corporation 3) and is responsible for planning Corporation 3's overall financial strategy. Pursuant to the overall financial strategy, Whistleblower D and others at Corporation 3, in good faith but incorrectly, planned tax-advantaged transactions. Whistleblower D and others at Corporation 3 prepared documents needed to execute the transactions. After Corporation 3 executed the transactions, Whistleblower D reached the conclusion that the tax consequences claimed were incorrect and Whistleblower D submitted a claim for award under section 7623 along with non-privileged information about the transactions to the IRS. The IRS initiated an examination of Corporation 3 based on Whistleblower D's information, determined deficiencies in tax and penalties, and ultimately assessed and collected the tax and penalties as determined.

Analysis. The award that would otherwise be determined based on the application of section 7623(b)(1) and paragraph (c)(1) of this section would be subject to an appropriate reduction under section 7623(b)(3) and paragraph (c)(3) of this section because Whistleblower D satisfies the requirements of the threshold determination of a planner and initiator. Whistleblower D planned the transactions, prepared the necessary documents, and knew that an underpayment of tax could result from the transactions. Whistleblower D was not the sole planner and initiator of Corporation 3's transactions. Whistleblower D did nothing to conceal Corporation 3's activities. Corporation 3 had a good faith basis for claiming the disallowed tax benefits. On the basis of those facts, Whistleblower D was a moderate-level planner and initiator. Accordingly, the Whistleblower Office will exercise its discretion to reduce Whistleblower D's award by 0 to 33 percent.

Example 4. Facts. Same facts as *Example 3*, except that Whistleblower D independently planned a high-risk tax avoidance transaction and prepared draft documents to execute the transaction. Whistleblower D presented the transaction, along with the draft documents, to Corporation 3's Chief Financial Officer. Without the further involvement of Whistleblower D, Corporation 3's Chief Financial Officer, Chief Executive Officer, and Board of Directors subsequently approved the execution of the transaction. After Corporation 3 executed the transaction, Whistleblower D submitted a claim for award under section 7623 along with non-privileged information about the transaction to the IRS. The IRS initiated an examination of Corporation 3 based on Whistleblower D's information, determined deficiencies in tax and penalties, and ultimately assessed and collected the tax and penalties as determined.

Analysis. The award that would otherwise be determined based on the application of section 7623(b)(1) and paragraph (c)(1) of this section would be subject to an appropriate reduction under section 7623(b)(3) and paragraph (c)(3) of this section because Whistleblower D satisfies the requirements of the threshold determination of a planner and initiator. Whistleblower D planned the transaction, prepared the necessary documents, and knew that an underpayment of tax or actions described in section 7623(a)(2) could result from the transaction. Working independently, Whistleblower D designed and took steps to effectuate the transaction while knowing that the planning and initiating of the transaction was likely to result in tax noncompliance. Whistleblower D, however, did not approve the execution of the transaction by Corporation 3 and, therefore, was not a decision-maker. On the basis of these facts, Whistleblower D was a significant-level planner and initiator. Accordingly, the Whistleblower Office will exercise its discretion to reduce Whistleblower D's award by 34 to 66 percent.

Example 5. Facts. Whistleblower E is a financial planner. Whistleblower E designed a financial product that the IRS identified as an abusive tax avoidance transaction. Whistleblower E marketed the transaction to taxpayers, facilitated their participation in the transaction, and, initially, took steps to disguise the transaction. After several taxpayers had participated in the transaction, Whistleblower E submitted a claim for award under section 7623 along with non-privileged information to the IRS about the transaction and the participating taxpayers. The IRS initiated an examination of the identified taxpayers based on Whistleblower E's information, determined deficiencies in tax and penalties, and ultimately assessed and

collected the tax and penalties as determined. Whistleblower E was not criminally prosecuted.

Analysis. The award that would otherwise be determined based on the application of section 7623(b)(1) and paragraph (c)(1) of this section would be subject to an appropriate reduction under section 7623(b)(3) and paragraph (c)(3) of this section because Whistleblower E satisfies the requirements of the threshold determination of a planner and initiator. Whistleblower E designed the financial product, marketed and facilitated its use by taxpayers, and knew that an underpayment of tax or actions described in section 7623(a)(2) could result from the transaction. Whistleblower E was the sole designer of the transaction, solicited clients to participate in the transaction, and facilitated and attempted to conceal their participation in the transaction. Whistleblower E knew that the planning and initiating of the taxpayers' participation in the transaction was likely to result in an underpayment of tax or actions described in section 7623(a)(2). On the basis of these facts, Whistleblower E was a primary-level planner and initiator. Accordingly, the Whistleblower Office will exercise its discretion to reduce Whistleblower E's award by 67 to 100 percent.

(4) *Multiple whistleblowers*. If two or more independent claims relate to the same collected proceeds, then the Whistleblower Office may evaluate the contribution of each whistleblower to the action(s) that resulted in collected proceeds. The Whistleblower Office will determine whether the information submitted by each whistleblower would have been obtained by the IRS as a result of the information previously submitted by any other whistleblower. If the Whistleblower Office determines that multiple whistleblowers submitted information that would not have been obtained based on a prior submission, then the Whistleblower Office will determine the amount of each whistleblower's award based on the extent to which each whistleblower contributed to the action(s). The aggregate award amount in cases involving two or more independent claims that relate to the same collected proceeds will not exceed the maximum award amount that could have resulted under section 7623(b)(1) or section 7623(b)(2), as applicable, subject to the award reduction provisions of section 7623(b)(3), if a single claim had been submitted.

(d) *Payment of Award*. (1) *In general*. The IRS will pay any award determined under section 7623 and §§ 301.7623–1 through 301.7623–4 to the whistleblower(s) that filed the corresponding claim for award. Payment of an award will be made as promptly as the circumstances permit, but not until there has been a final determination of tax with respect to the action(s), as defined in paragraph (d)(2) of this section, the Whistleblower Office has determined the award, and all appeals of the Whistleblower Office's determination are final or the whistleblower has executed an award consent form agreeing to the amount of the award and waiving the whistleblower's right to appeal the determination.

(2) *Final determination of tax*. (i) *In general*. For purposes of §§ 301.7623–1 through 301.7623–4, a *final determination of tax* means that the proceeds resulting from the action(s) subject to the award determination have been collected and either the statutory period for filing a claim for refund has expired or the taxpayer(s) subject to the action(s) and the IRS have agreed with finality to the tax or other liabilities for the period(s) at issue and the taxpayer(s) have waived the right to file a claim for refund. A final determination of tax does not preclude a subsequent final determination of tax if the IRS proceeds based on the information provided following the payment, denial, or rejection of an award.

(ii) *Example*. The provisions of paragraph (d)(2)(i) of this section, regarding subsequent final determination of tax, may be illustrated by the following example:

Example. Information provided to the IRS by a whistleblower, under section 7623 and § 301.7623–1, identifies a taxpayer (Corporation 1), describes and documents specific facts relating to Corporation 1's activities, and, based on those facts, alleges that Corporation 1 owed additional taxes in Year 1. The Whistleblower Office processes the incoming claim and provides the information to an IRS Operating Division (Operating Division 1). Operating Division 1 reviews the claim and the allegations and ultimately decides not to proceed with an action against Corporation 1. Operating Division 1 conveys its determination not to proceed with an action against Corporation 1 to the Whistleblower Office on a Form 11369 along with all of the relevant supporting documents. The Whistleblower Office provides written notice to the whistleblower, denying any award

pursuant to § 301.7623–3(c)(8), and the whistleblower does not appeal the notice to Tax Court within 30 days.

Two months after the Whistleblower Office denies the award, the Whistleblower Office recognizes a potential connection between the information provided and a recently-initiated, ongoing, examination of a second taxpayer by a second IRS Operating Division (Operating Division 2). The Whistleblower Office provides the information to Operating Division 2. Operating Division 2 evaluates the information and proceeds with an action against Taxpayer 2 based on the information provided. Ultimately, Operating Division 2 assesses and collects taxes resulting from the action and totaling $3 million. Following the conclusion of the whistleblower's participation in a whistleblower administrative proceeding described in § 301.7623–3(c) and the expiration of the statutory period for filing a claim for refund by Taxpayer 2, the Whistleblower Office determines the amount of the award and communicates the award to the whistleblower in a determination letter. The whistleblower may appeal the notice to the Tax Court within 30 days.

(3) *Joint Whistleblowers*. If multiple whistleblowers jointly submit a claim for award, the IRS will pay any award in equal shares to the joint whistleblowers unless the joint whistleblowers specify a different allocation in a written agreement, signed by all the joint whistleblowers and notarized, and submitted with the claim for award. The aggregate award payment in cases involving joint whistleblowers will be within the award percentage range of section 7623(b)(1) or section 7623(b)(2), as applicable, and subject to the award reduction provisions of section 7623(b)(3).

(4) *Deceased Whistleblower*. If a whistleblower dies before or during the whistleblower administrative proceeding, the Whistleblower Office may substitute an executor, administrator, or other legal representative on behalf of the deceased whistleblower for purposes of conducting the whistleblower administrative proceeding.

(5) *Tax treatment of award*. All awards are includible in gross income and subject to current Federal tax reporting and withholding requirements.

(e) *Effective/applicability date*. This rule is effective on August 12, 2014. This rule applies to information submitted on or after August 12, 2014, and to claims for award under section 7623(b) that are open as of August 12, 2014.

[T.D. 9687, 79 FR 47270, Aug. 12, 2014]

§ 301.7624–1 Reimbursement to State and local law enforcement agencies.

(a) *In general*. The Internal Revenue Service may reimburse a State or local law enforcement agency for expenses, such as salaries, overtime pay, per diem, and similar reasonable expenses, incurred in an investigation in which information is furnished to the Service that substantially contributes to the recovery of Federal taxes imposed with respect to illegal drug or related money laundering activities. The amount of reimbursement that may be paid shall not exceed the limits specified in paragraphs (e)(2) and (e)(3) of this section.

(b) *Information that substantially contributes to recovery of taxes*—(1) *Definition*. The Service generally will consider that information furnished by a State or local law enforcement agency substantially contributed to the recovery of taxes with respect to illegal drug or related money laundering activities provided the information was not already in the possession of the Service at the time the information is furnished by the State or local law enforcement agency, and

(i) Concerns a taxpayer who is not under examination or investigation by the Service at the time the information is furnished or has not already been selected by the Service for examination or investigation in the near future, or

(ii) Concerns a taxpayer who is under examination or has been selected for examination at the time the information is furnished but the information furnished would not normally have been discovered in the course of an ordinary investigation or examination by the Service. Also, information will generally be considered as substantially contributing to the recovery of taxes if it leads to the discovery of hidden assets owned by the taxpayer which are used to satisfy the taxpayer's assessed but otherwise uncollectible Federal tax liability with respect to illegal drug or related money laundering activities.

For purposes of this paragraph (b), information includes, but is not limited

to, tax years of violations, aliases, addresses, social security numbers and/or employer identification numbers, financial data (bank accounts, assets, etc.) and their location, and any documentation that substantiates allegations concerning tax liability (books and records) and its location.

(2) Examples:

Example 1. A local police department's narcotics division has been gathering information on a suspected local drug dealer for approximately six months. Because this person is very cautious when handling narcotics, the local police have been unsuccessful in catching this person in possession of drugs. Rather than drop the case, the narcotics detective turns over to the local IRS Criminal Investigation Division (CID) office information concerning this person. At the time the information is furnished, the Service is unaware of this person's suspected involvement in drugs and has no reason to suspect that this person's Federal income tax returns are incorrect. Upon examination of this person's returns for three open years, the Service determines that additional Federal income taxes and civil penalties of approximately $20,000 per year are due because of unreported income from drug dealing. Because the taxpayer was not under examination and was not reasonably anticipated to have been examined prior to receipt of the information, the Service will consider that the information furnished by the local police department substantially contributed to the recovery of approximately $60,000 in taxes with respect to illegal drug activities.

Example 2. Assume the same facts as example 1 except that at the time the information is turned over to the Service, the Service was already aware of the extent of this person's involvement in drug dealing, either through information developed in the course of examinations of other taxpayers or through information received from other sources, and had already selected this person's returns for examination although the person had not yet been contacted by the Service. In this case, the information provided by the local police department did not substantially contribute to the recovery of taxes from this person because the information was already known to the Service.

Example 3. A state or local police officer is conducting ordinary traffic patrol. The officer stops a vehicle for speeding and reckless driving. The officer recognizes the driver as a known narcotics dealer. In the vehicle is a brief case containing $75,000 in cash, but no trace of narcotics is found. The driver claims the cash was won in a high stakes poker game. The officer arrests the driver for traffic violations and takes the briefcase into custody for safe keeping. The local police department cannot seize the money because they cannot tie it to a narcotics transaction. Instead, they immediately inform the local CID office of their find. At the time this information is furnished to the Service, there is an unpaid assessed liability of $300,000 in Federal taxes and penalties owed by the dealer with respect to illegal drug activities that the Service has been unable to collect. Therefore, the Service immediately seizes the $75,000 in cash in partial payment of the tax liability. The Service will consider that the information furnished by the police department substantially contributed to the recovery of $75,000 in taxes with respect to drug related activities.

Example 4. Through information furnished by a reliable informant, a local police department learns that a known racketeer and suspected drug dealer maintains a second set of books and records in a safe at home. The local police obtain a search warrant and find a set of books revealing that this person has been using a legitimate business operation to launder money derived from both prostitution and drug dealing. At the time these records are turned over to the local CID office, the taxpayer is already under examination for tax evasion. However, based on the information contained in this second set of books, the Service is able to collect additional taxes and civil penalties in the amount of $1 million in connection with these illegal activities. The Service will consider that this information substantially contributed to the recovery of $1 million in taxes with respect to money laundering in connection with illegal drug activities because, even though the taxpayer was already under examination, the information provided by the local police would normally not have been discovered by the Service in the course of an ordinary investigation.

(c) *Application for reimbursement.* An agency that intends to apply for reimbursement under the provisions of this section must indicate this intent to the Service at the time the information is first provided to the Service. A final application for reimbursement of expenses must be submitted on Form 211A, State or Local Law Enforcement Application for Reimbursement, to the Chief, Criminal Investigation Division of the Internal Revenue Service district in which the taxpayer is located. Copies of Forms 9061, DAG–71, or other claim for an equitable share of asset forfeitures in the case must also be furnished with Form 211A.

(d) *Time for filing application for reimbursement.* An application for reimbursement may be filed by an agency at the time the information is first

provided or as soon as practicable after submitting information to the Service. However, it must be filed not later than 30 days after the Service notifies the agency pursuant to section 7624(b) of the amount of taxes collected as a result of the information provided. If an application for reimbursement is filed by more than one agency with respect to taxes recovered from a taxpayer, the Service will use discretion in determining an equitable amount of reimbursement allocated to each agency based on all relevant factors. In no event, however, shall the aggregate of the amounts paid by the Service to two or more agencies exceed the amount specified in paragraph (e)(3) of this section.

(e) *Amount and payment of reimbursement*—(1) *De minimis rule*. No reimbursement shall be paid under section 7624 or this section to a State or local law enforcement agency in any case where the taxes recovered total less than $50,000.

(2) *Taxes recovered*. For purposes of section 7624 and this section, the terms ''taxes'' recovered and ''sum'' recovered mean additional Federal taxes, civil penalties, and additions to tax collected (less any subsequent refund to the taxpayer) with respect to illegal drug or related money laundering activities, but not additional interest or criminal fines that may be collected.

(3) *Limitation on reimbursement*. The amount of reimbursement payable under section 7624 and this section shall not exceed 10 percent of any taxes recovered.

(4) *No duplicate reimbursement*. A State or local law emforcement agency shall not receive reimbursement under section 7624 or this section for any expenses incurred in the investigation of a taxpayer which have been or will be reimbursed under any other program or arrangement including, but not limited to, Federal or State forfeiture programs, State revenue laws, or Federal and State equitable sharing arrangements.

(5) *Time of payment*. No payment of any reimbursement under this section will be made to a State or local law enforcement agency before the later of final expiration of the applicable period of limitations for filing a claim for refund by the taxpayer of the taxes recovered as provided in subchapter B of chapter 66 of the Code or the determination of the taxpayer's tax liability, as defined in section 1313(a). However, reimbursement may be made earlier but only if the agency provides adequate indemnification against loss by the Service due to a refund to the taxpayer of Federal taxes recovered.

(6) *Applicability*. The provisions of section 7624 apply only to State and local law enforcement agencies within the United States and the District of Columbia.

(f) *Effective date*. This section applies with respect to information first provided to the Service by a State or local law enforcement agency after February 16, 1989.

[T.D. 8255, 54 FR 21054, May 16, 1989, as amended by 57 FR 2840, Jan. 24, 1992. Redesignated by T.D. 8415, 57 FR 15017, Apr. 24, 1992]

SUPERVISION OF OPERATIONS OF CERTAIN MANUFACTURERS

§ 301.7641–1 Supervision of operations of certain manufacturers.

For regulations under section 7641, except the provisions thereof relating to the manufacture of opium suitable for smoking purposes, see subparts E, F, G, and H or part 45 of this chapter (Miscellaneous Stamp Tax Regulations). For regulations relating to the manufacture of opium suitable for smoking purposes, see 26 CFR (1939) 150 (Narcotics Regulations 3, 3 FR 1402) as made applicable to section 7641 by Treasury Decision 6091, approved August 16, 1954 (19 FR 5167).

POSSESSIONS

§ 301.7654–1 Coordination of U.S. and Guam individual income taxes.

(a) *Application of section*—(1) *Scope*. Section 7654 and this section set forth the general procedures to be followed by the Government of the United States and the Government of Guam in the division between the two governments of revenue derived from collections of the income taxes imposed for any taxable year beginning after December 31, 1972, with respect to any individual described in subparagraph (2) of this paragraph (a), and paragraph (e)

of this section. To the extent that section 7654 and this section are inconsistent with the provisions of section 30 of the Organic Act of Guam (48 U.S.C. 1421h), relating to duties and taxes to be covered into the treasury of Guam and held in account for the Government of Guam, such section 30 is superseded.

(2) *Individuals covered.* Paragraph (b) of this section applies only to an individual who, for a taxable year, is described in paragraph (a)(2) of § 1.935–1 of this chapter (Income Tax Regulations) and has (or in the case of a joint return, such individual and his spouse have)—

(i) Adjusted gross income of $50,000 or more, and

(ii) Gross income of $5,000 or more from sources within the jurisdiction (either the United States or Guam) other than the jurisdiction with which the individual is required to file his income tax return under paragraph (b) of § 1.935–1 of this chapter.

For the determination of gross income and adjusted gross income see sections 61 and 62, and the regulations thereunder, or, when applicable, the corresponding provisions as made applicable in Guam by the Guam Territorial income tax (48 U.S.C. 1421i). For purposes of this paragraph, gross income consisting of compensation for military or naval service shall be taken into account notwithstanding section 514 of the Soldiers' and Sailors' Civil Relief Act of 1940 (50 App. U.S.C. 574). However, see paragraph (e) of this section.

(b) *Allocation of tax.* (1) Net collections of income taxes imposed for each taxable year beginning after December 31, 1972, with respect to each individual described in paragraph (a)(2) of this section for such year shall be divided between the United States and Guam by the Commissioner of Internal Revenue and the Commissioner of Revenue and Taxation of Guam as follows:

(i) Net collections attributable to income from sources within the United States shall be covered into the Treasury of the United States.

(ii) Net collections attributable to income from sources within Guam shall be covered into the treasury of Guam, and

(iii) Net collections not described in subdivision (i) or (ii) of this subparagraph (*i.e.*, net collections attributable to income from sources other than within the United States or Guam) shall be covered into the treasury of the jurisdiction (either the United States or Guam) with which the individual is required to file his return under paragraph (b) of § 1.935–1 of this chapter for such year.

(2) The amount of tax of any individual for a taxable year which shall be allocated to Guam for purposes of determining the portion of the net collections from such individual which shall be covered into the treasury of Guam by the United States for such year shall be that amount which bears the same ratio to such amount of tax as the adjusted gross income of that individual for such year which is allocable to sources in Guam bears to the total adjusted gross income of such individual for such year. For purposes of such allocation by the United States, the adjusted gross income of the taxpayer shall be determined by taking into account any compensation of any member of the Armed Forces for services performed in Guam the withheld tax on which is paid into the treasury of Guam pursuant to paragraph (e) of this section. The amount of tax of any individual for any taxable year which shall be allocated to the United States for purposes of determining the portion of the net collections from such individual which shall be covered into the Treasury of the United States by Guam for such year shall be that amount which bears the same ratio to such amount of tax as the adjusted gross income of that individual for such year which is allocable to sources in the United States bears to the total adjusted gross income of such individual for such year.

(c) *Definitions and special rules.* For purposes of this section—

(1) *Net collections.* (i) In determining net collections for a taxable year, appropriate adjustment between the two jurisdictions shall be made on a proportionate basis for underpayments of income taxes for such taxable year, credits allowed against the income tax for such taxable year (other than the credit for taxes withheld under section 3402

on wages), and refunds made of income taxes paid with respect to such taxable year. Thus, if a net operating loss results in a carryback to an earlier taxable year which gives rise to a refund for that earlier year, an adjustment must be made based upon the proportion which the amount of tax covered by one jurisdiction into the treasury of the other jurisdiction for that earlier year bears to the total amount of tax paid for that earlier year, even though the loss may have resulted from activities in one jurisdiction and the income, against which the loss was offset, was earned in the other jurisdiction. Similar adjustments must be made for foreign tax credit carrybacks even though different jurisdictions are involved. If, for example, an individual pays income tax of $30,000 to the United States for 1974 and $10,000 of such tax is covered into the treasury of Guam, and if for 1975 such individual has a net operating loss attributable to a trade or business carried on in the United States which loss is carried back to 1974 and gives rise to a refund of $15,000 by the United States, Guam must cover into the Treasury of the United States the amount of $5,000 which is the adjustment based upon the refund ($15,000 × $10,000/$30,000 = $5,000).

(ii) Tax withheld from the compensation of any member of the Armed Forces described in paragraph (a)(2) of this section which is paid to Guam pursuant to section 7654(d) and paragraph (e) of this section shall be taken into account in determining the amount required to be covered into the treasury of Guam under paragraph (b)(1)(ii) of this section.

(iii) For purposes of this subparagraph, any underpayment of tax is treated as attributable on a pro rata basis to income from sources within the United States, Guam, and sources other than within the United States or Guam, respectively, and is divided between the United States and Guam under the rules in paragraph (b) of this section.

(2) *Income taxes.* The term ''income taxes'' means—

(i) With respect to taxes imposed by the United States, the income taxes imposed by chapter 1 of the Code, and

(ii) With respect to taxes imposed by Guam, the Guam Territorial income tax (48 U.S.C. 1421i).

(3) *Source rules.* The determination of the source of income shall be based on the principles contained in sections 861 through 863, and the regulations thereunder, or, when applicable, in those sections as made applicable in Guam by the Guam Territorial income tax. For such purposes the provisions of section 514 of the Soldiers' and Sailors' Civil Relief Act of 1940 (50 App. U.S.C. 574) relating to the determination of the source of income of members of the Armed Forces shall not be taken into account. For purposes of this subparagraph, the provisions in section 935(c) treating Guam as part of the United States, and vice versa, do not apply. For definition of the terms ''United States'' and ''Guam'' (see section 7701(a)(9) of the Code and section 2 of the Organic Act of Guam (48 U.S.C. 1421).

(d) *Information return.* Each individual described in paragraph (a)(2) of this section for a taxable year who is required by paragraph (b)(1) of § 1.935–1 of this chapter to file his return of income for such year with the United States shall timely file a properly executed Form 5074 (Allocation of Individual Income Tax to Guam) by attaching such form to his income tax return. Each individual described in paragraph (a)(2) of this section for a taxable year who is required by paragraph (b)(1) of § 1.935–1 of this chapter to file his return of income for such year with Guam shall timely file such information as may be required by the Commissioner of Revenue and Taxation with respect to his income derived from sources within the United States. See section 6688 and § 301.6688–1 for the penalty for failure to comply with this paragraph.

(e) *Military personnel in Guam.* The Commissioner of Internal Revenue shall arrange to pay to Guam the amount of the taxes deducted and withheld by the United States under section 3402 from wages paid to members of the Armed Forces who are stationed in Guam but who have no income tax liability to Guam with respect to such wages by reason of section 514 of the Soldiers' and Sailors' Civil Relief Act

of 1940 (50 App. U.S.C. 574). Section 514 of that Act provides in effect that for purposes of the taxation of income by Guam a person shall not be deemed to have lost a residence or domicile in the United States solely by reason of being absent therefrom in compliance with military or naval orders and the compensation for military or naval service of such a person who is not a resident of, or domiciled in, Guam shall not be deemed income for services performed within, or from sources within, Guam. Any amount paid to Guam under this paragraph in respect of a member of the Armed Forces described in paragraph (a)(2) of this section shall be taken into account in determining the amount required to be covered into the treasury of Guam under paragraph (b)(1)(ii) of this section. For purposes of this paragraph, the term ''Armed Forces of the United States'' has the meaning provided by § 301.7701–8 of this chapter. This paragraph does not apply to wages for services performed in Guam by members of the Armed Forces of the United States which are not compensation for military or naval service. In determining the amount of tax to be covered into the treasury of Guam under this paragraph with respect to remuneration for services performed in Guam by members of the Armed Forces of the United States, the special procedure agreed upon with the Department of Defense in 1951 shall not apply to remuneration paid after December 31, 1974. Under that procedure the tax withheld under section 3402 upon such remuneration for services performed in Guam during April and October of each year was to be projected for the appropriate six-month period of which the base month is a part, thereby arriving at an estimated figure for semiannual withholding tax to be covered over.

(f) *Transfers of funds*. The transfers of funds between the United States and Guam required to effectuate the provisions of this section shall be made when convenient for the two governments, but not less frequently than once in each calendar year. In complying with paragraph (b) of this section, only net balances will be transferred between the two governments. Further, amounts transferred pursuant to paragraph (b) of this section may be determined on the basis of estimates rather than the actual amounts derived from information furnished by taxpayers, except that the net collections for 1973 and every third calendar year thereafter are to be transferred on the basis of the information furnished by taxpayers pursuant to paragraph (d) of this section. In order to facilitate the transfer of funds pursuant to this section, the Commissioner of Internal Revenue and the Commissioner of Revenue and Taxation of Guam shall exchange such information, including copies of income tax returns, as will ensure that the provisions of section 7654 and this section are being properly implemented.

[T.D. 7385, 40 FR 50265, Oct. 29, 1975]

Definitions

§ 301.7701–1 Classification of organizations for federal tax purposes.

(a) *Organizations for federal tax purposes*—(1) *In general*. The Internal Revenue Code prescribes the classification of various organizations for federal tax purposes. Whether an organization is an entity separate from its owners for federal tax purposes is a matter of federal tax law and does not depend on whether the organization is recognized as an entity under local law.

(2) *Certain joint undertakings give rise to entities for federal tax purposes*. A joint venture or other contractual arrangement may create a separate entity for federal tax purposes if the participants carry on a trade, business, financial operation, or venture and divide the profits therefrom. For example, a separate entity exists for federal tax purposes if co- owners of an apartment building lease space and in addition provide services to the occupants either directly or through an agent. Nevertheless, a joint undertaking merely to share expenses does not create a separate entity for federal tax purposes. For example, if two or more persons jointly construct a ditch merely to drain surface water from their properties, they have not created a separate entity for federal tax purposes. Similarly, mere co-ownership of property that is maintained, kept in repair,

and rented or leased does not constitute a separate entity for federal tax purposes. For example, if an individual owner, or tenants in common, of farm property lease it to a farmer for a cash rental or a share of the crops, they do not necessarily create a separate entity for federal tax purposes.

(3) *Certain local law entities not recognized.* An entity formed under local law is not always recognized as a separate entity for federal tax purposes. For example, an organization wholly owned by a State is not recognized as a separate entity for federal tax purposes if it is an integral part of the State. Similarly, tribes incorporated under section 17 of the Indian Reorganization Act of 1934, as amended, 25 U.S.C. 477, or under section 3 of the Oklahoma Indian Welfare Act, as amended, 25 U.S.C. 503, are not recognized as separate entities for federal tax purposes.

(4) *Single owner organizations.* Under §§ 301.7701–2 and 301.7701–3, certain organizations that have a single owner can choose to be recognized or disregarded as entities separate from their owners.

(b) *Classification of organizations.* The classification of organizations that are recognized as separate entities is determined under §§ 301.7701–2, 301.7701–3, and 301.7701–4 unless a provision of the Internal Revenue Code (such as section 860A addressing Real Estate Mortgage Investment Conduits (REMICs)) provides for special treatment of that organization. For the classification of organizations as trusts, see § 301.7701–4. That section provides that trusts generally do not have associates or an objective to carry on business for profit. Sections 301.7701–2 and 301.7701–3 provide rules for classifying organizations that are not classified as trusts.

(c) *Cost sharing arrangements.* A cost sharing arrangement that is described in § 1.482–7 of this chapter, including any arrangement that the Commissioner treats as a CSA under § 1.482–7(b)(5) of this chapter, is not recognized as a separate entity for purposes of the Internal Revenue Code. See § 1.482–7 of this chapter for the rules regarding CSAs.

(d) *Domestic and foreign business entities.* See § 301.7701–5 for the rules that determine whether a business entity is domestic or foreign.

(e) *State.* For purposes of this section and § 301.7701–2, the term *State* includes the District of Columbia.

(f) *Effective/applicability dates.* Except as provided in the following sentence, the rules of this section are applicable as of January 1, 1997. The rules of paragraph (c) of this section are applicable on January 5, 2009.

[T.D. 8697, 61 FR 66588, Dec. 18, 1996, as amended by T.D. 9153, 69 FR 49810, Aug. 12, 2004; T.D. 9246, 71 FR 4816, Jan. 30, 2006; T.D. 9441, 74 FR 390, Jan. 5, 2009; T.D. 9568, 76 FR 80136, Dec. 22, 2011]

§ 301.7701–2 Business entities; definitions.

(a) *Business entities.* For purposes of this section and § 301.7701–3, a *business entity* is any entity recognized for federal tax purposes (including an entity with a single owner that may be disregarded as an entity separate from its owner under § 301.7701–3) that is not properly classified as a trust under § 301.7701–4 or otherwise subject to special treatment under the Internal Revenue Code. A business entity with two or more members is classified for federal tax purposes as either a corporation or a partnership. A business entity with only one owner is classified as a corporation or is disregarded; if the entity is disregarded, its activities are treated in the same manner as a sole proprietorship, branch, or division of the owner. But see paragraphs (c)(2)(iii) through (vi) of this section for special rules that apply to an eligible entity that is otherwise disregarded as an entity separate from its owner.

(b) *Corporations.* For federal tax purposes, the term *corporation* means—

(1) A business entity organized under a Federal or State statute, or under a statute of a federally recognized Indian tribe, if the statute describes or refers to the entity as incorporated or as a corporation, body corporate, or body politic;

(2) An association (as determined under § 301.7701–3);

(3) A business entity organized under a State statute, if the statute describes or refers to the entity as a joint-stock company or joint-stock association;

(4) An insurance company;

(5) A State-chartered business entity conducting banking activities, if any of

its deposits are insured under the Federal Deposit Insurance Act, as amended, 12 U.S.C. 1811 *et seq.*, or a similar federal statute;

(6) A business entity wholly owned by a State or any political subdivision thereof, or a business entity wholly owned by a foreign government or any other entity described in § 1.892–2T;

(7) A business entity that is taxable as a corporation under a provision of the Internal Revenue Code other than section 7701(a)(3); and

(8) *Certain foreign entities*—(i) *In general.* Except as provided in paragraphs (b)(8)(ii) and (d) of this section, the following business entities formed in the following jurisdictions:

American Samoa, Corporation
Argentina, Sociedad Anonima
Australia, Public Limited Company
Austria, Aktiengesellschaft
Barbados, Limited Company
Belgium, Societe Anonyme
Belize, Public Limited Company
Bolivia, Sociedad Anonima
Brazil, Sociedade Anonima
Bulgaria, Aktsionerno Druzhestvo.
Canada, Corporation and Company
Chile, Sociedad Anonima
People's Republic of China, Gufen Youxian Gongsi
Republic of China (Taiwan), Ku-fen Yu-hsien Kung-szu
Colombia, Sociedad Anonima
Costa Rica, Sociedad Anonima
Cyprus, Public Limited Company
Czech Republic, Akciova Spolecnost
Denmark, Aktieselskab
Ecuador, Sociedad Anonima or Compania Anonima
Egypt, Sharikat Al-Mossahamah
El Salvador, Sociedad Anonima
Estonia, Aktsiaselts
European Economic Area/European Union, Societas Europaea
Finland, Julkinen Osakeyhtio/Publikt Aktiebolag
France, Societe Anonyme
Germany, Aktiengesellschaft
Greece, Anonymos Etairia
Guam, Corporation
Guatemala, Sociedad Anonima
Guyana, Public Limited Company
Honduras, Sociedad Anonima
Hong Kong, Public Limited Company
Hungary, Reszvenytarsasag
Iceland, Hlutafelag
India, Public Limited Company
Indonesia, Perseroan Terbuka
Ireland, Public Limited Company
Israel, Public Limited Company
Italy, Societa per Azioni
Jamaica, Public Limited Company
Japan, Kabushiki Kaisha
Kazakstan, Ashyk Aktsionerlik Kogham
Republic of Korea, Chusik Hoesa
Latvia, Akciju Sabiedriba
Liberia, Corporation
Liechtenstein, Aktiengesellschaft
Lithuania, Akcine Bendroves
Luxembourg, Societe Anonyme
Malaysia, Berhad
Malta, Public Limited Company
Mexico, Sociedad Anonima
Morocco, Societe Anonyme
Netherlands, Naamloze Vennootschap
New Zealand, Limited Company
Nicaragua, Compania Anonima
Nigeria, Public Limited Company
Northern Mariana Islands, Corporation
Norway, Allment Aksjeselskap
Pakistan, Public Limited Company
Panama, Sociedad Anonima
Paraguay, Sociedad Anonima
Peru, Sociedad Anonima
Philippines, Stock Corporation
Poland, Spolka Akcyjna
Portugal, Sociedade Anonima
Puerto Rico, Corporation
Romania, Societate pe Actiuni
Russia, Otkrytoye Aktsionernoy Obshchestvo
Saudi Arabia, Sharikat Al-Mossahamah
Singapore, Public Limited Company
Slovak Republic, Akciova Spolocnost
Slovenia, Delniska Druzba
South Africa, Public Limited Company
Spain, Sociedad Anonima
Surinam, Naamloze Vennootschap
Sweden, Publika Aktiebolag
Switzerland, Aktiengesellschaft
Thailand, Borisat Chamkad (Mahachon)
Trinidad and Tobago, Limited Company
Tunisia, Societe Anonyme
Turkey, Anonim Sirket
Ukraine, Aktsionerne Tovaristvo Vidkritogo Tipu
United Kingdom, Public Limited Company
United States Virgin Islands, Corporation
Uruguay, Sociedad Anonima
Venezuela, Sociedad Anonima or Compania Anonima

(ii) *Clarification of list of corporations in paragraph (b)(8)(i) of this section*—(A) *Exceptions in certain cases.* The following entities will not be treated as corporations under paragraph (b)(8)(i) of this section:

(*1*) With regard to Canada, a Nova Scotia Unlimited Liability Company (or any other company or corporation all of whose owners have unlimited liability pursuant to federal or provincial law).

(*2*) With regard to India, a company deemed to be a public limited company solely by operation of section 43A(1)

(relating to corporate ownership of the company), section 43A(1A) (relating to annual average turnover), or section 43A(1B) (relating to ownership interests in other companies) of the Companies Act, 1956 (or any combination of these), provided that the organizational documents of such deemed public limited company continue to meet the requirements of section 3(1)(iii) of the Companies Act, 1956.

(*3*) With regard to Malaysia, a Sendirian Berhad.

(B) *Inclusions in certain cases.* With regard to Mexico, the term Sociedad Anonima includes a Sociedad Anonima that chooses to apply the variable capital provision of Mexican corporate law (Sociedad Anonima de Capital Variable).

(iii) *Public companies.* For purposes of paragraph (b)(8)(i) of this section, with regard to Cyprus, Hong Kong, and Jamaica, the term Public Limited Company includes any Limited Company that is not defined as a private company under the corporate laws of those jurisdictions. In all other cases, where the term Public Limited Company is not defined, that term shall include any Limited Company defined as a public company under the corporate laws of the relevant jurisdiction.

(iv) *Limited companies.* For purposes of this paragraph (b)(8), any reference to a Limited Company includes, as the case may be, companies limited by shares and companies limited by guarantee.

(v) *Multilingual countries.* Different linguistic renderings of the name of an entity listed in paragraph (b)(8)(i) of this section shall be disregarded. For example, an entity formed under the laws of Switzerland as a Societe Anonyme will be a corporation and treated in the same manner as an Aktiengesellschaft.

(b)(9) *Business entities with multiple charters.* (i) An entity created or organized under the laws of more than one jurisdiction if the rules of this section would treat it as a corporation with reference to any one of the jurisdictions in which it is created or organized. Such an entity may elect its classification under § 301.7701–3, subject to the limitations of those provisions, only if it is created or organized in each jurisdiction in a manner that meets the definition of an eligible entity in § 301.7701–3(a). The determination of a business entity's corporate or noncorporate classification is made independently from the determination of whether the entity is domestic or foreign. See § 301.7701–5 for the rules that determine whether a business entity is domestic or foreign.

(ii) *Examples.* The following examples illustrate the rule of this paragraph (b)(9):

Example 1. (i) *Facts.* X is an entity with a single owner organized under the laws of Country A as an entity that is listed in paragraph (b)(8)(i) of this section. Under the rules of this section, such an entity is a corporation for Federal tax purposes and under § 301.7701–3(a) is unable to elect its classification. Several years after its formation, X files a certificate of domestication in State B as a limited liability company (LLC). Under the laws of State B, X is considered to be created or organized in State B as an LLC upon the filing of the certificate of domestication and is therefore subject to the laws of State B. Under the rules of this section and § 301.7701–3, an LLC with a single owner organized only in State B is disregarded as an entity separate from its owner for Federal tax purposes (absent an election to be treated as an association). Neither Country A nor State B law requires X to terminate its charter in Country A as a result of the domestication, and in fact X does not terminate its Country A charter. Consequently, X is now organized in more than one jurisdiction.

(ii) *Result.* X remains organized under the laws of Country A as an entity that is listed in paragraph (b)(8)(i) of this section, and as such, it is an entity that is treated as a corporation under the rules of this section. Therefore, X is a corporation for Federal tax purposes because the rules of this section would treat X as a corporation with reference to one of the jurisdictions in which it is created or organized. Because X is organized in Country A in a manner that does not meet the definition of an eligible entity in § 301.7701–3(a), it is unable to elect its classification.

Example 2. (i) *Facts.* Y is an entity that is incorporated under the laws of State A and has two shareholders. Under the rules of this section, an entity incorporated under the laws of State A is a corporation for Federal tax purposes and under § 301.7701–3(a) is unable to elect its classification. Several years after its formation, Y files a certificate of continuance in Country B as an unlimited company. Under the laws of Country B, upon filing a certificate of continuance, Y is treated as organized in Country B. Under the

rules of this section and § 301.7701–3, an unlimited company organized only in Country B that has more than one owner is treated as a partnership for Federal tax purposes (absent an election to be treated as an association). Neither State A nor Country B law requires Y to terminate its charter in State A as a result of the continuance, and in fact Y does not terminate its State A charter. Consequently, Y is now organized in more than one jurisdiction.

(ii) *Result.* Y remains organized in State A as a corporation, an entity that is treated as a corporation under the rules of this section. Therefore, Y is a corporation for Federal tax purposes because the rules of this section would treat Y as a corporation with reference to one of the jurisdictions in which it is created or organized. Because Y is organized in State A in a manner that does not meet the definition of an eligible entity in § 301.7701–3(a), it is unable to elect its classification.

Example 3. (i) *Facts.* Z is an entity that has more than one owner and that is recognized under the laws of Country A as an unlimited company organized in Country A. Z is organized in Country A in a manner that meets the definition of an eligible entity in § 301.7701–3(a). Under the rules of this section and § 301.7701–3, an unlimited company organized only in Country A with more than one owner is treated as a partnership for Federal tax purposes (absent an election to be treated as an association). At the time Z was formed, it was also organized as a private limited company under the laws of Country B. Z is organized in Country B in a manner that meets the definition of an eligible entity in § 301.7701–3(a). Under the rules of this section and § 301.7701–3, a private limited company organized only in Country B is treated as a corporation for Federal tax purposes (absent an election to be treated as a partnership). Thus, Z is organized in more than one jurisdiction. Z has not made any entity classification elections under § 301.7701–3.

(ii) *Result.* Z is organized in Country B as a private limited company, an entity that is treated (absent an election to the contrary) as a corporation under the rules of this section. However, because Z is organized in each jurisdiction in a manner that meets the definition of an eligible entity in § 301.7701–3(a), it may elect its classification under § 301.7701–3, subject to the limitations of those provisions.

Example 4. (i) *Facts.* P is an entity with more than one owner organized in Country A as a general partnership. Under the rules of this section and § 301.7701–3, an eligible entity with more than one owner in Country A is treated as a partnership for federal tax purposes (absent an election to be treated as an association). P files a certificate of continuance in Country B as an unlimited company. Under the rules of this section and § 301.7701–3, an unlimited company in Country B with more than one owner is treated as a partnership for federal tax purposes (absent an election to be treated as an association). P is not required under either the laws of Country A or Country B to terminate the general partnership in Country A, and in fact P does not terminate its Country A partnership. P is now organized in more than one jurisdiction. P has not made any entity classification elections under § 301.7701–3.

(ii) *Result.* P's organization in both Country A and Country B would result in P being classified as a partnership. Therefore, since the rules of this section would not treat P as a corporation with reference to any jurisdiction in which it is created or organized, it is not a corporation for federal tax purposes.

(c) *Other business entities.* For federal tax purposes—

(1) The term *partnership* means a business entity that is not a corporation under paragraph (b) of this section and that has at least two members.

(2) *Wholly owned entities*—(i) *In general.* Except as otherwise provided in this paragraph (c), a business entity that has a single owner and is not a corporation under paragraph (b) of this section is disregarded as an entity separate from its owner.

(ii) *Special rule for certain business entities.* If the single owner of a business entity is a bank (as defined in section 581, or, in the case of a foreign bank, as defined in section 585(a)(2)(B) without regard to the second sentence thereof), then the special rules applicable to banks under the Internal Revenue Code will continue to apply to the single owner as if the wholly owned entity were a separate entity. For this purpose, the special rules applicable to banks under the Internal Revenue Code do not include the rules under sections 864(c), 882(c), and 884.

(iii) *Tax liabilities of certain disregarded entities*—(A) *In general.* An entity that is disregarded as separate from its owner for any purpose under this section is treated as an entity separate from its owner for purposes of—

(*1*) Federal tax liabilities of the entity with respect to any taxable period for which the entity was not disregarded;

(*2*) Federal tax liabilities of any other entity for which the entity is liable; and

(*3*) Refunds or credits of Federal tax.

(B) *Examples*. The following examples illustrate the application of paragraph (c)(2)(iii)(A) of this section:

Example 1. In 2006, X, a domestic corporation that reports its taxes on a calendar year basis, merges into Z, a domestic LLC wholly owned by Y that is disregarded as an entity separate from Y, in a state law merger. X was not a member of a consolidated group at any time during its taxable year ending in December 2005. Under the applicable state law, Z is the successor to X and is liable for all of X's debts. In 2009, the Internal Revenue Service (IRS) seeks to extend the period of limitations on assessment for X's 2005 taxable year. Because Z is the successor to X and is liable for X's 2005 taxes that remain unpaid, Z is the proper party to sign the consent to extend the period of limitations.

Example 2. The facts are the same as in *Example 1*, except that in 2007, the IRS determines that X miscalculated and underreported its income tax liability for 2005. Because Z is the successor to X and is liable for X's 2005 taxes that remain unpaid, the deficiency may be assessed against Z and, in the event that Z fails to pay the liability after notice and demand, a general tax lien will arise against all of Z's property and rights to property.

(iv) *Special rule for employment tax purposes*—

(A) *In general*. Except as provided in paragraph (c)(2)(iv)(C) of this section, paragraph (c)(2)(i) of this section (relating to certain wholly owned entities) does not apply to taxes imposed under Subtitle C—Employment Taxes and Collection of Income Tax (Chapters 21, 22, 23, 23A, 24, and 25 of the Internal Revenue Code).

(B) *Treatment of entity*. Except as provided in paragraph (c)(2)(iv)(C) of this section, an entity that is disregarded as an entity separate from its owner for any purpose under this section is treated as a corporation with respect to taxes imposed under Subtitle C—Employment Taxes and Collection of Income Tax (Chapters 21, 22, 23, 23A, 24, and 25 of the Internal Revenue Code). For special rules regarding the application of certain employment tax exceptions, see §§ 31.3121(b)(3)–1(d), 31.3127–1(b), and 31.3306(c)(5)–1(d) of this chapter.

(C) *Special rules*. (*1*) Paragraphs (c)(2)(iv)(A) and (B) of this section do not apply to withholding requirements imposed by section 3406 (backup withholding). Thus, in the case of an entity that is disregarded as an entity separate from its owner for any purpose under this section, the owner is subject to the withholding requirements imposed by section 3406 (backup withholding).

(*2*) Paragraph (c)(2)(i) of this section applies to taxes imposed under subtitle A of the Code, including Chapter 2—Tax on Self-Employment Income. Thus, an entity that is treated in the same manner as a sole proprietorship under paragraph (a) of this section is not treated as a corporation for purposes of employing its owner; instead, the entity is disregarded as an entity separate from its owner for this purpose and is not the employer of its owner. The owner will be subject to self-employment tax on self-employment income with respect to the entity's activities. Also, if a partnership is the owner of an entity that is disregarded as an entity separate from its owner for any purpose under this section, the entity is not treated as a corporation for purposes of employing a partner of the partnership that owns the entity; instead, the entity is disregarded as an entity separate from the partnership for this purpose and is not the employer of any partner of the partnership that owns the entity. A partner of a partnership that owns an entity that is disregarded as an entity separate from its owner for any purpose under this section is subject to the same self-employment tax rules as a partner of a partnership that does not own an entity that is disregarded as an entity separate from its owner for any purpose under this section.

(D) *Example*. The following example illustrates the application of paragraph (c)(2)(iv) of this section:

Example. (i) LLCA is an eligible entity owned by individual A and is generally disregarded as an entity separate from its owner for Federal tax purposes. However, LLCA is treated as an entity separate from its owner for purposes of subtitle C of the Internal Revenue Code. LLCA has employees and pays wages as defined in sections 3121(a), 3306(b), and 3401(a).

(ii) LLCA is subject to the provisions of subtitle C of the Internal Revenue Code and related provisions under 26 CFR subchapter C, Employment Taxes and Collection of Income Tax at Source, parts 31 through 39. Accordingly, LLCA is required to perform such

acts as are required of an employer under those provisions of the Internal Revenue Code and regulations thereunder that apply. All provisions of law (including penalties) and the regulations prescribed in pursuance of law applicable to employers in respect of such acts are applicable to LLCA. Thus, for example, LLCA is liable for income tax withholding, Federal Insurance Contributions Act (FICA) taxes, and Federal Unemployment Tax Act (FUTA) taxes. See sections 3402 and 3403 (relating to income tax withholding); 3102(b) and 3111 (relating to FICA taxes), and 3301 (relating to FUTA taxes). In addition, LLCA must file under its name and EIN the applicable Forms in the 94X series, for example, Form 941, ''Employer's Quarterly Employment Tax Return,'' Form 940, ''Employer's Annual Federal Unemployment Tax Return;'' file with the Social Security Administration and furnish to LLCA's employees statements on Forms W–2, ''Wage and Tax Statement;'' and make timely employment tax deposits. See §§ 31.6011(a)–1, 31.6011(a)–3, 31.6051–1, 31.6051–2, and 31.6302–1 of this chapter.

(iii) A is self-employed for purposes of subtitle A, chapter 2, Tax on Self-Employment Income, of the Internal Revenue Code. Thus, A is subject to tax under section 1401 on A's net earnings from self-employment with respect to LLCA's activities. A is not an employee of LLCA for purposes of subtitle C of the Internal Revenue Code. Because LLCA is treated as a sole proprietorship of A for income tax purposes, A is entitled to deduct trade or business expenses paid or incurred with respect to activities carried on through LLCA, including the employer's share of employment taxes imposed under sections 3111 and 3301, on A's Form 1040, Schedule C, ''Profit or Loss for Business (Sole Proprietorship).''

(v) *Special rule for certain excise tax purposes*—(A) *In general.* Paragraph (c)(2)(i) of this section (relating to certain wholly owned entities) does not apply for purposes of—

(*1*) Federal tax liabilities imposed by Chapters 31, 32 (other than section 4181), 33, 34, 35, 36 (other than section 4461), 38, and 49 of the Internal Revenue Code, or any floor stocks tax imposed on articles subject to any of these taxes;

(*2*) Collection of tax imposed by Chapters 33 and 49 of the Internal Revenue Code;

(*3*) Registration under sections 4101, 4222, 4412;

(*4*) Claims of a credit (other than a credit under section 34), refund, or payment related to a tax described in paragraph (c)(2)(v)(A)(*1*) of this section or under section 6426 or 6427; and

(*5*) Assessment and collection of an assessable payment imposed by section 4980H and reporting required by section 6056.

(B) *Treatment of entity.* An entity that is disregarded as an entity separate from its owner for any purpose under this section is treated as a corporation with respect to items described in paragraph (c)(2)(v)(A) of this section.

(C) *Example.* The following example illustrates the provisions of this paragraph (c)(2)(v):

Example. (i) LLCB is an eligible entity that has a single owner, B. LLCB is generally disregarded as an entity separate from its owner. However, under paragraph (c)(2)(v) of this section, LLCB is treated as an entity separate from its owner for certain purposes relating to excise taxes.

(ii) LLCB mines coal from a coal mine located in the United States. Section 4121 of chapter 32 of the Internal Revenue Code imposes a tax on the producer's sale of such coal. Section 48.4121–1(a) of this chapter defines a ''producer'' generally as the person in whom is vested ownership of the coal under state law immediately after the coal is severed from the ground. LLCB is the person that owns the coal under state law immediately after it is severed from the ground. Under paragraph (c)(2)(v)(A)(*1*) of this section, LLCB is the producer of the coal and is liable for tax on its sale of such coal under chapter 32 of the Internal Revenue Code. LLCB must report and pay tax on Form 720, ''Quarterly Federal Excise Tax Return,'' under its own name and taxpayer identification number.

(iii) LLCB uses undyed diesel fuel in an earthmover that is not registered or required to be registered for highway use. Such use is an off-highway business use of the fuel. Under section 6427(l), the ultimate purchaser is allowed to claim an income tax credit or payment related to the tax imposed on diesel fuel used in an off-highway business use. Under paragraph (c)(2)(v) of this section, for purposes of the credit or payment allowed under section 6427(l), LLCB is the person that could claim the amount on its Form 720 or on a Form 8849, ''Claim for Refund of Excise Taxes.'' Alternatively, if LLCB did not claim a payment during the time prescribed in section 6427(i)(2) for making a claim under section 6427, § 1.34–1 of this chapter provides that B, the owner of LLCB, could claim the income tax credit allowed under section 34 for the nontaxable use of diesel fuel by LLCB.

(iv) Assume the same facts as in paragraph (c)(2)(v)(C) *Example* (i) and (ii) of this section.

If LLCB does not pay the tax on its sale of coal under chapter 32 of the Internal Revenue Code, any notice of lien the Internal Revenue Service files will be filed as if LLCB were a corporation.

(vi) *Special rule for reporting under section 6038A*—(A) *In general.* An entity that is disregarded as an entity separate from its owner for any purpose under this section is treated as an entity separate from its owner and classified as a corporation for purposes of section 6038A if—

(*1*) The entity is a domestic entity; and

(*2*) One foreign person has direct or indirect sole ownership of the entity.

(B) *Definitions*—(*1*) *Indirect sole ownership.* For purposes of paragraph (c)(2)(vi)(A)(*2*) of this section, indirect sole ownership means ownership by one person entirely through one or more other entities disregarded as entities separate from their owners or through one or more grantor trusts, regardless of whether any such disregarded entity or grantor trust is domestic or foreign.

(*2*) *Entity disregarded as separate from its owner.* For purposes of paragraph (c)(2)(vi)(B)(*1*) of this section, an entity disregarded as an entity separate from its owner is an entity described in paragraph (c)(2)(i) of this section.

(*3*) *Grantor trust.* For purposes of paragraph (c)(2)(vi)(B)(*1*) of this section, a grantor trust is any portion of a trust that is treated as owned by the grantor or another person under subpart E of subchapter J of chapter 1 of the Code.

(C) *Taxable year.* The taxable year of an entity classified as a corporation for section 6038A purposes pursuant to paragraph (c)(2)(vi)(A) of this section is—

(*1*) The same as the taxable year of the foreign person described in paragraph (c)(2)(vi)(A)(*2*) of this section, if that foreign person has a U.S. income tax or information return filing obligation for its taxable year; or

(*2*) The calendar year, if paragraph (c)(2)(vi)(C)(*1*) of this section does not apply, unless otherwise provided in forms, instructions, or published guidance.

(d) *Special rule for certain foreign business entities*—(1) *In general.* Except as provided in paragraph (d)(3) of this section, a foreign business entity described in paragraph (b)(8)(i) of this section will not be treated as a corporation under paragraph (b)(8)(i) of this section if—

(i) The entity was in existence on May 8, 1996;

(ii) The entity's classification was relevant (as defined in § 301.7701–3(d)) on May 8, 1996;

(iii) No person (including the entity) for whom the entity's classification was relevant on May 8, 1996, treats the entity as a corporation for purposes of filing such person's federal income tax returns, information returns, and withholding documents for the taxable year including May 8, 1996;

(iv) Any change in the entity's claimed classification within the sixty months prior to May 8, 1996, occurred solely as a result of a change in the organizational documents of the entity, and the entity and all members of the entity recognized the federal tax consequences of any change in the entity's classification within the sixty months prior to May 8, 1996;

(v) A reasonable basis (within the meaning of section 6662) existed on May 8, 1996, for treating the entity as other than a corporation; and

(vi) Neither the entity nor any member was notified in writing on or before May 8, 1996, that the classification of the entity was under examination (in which case the entity's classification will be determined in the examination).

(2) *Binding contract rule.* If a foreign business entity described in paragraph (b)(8)(i) of this section is formed after May 8, 1996, pursuant to a written binding contract (including an accepted bid to develop a project) in effect on May 8, 1996, and all times thereafter, in which the parties agreed to engage (directly or indirectly) in an active and substantial business operation in the jurisdiction in which the entity is formed, paragraph (d)(1) of this section will be applied to that entity by substituting the date of the entity's formation for May 8, 1996.

(3) *Termination of grandfather status*—(i) *In general.* An entity that is not treated as a corporation under paragraph (b)(8)(i) of this section by reason

of paragraph (d)(1) or (d)(2) of this section will be treated permanently as a corporation under paragraph (b)(8)(i) of this section from the earliest of:

(A) The effective date of an election to be treated as an association under § 301.7701–3;

(B) A termination of the partnership under section 708(b)(1)(B) (regarding sale or exchange of 50 percent or more of the total interest in an entity's capital or profits within a twelve month period);

(C) A division of the partnership under section 708(b)(2)(B); or

(D) The date any person or persons, who were not owners of the entity as of November 29, 1999, own in the aggregate a 50 percent or greater interest in the entity.

(ii) *Special rule for certain entities.* For purposes of paragraph (d)(2) of this section, paragraph (d)(3)(i)(B) of this section shall not apply if the sale or exchange of interests in the entity is to a related person (within the meaning of sections 267(b) and 707(b)) and occurs no later than twelve months after the date of the formation of the entity.

(e) *Effective/applicability date.* (1) Except as otherwise provided in this paragraph (e), the rules of this section apply as of January 1, 1997, except that paragraph (b)(6) of this section applies on or after January 14, 2002, to a business entity wholly owned by a foreign government regardless of any prior entity classification, and paragraph (c)(2)(ii) of this section applies to taxable years beginning after January 12, 2001. The reference to the Finnish, Maltese, and Norwegian entities in paragraph (b)(8)(i) of this section is applicable on November 29, 1999. The reference to the Trinidadian entity in paragraph (b)(8)(i) of this section applies to entities formed on or after November 29, 1999. Any Maltese or Norwegian entity that becomes an eligible entity as a result of paragraph (b)(8)(i) of this section in effect on November 29, 1999, may elect by February 14, 2000, to be classified for Federal tax purposes as an entity other than a corporation retroactive to any period from and including January 1, 1997. Any Finnish entity that becomes an eligible entity as a result of paragraph (b)(8)(i) of this section in effect on November 29, 1999, may elect by February 14, 2000, to be classified for Federal tax purposes as an entity other than a corporation retroactive to any period from and including September 1, 1997. However, paragraph (d)(3)(i)(D) of this section applies on or after October 22, 2003.

(2) Paragraph (c)(2)(iii) of this section applies on and after September 14, 2009. For rules that apply before September 14, 2009, see 26 CFR part 301, revised as of April 1, 2009.

(3)(i) *General rule.* Except as provided in paragraph (e)(3)(ii) of this section, the rules of paragraph (b)(9) of this section apply as of August 12, 2004, to all business entities existing on or after that date.

(ii) *Transition rule.* For business entities created or organized under the laws of more than one jurisdiction as of August 12, 2004, the rules of paragraph (b)(9) of this section apply as of May 1, 2006. These entities, however, may rely on the rules of paragraph (b)(9) of this section as of August 12, 2004.

(4) The reference to the Estonian, Latvian, Liechtenstein, Lithuanian, and Slovenian entities in paragraph (b)(8)(i) of this section applies to such entities formed on or after October 7, 2004, and to any such entity formed before such date from the date any person or persons, who were not owners of the entity as of October 7, 2004, own in the aggregate a 50 percent or greater interest in the entity. The reference to the European Economic Area/European Union entity in paragraph (b)(8)(i) of this section applies to such entities formed on or after October 8, 2004.

(5)(i) Except as provided in this paragraph (e)(5), paragraph (c)(2)(iv) of this section applies with respect to wages paid on or after January 1, 2009.

(ii) Paragraph (c)(2)(iv)(B) applies with respect to wages paid on or after September 14, 2009. For rules that apply before September 14, 2009, see 26 CFR part 301 revised as of April 1, 2009.

(iii) Paragraph (c)(2)(iv)(C)(*1*) of this section applies with respect to wages paid on or after November 1, 2011. For rules that apply before November 1, 2011, see 26 CFR part 301, revised as of April 1, 2011. However, taxpayers may apply paragraph (c)(2)(iv)(C)(*1*) of this section with respect to wages paid on or after January 1, 2009.

(6)(i) Except as provided in this paragraph (e)(6), paragraph (c)(2)(v) of this section applies to liabilities imposed and actions first required or permitted in periods beginning on or after January 1, 2008.

(ii) Paragraphs (c)(2)(v)(B) and (c)(2)(v)(C) *Example* (iv) of this section apply on and after September 14, 2009.

(iii) Paragraph (c)(2)(v)(A)(*5*) of this section applies for periods after December 31, 2014.

(iv) References to Chapter 49 in paragraph (c)(2)(v) of this section apply to taxes imposed on amounts paid on or after July 1, 2012.

(7) The reference to the Bulgarian entity in paragraph (b)(8)(i) of this section applies to such entities formed on or after January 1, 2007, and to any such entity formed before such date from the date that, in the aggregate, a 50 percent or more interest in such entity is owned by any person or persons who were not owners of the entity as of January 1, 2007. For purposes of the preceding sentence, the term *interest* means—

(i) In the case of a partnership, a capital or profits interest; and

(ii) In the case of a corporation, an equity interest measured by vote or value.

(8) Paragraph (c)(2)(iv)(C)(*2*) of this section applies on the later of—

(i) August 1, 2016; or

(ii) The first day of the latest-starting plan year beginning after May 4, 2016, and on or before May 4, 2017, of an affected plan (based on the plans adopted before, and the plan years in effect as of, May 4, 2016) sponsored by an entity that is disregarded as an entity separate from its owner for any purpose under this section. For rules that apply before the applicability date of paragraph (c)(2)(iv)(C)(*2*) of this section, see 26 CFR part 301 revised as of April 1, 2016. For the purposes of this paragraph (e)(8)—

(A) An affected plan includes any qualified plan, health plan, or section 125 cafeteria plan if the plan benefits participants whose employment status is affected by paragraph (c)(2)(iv)(C)(*2*) of this section;

(B) A qualified plan means a plan, contract, pension, or trust described in paragraph (A) or (B) of section 219(g)(5) (other than paragraph (A)(iii)); and

(C) A health plan means an arrangement described under §1.105–5 of this chapter.

(9) *Reporting required under section 6038A.* Paragraph (c)(2)(vi) of this section applies to taxable years of entities beginning after December 31, 2016, and ending on or after December 13, 2017.

[T.D. 8697, 61 FR 66589, Dec. 18, 1996, as amended by T.D. 8844, 64 FR 66583, Nov. 29, 1999; T.D. 9012, 67 FR 49864, Aug. 1, 2002; T.D. 9093, 68 FR 60298, Oct. 22, 2003; T.D. 9153, 69 FR 49810, Aug. 12, 2004; T.D. 9183, 70 FR 9221, Feb. 25, 2005; T.D. 9197, 70 FR 19698, Apr. 14, 2005; T.D. 9235, 70 FR 74658, Dec. 16, 2005; T.D. 9246, 71 FR 4817, Jan. 30, 2006; T.D. 9356, 72 FR 45893, Aug. 16, 2007; T.D. 9388, 73 FR 15065, Mar. 21, 2008; T.D. 8697, 73 FR 18442, Apr. 4, 2008; 73 FR 21415, Apr. 21, 2008; T.D. 9433, 73 FR 72346, Nov. 28, 2008; T.D. 9462, 74 FR 46904, Sept. 14, 2009; T.D. 9553, 76 FR 66182, Oct. 26, 2011; T.D. 9554, 76 FR 67365, Nov. 1, 2011; T.D. 9596, 77 FR 37807, June 25, 2012; T.D. 9655, 79 FR 8601, Feb. 12, 2014; T.D. 9670, 79 FR 36206, June 26, 2014; T.D. 9766, 81 FR 26694, May 4, 2016; T.D. 9796, 81 FR 89851, Dec. 13, 2016; T.D. 9869, 84 FR 31479, July 2, 2019]

§ 301.7701–3 Classification of certain business entities.

(a) *In general.* A business entity that is not classified as a corporation under § 301.7701–2(b) (1), (3), (4), (5), (6), (7), or (8) (an *eligible entity*) can elect its classification for federal tax purposes as provided in this section. An eligible entity with at least two members can elect to be classified as either an association (and thus a corporation under § 301.7701–2(b)(2)) or a partnership, and an eligible entity with a single owner can elect to be classified as an association or to be disregarded as an entity separate from its owner. Paragraph (b) of this section provides a default classification for an eligible entity that does not make an election. Thus, elections are necessary only when an eligible entity chooses to be classified initially as other than the default classification or when an eligible entity chooses to change its classification. An entity whose classification is determined under the default classification retains that classification (regardless of any changes in the members' liability that occurs at any time during the time that the entity's classification is relevant as defined in paragraph (d) of

this section) until the entity makes an election to change that classification under paragraph (c)(1) of this section. Paragraph (c) of this section provides rules for making express elections, including a rule under which a domestic eligible entity that elects to be classified as an association consents to be subject to the dual consolidated loss rules of section 1503(d). Paragraph (d) of this section provides special rules for foreign eligible entities. Paragraph (e) of this section provides special rules for classifying entities resulting from partnership terminations and divisions under section 708(b). Paragraph (f) of this section sets forth the effective date of this section and a special rule relating to prior periods.

(b) *Classification of eligible entities that do not file an election*—(1) *Domestic eligible entities.* Except as provided in paragraph (b)(3) of this section, unless the entity elects otherwise, a domestic eligible entity is—

(i) A partnership if it has two or more members; or

(ii) Disregarded as an entity separate from its owner if it has a single owner.

(2) *Foreign eligible entities*—(i) *In general.* Except as provided in paragraph (b)(3) of this section, unless the entity elects otherwise, a foreign eligible entity is—

(A) A partnership if it has two or more members and at least one member does not have limited liability;

(B) An association if all members have limited liability; or

(C) Disregarded as an entity separate from its owner if it has a single owner that does not have limited liability.

(ii) *Definition of limited liability.* For purposes of paragraph (b)(2)(i) of this section, a member of a foreign eligible entity has limited liability if the member has no personal liability for the debts of or claims against the entity by reason of being a member. This determination is based solely on the statute or law pursuant to which the entity is organized, except that if the underlying statute or law allows the entity to specify in its organizational documents whether the members will have limited liability, the organizational documents may also be relevant. For purposes of this section, a member has personal liability if the creditors of the entity may seek satisfaction of all or any portion of the debts or claims against the entity from the member as such. A member has personal liability for purposes of this paragraph even if the member makes an agreement under which another person (whether or not a member of the entity) assumes such liability or agrees to indemnify that member for any such liability.

(3) *Existing eligible entities*—(i) *In general.* Unless the entity elects otherwise, an eligible entity in existence prior to the effective date of this section will have the same classification that the entity claimed under §§ 301.7701–1 through 301.7701–3 as in effect on the date prior to the effective date of this section; except that if an eligible entity with a single owner claimed to be a partnership under those regulations, the entity will be disregarded as an entity separate from its owner under this paragraph (b)(3)(i). For special rules regarding the classification of such entities prior to the effective date of this section, see paragraph (h)(2) of this section.

(ii) *Special rules.* For purposes of paragraph (b)(3)(i) of this section, a foreign eligible entity is treated as being in existence prior to the effective date of this section only if the entity's classification was relevant (as defined in paragraph (d) of this section) at any time during the sixty months prior to the effective date of this section. If an entity claimed different classifications prior to the effective date of this section, the entity's classification for purposes of paragraph (b)(3)(i) of this section is the last classification claimed by the entity. If a foreign eligible entity's classification is relevant prior to the effective date of this section, but no federal tax or information return is filed or the federal tax or information return does not indicate the classification of the entity, the entity's classification for the period prior to the effective date of this section is determined under the regulations in effect on the date prior to the effective date of this section.

(c) *Elections*—(1) *Time and place for filing*—(i) *In general.* Except as provided in paragraphs (c)(1) (iv) and (v) of this section, an eligible entity may elect to be classified other than as provided

under paragraph (b) of this section, or to change its classification, by filing Form 8832, Entity Classification Election, with the service center designated on Form 8832. An election will not be accepted unless all of the information required by the form and instructions, including the taxpayer identifying number of the entity, is provided on Form 8832. See § 301.6109–1 for rules on applying for and displaying Employer Identification Numbers.

(ii) *Further notification of elections.* An eligible entity required to file a Federal tax or information return for the taxable year for which an election is made under § 301.7701–3(c)(1)(i) must attach a copy of its Form 8832 to its Federal tax or information return for that year. If the entity is not required to file a return for that year, a copy of its Form 8832 (''Entity Classification Election'') must be attached to the Federal income tax or information return of any direct or indirect owner of the entity for the taxable year of the owner that includes the date on which the election was effective. An indirect owner of the entity does not have to attach a copy of the Form 8832 to its return if an entity in which it has an interest is already filing a copy of the Form 8832 with its return. If an entity, or one of its direct or indirect owners, fails to attach a copy of a Form 8832 to its return as directed in this section, an otherwise valid election under § 301.7701–3(c)(1)(i) will not be invalidated, but the non-filing party may be subject to penalties, including any applicable penalties if the Federal tax or information returns are inconsistent with the entity's election under § 301.7701–3(c)(1)(i). In the case of returns for taxable years beginning after December 31, 2002, the copy of Form 8832 attached to a return pursuant to this paragraph (c)(1)(ii) is not required to be a signed copy.

(iii) *Effective date of election.* An election made under paragraph (c)(1)(i) of this section will be effective on the date specified by the entity on Form 8832 or on the date filed if no such date is specified on the election form. The effective date specified on Form 8832 can not be more than 75 days prior to the date on which the election is filed and can not be more than 12 months after the date on which the election is filed. If an election specifies an effective date more than 75 days prior to the date on which the election is filed, it will be effective 75 days prior to the date it was filed. If an election specifies an effective date more than 12 months from the date on which the election is filed, it will be effective 12 months after the date it was filed. If an election specifies an effective date before January 1, 1997, it will be effective as of January 1, 1997. If a purchasing corporation makes an election under section 338 regarding an acquired subsidiary, an election under paragraph (c)(1)(i) of this section for the acquired subsidiary can be effective no earlier than the day after the acquisition date (within the meaning of section 338(h)(2)).

(iv) *Limitation.* If an eligible entity makes an election under paragraph (c)(1)(i) of this section to change its classification (other than an election made by an existing entity to change its classification as of the effective date of this section), the entity cannot change its classification by election again during the sixty months succeeding the effective date of the election. However, the Commissioner may permit the entity to change its classification by election within the sixty months if more than fifty percent of the ownership interests in the entity as of the effective date of the subsequent election are owned by persons that did not own any interests in the entity on the filing date or on the effective date of the entity's prior election. An election by a newly formed eligible entity that is effective on the date of formation is not considered a change for purposes of this paragraph (c)(1)(iv).

(v) *Deemed elections*—(A) *Exempt organizations.* An eligible entity that has been determined to be, or claims to be, exempt from taxation under section 501(a) is treated as having made an election under this section to be classified as an association. Such election will be effective as of the first day for which exemption is claimed or determined to apply, regardless of when the claim or determination is made, and will remain in effect unless an election is made under paragraph (c)(1)(i) of this

section after the date the claim for exempt status is withdrawn or rejected or the date the determination of exempt status is revoked.

(B) *Real estate investment trusts.* An eligible entity that files an election under section 856(c)(1) to be treated as a real estate investment trust is treated as having made an election under this section to be classified as an association. Such election will be effective as of the first day the entity is treated as a real estate investment trust.

(C) *S corporations.* An eligible entity that timely elects to be an S corporation under section 1362(a)(1) is treated as having made an election under this section to be classified as an association, provided that (as of the effective date of the election under section 1362(a)(1)) the entity meets all other requirements to qualify as a small business corporation under section 1361(b). Subject to § 301.7701–3(c)(1)(iv), the deemed election to be classified as an association will apply as of the effective date of the S corporation election and will remain in effect until the entity makes a valid election, under § 301.7701–3(c)(1)(i), to be classified as other than an association.

(vi) *Examples.* The following examples illustrate the rules of this paragraph (c)(1):

Example 1. On July 1, 1998, X, a domestic corporation, purchases a 10% interest in Y, an eligible entity formed under Country A law in 1990. The entity's classification was not relevant to any person for federal tax or information purposes prior to X's acquisition of an interest in Y. Thus, Y is not considered to be in existence on the effective date of this section for purposes of paragraph (b)(3) of this section. Under the applicable Country A statute, all members of Y have limited liability as defined in paragraph (b)(2)(ii) of this section. Accordingly, Y is classified as an association under paragraph (b)(2)(i)(B) of this section unless it elects under this paragraph (c) to be classified as a partnership. To be classified as a partnership as of July 1, 1998, Y must file a Form 8832 by September 14, 1998. See paragraph (c)(1)(i) of this section. Because an election cannot be effective more than 75 days prior to the date on which it is filed, if Y files its Form 8832 after September 14, 1998, it will be classified as an association from July 1, 1998, until the effective date of the election. In that case, it could not change its classification by election under this paragraph (c) during the sixty months succeeding the effective date of the election.

Example 2. (i) Z is an eligible entity formed under Country B law and is in existence on the effective date of this section within the meaning of paragraph (b)(3) of this section. Prior to the effective date of this section, Z claimed to be classified as an association. Unless Z files an election under this paragraph (c), it will continue to be classified as an association under paragraph (b)(3) of this section.

(ii) Z files a Form 8832 pursuant to this paragraph (c) to be classified as a partnership, effective as of the effective date of this section. Z can file an election to be classified as an association at any time thereafter, but then would not be permitted to change its classification by election during the sixty months succeeding the effective date of that subsequent election.

(2) *Authorized signatures*—(i) *In general.* An election made under paragraph (c)(1)(i) of this section must be signed by—

(A) Each member of the electing entity who is an owner at the time the election is filed; or

(B) Any officer, manager, or member of the electing entity who is authorized (under local law or the entity's organizational documents) to make the election and who represents to having such authorization under penalties of perjury.

(ii) *Retroactive elections.* For purposes of paragraph (c)(2)(i) of this section, if an election under paragraph (c)(1)(i) of this section is to be effective for any period prior to the time that it is filed, each person who was an owner between the date the election is to be effective and the date the election is filed, and who is not an owner at the time the election is filed, must also sign the election.

(iii) *Changes in classification.* For paragraph (c)(2)(i) of this section, if an election under paragraph (c)(1)(i) of this section is made to change the classification of an entity, each person who was an owner on the date that any transactions under paragraph (g) of this section are deemed to occur, and who is not an owner at the time the election is filed, must also sign the election. This paragraph (c)(2)(iii) applies to elections filed on or after November 29, 1999.

(3) *Consent to be subject to section 1503(d)*—(i) *Rule.* A domestic eligible

entity that elects to be classified as an association consents to be treated as a dual resident corporation for purposes of section 1503(d) (such an entity, a *domestic consenting corporation*), for any taxable year for which it is classified as an association and the condition set forth in § 1.1503(d)–1(c)(1) of this chapter is satisfied.

(ii) *Transition rule—deemed consent*. If, as a result of the applicability date (see paragraph (c)(3)(iii) of this section) relating to paragraph (c)(3)(i) of this section, a domestic eligible entity that is classified as an association has not consented to be treated as a domestic consenting corporation pursuant to paragraph (c)(3)(i) of this section, then the domestic eligible entity is deemed to consent to be so treated as of its first taxable year beginning on or after December 20, 2019. The first sentence of this paragraph (c)(3)(ii) does not apply if the domestic eligible entity elects, on or after December 20, 2018 and effective before its first taxable year beginning on or after December 20, 2019, to be classified as a partnership or disregarded entity such that it ceases to be a domestic eligible entity that is classified as an association. For purposes of the election described in the second sentence of this paragraph (c)(3)(ii), the sixty month limitation under paragraph (c)(1)(iv) of this section is waived.

(iii) *Applicability date*. The sixth sentence of paragraph (a) of this section and paragraph (c)(3)(i) of this section apply to a domestic eligible entity that on or after December 20, 2018 files an election to be classified as an association (regardless of whether the election is effective before December 20, 2018). Paragraph (c)(3)(ii) of this section applies as of December 20, 2018.

(d) *Special rules for foreign eligible entities*—(1) *Definition of relevance*—(i) *General rule*. For purposes of this section, a foreign eligible entity's classification is relevant when its classification affects the liability of any person for federal tax or information purposes. For example, a foreign entity's classification would be relevant if U.S. income was paid to the entity and the determination by the withholding agent of the amount to be withheld under chapter 3 of the Internal Revenue Code (if any) would vary depending upon whether the entity is classified as a partnership or as an association. Thus, the classification might affect the documentation that the withholding agent must receive from the entity, the type of tax or information return to file, or how the return must be prepared. The date that the classification of a foreign eligible entity is relevant is the date an event occurs that creates an obligation to file a federal tax return, information return, or statement for which the classification of the entity must be determined. Thus, the classification of a foreign entity is relevant, for example, on the date that an interest in the entity is acquired which will require a U.S. person to file an information return on Form 5471.

(ii) *Deemed relevance*—(A) *General rule*. For purposes of this section, except as provided in paragraph (d)(1)(ii)(B) of this section, the classification for Federal tax purposes of a foreign eligible entity that files Form 8832, ''Entity Classification Election'', shall be deemed to be relevant only on the date the entity classification election is effective.

(B) *Exception*. If the classification of a foreign eligible entity is relevant within the meaning of paragraph (d)(1)(i) of this section, then the rule in paragraph (d)(1)(ii)(A) of this section shall not apply.

(2) *Entities the classification of which has never been relevant*. If the classification of a foreign eligible entity has never been relevant (as defined in paragraph (d)(1) of this section), then the entity's classification will initially be determined pursuant to the provisions of paragraph (b)(2) of this section when the classification of the entity first becomes relevant (as defined in paragraph (d)(1)(i) of this section).

(3) *Special rule when classification is no longer relevant*. If the classification of a foreign eligible entity is not relevant (as defined in paragraph (d)(1) of this section) for 60 consecutive months, then the entity's classification will initially be determined pursuant to the provisions of paragraph (b)(2) of this section when the classification of the foreign eligible entity becomes relevant (as defined in paragraph (d)(1)(i)

of this section). The date that the classification of a foreign entity is not relevant is the date an event occurs that causes the classification to no longer be relevant, or, if no event occurs in a taxable year that causes the classification to be relevant, then the date is the first day of that taxable year.

(4) *Effective date.* Paragraphs (d)(1)(ii), (d)(2), and (d)(3) of this section apply on or after October 22, 2003.

(e) *Coordination with section 708(b).* Except as provided in § 301.7701–2(d)(3) (regarding termination of grandfather status for certain foreign business entities), an entity resulting from a transaction described in section 708(b)(1)(B) (partnership termination due to sales or exchanges) or section 708(b)(2)(B) (partnership division) is a partnership.

(f) *Changes in number of members of an entity*—(1) *Associations.* The classification of an eligible entity as an association is not affected by any change in the number of members of the entity.

(2) *Partnerships and single member entities.* An eligible entity classified as a partnership becomes disregarded as an entity separate from its owner when the entity's membership is reduced to one member. A single member entity disregarded as an entity separate from its owner is classified as a partnership when the entity has more than one member. If an elective classification change under paragraph (c) of this section is effective at the same time as a membership change described in this paragraph (f)(2), the deemed transactions in paragraph (g) of this section resulting from the elective change preempt the transactions that would result from the change in membership.

(3) *Effect on sixty month limitation.* A change in the number of members of an entity does not result in the creation of a new entity for purposes of the sixty month limitation on elections under paragraph (c)(1)(iv) of this section.

(4) *Examples.* The following examples illustrate the application of this paragraph (f):

Example 1. A, a U.S. person, owns a domestic eligible entity that is disregarded as an entity separate from its owner. On January 1, 1998, *B,* a U.S. person, buys a 50 percent interest in the entity from *A.* Under this paragraph (f), the entity is classified as a partnership when *B* acquires an interest in the entity. However, *A* and *B* elect to have the entity classified as an association effective on January 1, 1998. Thus, *B* is treated as buying shares of stock on January 1, 1998. (Under paragraph (c)(1)(iv) of this section, this election is treated as a change in classification so that the entity generally cannot change its classification by election again during the sixty months succeeding the effective date of the election.) Under paragraph (g)(1) of this section, *A* is treated as contributing the assets and liabilities of the entity to the newly formed association immediately before the close of December 31, 1997. Because *A* does not retain control of the association as required by section 351, *A*'s contribution will be a taxable event. Therefore, under section 1012, the association will take a fair market value basis in the assets contributed by *A,* and *A* will have a fair market value basis in the stock received. *A* will have no additional gain upon the sale of stock to *B,* and *B* will have a cost basis in the stock purchased from *A.*

Example 2. (i) On April 1, 1998, *A* and *B,* U.S. persons, form *X,* a foreign eligible entity. *X* is treated as an association under the default provisions of paragraph (b)(2)(i) of this section, and *X* does not make an election to be classified as a partnership. *A* subsequently purchases all of *B*'s interest in *X.*

(ii) Under paragraph (f)(1) of this section, *X* continues to be classified as an association. *X,* however, can subsequently elect to be disregarded as an entity separate from *A.* The sixty month limitation of paragraph (c)(1)(iv) of this section does not prevent *X* from making an election because *X* has not made a prior election under paragraph (c)(1)(i) of this section.

Example 3. (i) On April 1, 1998, *A* and *B,* U.S. persons, form *X,* a foreign eligible entity. *X* is treated as an association under the default provisions of paragraph (b)(2)(i) of this section, and *X* does not make an election to be classified as a partnership. On January 1, 1999, *X* elects to be classified as a partnership effective on that date. Under the sixty month limitation of paragraph (c)(1)(iv) of this section, *X* cannot elect to be classified as an association until January 1, 2004 (*i.e.*, sixty months after the effective date of the election to be classified as a partnership).

(ii) On June 1, 2000, *A* purchases all of *B*'s interest in *X.* After *A*'s purchase of *B*'s interest, *X* can no longer be classified as a partnership because *X* has only one member. Under paragraph (f)(2) of this section, *X* is disregarded as an entity separate from *A* when *A* becomes the only member of *X. X,* however, is not treated as a new entity for purposes of paragraph (c)(1)(iv) of this section. As a result, the sixty month limitation of paragraph (c)(1)(iv) of this section continues to apply to *X,* and *X* cannot elect to be classified as an association until January

1, 2004 (*i.e.*, sixty months after January 1, 1999, the effective date of the election by *X* to be classified as a partnership).

(5) *Effective date*. This paragraph (f) applies as of November 29, 1999.

(g) *Elective changes in classification*—(1) *Deemed treatment of elective change*—(i) *Partnership to association*. If an eligible entity classified as a partnership elects under paragraph (c)(1)(i) of this section to be classified as an association, the following is deemed to occur: The partnership contributes all of its assets and liabilities to the association in exchange for stock in the association, and immediately thereafter, the partnership liquidates by distributing the stock of the association to its partners.

(ii) *Association to partnership*. If an eligible entity classified as an association elects under paragraph (c)(1)(i) of this section to be classified as a partnership, the following is deemed to occur: The association distributes all of its assets and liabilities to its shareholders in liquidation of the association, and immediately thereafter, the shareholders contribute all of the distributed assets and liabilities to a newly formed partnership.

(iii) *Association to disregarded entity*. If an eligible entity classified as an association elects under paragraph (c)(1)(i) of this section to be disregarded as an entity separate from its owner, the following is deemed to occur: The association distributes all of its assets and liabilities to its single owner in liquidation of the association.

(iv) *Disregarded entity to an association*. If an eligible entity that is disregarded as an entity separate from its owner elects under paragraph (c)(1)(i) of this section to be classified as an association, the following is deemed to occur: The owner of the eligible entity contributes all of the assets and liabilities of the entity to the association in exchange for stock of the association.

(2) *Effect of elective changes*—(i) *In general*. The tax treatment of a change in the classification of an entity for federal tax purposes by election under paragraph (c)(1)(i) of this section is determined under all relevant provisions of the Internal Revenue Code and general principles of tax law, including the step transaction doctrine.

(ii) *Adoption of plan of liquidation*. For purposes of satisfying the requirement of adoption of a plan of liquidation under section 332, unless a formal plan of liquidation that contemplates the election to be classified as a partnership or to be disregarded as an entity separate from its owner is adopted on an earlier date, the making, by an association, of an election under paragraph (c)(1)(i) of this section to be classified as a partnership or to be disregarded as an entity separate from its owner is considered to be the adoption of a plan of liquidation immediately before the deemed liquidation described in paragraph (g)(1)(ii) or (iii) of this section. This paragraph (g)(2)(ii) applies to elections filed on or after December 17, 2001. Taxpayers may apply this paragraph (g)(2)(ii) retroactively to elections filed before December 17, 2001, if the corporate owner claiming treatment under section 332 and its subsidiary making the election take consistent positions with respect to the federal tax consequences of the election.

(3) *Timing of election*—(i) *In general*. An election under paragraph (c)(1)(i) of this section that changes the classification of an eligible entity for federal tax purposes is treated as occurring at the start of the day for which the election is effective. Any transactions that are deemed to occur under this paragraph (g) as a result of a change in classification are treated as occurring immediately before the close of the day before the election is effective. For example, if an election is made to change the classification of an entity from an association to a partnership effective on January 1, the deemed transactions specified in paragraph (g)(1)(ii) of this section (including the liquidation of the association) are treated as occurring immediately before the close of December 31 and must be reported by the owners of the entity on December 31. Thus, the last day of the association's taxable year will be December 31 and the first day of the partnership's taxable year will be January 1.

(ii) *Coordination with section 338 election*. A purchasing corporation that makes a qualified stock purchase of an eligible entity taxed as a corporation may make an election under section

338 regarding the acquisition if it satisfies the requirements for the election, and may also make an election to change the classification of the target corporation. If a taxpayer makes an election under section 338 regarding its acquisition of another entity taxable as a corporation and makes an election under paragraph (c) of this section for the acquired corporation (effective at the earliest possible date as provided by paragraph (c)(1)(iii) of this section), the transactions under paragraph (g) of this section are deemed to occur immediately after the deemed asset purchase by the new target corporation under section 338.

(iii) *Application to successive elections in tiered situations.* When elections under paragraph (c)(1)(i) of this section for a series of tiered entities are effective on the same date, the eligible entities may specify the order of the elections on Form 8832. If no order is specified for the elections, any transactions that are deemed to occur in this paragraph (g) as a result of the classification change will be treated as occurring first for the highest tier entity's classification change, then for the next highest tier entity's classification change, and so forth down the chain of entities until all the transactions under this paragraph (g) have occurred. For example, Parent, a corporation, wholly owns all of the interest of an eligible entity classified as an association (S1), which wholly owns another eligible entity classified as an association (S2), which wholly owns another eligible entity classified as an association (S3). Elections under paragraph (c)(1)(i) of this section are filed to classify S1, S2, and S3 each as disregarded as an entity separate from its owner effective on the same day. If no order is specified for the elections, the following transactions are deemed to occur under this paragraph (g) as a result of the elections, with each successive transaction occurring on the same day immediately after the preceding transaction S1 is treated as liquidating into Parent, then S2 is treated as liquidating into Parent, and finally S3 is treated as liquidating into Parent.

(4) *Effective date.* Except as otherwise provided in paragraph (g)(2)(ii) of this section, this paragraph (g) applies to elections that are filed on or after November 29, 1999. Taxpayers may apply this paragraph (g) retroactively to elections filed before November 29, 1999 if all taxpayers affected by the deemed transactions file consistently with this paragraph (g).

(h) *Effective date*—(1) *In general.* Except as otherwise provided in this section, the rules of this section are applicable as of January 1, 1997.

(2) *Prior treatment of existing entities.* In the case of a business entity that is not described in § 301.7701–2(b) (1), (3), (4), (5), (6), or (7), and that was in existence prior to January 1, 1997, the entity's claimed classification(s) will be respected for all peri0ods prior to January 1, 1997, if—

(i) The entity had a reasonable basis (within the meaning of section 6662) for its claimed classification;

(ii) The entity and all members of the entity recognized the federal tax consequences of any change in the entity's classification within the sixty months prior to January 1, 1997; and

(iii) Neither the entity nor any member was notified in writing on or before May 8, 1996, that the classification of the entity was under examination (in which case the entity's classification will be determined in the examination).

(3) *Deemed elections for S corporations.* Paragraph (c)(1)(v)(C) of this section applies to timely S corporation elections under section 1362(a) filed on or after July 20, 2004. Eligible entities that filed timely S elections before July 20, 2004 may also rely on the provisions of the regulation.

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting § 301.7701–3, see the List of CFR Sections Affected, which appears in the Finding Aids section of the printed volume and at *www.govinfo.gov.*

§ 301.7701–4 Trusts.

(a) *Ordinary trusts.* In general, the term ''trust'' as used in the Internal Revenue Code refers to an arrangement created either by a will or by an inter vivos declaration whereby trustees take title to property for the purpose of protecting or conserving it for the beneficiaries under the ordinary rules applied in chancery or probate courts. Usually the beneficiaries of such a

trust do no more than accept the benefits thereof and are not the voluntary planners or creators of the trust arrangement. However, the beneficiaries of such a trust may be the persons who create it and it will be recognized as a trust under the Internal Revenue Code if it was created for the purpose of protecting or conserving the trust property for beneficiaries who stand in the same relation to the trust as they would if the trust had been created by others for them. Generally speaking, an arrangement will be treated as a trust under the Internal Revenue Code if it can be shown that the purpose of the arrangement is to vest in trustees responsibility for the protection and conservation of property for beneficiaries who cannot share in the discharge of this responsibility and, therefore, are not associates in a joint enterprise for the conduct of business for profit.

(b) *Business trusts.* There are other arrangements which are known as trusts because the legal title to property is conveyed to trustees for the benefit of beneficiaries, but which are not classified as trusts for purposes of the Internal Revenue Code because they are not simply arrangements to protect or conserve the property for the beneficiaries. These trusts, which are often known as business or commercial trusts, generally are created by the beneficiaries simply as a device to carry on a profit-making business which normally would have been carried on through business organizations that are classified as corporations or partnerships under the Internal Revenue Code. However, the fact that the corpus of the trust is not supplied by the beneficiaries is not sufficient reason in itself for classifying the arrangement as an ordinary trust rather than as an association or partnership. The fact that any organization is technically cast in the trust form, by conveying title to property to trustees for the benefit of persons designated as beneficiaries, will not change the real character of the organization if the organization is more properly classified as a business entity under § 301.7701–2.

(c) *Certain investment trusts*—(1) An ''investment'' trust will not be classified as a trust if there is a power under the trust agreement to vary the investment of the certificate holders. *See Commissioner v. North American Bond Trust,* 122 F. 2d 545 (2d Cir. 1941), *cert. denied,* 314 U.S. 701 (1942). An investment trust with a single class of ownership interests, representing undivided beneficial interests in the assets of the trust, will be classified as a trust if there is no power under the trust agreement to vary the investment of the certificate holders. An investment trust with multiple classes of ownership interests ordinarily will be classified as a business entity under § 301.7701–2; however, an investment trust with multiple classes of ownership interests, in which there is no power under the trust agreement to vary the investment of the certificate holders, will be classified as a trust if the trust is formed to facilitate direct investment in the assets of the trust and the existence of multiple classes of ownership interests is incidental to that purpose.

(2) The provisions of paragraph (c)(1) of this section may be illustated by the following examples:

Example 1. A corporation purchases a portfolio of residential mortgages and transfers the mortgages to a bank under a trust agreement. At the same time, the bank as trustee delivers to the corporation certificates evidencing rights to payments from the pooled mortgages; the corporation sells the certificates to the public. The trustee holds legal title to the mortgages in the pool for the benefit of the certificate holders but has no power to reinvest proceeds attributable to the mortgages in the pool or to vary investments in the pool in any other manner. There are two classes of certificates. Holders of class A certificates are entitled to all payments of mortgage principal, both scheduled and prepaid, until their certificates are retired; holders of class B certificates receive payments of principal only after all class A certificates have been retired. The different rights of the class A and class B certificates serve to shift to the holders of the class A certificates, in addition to the earlier scheduled payments of principal, the risk that mortgages in the pool will be prepaid so that the holders of the class B certificates will have ''call protection'' (freedom from premature termination of their interests on account of prepayments). The trust thus serves to create investment interests with respect to the mortgages held by the trust that differ significantly from direct investment in the mortgages. As a consequence, the existence of multiple classes of trust ownership is not incidental to any purpose of the trust to

facilitate direct investment, and, accordingly, the trust is classified as a business entity under § 301.7701–2.

Example 2. Corporation M is the originator of a portfolio of residential mortgages and transfers the mortgages to a bank under a trust agreement. At the same time, the bank as trustee delivers to M certificates evidencing rights to payments from the pooled mortgages. The trustee holds legal title to the mortgages in the pool for the benefit of the certificate holders, but has no power to reinvest proceeds attributable to the mortgages in the pool or to vary investments in the pool in any other manner. There are two classes of certificates. Holders of class C certificates are entitled to receive 90 percent of the payments of principal and interest on the mortgages; class D certificate holders are entitled to receive the other ten percent. The two classes of certificates are identical except that, in the event of a default on the underlying mortgages, the payment rights of class D certificate holders are subordinated to the rights of class C certificate holders. M sells the class C certificates to investors and retains the class D certificates. The trust has multiple classes of ownership interests, given the greater security provided to holders of class C certificates. The interests of certificate holders, however, are substantially equivalent to undivided interests in the pool of mortgages, coupled with a limited recourse guarantee running from M to the holders of class C certificates. In such circumstances, the existence of multiple classes of ownership interests is incidental to the trust's purpose of facilitating direct investment in the assets of the trust. Accordingly, the trust is classified as a trust.

Example 3. A promoter forms a trust in which shareholders of a publicly traded corporation can deposit their stock. For each share of stock deposited with the trust, the participant receives two certificates that are initially attached, but may be separated and traded independently of each other. One certificate represents the right to dividends and the value of the underlying stock up to a specified amount; the other certificate represents the right to appreciation in the stock's value above the specified amount. The separate certificates represent two different classes of ownership interest in the trust, which effectively separate dividend rights on the stock held by the trust from a portion of the right to appreciation in the value of such stock. The multiple classes of ownership interests are designed to permit investors, by transferring one of the certificates and retaining the other, to fulfill their varying investment objectives of seeking primarily either dividend income or capital appreciation from the stock held by the trust. Given that the trust serves to create investment interests with respect to the stock held by the trust that differ significantly from direct investment in such stock, the trust is not formed to facilitate direct investment in the assets of the trust. Accordingly, the trust is classified as a business entity under § 301.7701–2.

Example 4. Corporation N purchases a portfolio of bonds and transfers the bonds to a bank under a trust agreement. At the same time, the trustee delivers to N certificates evidencing interests in the bonds. These certificates are sold to public investors. Each certificate represents the right to receive a particular payment with respect to a specific bond. Under section 1286, stripped coupons and stripped bonds are treated as separate bonds for federal income tax purposes. Although the interest of each certificate holder is different from that of each other certificate holder, and the trust thus has multiple classes of ownership, the multiple classes simply provide each certificate holder with a direct interest in what is treated under section 1286 as a separate bond. Given the similarity of the interests acquired by the certificate holders to the interests that could be acquired by direct investment, the multiple classes of trust interests merely facilitate direct investment in the assets held by the trust. Accordingly, the trust is classified as a trust.

(d) *Liquidating trusts.* Certain organizations which are commonly known as liquidating trusts are treated as trusts for purposes of the Internal Revenue Code. An organization will be considered a liquidating trust if it is organized for the primary purpose of liquidating and distributing the assets transferred to it, and if its activities are all reasonably necessary to, and consistent with, the accomplishment of that purpose. A liquidating trust is treated as a trust for purposes of the Internal Revenue Code because it is formed with the objective of liquidating particular assets and not as an organization having as its purpose the carrying on of a profit-making business which normally would be conducted through business organizations classified as corporations or partnerships. However, if the liquidation is unreasonably prolonged or if the liquidation purpose becomes so obscured by business activities that the declared purpose of liquidation can be said to be lost or abandoned, the status of the organization will no longer be that of a liquidating trust. Bondholders' protective committees, voting trusts, and other agencies formed to protect the

interests of security holders during insolvency, bankruptcy, or corporate reorganization proceedings are analogous to liquidating trusts but if subsequently utilized to further the control or profitable operation of a going business on a permanent continuing basis, they will lose their classification as trusts for purposes of the Internal Revenue Code.

(e) *Environmental remediation trusts.* (1) An environmental remediation trust is considered a trust for purposes of the Internal Revenue Code. For purposes of this paragraph (e), an organization is an environmental remediation trust if the organization is organized under state law as a trust; the primary purpose of the trust is collecting and disbursing amounts for environmental remediation of an existing waste site to resolve, satisfy, mitigate, address, or prevent the liability or potential liability of persons imposed by federal, state, or local environmental laws; all contributors to the trust have (at the time of contribution and thereafter) actual or potential liability or a reasonable expectation of liability under federal, state, or local environmental laws for environmental remediation of the waste site; and the trust is not a qualified settlement fund within the meaning of § 1.468B–1(a) of this chapter. An environmental remediation trust is classified as a trust because its primary purpose is environmental remediation of an existing waste site and not the carrying on of a profit-making business that normally would be conducted through business organizations classified as corporations or partnerships. However, if the remedial purpose is altered or becomes so obscured by business or investment activities that the declared remedial purpose is no longer controlling, the organization will no longer be classified as a trust. For purposes of this paragraph (e), environmental remediation includes the costs of assessing environmental conditions, remedying and removing environmental contamination, monitoring remedial activities and the release of substances, preventing future releases of substances, and collecting amounts from persons liable or potentially liable for the costs of these activities. For purposes of this paragraph (e), persons have potential liability or a reasonable expectation of liability under federal, state, or local environmental laws for remediation of the existing waste site if there is authority under a federal, state, or local law that requires or could reasonably be expected to require such persons to satisfy all or a portion of the costs of the environmental remediation.

(2) Each contributor (grantor) to the trust is treated as the owner of the portion of the trust contributed by that grantor under rules provided in section 677 and § 1.677(a)–1(d) of this chapter. Section 677 and § 1.677(a)–1(d) of this chapter provide rules regarding the treatment of a grantor as the owner of a portion of a trust applied in discharge of the grantor's legal obligation. Items of income, deduction, and credit attributable to an environmental remediation trust are not reported by the trust on Form 1041, but are shown on a separate statement to be attached to that form. See § 1.671–4(a) of this chapter. The trustee must also furnish to each grantor a statement that shows all items of income, deduction, and credit of the trust for the grantor's taxable year attributable to the portion of the trust treated as owned by the grantor. The statement must provide the grantor with the information necessary to take the items into account in computing the grantor's taxable income, including information necessary to determine the federal tax treatment of the items (for example, whether an item is a deductible expense under section 162(a) or a capital expenditure under section 263(a)) and how the item should be taken into account under the economic performance rules of section 461(h) and the regulations thereunder. See § 1.461–4 of this chapter for rules relating to economic performance.

(3) All amounts contributed to an environmental remediation trust by a grantor (cash-out grantor) who, pursuant to an agreement with the other grantors, contributes a fixed amount to the trust and is relieved by the other grantors of any further obligation to make contributions to the trust, but remains liable or potentially liable under the applicable environmental

laws, will be considered amounts contributed for remediation. An environmental remediation trust agreement may direct the trustee to expend amounts contributed by a cash-out grantor (and the earnings thereon) before expending amounts contributed by other grantors (and the earnings thereon). A cash-out grantor will cease to be treated as an owner of a portion of the trust when the grantor's portion is fully expended by the trust.

(4) The provisions of this paragraph (e) may be illustrated by the following example:

Example. (a) *X, Y,* and *Z* are calendar year corporations that are liable for the remediation of an existing waste site under applicable federal environmental laws. On June 1, 1996, pursuant to an agreement with the governing federal agency, *X, Y,* and *Z* create an environmental remediation trust within the meaning of paragraph (e)(1) of this section to collect funds contributed to the trust by *X, Y,* and *Z* and to carry out the remediation of the waste site to the satisfaction of the federal agency. *X, Y,* and *Z* are jointly and severally liable under the federal environmental laws for the remediation of the waste site, and the federal agency will not release *X, Y,* or *Z* from liability until the waste site is remediated to the satisfaction of the agency.

(b) The estimated cost of the remediation is $20,000,000. *X, Y,* and *Z* agree that, if *Z* contributes $1,000,000 to the trust, *Z* will not be required to make any additional contributions to the trust, and *X* and *Y* will complete the remediation of the waste site and make additional contributions if necessary.

(c) On June 1, 1996, *X, Y,* and *Z* each contribute $1,000,000 to the trust. The trust agreement directs the trustee to spend *Z*'s contributions to the trust and the income allocable to *Z*'s portion before spending *X*'s and *Y*'s portions. On November 30, 1996, the trustee disburses $2,000,000 for remediation work performed from June 1, 1996, through September 30, 1996. For the six-month period ending November 30, 1996, the interest earned on the funds in the trust was $75,000, which is allocated in equal shares of $25,000 to *X*'s, *Y*'s, and *Z*'s portions of the trust.

(d) *Z* made no further contributions to the trust. Pursuant to the trust agreement, the trustee expended *Z*'s portion of the trust before expending *X*'s and *Y*'s portion. Therefore, *Z*'s share of the remediation disbursement made in 1996 is $1,025,000 ($1,000,000 contribution by *Z* plus $25,000 of interest allocated to *Z*'s portion of the trust). *Z* takes the $1,025,000 disbursement into account under the appropriate federal tax accounting rules. In addition, *X*'s share of the remediation disbursement made in 1996 is $487,500, and *Y*'s share of the remediation disbursement made in 1996 is $487,500. *X* and *Y* take their respective shares of the disbursement into account under the appropriate federal tax accounting rules.

(e) The trustee made no further remediation disbursements in 1996, and *X* and *Y* made no further contributions in 1996. From December 1, 1996, to December 31, 1996, the interest earned on the funds remaining in the trust was $5,000, which is allocated $2,500 to *X*'s portion and $2,500 to *Y*'s portion. Accordingly, for 1996, *X* and *Y* each had interest income of $27,500 from the trust and *Z* had interest income of $25,000 from the trust.

(5) This paragraph (e) is applicable to trusts meeting the requirements of paragraph (e)(1) of this section that are formed on or after May 1, 1996. This paragraph (e) may be relied on by trusts formed before May 1, 1996, if the trust has at all times met all requirements of this paragraph (e) and the grantors have reported items of ,income and deduction consistent with this paragraph (e) on original or amended returns. For trusts formed before May 1, 1996, that are not described in the preceding sentence, the Commissioner may permit by letter ruling, in appropriate circumstances, this paragraph (e) to be applied subject to appropriate terms and conditions.

(f) *Effective date.* The rules of this section generally apply to taxable years beginning after December 31, 1960. Paragraph (e)(5) of this section contains rules of applicability for paragraph (e) of this section. In addition, the last sentences of paragraphs (b), (c)(1), and (c)(2) *Example 1* and *Example 3* of this section are effective as of January 1, 1997.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 8080, 51 FR 9952, Mar. 24, 1986; T.D. 8668, 61 FR 19191, May 1, 1996; T.D. 8697, 61 FR 66592, Dec. 18, 1996]

§ 301.7701–5 Domestic and foreign business entities.

(a) *Domestic and foreign business entities.* A business entity (including an entity that is disregarded as separate from its owner under § 301.7701–2(c)) is domestic if it is created or organized as any type of entity (including, but not limited to, a corporation, unincorporated association, general partnership, limited partnership, and limited liability company) in the United

States, or under the law of the United States or of any State. Accordingly, a business entity that is created or organized both in the United States and in a foreign jurisdiction is a domestic entity. A business entity (including an entity that is disregarded as separate from its owner under § 301.7701–2(c)) is foreign if it is not domestic. The determination of whether an entity is domestic or foreign is made independently from the determination of its corporate or non-corporate classification. See §§ 301.7701–2 and 301.7701–3 for the rules governing the classification of entities.

(b) *Examples*. The following examples illustrate the rules of this section:

Example 1. (i) *Facts*. Y is an entity that is created or organized under the laws of Country A as a public limited company. It is also an entity that is organized as a limited liability company (LLC) under the laws of State B. Y is classified as a corporation for Federal tax purposes under the rules of §§ 301.7701–2, and 301.7701–3.

(ii) *Result*. Y is a domestic corporation because it is an entity that is classified as a corporation and it is organized as an entity under the laws of State B.

Example 2. (i) *Facts*. P is an entity with more than one owner organized under the laws of Country A as an unlimited company. It is also an entity that is organized as a general partnership under the laws of State B. P is classified as a partnership for Federal tax purposes under the rules of §§ 301.7701–2, and 301.7701–3.

(ii) *Result*. P is a domestic partnership because it is an entity that is classified as a partnership and it is organized as an entity under the laws of State B.

(c) *Effective date*—(1) *General rule*. Except as provided in paragraph (c)(2) of this section, the rules of this section apply as of August 12, 2004, to all business entities existing on or after that date.

(2) *Transition rule*. For business entities created or organized under the laws of more than one jurisdiction as of August 12, 2004, the rules of this section apply as of May 1, 2006. These entities, however, may rely on the rules of this section as of August 12, 2004.

[T.D. 9246, 71 FR 4817, Jan. 30, 2006]

§ 301.7701–6 Definitions; person, fiduciary.

(a) *Person*. The term *person* includes an individual, a corporation, a partnership, a trust or estate, a joint-stock company, an association, or a syndicate, group, pool, joint venture, or other unincorporated organization or group. The term also includes a guardian, committee, trustee, executor, administrator, trustee in bankruptcy, receiver, assignee for the benefit of creditors, conservator, or any person acting in a fiduciary capacity.

(b) *Fiduciary*—(1) *In general*. Fiduciary is a term that applies to persons who occupy positions of peculiar confidence toward others, such as trustees, executors, and administrators. A fiduciary is a person who holds in trust an estate to which another has a beneficial interest, or receives and controls income of another, as in the case of receivers. A committee or guardian of the property of an incompetent person is a fiduciary.

(2) *Fiduciary distinguished from agent*. There may be a fiduciary relationship between an agent and a principal, but the word agent does not denote a fiduciary. An agent having entire charge of property, with authority to effect and execute leases with tenants entirely on his own responsibility and without consulting his principal, merely turning over the net profits from the property periodically to his principal by virtue of authority conferred upon him by a power of attorney, is not a fiduciary within the meaning of the Internal Revenue Code. In cases when no legal trust has been created in the estate controlled by the agent and attorney, the liability to make a return rests with the principal.

(c) *Effective date*. The rules of this section are effective as of January 1, 1997.

[T.D. 8697, 61 FR 66593, Dec. 18, 1996]

§ 301.7701–7 Trusts—domestic and foreign.

(a) *In general*. (1) A trust is a United States person if—

(i) A court within the United States is able to exercise primary supervision over the administration of the trust (court test); and

(ii) One or more United States persons have the authority to control all substantial decisions of the trust (control test).

(2) A trust is a United States person for purposes of the Internal Revenue Code (Code) on any day that the trust meets both the court test and the control test. For purposes of the regulations in this chapter, the term *domestic trust* means a trust that is a United States person. The term *foreign trust* means any trust other than a domestic trust.

(3) Except as otherwise provided in part I, subchapter J, chapter 1 of the Code, the taxable income of a foreign trust is computed in the same manner as the taxable income of a nonresident alien individual who is not present in the United States at any time. Section 641(b). Section 7701(b) is not applicable to trusts because it only applies to individuals. In addition, a foreign trust is not considered to be present in the United States at any time for purposes of section 871(a)(2), which deals with capital gains of nonresident aliens present in the United States for 183 days or more.

(b) *Applicable law*. The terms of the trust instrument and applicable law must be applied to determine whether the court test and the control test are met.

(c) *The court test*—(1) *Safe harbor*. A trust satisfies the court test if—

(i) The trust instrument does not direct that the trust be administered outside of the United States;

(ii) The trust in fact is administered exclusively in the United States; and

(iii) The trust is not subject to an automatic migration provision described in paragraph (c)(4)(ii) of this section.

(2) *Example*. The following example illustrates the rule of paragraph (c)(1) of this section:

Example. *A* creates a trust for the equal benefit of *A*'s two children, *B* and *C*. The trust instrument provides that *DC*, a State *Y* corporation, is the trustee of the trust. State *Y* is a state within the United States. *DC* administers the trust exclusively in State *Y* and the trust instrument is silent as to where the trust is to be administered. The trust is not subject to an automatic migration provision described in paragraph (c)(4)(ii) of this section. The trust satisfies the safe harbor of paragraph (c)(1) of this section and the court test.

(3) *Definitions*. The following definitions apply for purposes of this section:

(i) *Court*. The term *court* includes any federal, state, or local court.

(ii) *The United States*. The term *the United States* is used in this section in a geographical sense. Thus, for purposes of the court test, the United States includes only the States and the District of Columbia. See section 7701(a)(9). Accordingly, a court within a territory or possession of the United States or within a foreign country is not a court within the United States.

(iii) *Is able to exercise*. The term *is able to exercise* means that a court has or would have the authority under applicable law to render orders or judgments resolving issues concerning administration of the trust.

(iv) *Primary supervision*. The term *primary supervision* means that a court has or would have the authority to determine substantially all issues regarding the administration of the entire trust. A court may have primary supervision under this paragraph (c)(3)(iv) notwithstanding the fact that another court has jurisdiction over a trustee, a beneficiary, or trust property.

(v) *Administration*. The term *administration* of the trust means the carrying out of the duties imposed by the terms of the trust instrument and applicable law, including maintaining the books and records of the trust, filing tax returns, managing and investing the assets of the trust, defending the trust from suits by creditors, and determining the amount and timing of distributions.

(4) *Situations that cause a trust to satisfy or fail to satisfy the court test*. (i) Except as provided in paragraph (c)(4)(ii) of this section, paragraphs (c)(4)(i) (A) through (D) of this section set forth some specific situations in which a trust satisfies the court test. The four situations described are not intended to be an exclusive list.

(A) *Uniform Probate Code*. A trust meets the court test if the trust is registered by an authorized fiduciary or fiduciaries of the trust in a court within the United States pursuant to a state

statute that has provisions substantially similar to Article VII, *Trust Administration*, of the Uniform Probate Code, 8 Uniform Laws Annotated 1 (West Supp. 1998), available from the National Conference of Commissioners on Uniform State Laws, 676 North St. Clair Street, Suite 1700, Chicago, Illinois 60611.

(B) *Testamentary trust.* In the case of a trust created pursuant to the terms of a will probated within the United States (other than an ancillary probate), if all fiduciaries of the trust have been qualified as trustees of the trust by a court within the United States, the trust meets the court test.

(C) *Inter vivos trust.* In the case of a trust other than a testamentary trust, if the fiduciaries and/or beneficiaries take steps with a court within the United States that cause the administration of the trust to be subject to the primary supervision of the court, the trust meets the court test.

(D) *A United States court and a foreign court are able to exercise primary supervision over the administration of the trust.* If both a United States court and a foreign court are able to exercise primary supervision over the administration of the trust, the trust meets the court test.

(ii) *Automatic migration provisions.* Notwithstanding any other provision in this section, a court within the United States is not considered to have primary supervision over the administration of the trust if the trust instrument provides that a United States court's attempt to assert jurisdiction or otherwise supervise the administration of the trust directly or indirectly would cause the trust to migrate from the United States. However, this paragraph (c)(4)(ii) will not apply if the trust instrument provides that the trust will migrate from the United States only in the case of foreign invasion of the United States or widespread confiscation or nationalization of property in the United States.

(5) *Examples.* The following examples illustrate the rules of this paragraph (c):

Example 1. A, a United States citizen, creates a trust for the equal benefit of *A*'s two children, both of whom are United States citizens. The trust instrument provides that *DC*, a domestic corporation, is to act as trustee of the trust and that the trust is to be administered in Country *X*, a foreign country. *DC* maintains a branch office in Country *X* with personnel authorized to act as trustees in Country *X*. The trust instrument provides that the law of State *Y*, a state within the United States, is to govern the interpretation of the trust. Under the law of Country *X*, a court within Country *X* is able to exercise primary supervision over the administration of the trust. Pursuant to the trust instrument, the Country *X* court applies the law of State *Y* to the trust. Under the terms of the trust instrument the trust is administered in Country *X*. No court within the United States is able to exercise primary supervision over the administration of the trust. The trust fails to satisfy the court test and therefore is a foreign trust.

Example 2. A, a United States citizen, creates a trust for *A*'s own benefit and the benefit of *A*'s spouse, *B*, a United States citizen. The trust instrument provides that the trust is to be administered in State *Y*, a state within the United States, by *DC*, a State *Y* corporation. The trust instrument further provides that in the event that a creditor sues the trustee in a United States court, the trust will automatically migrate from State *Y* to Country *Z*, a foreign country, so that no United States court will have jurisdiction over the trust. A court within the United States is not able to exercise primary supervision over the administration of the trust because the United States court's jurisdiction over the administration of the trust is automatically terminated in the event the court attempts to assert jurisdiction. Therefore, the trust fails to satisfy the court test from the time of its creation and is a foreign trust.

(d) *Control test*—(1) *Definitions*—(i) *United States person.* The term *United States person* means a United States person within the meaning of section 7701(a)(30). For example, a domestic corporation is a United States person, regardless of whether its shareholders are United States persons.

(ii) *Substantial decisions.* The term *substantial decisions* means those decisions that persons are authorized or required to make under the terms of the trust instrument and applicable law and that are not ministerial. Decisions that are ministerial include decisions regarding details such as the bookkeeping, the collection of rents, and the execution of investment decisions. Substantial decisions include, but are not limited to, decisions concerning—

(A) Whether and when to distribute income or corpus;

(B) The amount of any distributions;

(C) The selection of a beneficiary;

(D) Whether a receipt is allocable to income or principal;

(E) Whether to terminate the trust;

(F) Whether to compromise, arbitrate, or abandon claims of the trust;

(G) Whether to sue on behalf of the trust or to defend suits against the trust;

(H) Whether to remove, add, or replace a trustee;

(I) Whether to appoint a successor trustee to succeed a trustee who has died, resigned, or otherwise ceased to act as a trustee, even if the power to make such a decision is not accompanied by an unrestricted power to remove a trustee, unless the power to make such a decision is limited such that it cannot be exercised in a manner that would change the trust's residency from foreign to domestic, or vice versa; and

(J) Investment decisions; however, if a United States person under section 7701(a)(30) hires an investment advisor for the trust, investment decisions made by the investment advisor will be considered substantial decisions controlled by the United States person if the United States person can terminate the investment advisor's power to make investment decisions at will.

(iii) *Control*. The term *control* means having the power, by vote or otherwise, to make all of the substantial decisions of the trust, with no other person having the power to veto any of the substantial decisions. To determine whether United States persons have control, it is necessary to consider all persons who have authority to make a substantial decision of the trust, not only the trust fiduciaries.

(iv) *Safe harbor for certain employee benefit trusts and investment trusts*. Notwithstanding the provisions of this paragraph (d), the trusts listed in this paragraph (d)(1)(iv) are deemed to satisfy the control test set forth in paragraph (a)(1)(ii) of this section, provided that United States trustees control all of the substantial decisions made by the trustees of the trust—

(A) A qualified trust described in section 401(a);

(B) A trust described in section 457(g);

(C) A trust that is an individual retirement account described in section 408(a);

(D) A trust that is an individual retirement account described in section 408(k) or 408(p);

(E) A trust that is a Roth IRA described in section 408A;

(F) A trust that is an education individual retirement account described in section 530;

(G) A trust that is a voluntary employees' beneficiary association described in section 501(c)(9);

(H) A group trust described in Rev. Rul. 81–100 (1981–1 C.B. 326) (*See* § 601.601(d)(2) of this chapter);

(I) An investment trust classified as a trust under § 301.7701–4(c), provided that the following conditions are satisfied—

(*1*) All trustees are United States persons and at least one of the trustees is a bank, as defined in section 581, or a United States Government-owned agency or United States Government-sponsored enterprise;

(*2*) All sponsors (persons who exchange investment assets for beneficial interests with a view to selling the beneficial interests) are United States persons; and

(*3*) The beneficial interests are widely offered for sale primarily in the United States to United States persons;

(J) Such additional categories of trusts as the Commissioner may designate in revenue procedures, notices, or other guidance published in the Internal Revenue Bulletin (see § 601.601(d)(2)(ii)(*b*)).

(v) *Examples*. The following examples illustrate the rules of paragraph (d)(1) of this section:

Example 1. Trust is a testamentary trust with three fiduciaries, *A*, *B*, and *C*. *A* and *B* are United States citizens, and *C* is a nonresident alien. No persons except the fiduciaries have authority to make any decisions of the trust. The trust instrument provides that no substantial decisions of the trust can be made unless there is unanimity among the fiduciaries. The control test is not satisfied because United States persons do not control all the substantial decisions of the trust. No substantial decisions can be made without *C*'s agreement.

Example 2. Assume the same facts as in *Example 1*, except that the trust instrument provides that all substantial decisions of the trust are to be decided by a majority vote among the fiduciaries. The control test is satisfied because a majority of the fiduciaries are United States persons and therefore United States persons control all the substantial decisions of the trust.

Example 3. Assume the same facts as in *Example 2*, except that the trust instrument directs that *C* is to make all of the trust's investment decisions, but that *A* and *B* may veto *C*'s investment decisions. *A* and *B* cannot act to make the investment decisions on their own. The control test is not satisfied because the United States persons, *A* and *B*, do not have the power to make all of the substantial decisions of the trust.

Example 4. Assume the same facts as in *Example 3*, except *A* and *B* may accept or veto *C*'s investment decisions and can make investments that *C* has not recommended. The control test is satisfied because the United States persons control all substantial decisions of the trust.

Example 5. *X*, a foreign corporation, conducts business in the United States through various branch operations. *X* has United States employees and has established a trust as part of a qualified employee benefit plan under section 401(a) for these employees. The trust is established under the laws of State *A*, and the trustee of the trust is *B*, a United States bank governed by the laws of State *A*. *B* holds legal title to the trust assets for the benefit of the trust beneficiaries. A plan committee makes decisions with respect to the plan and the trust. The plan committee can direct *B*'s actions with regard to those decisions and under the governing documents *B* is not liable for those decisions. Members of the plan committee consist of United States persons and nonresident aliens, but nonresident aliens make up a majority of the plan committee. Decisions of the plan committee are made by majority vote. In addition, *X* retains the power to terminate the trust and to replace the United States trustee or to appoint additional trustees. This trust is deemed to satisfy the control test under paragraph (d)(1)(iv) of this section because *B*, a United States person, is the trust's only trustee. Any powers held by the plan committee or *X* are not considered under the safe harbor of paragraph (d)(1)(iv) of this section. In the event that *X* appoints additional trustees including foreign trustees, any powers held by such trustees must be considered in determining whether United States trustees control all substantial decisions made by the trustees of the trust.

(2) *Replacement of any person who had authority to make a substantial decision of the trust*—(i) *Replacement within 12 months.* In the event of an inadvertent change in any person that has the power to make a substantial decision of the trust that would cause the domestic or foreign residency of the trust to change, the trust is allowed 12 months from the date of the change to make necessary changes either with respect to the persons who control the substantial decisions or with respect to the residence of such persons to avoid a change in the trust's residency. For purposes of this section, an inadvertent change means the death, incapacity, resignation, change in residency or other change with respect to a person that has a power to make a substantial decision of the trust that would cause a change to the residency of the trust but that was not intended to change the residency of the trust. If the necessary change is made within 12 months, the trust is treated as retaining its pre-change residency during the 12-month period. If the necessary change is not made within 12 months, the trust's residency changes as of the date of the inadvertent change.

(ii) *Request for extension of time.* If reasonable actions have been taken to make the necessary change to prevent a change in trust residency, but due to circumstances beyond the trust's control the trust is unable to make the modification within 12 months, the trust may provide a written statement to the district director having jurisdiction over the trust's return setting forth the reasons for failing to make the necessary change within the required time period. If the district director determines that the failure was due to reasonable cause, the district director may grant the trust an extension of time to make the necessary change. Whether an extension of time is granted is in the sole discretion of the district director and, if granted, may contain such terms with respect to assessment as may be necessary to ensure that the correct amount of tax will be collected from the trust, its owners, and its beneficiaries. If the district director does not grant an extension, the trust's residency changes as of the date of the inadvertent change.

(iii) *Examples.* The following examples illustrate the rules of paragraphs (d)(2)(i) and (ii) of this section:

Example 1. A trust that satisfies the court test has three fiduciaries, *A*, *B*, and *C*. *A* and *B* are United States citizens and *C* is a nonresident alien. All decisions of the trust are made by majority vote of the fiduciaries. The trust instrument provides that upon the death or resignation of any of the fiduciaries, *D*, is the successor fiduciary. *A* dies and *D* automatically becomes a fiduciary of the trust. When *D* becomes a fiduciary of the trust, *D* is a nonresident alien. Two months after *A* dies, *B* replaces *D* with *E*, a United States person. Because *D* was replaced with *E* within 12 months after the date of *A*'s death, during the period after *A*'s death and before *E* begins to serve, the trust satisfies the control test and remains a domestic trust.

Example 2. Assume the same facts as in *Example 1* except that at the end of the 12-month period after *A*'s death, *D* has not been replaced and remains a fiduciary of the trust. The trust becomes a foreign trust on the date *A* died unless the district director grants an extension of the time period to make the necessary change.

(3) *Automatic migration provisions.* Notwithstanding any other provision in this section, United States persons are not considered to control all substantial decisions of the trust if an attempt by any governmental agency or creditor to collect information from or assert a claim against the trust would cause one or more substantial decisions of the trust to no longer be controlled by United States persons.

(4) *Examples.* The following examples illustrate the rules of this paragraph (d):

Example 1. A, a nonresident alien individual, is the grantor and, during *A*'s lifetime, the sole beneficiary of a trust that qualifies as an individual retirement account (IRA). *A* has the exclusive power to make decisions regarding withdrawals from the IRA and to direct its investments. The IRA's sole trustee is a United States person within the meaning of section 7701(a)(30). The control test is satisfied with respect to this trust because the special rule of paragraph (d)(1)(iv) of this section applies.

Example 2. A, a nonresident alien individual, is the grantor of a trust and has the power to revoke the trust, in whole or in part, and revest assets in *A*. *A* is treated as the owner of the trust under sections 672(f) and 676. *A* is not a fiduciary of the trust. The trust has one trustee, *B*, a United States person, and the trust has one beneficiary, *C*. *B* has the discretion to distribute corpus or income to *C*. In this case, decisions exercisable by *A* to have trust assets distributed to *A* are substantial decisions. Therefore, the trust is a foreign trust because *B* does not control all substantial decisions of the trust.

Example 3. A trust, Trust T, has two fiduciaries, *A* and *B*. Both *A* and *B* are United States persons. *A* and *B* hire *C*, an investment advisor who is a foreign person, and may terminate *C*'s employment at will. The investment advisor makes the investment decisions for the trust. *A* and *B* control all other decisions of the trust. Although *C* has the power to make investment decisions, *A* and *B* are treated as controlling these decisions. Therefore, the control test is satisfied.

Example 4. G, a United States citizen, creates a trust. The trust provides for income to *A* and *B* for life, remainder to *A*'s and *B*'s descendants. *A* is a nonresident alien and *B* is a United States person. The trustee of the trust is a United States person. The trust instrument authorizes *A* to replace the trustee. The power to replace the trustee is a substantial decision. Because *A*, a nonresident alien, controls a substantial decision, the control test is not satisfied.

(e) *Effective date*—(1) *General rule.* Except for the election to remain a domestic trust provided in paragraph (f) of this section and except as provided in paragraph (e)(3) of this section, this section is applicable to taxable years ending after February 2, 1999. This section may be relied on by trusts for taxable years beginning after December 31, 1996, and also may be relied on by trusts whose trustees have elected to apply sections 7701(a)(30) and (31) to the trusts for taxable years ending after August 20, 1996, under section 1907(a)(3)(B) of the Small Business Job Protection Act of 1996, (the SBJP Act) Public Law 104–188, 110 Stat. 1755 (26 U.S.C. 7701 note).

(2) *Trusts created after August 19, 1996.* If a trust is created after August 19, 1996, and before April 5, 1999, and the trust satisfies the control test set forth in the regulations project REG–251703–96 published under section 7701(a)(30) and (31) (1997–1 C.B. 795) (See § 601.601(d)(2) of this chapter), but does not satisfy the control test set forth in paragraph (d) of this section, the trust may be modified to satisfy the control test of paragraph (d) by December 31, 1999. If the modification is completed by December 31, 1999, the trust will be treated as satisfying the control test of paragraph (d) for taxable years beginning after December 31, 1996, (and for taxable years ending after August 20, 1996, if the election under section

1907(a)(3)(B) of the SBJP Act has been made for the trust).

(3) *Effective date of safe harbor for certain employee benefit trusts and investment trusts.* Paragraphs (d)(1)(iv) and (v) *Examples 1* and *5* of this section apply to trusts for taxable years ending on or after August 9, 2001. Paragraphs (d)(1)(iv) and (v) *Examples 1* and *5* of this section may be relied on by trusts for taxable years beginning after December 31, 1996, and also may be relied on by trusts whose trustees have elected to apply sections 7701(a)(30) and (31) to the trusts for taxable years ending after August 20, 1996, under section 1907(a)(3)(B) of the SBJP Act.

(f) *Election to remain a domestic trust*—(1) *Trusts eligible to make the election to remain domestic.* A trust that was in existence on August 20, 1996, and that was treated as a domestic trust on August 19, 1996, as provided in paragraph (f)(2) of this section, may elect to continue treatment as a domestic trust notwithstanding section 7701(a)(30)(E). This election is not available to a trust that was wholly-owned by its grantor under subpart E, part I, subchapter J, chapter 1, of the Code on August 20, 1996. The election is available to a trust if only a portion of the trust was treated as owned by the grantor under subpart E on August 20, 1996. If a partially-owned grantor trust makes the election, the election is effective for the entire trust. Also, a trust may not make the election if the trust has made an election pursuant to section 1907(a)(3)(B) of the SBJP Act to apply the new trust criteria to the first taxable year of the trust ending after August 20, 1996, because that election, once made, is irrevocable.

(2) *Determining whether a trust was treated as a domestic trust on August 19, 1996*—(i) *Trusts filing Form 1041 for the taxable year that includes August 19, 1996.* For purposes of the election, a trust is considered to have been treated as a domestic trust on August 19, 1996, if: the trustee filed a Form 1041, ''U.S. Income Tax Return for Estates and Trusts,'' for the trust for the period that includes August 19, 1996 (and did not file a Form 1040NR, ''U.S. Nonresident Alien Income Tax Return,'' for that year); and the trust had a reasonable basis (within the meaning of section 6662) under section 7701(a)(30) prior to amendment by the SBJP Act (prior law) for reporting as a domestic trust for that period.

(ii) *Trusts not filing a Form 1041.* Some domestic trusts are not required to file Form 1041. For example, certain group trusts described in Rev. Rul. 81–100 (1981–1 C.B. 326) (See § 601.601(d)(2) of this chapter) consisting of trusts that are parts of qualified retirement plans and individual retirement accounts are not required to file Form 1041. Also, a domestic trust whose gross income for the taxable year is less than the amount required for filing an income tax return and that has no taxable income is not required to file a Form 1041. Section 6012(a)(4). For purposes of the election, a trust that filed neither a Form 1041 nor a Form 1040NR for the period that includes August 19, 1996, will be considered to have been treated as a domestic trust on August 19, 1996, if the trust had a reasonable basis (within the meaning of section 6662) under prior law for being treated as a domestic trust for that period and for filing neither a Form 1041 nor a Form 1040NR for that period.

(3) *Procedure for making the election to remain domestic*—(i) *Required Statement.* To make the election, a statement must be filed with the Internal Revenue Service in the manner and time described in this section. The statement must be entitled ''Election to Remain a Domestic Trust under Section 1161 of the Taxpayer Relief Act of 1997,'' be signed under penalties of perjury by at least one trustee of the trust, and contain the following information—

(A) A statement that the trust is electing to continue to be treated as a domestic trust under section 1161 of the Taxpayer Relief Act of 1997;

(B) A statement that the trustee had a reasonable basis (within the meaning of section 6662) under prior law for treating the trust as a domestic trust on August 19, 1996. (The trustee need not explain the reasonable basis on the election statement.);

(C) A statement either that the trust filed a Form 1041 treating the trust as a domestic trust for the period that includes August 19, 1996, (and that the trust did not file a Form 1040NR for

that period), or that the trust was not required to file a Form 1041 or a Form 1040NR for the period that includes August 19, 1996, with an accompanying brief explanation as to why a Form 1041 was not required to be filed; and

(D) The name, address, and employer identification number of the trust.

(ii) *Filing the required statement with the Internal Revenue Service.* (A) Except as provided in paragraphs (f)(3)(ii)(E) through (G) of this section, the trust must attach the statement to a Form 1041. The statement may be attached to either the Form 1041 that is filed for the first taxable year of the trust beginning after December 31, 1996 (1997 taxable year), or to the Form 1041 filed for the first taxable year of the trust beginning after December 31, 1997 (1998 taxable year). The statement, however, must be filed no later than the due date for filing a Form 1041 for the 1998 taxable year, plus extensions. The election will be effective for the 1997 taxable year, and thereafter, until revoked or terminated. If the trust filed a Form 1041 for the 1997 taxable year without the statement attached, the statement should be attached to the Form 1041 filed for the 1998 taxable year.

(B) If the trust has insufficient gross income and no taxable income for its 1997 or 1998 taxable year, or both, and therefore is not required to file a Form 1041 for either or both years, the trust must make the election by filing a Form 1041 for either the 1997 or 1998 taxable year with the statement attached (even though not otherwise required to file a Form 1041 for that year). The trust should only provide on the Form 1041 the trust's name, name and title of fiduciary, address, employer identification number, date created, and type of entity. The statement must be attached to a Form 1041 that is filed no later than October 15, 1999.

(C) If the trust files a Form 1040NR for the 1997 taxable year based on application of new section 7701(a)(30)(E) to the trust, and satisfies paragraph (f)(1) of this section, in order for the trust to make the election the trust must file an amended Form 1040NR return for the 1997 taxable year. The trust must note on the amended Form 1040NR that it is making an election under section 1161 of the Taxpayer Relief Act of 1997. The trust must attach to the amended Form 1040NR the statement required by paragraph (f)(3)(i) of this section and a completed Form 1041 for the 1997 taxable year. The items of income, deduction and credit of the trust must be excluded from the amended Form 1040NR and reported on the Form 1041. The amended Form 1040NR for the 1997 taxable year, with the statement and the Form 1041 attached, must be filed with the Philadelphia Service Center no later than the due date, plus extensions, for filing a Form 1041 for the 1998 taxable year.

(D) If a trust has made estimated tax payments as a foreign trust based on application of section 7701(a)(30)(E) to the trust, but has not yet filed a Form 1040NR for the 1997 taxable year, when the trust files its Form 1041 for the 1997 taxable year it must note on its Form 1041 that it made estimated tax payments based on treatment as a foreign trust. The Form 1041 must be filed with the Philadelphia Service Center (and not with the service center where the trust ordinarily would file its Form 1041).

(E) If a trust forms part of a qualified stock bonus, pension, or profit sharing plan, the election provided by this paragraph (f) must be made by attaching the statement to the plan's annual return required under section 6058 (information return) for the first plan year beginning after December 31, 1996, or to the plan's information return for the first plan year beginning after December 31, 1997. The statement must be attached to the plan's information return that is filed no later than the due date for filing the plan's information return for the first plan year beginning after December 31, 1997, plus extensions. The election will be effective for the first plan year beginning after December 31, 1996, and thereafter, until revoked or terminated.

(F) Any other type of trust that is not required to file a Form 1041 for the taxable year, but that is required to file an information return (for example, Form 5227) for the 1997 or 1998 taxable year must attach the statement to the trust's information return for the 1997 or 1998 taxable year. However, the statement must be attached to an information return that is filed no later

than the due date for filing the trust's information return for the 1998 taxable year, plus extensions. The election will be effective for the 1997 taxable year, and thereafter, until revoked or terminated.

(G) A group trust described in Rev. Rul. 81–100 consisting of trusts that are parts of qualified retirement plans and individual retirement accounts (and any other trust that is not described above and that is not required to file a Form 1041 or an information return) need not attach the statement to any return and should file the statement with the Philadelphia Service Center. The trust must make the election provided by this paragraph (f) by filing the statement by October 15, 1999. The election will be effective for the 1997 taxable year, and thereafter, until revoked or terminated.

(iii) *Failure to file the statement in the required manner and time.* If a trust fails to file the statement in the manner or time provided in paragraphs (f)(3)(i) and (ii) of this section, the trustee may provide a written statement to the district director having jurisdiction over the trust setting forth the reasons for failing to file the statement in the required manner or time. If the district director determines that the failure to file the statement in the required manner or time was due to reasonable cause, the district director may grant the trust an extension of time to file the statement. Whether an extension of time is granted shall be in the sole discretion of the district director. However, the relief provided by this paragraph (f)(3)(iii) is not ordinarily available if the statute of limitations for the trust's 1997 taxable year has expired. Additionally, if the district director grants an extension of time, it may contain terms with respect to assessment as may be necessary to ensure that the correct amount of tax will be collected from the trust, its owners, and its beneficiaries.

(4) *Revocation or termination of the election*—(i) *Revocation of election.* The election provided by this paragraph (f) to be treated as a domestic trust may only be revoked with the consent of the Commissioner. See sections 684, 6048, and 6677 for the federal tax consequences and reporting requirements related to the change in trust residence.

(ii) *Termination of the election.* An election under this paragraph (f) to remain a domestic trust terminates if changes are made to the trust subsequent to the effective date of the election that result in the trust no longer having any reasonable basis (within the meaning of section 6662) for being treated as a domestic trust under section 7701(a)(30) prior to its amendment by the SBJP Act. The termination of the election will result in the trust changing its residency from a domestic trust to a foreign trust on the effective date of the termination of the election. See sections 684, 6048, and 6677 for the federal tax consequences and reporting requirements related to the change in trust residence.

(5) *Effective date.* This paragraph (f) is applicable beginning on February 2, 1999.

[T.D. 8813, 64 FR 4970, Feb. 2, 1999, as amended by T.D. 8962, 66 FR 41779, Aug. 9, 2001]

§ 301.7701–8 Military or naval forces and Armed Forces of the United States.

The term ''military or naval forces of the United States'' and the term ''Armed Forces of the United States'' each includes all regular and reserve components of the uniformed services which are subject to the jurisdiction of the Secretary of Defense, the Secretary of the Army, the Secretary of the Navy, or the Secretary of the Air Force. The terms also include the Coast Guard. The members of such forces include commissioned officers and the personnel below the grade of commissioned officer in such forces.

§ 301.7701–9 Secretary or his delegate.

(a) The term *Secretary or his delegate* means the Secretary of the Treasury, or any officer, employee, or agency of the Treasury Department duly authorized by the Secretary (directly, or indirectly by one or more redelegations of authority) to perform the function mentioned or described in the context, and the term ''or his delegate'' when used in connection with any other official of the United States shall be similarly construed.

(b) In any case in which a function is vested by the Internal Revenue Code of 1954 or any other statute in the Secretary or his delegate, and Treasury regulations or Treasury decisions approved by the Secretary or his delegate provide that such function may be performed by the Commissioner, assistant commissioner, regional commissioner, assistant regional commissioner, district director, director of a regional service center, or by a designated officer or employee in the office of any such officer, such provision in the regulations or Treasury decision shall constitute a delegation by the Secretary of the authority to perform such function to the designated officer or employee. If such authority is delegated to any officer or employee performing services under the supervision and control of the Commissioner, such provision in the regulations or Treasury decision shall constitute a delegation by the Secretary to the Commissioner of the authority to perform such function and a redelegation thereof by the Commissioner to the designated officer or employee.

(c) An officer or employee, including the Commissioner, authorized by regulations or Treasury decision to perform a function shall have authority to redelegate the performance of such function to any officer or employee performing services under his supervision and control, unless such power to so redelegate is prohibited or restricted by proper order or directive. The Commissioner may also redelegate authority to perform such function to other officers or employees under his supervision and control and, to the extent he deems proper, may authorize further redelegation of such authority.

(d) The Commissioner may prescribe such limitations as he deems proper on the extent to which any officer or employee under his supervision and control shall perform any such function, but, in the case of an officer or employee designated in regulations or Treasury decision as authorized to perform such function, such limitations shall not render invalid any performance by such officer or employee of the function which, except for such limitations, such officer or employee is authorized to perform by such regulations or Treasury decision in effect at the time the function is performed.

§ 301.7701–10 District director.

The term *district director* means the district director of internal revenue for an internal revenue district. The term also includes the Assistant Commissioner (International).

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 8411, 57 FR 15241, Apr. 27, 1992]

§ 301.7701–11 Social security number.

For purposes of this chapter, the term *social security number* means the taxpayer identifying number of an individual or estate which is assigned pursuant to section 6011(b) or corresponding provisions of prior law, or pursuant to section 6109, and in which nine digits are separated by hyphens as follows: 000-00-0000. Such term does not include a number with a letter as a suffix which is used to identify an auxiliary beneficiary under the social security program. The terms ''account number'' and ''social security number'' refer to the same number.

[T.D. 7306, 39 FR 9947, Mar. 15, 1974]

§ 301.7701–12 Employer identification number.

For purposes of this chapter, the term *employer identification number* means the taxpayer identifying number of an individual or other person (whether or not an employer) which is assigned pursuant to section 6011 (b) or corresponding provisions of prior law, or pursuant to section 6109, and in which nine digits are separated by a hyphen, as follows: 00–0000000. The terms ''employer identification number'' and ''identification number'' (defined in § 31.0–2(a)(11) of this chapter (Employment Tax Regulations)) refer to the same number.

[T.D. 7306, 39 FR 9947, Mar. 15, 1974]

§ 301.7701–13 Pre-1970 domestic building and loan association.

(a) *In general.* For taxable years beginning after October 16, 1962, and before July 12, 1969, the term ''domestic building and loan association'' means a domestic building and loan association,

a domestic savings and loan association, a Federal savings and loan association, and any other savings institution chartered and supervised as a savings and loan or similar association under Federal or State law which meets supervisory test (described in paragraph (b) of this section), the business operations test (described in paragraph (c) of this section), and each of the various assets tests (described in paragraphs (d), (e), (f), and (h) of this section). For the definition of the term ''domestic building and loan association'', for taxable years beginning after July 11, 1969, see § 301.7701–13A.

(b) *Supervisory test.* A domestic building and loan association must be either (1) an insured institution within the meaning of section 401(a) of the National Housing Act (12 U.S.C. 1724 (a)) or (2) subject by law to supervision and examination by State or Federal authority having supervision over such associations. An ''insured institution'' is one the accounts of which are insured by the Federal Savings and Loan Insurance Corporation.

(c) *Business operations test*—(1) *In general.* An association must utilize its assets so that substantially all of its business consists of acquiring the savings of the public and investing in the loans described in subparagraphs (6) through (10) of paragraph (d) of this section. The requirement of this paragraph is referred to in this section as the business operations test. The business of acquiring the savings of the public and investing in the prescribed loans includes ancillary or incidental activities which are directly and primarily related to such acquisition and investment, such as advertising for savings, appraising property on which loans are to be made by the association, and inspecting the progress of construction in connection with construction loans. Even though an association meets the supervisory test in paragraph (b) and all the assets tests described in paragraphs (d) through (h) of this section, it will nevertheless not qualify as a domestic building and loan association if any substantial part of its business consists of activities which are not directly and primarily related to such acquisition and investment, such as brokering mortgage paper, selling insurance, or subdividing real estate. However, an association will meet the business operations test for a taxable year if it meets the requirements of both subparagraphs (2) and (3) of this paragraph (c), relating respectively to acquiring the savings of the public, and investing in loans.

(2) *Acquiring the savings of the public.* The requirement that substantially all of an association's business (other than investing in loans) must consist of acquiring the savings of the public ordinarily will be considered to be met if savings are acquired in all material respects in conformity with the rules and regulations of the Federal Home Loan Bank Board or substantially equivalent rules of a State law or supervisory authority. In addition, such requirement will be considered to be met if more than 85 percent of the dollar amount of the total deposits and withdrawable shares of the association are held during the taxable year by the general public as opposed to amounts deposited by family or related business groups or persons who are officers or directors of the association. The percentage specified in this subparagraph shall be computed as of the close of the taxable year, or at the option of the taxpayer, on the basis of the average of the amounts of deposits held during the year. Such average shall be determined by computing the percentage specified either as of the close of each month, as of the close of each quarter, or semiannually during the taxable year and by using the yearly average of the monthly, quarterly, or semiannual percentages obtained.

(3) *Investing in loans*—(i) *In general.* The requirement that substantially all of an association's business (other than acquiring the savings of the public) must consist of investing in the loans described in subparagraphs (6) through (10) of paragraph (d) of this section ordinarily will be considered to be met for a taxable year if the association meets both the gross income test described in subdivision (ii) of this subparagraph, and the sales activity test described in subdivision (iii) of this subparagraph. However, if an association does not meet the requirements of both subdivisions (ii) and (iii) of this subparagraph, it will nevertheless meet

the investing in loans requirement if it is able to demonstrate that substantially all its business (other than acquiring the savings of the public) consisted of investing in the prescribed loans. Transactions which are necessitated by exceptional circumstances and which are not undertaken as recurring business activities for profit will not be considered a substantial part of an association's business. Thus, for example, an association would meet the investing in loans requirement if it can establish that it failed to meet the gross income test because of receipt of a non-recurring item of income due to exceptional circumstances, or it failed to meet the sales activity test because of sales made to achieve necessary liquidity to meet abnormal withdrawals from savings accounts. For the purposes of this subparagraph, however, the acquisition of loans in anticipation of their sale to other financial institutions does not constitute ''investing'' in loans, even though such acquisition and sale resulted from an excess of demand for loans over savings capital in the association's area.

(ii) *Gross income test*. The gross income test is met if more than 85 percent of the gross income of an association consists of:

(*a*) Interest or dividends on assets defined in subparagraph (2), (3), or (4) of paragraph (d) of this section,

(*b*) Interest on loans defined in subparagraphs (6) through (10) of paragraph (d) of this section,

(*c*) Income attributable to the portion of property used in the association's business as defined in paragraph (d)(5) of this section,

(*d*) Premiums, discounts, commissions, or fees (including late charges and penalties) on loans defined in subparagraphs (6) through (10) of paragraph (d) of this section which have at some time been held by the association, or for which firm commitments have been issued,

(*e*) Gain or loss on the sale of governmental obligations defined in paragraph (d)(3) of this section, or

(*f*) Income, gain, or loss attributable to foreclosed property (as defined in paragraph (j)(1) of this section), but not including such income, gain, or loss which, pursuant to section 595 and the regulations thereunder, is not included in gross income.

For the purposes of this subparagraph, gross income shall be computed without regard to gains or losses on the sale of the portion of property used in the association's business (described in paragraph (d)(5) of this section), without regard to gains or losses on the rented portion of property used as the principal or branch office of the association (described in such paragraph), and without regard to gains or losses on the sale of participations and loans (other than governmental obligations defined in paragraph (d)(3) of this section). Examples of types of income which would cause an association to fail to meet the gross income test, if in the aggregate they exceed 15 percent of gross income, are the excess of gains over losses on sale of real estate (other than foreclosed property); rental income (other than on foreclosed property and the portion of property used in the association's business); premiums, commissions, and fees (other than commitment fees) on loans which have never been held by the association; and insurance brokerage fees.

(iii) *Sales activity test: in general*. The sales activity test is met for a taxable year if the association meets both the sales of whole loans test described in subdivision (iv) of this subparagraph, and the sales of whole loans and participations test described in subdivision (v) of this subparagraph. For the purposes of this subdivision and subdivisions (iv), (v), and (vi) of this subparagraph:

(*a*) The term *loan* means loan as defined in paragraph (j)(1) of this section, other than foreclosed property defined in such paragraph and governmental obligations defined in paragraph (d)(3) of this section.

(*b*) The amount of a loan shall be determined in accordance with the rules contained in paragraph (l) (1) and (2)(ii) of this section.

(*c*) The term *loans acquired for investment during the taxable year* means the amount of loans outstanding as of the close of the taxable year, reduced (but not below zero) by the amount of loans outstanding as of the beginning of such year, and increased by the lesser of (*1*) the amount of repayments made on

loans during the taxable year or (*2*) an amount equal to 20 percent of the amount of loans outstanding as of the beginning of the taxable year. For this purpose, repayments do not include repayments on loans to the extent such loans are refinanced by the association.

(*d*) The term *sales of participations* means sales by an association of interests in loans, which sales meet the requirements of the regulations of the Federal Home Loan Bank Board relating to sales of participations, or which meet substantially equivalent requirements of State law or regulations relating to sales of participations.

(*e*) The term *sales of whole loans* means sales of loans other than sales of participations as defined in subdivision (*d*) of this subdivision, but in determining the amount of sales of whole loans, the following sales shall be disregarded: Sales of loans made to other financial institutions pursuant to an arrangement whereunder the association simultaneously enters in a bona fide agreement to repurchase such loans within a period of 18 months from the time of sale if such arrangement conforms to the rules and regulations of applicable supervisory authorities; sales made to the Federal Savings and Loan Insurance Corporation or to a corporation defined in paragraph (d)(4) of this section (relating to deposit insurance company securities); and sales made in the course of liquidation of the association pursuant to Federal or State law.

(iv) *Sales of whole loans test*. The sales of whole loans test is met for a taxable year if the amount of sales of whole loans during the taxable year does not exceed the greater of (*a*) 15 percent of the amount of loans acquired for investment during the taxable year, or (*b*) 20 percent of the amount of loans outstanding at the beginning of the taxable year. However, the 20 percent of beginning loans limitation specified in subdivision (*b*) of the previous sentence shall be reduced by the number of percentage points (rounded to the nearest one hundredth of a percentage point) which is equal to the sum of the 2 percentages obtained by dividing, for each of the 2 preceding taxable years, the amount of sales of whole loans during each such taxable year by the amount of loans outstanding at the beginning of such taxable year. For example, if the amounts of sales of whole loans made by a calendar year association in 1965 and 1966 were 3 percent and 4 percent, respectively, of loans outstanding at the beginning of each such year, the amount of sales of whole loans allowed under such subdivision (*b*) for 1967 would be an amount equal to 13 percent (20 percent minus 7 percentage points) of loans outstanding at the beginning of 1967. In computing the reduction to the 20 percent of beginning loans limitation specified in such subdivision (*b*), sales of whole loans made before January 1, 1964, shall not be taken into account.

(v) *Sales of whole loans and participations test*. The sales of whole loans and participations test is met if the sum of the amount of sales of whole loans and the amount of sales of participations during the taxable year does not exceed 100 percent of the amount of loans acquired for investment during the taxable year.

(vi) *Sales activity tests: special rules*—(*a*) *Carryover of sales*. The amount specified in subdivision (iv)(a) of this subparagraph as the maximum amount of sales of whole loans shall be increased by the amount by which 15 percent of the amount of loans acquired for investment by the association during the 2 preceding taxable years exceeds the amount of sales of whole loans made during such preceding taxable years; and the amount specified in subdivision (v) of this subparagraph as the maximum amount of sales of whole loans and participations shall be increased by the amount by which the amount of loans acquired for investment by the association during the 2 preceding taxable years exceeds the sum of the amount of sales of whole loans and participations made during such preceding taxable years. For example, if 15 percent of the amount of loans acquired for investment in 1965 and 1966 exceeded the amount of sales of whole loans during such years by $250,000, the amount of sales of whole loans permitted in 1967 under subdivision (iv)(*a*) of this subparagraph would be increased by $250,000.

(*b*) *Use of preceding year's base.* If the amount of loans acquired for investment by the association during the preceding taxable year exceeds such amount for the current taxable year, the 15 percent limitation provided in subdivision (iv)(*a*) of this subparagraph and the 100 percent limitation provided in subdivision (v) of this subparagraph shall be based upon such preceding taxable year's amount. However, the maximum amount of sales of whole loans permitted under subdivision (iv)(*a*) and the maximum amount of sales of whole loans and participations permitted under subdivision (v) in any taxable year shall be reduced by the amount of the increase in such sales allowed for the preceding taxable year solely by reason of the application of the provisions of the previous sentence. For example, assuming no carryover of sales under subdivision (*a*) of this subdivision, if the amount of loans acquired for investment by a calendar year association was $1,000,000 in 1965, under subdivision (iv)(*a*) of this subparagraph the association could make sales of whole loans in 1966 of $150,000 (15 percent of $1,000,000) even though the amount of its loans acquired for investment during 1966 was only $800,000. However, the amount of sales of whole loans permitted in 1967 under subdivision (iv)(*a*) of this subparagraph would be reduced to the extent that the amount of the sales of whole loans made by the association during 1966 exceeded $120,000 (15 percent of $800,000).

(vii) *Examples illustrating sales activity test.* The provisions of subdivisions (iii) through (vi) of this subparagraph may be illustrated by the following examples in each of which it is assumed that the association is a calendar year taxpayer which is operated in all material respects in conformity with applicable rules and regulations of Federal or State supervisory authorities.

Example 1. X Association made sales of whole loans in 1964 and 1965 which were 10 percent and 7 percent, respectively, of the amounts of loans outstanding at the beginning of each such year, and which were 25 percent and 17 percent, respectively, of the amounts of loans acquired for investment in each such year. The amount of X's loans outstanding at the beginning of 1966 was $1 million, and the amount of its loans acquired for investment for such year was $300,000. The maximum amount of sales of whole loans which X may make under the percentage of beginning loans limitation for 1966 is $30,000, which is 3 percent (20 percent reduced by the sum of 10 percent and 7 percent) of $1 million. The maximum amount of sales of whole loans permitted under the percentage of loans acquired for investment limitation for 1966 is $45,000 (15 percent of $300,000). X may therefore sell whole loans in an amount up to $45,000 in 1966 and meet the sales of whole loans test. It is assumed that the amount of loans acquired for investment in 1965 did not exceed $300,000, so that the preceding year's base cannot be used to increase the amount of sales permitted in 1966.

Example 2. Assume the same facts as in the previous example, except that the amount of loans acquired for investment in the preceding year (1965) was $320,000. Since such amount is greater than the $300,000 amount of loans acquired for investment in 1966, X may base its 15 percent limitation for 1966 on the $320,000 amount and sell whole loans in an amount up to $48,000 (15 percent of $320,000) and still meet the sales of whole loans test. However, to the extent that the amount of sales of whole loans exceeds $45,000 (15 percent of the $300,000 amount of loans acquired for investment in 1966), the maximum amount of sales computed under the percentage of loans acquired for investment limitation (but not the 20 percent of beginning loans limitation) for 1967 must be reduced.

Example 3. Y Association made no sales of whole loans in 1964 and 1965, and made sales of participations in the 2 years in amounts which, in the aggregate, were $50,000 less than the amounts of loans acquired for investment for such years. At the beginning of 1966 the amount of Y's loans outstanding was $1 million, and the amount of its loans acquired for investment in such year was $100,000. Although the maximum amount of sales of whole loans which Y could make under the sales of whole loans test is $200,000 (20 percent of $1 million), nevertheless, in order to meet the sales of whole loans and participations test, the sum of the amounts of sales of whole loans and sales of participations may not exceed $150,000 (100 percent of the $100,000 amount of loans acquired for investment in 1966 plus a carryover of sales from the previous two years of $50,000). It is assumed that the amount of loans acquired for investment in 1965 did not exceed $100,000, so that the preceding year's base cannot be used to increase the amount of sales permitted in 1966.

(viii) *Reporting requirements.* In the case of income tax returns for taxable years ending after October 31, 1964, there shall be filed with the return a statement showing the amount of gross

income for the taxable year in each of the categories described in subdivision (ii) of this subparagraph; and, for the taxable year and the two preceding taxable years, the amount of loans (described in subdivision (iii)(*a*) of this subparagraph) outstanding at the beginning of the year and at the end of the year, the amount of repayments on loans (not including repayments on loans to the extent such loans are refinanced by the association), the amount of sales of whole loans, and the amount of sales of participations.

(4) *Effective date.* The provisions of subparagraphs (1) through (3) of this paragraph (c), are applicable to taxable years ending after October 31, 1964. However, at the option of the taxpayer, for a taxable year beginning before November 1, 1964, and ending after October 31, 1964, the provisions of subparagraphs (1) through (3) of this paragraph (except the 20 percent of beginning loans limitation specified in subdivision (iv)(*b*) of subparagraph (3) of this paragraph (c)) shall apply only to the part year falling after October 31, 1964, as if such part year constituted a taxable year. In such case, the following rules shall apply:

(i) The amount of the ''loans acquired for investment'' for such part year shall be equal to the loans acquired for investment during the entire taxable year within which falls such part year, multiplied by a fraction the numerator of which is the number of days in such part year and the denominator of which is the number of days in such entire taxable year.

(ii) The increase in sales of whole loans and participations permitted by subdivision (vi) of subparagraph (3) of this paragraph (c), (relating to carryover of sales and use of preceding year's base) shall be the amount of such increase computed under such subdivision, multiplied by the fraction specified in subdivision (i) of this subparagraph.

If, treating the part year as a taxable year, the association meets all the requirements of this paragraph for such part year it will be considered to have met the business operations test for the entire taxable year, providing it operated in all material respects in conformity with applicable rules and regulations of Federal or State supervisory authorities for the entire taxable year. The 20 percent of beginning loans limitation specified in subdivision (iv)(*b*) of subparagraph (3) of this paragraph (c), shall be applied only on the basis of a taxable year and not the part year. For taxable years beginning after October 16, 1962, and ending before November 1, 1964, an association will be considered to have met the business operations test if it operated in all material respects in conformity with applicable rules and regulations of Federal or State supervisory authorities.

(d) *90 percent of assets test*—(1) *In general.* At least 90 percent of the amount of the total assets of a domestic building and loan association must consist of the assets defined in subparagraphs (2) through (10) of this paragraph (d). For purposes of this paragraph, it is immaterial whether the association originated the loans defined in subparagraphs (6) through (10) of this paragraph (d), or purchased or otherwise acquired them in whole or in part from another. See paragraph (j) of this section for definition of certain terms used in this paragraph, and paragraph (k) of this section for the determination of amount and character of loans.

(2) *Cash.* The term ''cash'' means cash on hand, and time or demand deposits with, or withdrawable accounts in, other financial institutions.

(3) *Governmental obligations.* The term ''governmental obligations'' means obligations of the United States, a State or political subdivision of a State, and stock or obligations of a corporation which is an instrumentality of the United States, a State, or political subdivision of a State.

(4) *Deposit insurance company securities.* The term ''deposit insurance company securities'' means certificates of deposit in, or obligations of, a corporation organized under a State law which specifically authorizes such corporation to insure the deposits or share accounts of member associations.

(5) *Property used in the association's business*—(i) *In general.* The term ''property used in the association's business'' means land, buildings, furniture, fixtures, equipment, leasehold interests, leasehold improvements, and

other assets used by the association in the conduct of its business of acquiring the savings of the public and investing in the loans defined in subparagraphs (6) through (10) of this paragraph (d). Real property held for the purpose of being used primarily as the principal or branch office of the association constitutes property used in the association's business so long as it is reasonably anticipated that such property will be occupied for such use by the association, or that construction work preparatory to such occupancy will be commenced thereon, within 2 years after acquisition of the property. Stock of a wholly owned subsidiary corporation which has as its exclusive activity the ownership and management of property more than 50 percent of the fair rental value of which is used as the principal or branch office of the association constitutes property used in such business. Real property held by an association for investment or sale, even for the purpose of obtaining mortgage loans thereon, does not constitute property used in the association's business.

(ii) *Property rented to others.* Except as provided in the second sentence of subdivision (i) of this subparagraph, property or a portion thereof rented by the association to others does not constitute property used in the association's business. However, if the fair rental value of the rented portion of a single piece of real property (including appurtenant parcels) used as the principal or branch office of the association constitutes less than 50 percent of the fair rental value of such piece of property, or if such property has an adjusted basis of not more than $150,000, the entire property shall be considered used in such business. If such rented portion constitutes 50 percent or more of the fair rental value of such piece of property, and such property has an adjusted basis of more than $150,000, an allocation of its adjusted basis is required. The portion of the total adjusted basis of such piece of property which is deemed to be property used in the association's business shall be equal to an amount which bears the same ratio to such total adjusted basis as the amount of the fair rental value of the portion used as the principal or branch office of the association bears to the total fair rental value of such property. In the case of all property other than real property used or to be used as the principal or branch office of the association, if the fair rental value of the rented portion thereof constitutes less than 15 percent of the fair rental value of such property, the entire property shall be considered used in the association's business. If such rented portion constitutes 15 percent or more of the fair rental value of such property, an allocation of its adjusted basis (in the same manner as required for real property used as the principal or branch office) is required.

(6) *Passbook loan.* The term ''passbook loan'' means a loan to the extent secured by a deposit, withdrawable share, or savings account in the association, or share of a member of the association, with respect to which a distribution is allowable as a deduction under section 591.

(7) *Home loan.* The term ''home loan'' means a loan secured by an interest in—

(i) Improved residential real property consisting of a structure or structures containing, in the aggregate, no more than 4 family units.

(ii) An individually owned family unit in a multiple-unit structure, the owner of which unit owns an undivided interest in the underlying real estate and the common elements of such structure (so-called condominium type).

Or a construction loan or improvement loan for such property. A construction loan made for the purpose of financing more than one structure (so-called tract financing) constitutes a home loan, providing no individual structure contains more than 4 family units and it is contemplated that, as soon as possible after completion of construction, the structures will become property described in subdivision (i) of this subparagraph. A construction loan secured by a structure containing more than 4 family units constitutes a home loan only if the structure has been committed to a plan of individual apartment ownership described in subdivision (ii) of this subparagraph and such plan is held out and advertised as such.

A loan secured by a cooperative apartment building containing more than 4 family units does not constitute a home loan.

(8) *Church loan*. The term ''church loan'' means a loan secured by an interest in real property which is used primarily for church purposes, or a construction loan or improvement loan for such property. For the purposes of this subparagraph, the term ''church purposes'' means the ministration of sacerdotal functions, the conduct of religious worship and closely associated activities designed primarily to provide fellowship among members of the congregation, or the instruction of religion. Thus, a parish hall would normally qualify as property used primarily for church purposes, whereas a building used primarily to furnish education, other than the instruction of religion, would not.

(9) *Multifamily loan*. The term ''multifamily loan'' means a loan, other than one defined in subparagraph (7) of this paragraph (d), (relating to a home loan), secured by an interest in improved residential real property or a construction loan or improvement loan for such property.

(10) *Nonresidential real property loan*. The term ''nonresidential real property loan'' means a loan, other than one defined in subparagraph (7), (8), or (9) of this paragraph (d), (relating respectively to a home loan, church loan, and multifamily loan) secured by an interest in real property, or a construction loan or improvement loan for such property.

(e) *18 percent of assets test*. Not more than 18 percent of the amount of the total assets of a domestic building and loan association may consist of assets other than those defined in subparagraphs (2) through (9) of paragraph (d) of this section. Thus, the sum of the amounts of the nonresidential real property loans and the assets other than those defined in paragraph (d) of this section may not exceed 18 percent of total assets.

(f) *36 or 41 percent of assets test*—(1) *36 percent test*. Unless subparagraph (2) of this paragraph (f), applies, not more than 36 percent of the amount of the total assets of a domestic building and loan association may consist of assets other than those defined in subparagraphs (2) through (8) of paragraph (d) of this section. Thus, unless subparagraph (2) of this paragraph (f), applies, the sum of the amounts of multifamily loans, nonresidential real property loans, and assets other than those defined in paragraph (d) of this section may not exceed 36 percent of total assets.

(2) *41 percent test*. If this subparagraph applies, not more than 41 percent of the amount of the total assets of a domestic building and loan association may consist of assets other than those defined in subparagraphs (2) through (8) of paragraph (d) of this section. Thus, if this subparagraph applies, the sum of the amounts of multifamily loans, nonresidential real property loans, and assets other than those defined in paragraph (d) of this section may not exceed 41 percent of total assets. See section 593(b)(5) and the regulations thereunder for the effect of application of this subparagraph on the allowable addition to the reserves for bad debts.

(g) *Taxable years for which 41 percent of assets test applies*—(1) *First taxable year*. For an association's first taxable year beginning after October 16, 1962, subparagraph (2) of paragraph (f) applies.

(2) *Second taxable year*. For an association's second taxable year beginning after October 16, 1962, subparagraph (2) of paragraph (f) applies if such association met all the requirements of paragraphs (b) through (e), (h), and either subparagraph (1) or (2) of paragraph (f) for its first taxable year.

(3) *Years other than first and second taxable years*. For any taxable year of an association beginning after October 16, 1962, other than its first and second taxable years beginning after such date, subparagraph (2) of paragraph (f) applies if such association met either—

(i) The requirements of paragraphs (b) through (e), (f)(1), and (h) of this section for the immediately preceding taxable year, or

(ii) The requirements of paragraphs (b) through (e), (f)(2), and (h) of this section for the immediately preceding taxable year, and the requirements of paragraphs (b) through (e), (f)(1), and (h) of this section for the second preceding taxable year.

Thus, in years other than its first and second taxable years beginning after October 16, 1962, an association may apply the 41 percent of assets test for 2 consecutive years, but only if it met the 36 percent test (and all other tests) for the year previous to the 2 consecutive years.

(4) *Examples*. The provisions of paragraph (f) and this paragraph may be illustrated by the following examples in each of which it is assumed that the association at all times meets all the requirements of paragraphs (b) through (e) and (h) of this section and files its returns on a calendar year basis.

Example 1. An association has 41 percent of its assets invested in assets other than those defined in subparagraphs (2) through (8) of paragraph (d) of this section as of the close of 1963 and 1964. Because 1963 is its first taxable year beginning after October 16, 1962, the 41 percent of assets test applies, and the association therefore qualifies as a domestic building and loan association for 1963. Because 1964 is its second taxable year beginning after such date and the 41 percent of assets test applied for its first taxable year, the 41 percent of assets test applies for 1964 and it therefor qualifies for such year.

Example 2. An association has 36 percent of its assets invested in assets other than those defined in subparagraphs (2) through (8) of paragraph (d) of this section as of the close of 1964, and 41 percent as of the close of 1965, 1966, and 1967. The association qualifies in 1965 because, as a result of having met the 36 percent of assets test for the immediately preceding taxable year (1964), the 41 percent of assets test applies to 1965. It qualifies in 1966 because as a result of having met the 41 percent of assets test in the immediately preceding taxable year (1965) and the 36 percent of assets test in the second preceding taxable year (1964), the 41 percent of assets test applies to 1966. The association would not qualify in 1967, however, because, although it met the 41 percent of assets test for the immediately preceding taxable year (1966), it did not meet the 36 percent of assets test in the second preceding taxable year (1965), and therefore the 41 percent of assets test does not apply to 1967.

Example 3. An association has more than 41 percent of its assets invested in assets other than those defined in subparagraphs (2) through (8) of paragraph (d) of this section as of the close of 1963, and 41 percent invested in such assets as of the close of 1964. The association does not qualify in either year. It does not qualify in 1963 because it exceeded the 41 percent limitation, and it does not qualify in 1964 because the 41 percent of assets test does not apply to 1964 since the association did not meet either the 41 percent of assets test or the 36 percent of assets test in the prior year (1963).

(h) *3 percent of assets test*. Not more than 3 percent of the amount of the total assets of a domestic building and loan association may consist of stock of any corporation, unless such stock is property which is defined in paragraph (d) of this section. The stock which constitutes property defined in such paragraph (d) is:

(1) Stock representing a withdrawable account in another financial institution;

(2) Stock of a corporation which is an instrumentality of the United States or of a State or political subdivision thereof;

(3) Stock which was security for a loan and which, by reason of having been bid in at foreclosure or otherwise having been reduced to ownership or possession of the association, is a loan within the definition of such term in paragraph (j)(1) of this section; and

(4) Stock of a wholly owned subsidiary corporation which has as its exclusive activity the ownership and management of property more than 50 percent of the fair rental value of which is used as the principal or branch office of the association.

(i) [Reserved]

(j) *Definition of certain terms*. For purposes of this section—

(1) *Loan*. The term ''loan'' means debt, as the term ''debt'' is used in section 166 and the regulations thereunder. The term ''loan'' also includes a redeemable ground rent (as defined in section 1055(c)) which is owned by the taxpayer, and any property (referred to in this section as ''foreclosed property'') which was security for the payment of any indebtedness and which has been bid in at foreclosure, or otherwise been reduced to ownership or possession of the association by agreement or process of law, whether or not such property was acquired subsequent to December 31, 1962.

(2) *Secured*. A loan will be considered as ''secured'' only if the loan is on the security of any instrument (such as a mortgage, deed of trust, or land contract) which makes the interest of the debtor in the property described therein specific security for the payment of

the loan, provided that such instrument is of such a nature that, in the event of default, the interest of the debtor in such property could be subjected to the satisfaction of the loan with the same priority as a mortgage or deed of trust in the jurisdiction in which the property is situated.

(3) *Interest*. The word ''interest'' means an interest in real property which, under the law of the jurisdiction in which such property is situated, constitutes either (i) an interest in fee in such property, (ii) a leasehold interest in such property extending or renewable automatically for a period of at least 30 years, or at least 10 years beyond the date scheduled for the final payment on a loan secured by an interest in such property, (iii) a leasehold interest in property described in paragraph (d)(7)(i) of this section (relating to certain home loans) extending for a period of at least 2 years beyond the date scheduled for the final payment on a loan secured by an interest in such property or (iv) a leasehold interest in such property held subject to a redeemable ground rent defined in section 1055(c).

(4) *Real property*. The term ''real property'' means any property which, under the law of the jurisdiction in which such property is situated, constitutes real property.

(5) *Improved real property*. The term ''improved real property'' means—

(i) Land on which is located any building of a permanent nature (such as a house, apartment house, office building, hospital, shopping center, warehouse, garage, or other similar permanent structure), provided that the value of such building is substantial in relation to the value of such land;

(ii) Any building lot or site which, by reason of installations and improvements that have been completed in keeping with applicable governmental requirements and with general practice in the community, is a building lot or site ready for the construction of any building of a permanent nature within the meaning of subdivision (i) of this subparagraph; or

(iii) Real property which, because of its state of improvement, produces sufficient income to maintain such real property and retire the loan in accordance with the terms thereof.

(6) *Construction loan*. The term ''construction loan'' means a loan, the proceeds of which are to be disbursed to the borrower (either by the association or a third party) as construction work progresses on real property which is security for the loan, which property is, or from the proceeds of such loan will become, improved real property.

(7) *Improvement loan*. The term ''improvement loan'' means a loan which, by its terms and conditions, requires that the proceeds of the loan be used for altering, repairing, or improving real property. If more than 85 percent of the proceeds of a single loan are to be used for such purposes, the entire loan will qualify. If 85 percent or less of the proceeds of a loan are to be used for such purposes, an allocation of its adjusted basis is required. Examples of loans which constitute improvement loans are loans made for the purpose of painting a house, adding a new room to a house, remodeling the lobby of an apartment building, and purchasing and installing storm windows, storm doors, and awnings. Examples of loans which do not constitute improvement loans are loans made for the purpose of purchasing draperies, and removable appliances, such as refrigerators, ranges, and washing machines. It is not necessary that a loan be secured by the real property which is altered, repaired, or improved.

(8) *Residential real property*. The term ''residential real property'' means real property which consists of one or more family units. A family unit is a building or portion thereof which contains complete living facilities which are to be used on other than a transient basis by only one family consisting of one or more persons. Thus, an apartment which is to be used on other than a transient basis by one family, which contains complete facilities for living, sleeping, eating, cooking, and sanitation constitutes a family unit. Hotels, motels, dormitories, fraternity and sorority houses, rooming houses, hospitals, sanitariums, rest homes, and parks and courts for mobile homes do not normally constitute residential real property.

(k) *Amount and character of loans*—(1) *Treatment at time of determination*—(i) *In general*. The amount of a loan, as of the time the determination required by subparagraph (3) of this paragraph (k), is made, shall be treated for the purposes of this section as being secured:

(*a*) First by the portion of property, if any, defined in subparagraph (6), (7), or (8) of paragraph (d) of this section to the extent of the loan value thereof;

(*b*) Next by the portion of property, if any, defined in subparagraph (9) of paragraph (d) of this section to the extent of the loan value thereof; and

(*c*) Next by the portion of property, if any, defined in subparagraph (10) of paragraph (d) of this section to the extent of the loan value thereof.

To the extent that the amount of a loan exceeds the amount treated as being secured by property defined in subparagraphs (6) through (10) of paragraph (d) of this section, such loan shall be treated as property not defined in paragraph (d) of this section. If the loan value of any one category of property defined in paragraph (d) of this section exceeds 85 percent of the amount of the loan for which it is security then the entire loan shall be treated as a loan secured by such property.

(ii) *Loans of $40,000 or less*. Notwithstanding the provisions of subdivision (i) of this subparagraph, in the case of loans amounting to $40,000 or less as of the time of a determination, made on the security of property which is a combination of two or more categories or property defined in subparagraph (6) through (10) of paragraph (d) of this section, all such loans for any taxable year may, at the option of the association, be treated for the purposes of this section as being secured by the category of property the loan value of which constitutes the largest percentage of the total loan value of the property except to the extent that the loan is treated as property not defined in paragraph (d) of this section.

(iii) *Home loans of $20,000 or less*. Notwithstanding the provisions of subdivisions (i) and (ii) of this subparagraph, if a loan amounting to $20,000 or less as of the time of a determination, is secured partly by property of a category described in subparagraph (7) of paragraph (d) of this section (relating to a home loan), the amount of the loan shall, for the purposes of this section, be treated as a loan described in such subparagraph except to the extent that the loan is treated as property not defined in paragraph (d) of this section.

(2) *Treatment subsequent to time of determination*. The amount of a loan outstanding as of any time subsequent to the time of a determination shall be treated, for the purposes of this section, as being secured by each of the categories of property in the same ratio that the amount which was treated as being secured by each category bore to the total amount of the loan at the time as of which the determination was last made with respect to such loan.

(3) *Time of determination*—(i) *In general*. The determination of the amount of a loan which is treated as being secured by each of the categories of property shall be made:

(*a*) As of the time a loan is made;

(*b*) As of the time a loan is increased;

(*c*) As of the time any portion of the property which was security for the loan is released; and

(*d*) As of any time required by applicable Federal or State regulatory authorities for reappraisal or reanalysis of such loans.

(ii) *Special rule*. In the case of loans outstanding with respect to which no event described in subdivision (i) of this subparagraph has occurred in a taxable year beginning on or after October 17, 1962, the determination of the amounts of such loans which are treated as being secured by each of the categories of property may be made, at the option of the association, as of the close of the first taxable year beginning on or after such date, providing the determinations with respect to all such loans are made as of such date.

(4) *Loan value*. The loan value of property which is security for a loan is the maximum amount at the time as of which the determination is made which the association is permitted to lend on such property under the rules and regulations of applicable Federal and State regulatory authorities. Such loan value shall not exceed the fair market value of such property at such time as determined under such rules and regulations. However, in the case of loans

made incidentally with and as a part of a bona fide salvage operation, the loan value of the security property shall be considered to be the face amount of the loan where the loan can be shown by the association to have been made for the primary purpose of recovering the investment of the association, and where such salvage operation is in conformity with rules and regulations of applicable Federal or State regulatory authorities.

(5) *Examples*. The following examples, in each of which it is assumed that X Savings and Loan Association files its return on a calendar year basis, illustrate the application of the rules in this paragraph:

Example 1. On July 1, 1963, X makes a single loan of $1 million to M Corporation which loan is secured by real property which is a combination of homes, apartments, and stores. As of the time the loan is made X determines that the loan values of the categories of property are as follows:

Category of property	Loan value
Home	$400,000
Multifamily	420,000
Nonresidential real property	240,000
Total	1,060,000

As of the time the loan is made, therefore, the $1,000,000 loan is treated under subparagraph (1)(i) of this paragraph as being secured as follows:

Category of loan	Amount of loan	Percentage of total
Home loan	$400,000	40
Multifamily loan	420,000	42
Nonresidential real property loan	180,000	18
Total	1,000,000	100

Assuming that the $1 million loan to M was reduced to $900,000 as of the close of 1963, that there were no increases in the amount of the loan and no releases of property which was security for the loan, and that there was no regulatory requirement to reappraise or reanalyze the loan, such loan will be considered under subparagraph (2) of this paragraph to be secured, as of the close of 1963, as follows:

Category	Percentage as of last determination July 1, 1963	Amount as of Dec. 31, 1963	
Home	40	$360,000	(40% × $900,000)
Multifamily	42	378,000	(42% × $900,000)
Nonresidential real property	18	162,000	(18% × $900,000)
Total		900,000	

Example 2. X makes a loan of $40,000 secured by a building which contains a store on the first floor and four family units on the upper floors. The loan value of the part of the building used as a store is $21,000 and the loan value of the residential portion is $23,000. The loan will be treated under subdivision (i) of subparagraph (1) of this paragraph as a loan secured by residential real property containing four or fewer family units to the extent of $23,000, and by nonresidential property to the extent of $17,000, as of the time the loan is made. However, if X exercises the option to treat all loans of $40,000 or less in accordance with subdivision (ii) of subparagraph (1) of this paragraph, this loan would be treated as a home loan to the extent of the full $40,000 because the loan value of the residential portion is larger than the loan value of the nonresidential part.

(l) *Computation of percentages*—(1) *In general*. The percentages specified in paragraphs (d) through (h) of this section shall, except as provided in subparagraph (3) of this paragraph (l), be computed by comparing the amount of the assets described in each paragraph as of the close of the taxable year with the total amount of assets as of the close of the taxable year. The amount of the assets in any category and the total amount of assets shall be determined with reference to their adjusted basis under § 1.1011–1, or by such other method as is in accordance with sound accounting principles, provided such method is used in valuing all the assets in a taxable year.

(2) *Treatment of certain assets and reserves*. For purposes of this paragraph (l):

(i) Reserves for bad debts established pursuant to section 593, or corresponding provisions of prior law, and

the regulations thereunder shall not constitute a reduction of total assets, but shall be treated as a surplus or net worth item.

(ii) The adjusted basis of a ''loan in process'' does not include the unadvanced portion of such loan.

(iii) Advances made by the association for taxes, insurance, etc., on loans shall be treated as being in the same category as the loan with respect to which the advances are made (irrespective of whether the advances are secured by the property securing the loan).

(iv) Interest receivable included in gross income shall be treated as being in the same category as the loan or asset with respect to which it is earned.

(v) The unamortized portion of premiums paid on mortgage loans acquired by the association shall be considered part of the acquisition cost of such loans.

(vi) Prepaid Federal Savings and Loan Insurance Corporation premiums shall be treated as being governmental obligations defined in paragraph (d)(3) of this section.

(vii) Accounts receivable (other than accrued interest receivable), and prepaid expenses and deferred charges other than those referred to in subdivision (v) or (vi) of this subparagraph, shall be disregarded both as separate categories and in the computation of total assets.

(viii) Foreclosed property (as defined in paragraph (j)(1) of this section) shall be treated as having the same character as the loan for which it was given as security.

(3) *Alternative method.* At the option of the taxpayer, the percentages specified in paragraphs (d) through (h) of this section may be computed on the basis of the average assets outstanding during the taxable year. Such average shall be determined by making the computation provided in subparagraph (1) of this paragraph (l), either as of the close of each month, as of the close of each quarter, or semiannually during the taxable year and by using the yearly average of the monthly, quarterly, or semiannual percentages obtained for each category. The method selected must be applied uniformly for the taxable year to all categories of assets, but the method may be changed from year to year.

(4) *Acquisition of certain assets.* For the purpose of the annual computation of percentages under subparagraph (1) of this paragraph (l)—

(i) Assets which, within a 60-day period beginning in one taxable year of the taxpayer and ending in the next year, are acquired directly or indirectly through borrowing and then repaid or disposed of within such period, shall be considered assets other than those defined in paragraph (d) of this section, unless both the acquisition and disposition are established to the satisfaction of the district director to have been for bona fide purposes; and

(ii) The amount of cash shall not include amounts received directly or indirectly from another financial institution (other than a Federal Home Loan Bank or a similar institution organized under State law) to the extent of the amount of cash which an association has on deposit or holds as a withdrawable account in such other financial institution.

(5) *Reporting requirements.* In the case of income tax returns for taxable years ending after October 31, 1964, there shall be filed with the return a statement showing the amount of assets as of the close of the taxable year in each of the categories defined in paragraph (d), and in the category described in paragraph (h) of this section, and a brief description and amount of all other assets. If the alternative method of computing percentages under subparagraph (3) of this paragraph (l) is selected, such statement shall show such information as of the end of each month, each quarter, or semiannually and the manner of calculating the averages. With respect to taxable years beginning after October 16, 1962, and ending before November 1, 1964, taxpayers shall maintain adequate records to establish to the satisfaction of the district director that it meets the various assets tests specified in this section.

(6) *Example.* The principles of this paragraph may be illustrated by the following example in which a description of the assets, the subparagraph of paragraph (d) in which the assets are

defined, the amount of the assets, and the percentage of the total assets included in the calculation are set forth.

SAVINGS AND LOAN ASSOCIATION ASSETS AS OF DECEMBER 31, 1964

Item	Described in paragraph (d), subparagraph	Amount	Percentage
1. Cash	(2)	$1,000,000	1
2. Governmental obligations [1]	(3)	8,000,000	8
3. Deposit insurance company securities	(4)	1,000,000	1
Loans outstanding: [2]			
4. Home	(7)	59,000,000	59
5. Church	(8)	1,000,000	1
6. Multifamily	(9)	20,000,000	20
7. Nonresidential real property	(10)	5,000,000	5
8. Passbook	(6)	1,000,000	1
9. Other		2,000,000	2
Fixed assets (less depreciation reserves):			
10. Used in the association's business	(5)	1,000,000	1
11. Rented to others		500,000	.5
12. Land held for investment		500,000	.5
13. Total assets included for purposes of this paragraph		100,000,000	100.0%
14. Accounts receivable		100,000	(disregarded)
15. Prepaid expenses (other than prepaid FSLIC premiums)		1,000,000	(disregarded)
16. Deferred charges		1,000,000	(disregarded)
17. Total assets		102,100,000	

[1] Prepaid FSLIC premiums treated as governmental obligations.
[2] Not including unadvanced portion of loans in process, but including interest receivable and advances with respect to loans.

The computation of the percentages of assets in the various categories for the purpose of determining whether the percentage of assets tests in the paragraphs in this section are met as of the close of the year are as follows:

Test and paragraph	Items considered	Percentage
90 percent test (d)	the sum of items 1 through 8 and 10 item—13 (total included assets)	= 97 percent
18 percent test (e)	the sum of items 7, 9, 11, and 12—item 13 (total included assets)	= 8 percent
36 percent test (f)	the sum of items 6, 7, 9, 11, and 12—item 13 (total included assets)	= 28 percent
3 percent test (h)	0—item 13 (total included assets)	= 0 percent

At the option of the association, the computations listed above could have been made as of the close of each month, each quarter, or semiannually, and averaged for the entire year.

(m) *Taxable years beginning before October 17, 1962.* For taxable years beginning before October 17, 1962, the term ''domestic building and loan association'' means a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association substantially all the business of which is confined to making loans to members.

[32 FR 15241, Nov. 3, 1967, as amended by T.D. 7622, 44 FR 28661, May 16, 1979]

§ 301.7701–13A Post-1969 domestic building and loan association.

(a) *In general.* For taxable years beginning after July 11, 1969, the term ''domestic building and loan association'' means a domestic building and loan association, a domestic savings and loan association, a Federal savings and loan association, and any other savings institution chartered and supervised as a savings and loan or similar association under Federal or State law which meets the supervisory test (described in paragraph (b) of this section), the business operations test (described in paragraph (c) of this section), and the assets test (described in paragraph (d) of this section). For the definition of the term ''domestic building and loan association'' for taxable years beginning after October 16, 1962, and before July 12, 1969, see § 301.7701–13.

(b) *Supervisory test.* A domestic building and loan association must be either (1) an insured institution within the

meaning of section 401(a) of the National Housing Act (12 U.S.C. 1724(a)) or (2) subject by law to supervision and examination by State or Federal authority having supervision over such associations. An ''insured institution'' is one the accounts of which are insured by the Federal Savings and Loan Insurance Corporation.

(c) *Business operations test*—(1) *In general.* An association must utilize its assets so that its business consists principally of acquiring the savings of the public and investing in loans. The requirement of this paragraph is referred to in this section as the business operations test. The business of acquiring the savings of the public and investing in loans includes ancillary or incidental activities which are directly and primarily related to such acquisition and investment, such as advertising for savings, appraising property on which loans are to be made by the association, and inspecting the progress of construction in connection with construction loans. Even though an association meets the supervisory test described in paragraph (b) of this section and the assets test described in paragraph (d) of this section, it will nevertheless not qualify as a domestic building and loan association if it does not meet the requirements of both paragraphs (2) and (3) of this paragraph (c), relating, respectively, to acquiring the savings of the public and investing in loans.

(2) *Acquiring the savings of the public.* The requirement that an association's business (other than investing in loans) must consist principally of acquiring the savings of the public ordinarily will be considered to be met if savings are acquired in all material respects in conformity with the rules and regulations of the Federal Home Loan Bank Board or substantially equivalent rules of a State law or supervisory authority. Alternatively, such requirement will be considered to be met if more than 75 percent of the dollar amount of the total deposits, withdrawable shares, and other obligations of the association are held during the taxable year by the general public, as opposed to amounts deposited or held by family or related business groups or persons who are officers or directors of the association. However, the preceding sentence shall not apply if the dollar amount of other obligations of the association outstanding during the taxable year exceeds 25 percent of the dollar amount of the total deposits, withdrawable shares, and other obligations of the association outstanding during such year. For purposes of this paragraph, the term ''other obligations'' means notes, bonds, debentures, or other obligations, or other securities (except capital stock), issued by an association in conformity with the rules and regulations of the Federal Home Loan Bank Board or substantially equivalent rules of a State law or supervisory authority. The term ''other obligations'' does not include an advance made by a Federal Home Loan Bank under the authority of section 10 or 10b of the Federal Home Loan Bank Act (12 U.S.C. 1430, 1430b) as amended and supplemented. Both percentages specified in this paragraph shall be computed either as of the close of the taxable year or, at the option of the taxpayer, on the basis of the average of the dollar amounts of the total deposits, withdrawable shares, and other obligations of the association held during the taxable year. Such averages shall be determined by computing each percentage specified either as of the close of each month, as of the close of each quarter, or semiannually during the taxable year and by using the yearly average of the monthly, quarterly, or semiannual percentages obtained. The method selected must be applied uniformly for the taxable year to both percentages, but the method may be changed from year to year.

(3) *Investing in loans*—(i) *In general.* The requirement that an association's business (other than acquiring the savings of the public) must consist principally of investing in loans will be considered to be met for a taxable year only if more than 75 percent of the gross income of the association consists of—

(*a*) Interest or dividends on assets defined in paragraphs (1), (2), and (3) of paragraph (e) of this section,

(*b*) Interest on loans,

(*c*) Income attributable to the portion of property used in the association's business, as defined in paragraph (e)(11) of this section,

(*d*) So much of the amount of premiums, discounts, commissions, or fees (including late charges and penalties) on loans which have at some time been held by the association, or for which firm commitments have been issued, as is not in excess of 20 percent of the gross income of the association,

(*e*) Net gain from sales and exchanges of governmental obligations, as defined in paragraph (e)(2) of this section, or

(*f*) Income, gain or loss attributable to foreclosed property, as defined in paragraph (e)(9) of this section, but not including such income, gain or loss which, pursuant to section 595 and the regulations thereunder, is not included in gross income.

Examples of types of income which would cause an association to fail to meet the requirements of this paragraph if, in the aggregate, they equal or exceed 25 percent of gross income, are: The excess of gains over losses from sales of real property (other than foreclosed property); rental income (other than on foreclosed property and the portion of property used in the association's business); premiums, commissions, and fees (other than commitment fees) on loans which have never been held by the association; and insurance brokerage fees.

(ii) *Computation of gross income.* For purposes of this paragraph, gross income is computed without regard to—

(*a*) Gain or loss on the sale or exchange of the portion of property used in the association's business as defined in paragraph (e)(11) of this section.

(*b*) Gain or loss on the sale or exchange of the rented portion of property used as the principal or branch office of the association, as defined in paragraph (e)(11) of this section, and

(*c*) Gains or losses on sales of participations, and loans, other than governmental obligations defined in paragraph (e)(2) of this section.

For purposes of this paragraph, gross income is also computed without regard to items of income which an association establishes arise out of transactions which are necessitated by exceptional circumstances and which are not undertaken as recurring business activities for profit. Thus, for example, an association would meet the investing in loans requirement if it can establish that it would otherwise fail to meet that requirement solely because of the receipt of a nonrecurring item of income due to exceptional circumstances. For this purpose, transactions necessitated by an excess of demand for loans over savings capital in the association's area are not to be deemed to be necessitated by exceptional circumstances. For purposes of paragraph (c)(3)(ii)(*c*) of this section, the term ''sales of participations'' means sales by an association of interests in loans, which sales meet the requirements of the regulations of the Federal Home Loan Bank Board relating to sales of participations, or which meet substantially equivalent requirements of State law or regulations relating to sales of participations.

(iii) *Reporting requirement.* In the case of income tax returns for taxable years beginning after July 11, 1969, there is required to be filed with the return a statement showing the amount of gross income for the taxable year in each of the categories described in paragraph (c)(3)(i) of this section.

(d) *60 percent of assets test.* At least 60 percent of the amount of the total assets of a domestic building and loan association must consist of the assets defined in paragraph (e) of this section. The percentage specified in this paragraph is computed as of the close of the taxable year or, at the option of the taxpayer, may be computed on the basis of the average assets outstanding during the taxable year. Such average is determined by making the appropriate computation described in this section either as of the close of each month, as of the close of each quarter, or semiannually during the taxable year and by using the yearly average of the monthly, quarterly, or semiannual percentage obtained for each category of assets defined in paragraph (e) of this section. The method selected must be applied uniformly for the taxable year to all categories of assets, but the method may be changed from year to year. For purposes of this paragraph, it is immaterial whether the association

originated the loans defined in paragraphs (4) through (8) and (10) of paragraph (e) of this section or purchased or otherwise acquired them in whole or in part from another. See paragraph (f) of this section for definition of certain terms used in this paragraph and in paragraph (e) of this section, and for the determination of amount and character of loans.

(e) *Assets defined.* The assets defined in this paragraph are—

(1) *Cash.* The term ''cash'' means cash on hand, and time or demand deposits with, or withdrawable accounts in, other financial institutions.

(2) *Governmental obligations.* The term ''governmental obligations'' means—

(i) Obligations of the United States,

(ii) Obligations of a State or political subdivision of a State, and

(iii) Stock or obligations of a corporation which is an instrumentality of the United States, a State, or a political subdivision of a State,

other than obligations the interest on which is excludable from gross income under section 103 and the regulations thereunder.

(3) *Deposit insurance company securities.* The term ''deposit insurance company securities'' means certificates of deposit in, or obligations of, a corporation organized under a State law which specifically authorizes such corporation to insure the deposits or share accounts of member associations.

(4) *Passbook loan.* The term ''passbook loan'' means a loan to the extent secured by a deposit, withdrawable share, or savings account in the association, or share of a member of the association, with respect to which a distribution is allowable as a deduction under section 591.

(5) *Residential real property loan.* [Reserved]

(6) *Church loan.* [Reserved]

(7) *Urban renewal loan.* [Reserved]

(8) *Institutional loan.* [Reserved]

(9) *Foreclosed property.* [Reserved]

(10) *Educational loan.* [Reserved]

(11) *Property used in the association's business*—(i) *In general.* The term ''property used in the association's business'' means land, buildings, furniture, fixtures, equipment, leasehold interests, leasehold improvements, and other assets used by the association in the conduct of its business of acquiring the savings of the public and investing in loans. Real property held for the purpose of being used primarily as the principal or branch office of the association constitutes property used in the association's business so long as it is reasonably anticipated that such property will be occupied for such use by the association, or that construction work preparatory to such occupancy will be commenced thereon, within 2 years after acquisition of the property. Stock of a wholly owned subsidiary corporation which has as its exclusive activity the ownership and management of property more than 50 percent of the fair rental value of which is used as the principal or branch office of the association constitutes property used in such business. Real property held by an association for investment or sale, even for the purpose of obtaining mortgage loans thereon, does not constitute property used in the association's business.

(ii) *Property rented to others.* Except as provided in the second sentence of paragraph (11)(i) of this paragraph (e), property or a portion thereof rented by the association to others does not constitute property used in the association's business. However, if the fair rental value of the rented portion of a single piece of real property (including appurtenant parcels) used as the principal or branch office of the association constitutes less than 50 percent of the fair rental value of such piece of property, or if such property has an adjusted basis of not more than $150,000, the entire property shall be considered used in such business. If such rented portion constitutes 50 percent or more of the fair rental value of such piece of property, and such property has an adjusted basis of more than $150,000, an allocation of its adjusted basis is required. The portion of the total adjusted basis of such piece of property which is deemed to be property used in the association's business shall be equal to an amount which bears the same ratio to such total adjusted basis as the amount of the fair rental value of the portion used as the principal or branch office of the association bears to the total fair rental value of such property. In the case of all property

other than real property used or to be used as the principal or branch office of the association, if the fair rental value of the rented portion thereof constitutes less than 15 percent of the fair rental value of such property, the entire property shall be considered used in the association's business. If such rented portion constitutes 15 percent or more of the fair rental value of such property, an allocation of its adjusted basis (in the same manner as required for real property used as the principal or branch office) is required.

(12) *Regular or residual interest in a REMIC*—(i) *In general.* If for any calendar quarter at least 95 percent of a REMIC's assets (as determined in accordance with § 1.860F–4(e)(1)(ii) or § 1.6049–7(f)(3) of this chapter) are assets defined in paragraph (e)(1) through (e)(11) of this section, then for that calendar quarter all the regular and residual interests in that REMIC are treated as assets defined in this paragraph (e). If less than 95 percent of a REMIC's assets are assets defined in paragraph (e)(1) through (e)(11) of this section, the percentage of each REMIC regular or residual interest treated as an asset defined in this paragraph (e) is equal to the percentage of the REMIC's assets that are assets defined in paragraph (e)(1) through (e)(11) of this section. See §§ 1.860F–4(e)(1)(ii)(B) and 1.6049–7(f)(3) of this chapter for information required to be provided to regular and residual interest holders if the 95 percent test is not met.

(ii) *Loans secured by manufactured housing.* For purposes of paragraph (e)(12)(i) of this section, a loan secured by manufactured housing treated as a single family residence under section 25(e)(10) is an asset defined in paragraph (e)(1) through (e)(11) of this section.

(f) *Special rules.* [Reserved]

[T.D. 7622, 44 FR 28661, May 16, 1979; 44 FR 29048, May 18, 1979, as amended by T.D. 8458, 57 FR 61313, Dec. 24, 1992]

§ 301.7701–14 Cooperative bank.

For taxable years beginning after October 16, 1962, the term ''cooperative bank'' means an institution without capital stock organized and operated for mutual purposes without profit which meets the supervisory test, the business operations test, and the various assets tests specified in paragraphs (d) through (h) of § 301.7701–13, employing the rules and definitions of paragraphs (j) through (l) of that section. In applying paragraphs (b) through (l) of such section any references to an ''association'' or to a ''domestic building and loan association'' shall be deemed to be a reference to a cooperative bank.

§ 301.7701–15 Tax return preparer.

(a) *In general.* A *tax return preparer* is any person who prepares for compensation, or who employs one or more persons to prepare for compensation, all or a substantial portion of any return of tax or any claim for refund of tax under the Internal Revenue Code (Code).

(b) *Definitions*—(1) *Signing tax return preparer.* A *signing tax return preparer* is the individual tax return preparer who has the primary responsibility for the overall substantive accuracy of the preparation of such return or claim for refund.

(2) *Nonsigning tax return preparer*—(i) *In general.* A *nonsigning tax return preparer* is any tax return preparer who is not a signing tax return preparer but who prepares all or a substantial portion of a return or claim for refund within the meaning of paragraph (b)(3) of this section with respect to events that have occurred at the time the advice is rendered. In determining whether an individual is a nonsigning tax return preparer, time spent on advice that is given after events have occurred that represents less than 5 percent of the aggregate time incurred by such individual with respect to the position(s) giving rise to the understatement shall not be taken into account. Notwithstanding the preceding sentence, time spent on advice before the events have occurred will be taken into account if all facts and circumstances show that the position(s) giving rise to the understatement is primarily attributable to the advice, the advice was substantially given before events occurred primarily to avoid treating the person giving the advice as a tax return preparer, and the advice given before events occurred was confirmed after events had occurred for purposes

of preparing a tax return. Examples of nonsigning tax return preparers are tax return preparers who provide advice (written or oral) to a taxpayer (or to another tax return preparer) when that advice leads to a position or entry that constitutes a substantial portion of the return within the meaning of paragraph (b)(3) of this section.

(ii) *Examples.* The provisions of this paragraph (b)(2) are illustrated by the following examples:

Example 1. Attorney A, an attorney in a law firm, provides legal advice to a large corporate taxpayer regarding a completed corporate transaction. The advice provided by A is directly relevant to the determination of an entry on the taxpayer's return, and this advice leads to a position(s) or entry that constitutes a substantial portion of the return. A, however, does not prepare any other portion of the taxpayer's return and is not the signing tax return preparer of this return. A is considered a nonsigning tax return preparer.

Example 2. Attorney B, an attorney in a law firm, provides legal advice to a large corporate taxpayer regarding the tax consequences of a proposed corporate transaction. Based upon this advice, the corporate taxpayer enters into the transaction. Once the transaction is completed, the corporate taxpayer does not receive any additional advice from B with respect to the transaction. B did not provide advice with respect to events that have occurred and is not considered a tax return preparer.

Example 3. The facts are the same as Example 2, except that Attorney B provides supplemental advice to the corporate taxpayer on a phone call after the transaction is completed. Attorney B did not provide advice before the corporate transaction occurred with the primary intent to avoid being treated as a tax return preparer. The time incurred on this supplemental advice by B represented less than 5 percent of the aggregate amount of time spent by B providing tax advice on the position. B is not considered a tax return preparer.

(3) *Substantial portion.* (i) Only a person who prepares all or a substantial portion of a return or claim for refund shall be considered to be a tax return preparer of the return or claim for refund. A person who renders tax advice on a position that is directly relevant to the determination of the existence, characterization, or amount of an entry on a return or claim for refund will be regarded as having prepared that entry. Whether a schedule, entry, or other portion of a return or claim for refund is a substantial portion is determined based upon whether the person knows or reasonably should know that the tax attributable to the schedule, entry, or other portion of a return or claim for refund is a substantial portion of the tax required to be shown on the return or claim for refund. A single tax entry may constitute a substantial portion of the tax required to be shown on a return. Factors to consider in determining whether a schedule, entry, or other portion of a return or claim for refund is a substantial portion include but are not limited to—

(A) the size and complexity of the item relative to the taxpayer's gross income; and

(B) the size of the understatement attributable to the item compared to the taxpayer's reported tax liability.

(ii)(A) For purposes of applying the rules of paragraph (b)(3)(i) of this section to a nonsigning tax return preparer within the meaning of paragraph (b)(2) of this section only, the schedule or other portion is not considered to be a substantial portion if the schedule, entry, or other portion of the return or claim for refund involves amounts of gross income, amounts of deductions, or amounts on the basis of which credits are determined that are—

(*1*) Less than $10,000; or

(*2*) Less than $400,000 and also less than 20 percent of the gross income as shown on the return or claim for refund (or, for an individual, the individual's adjusted gross income).

(B) If more than one schedule, entry or other portion is involved, all schedules, entries or other portions shall be aggregated in applying the de minimis rule in paragraph (b)(3)(ii)(A) of this section.

(C) The de minimis rule in paragraph (b)(3)(ii)(A) of this section shall not apply to a signing tax return preparer within the meaning of paragraph (b)(1) of this section.

(iii) A tax return preparer with respect to one return is not considered to be a tax return preparer of another return merely because an entry or entries reported on the first return may affect an entry reported on the other

return, unless the entry or entries reported on the first return are directly reflected on the other return and constitute a substantial portion of the other return. For example, the sole preparer of a partnership return of income or small business corporation income tax return is considered a tax return preparer of a partner's or a shareholder's return if the entry or entries on the partnership or small business corporation return reportable on the partner's or shareholder's return constitute a substantial portion of the partner's or shareholder's return.

(iv) *Examples*. The provisions of this paragraph (b)(3) are illustrated by the following examples:

Example 1. Accountant C prepares a Form 8886, ''Reportable Transaction Disclosure Statement'', that is used to disclose reportable transactions. C does not prepare the tax return or advise the taxpayer regarding the tax return reporting position of the transaction to which the Form 8886 relates. The preparation of the Form 8886 is not directly relevant to the determination of the existence, characterization, or amount of an entry on a tax return or claim for refund. Rather, the Form 8886 is prepared by C to disclose a reportable transaction. C has not prepared a substantial portion of the tax return and is not considered a tax return preparer under section 6694.

Example 2. Accountant D prepares a schedule for an individual taxpayer's Form 1040, ''U.S. Individual Income Tax Return'', reporting $4,000 in dividend income and gives oral or written advice about Schedule A, which results in a claim of a medical expense deduction totaling $5,000, but does not sign the tax return. D is not a nonsigning tax return preparer because the total aggregate amount of the deductions is less than $10,000.

(4) *Return and claim for refund*—(i) *Return*. For purposes of this section, a return of tax is a return (including an amended or adjusted return) filed by or on behalf of a taxpayer reporting the liability of the taxpayer for tax under the Code, if the type of return is identified in published guidance in the Internal Revenue Bulletin. A return of tax also includes any information return or other document identified in published guidance in the Internal Revenue Bulletin and that reports information that is or may be reported on another taxpayer's return under the Code if the information reported on the information return or other document constitutes a substantial portion of the taxpayer's return within the meaning of paragraph (b)(3) of this section.

(ii) *Claim for refund*. For purposes of this section, a claim for refund of tax includes a claim for credit against any tax that is included in published guidance in the Internal Revenue Bulletin. A claim for refund also includes a claim for payment under section 6420, 6421, or 6427.

(c) *Mechanical or clerical assistance*. A person who furnishes to a taxpayer or other tax return preparer sufficient information and advice so that completion of the return or claim for refund is largely a mechanical or clerical matter is considered a tax return preparer, even though that person does not actually place or review placement of information on the return or claim for refund. See also paragraph (b)(3) of this section.

(d) *Qualifications*. A person may be a tax return preparer without regard to educational qualifications and professional status requirements.

(e) *Outside the United States*. A person who prepares a return or claim for refund outside the United States is a tax return preparer, regardless of the person's nationality, residence, or the location of the person's place of business, if the person otherwise satisfies the definition of *tax return preparer*. Notwithstanding the provisions of § 301.6109–1(g), the person shall secure an employer identification number if the person is an employer of another tax return preparer, is a partnership in which one or more of the general partners is a tax return preparer, is a firm in which one or more of the equity holders is a tax return preparer, or is an individual not employed by another tax return preparer.

(f) *Persons who are not tax return preparers*. (1) The following persons are not tax return preparers:

(i) An official or employee of the Internal Revenue Service (IRS) performing official duties.

(ii) Any individual who provides tax assistance under a Volunteer Income Tax Assistance (VITA) program established by the IRS, but only with respect to those returns prepared as part of the VITA program.

(iii) Any organization sponsoring or administering a VITA program established by the IRS, but only with respect to that sponsorship or administration.

(iv) Any individual who provides tax counseling for the elderly under a program established pursuant to section 163 of the Revenue Act of 1978, but only with respect to those returns prepared as part of that program.

(v) Any organization sponsoring or administering a program to provide tax counseling for the elderly established pursuant to section 163 of the Revenue Act of 1978, but only with respect to that sponsorship or administration.

(vi) Any individual who provides tax assistance as part of a qualified Low-Income Taxpayer Clinic (LITC), as defined by section 7526, subject to the requirements of paragraphs (f)(2) and (3) of this section, but only with respect to those returns and claims for refund prepared as part of the LITC program.

(vii) Any organization that is a qualified LITC, as defined by section 7526, subject to the requirements of paragraphs (f)(2) and (3) of this section.

(viii) An individual providing only typing, reproduction, or other mechanical assistance in the preparation of a return or claim for refund.

(ix) An individual preparing a return or claim for refund of a taxpayer, or an officer, a general partner, member, shareholder, or employee of a taxpayer, by whom the individual is regularly and continuously employed or compensated or in which the individual is a general partner.

(x) An individual preparing a return or claim for refund for a trust, estate, or other entity of which the individual either is a fiduciary or is an officer, general partner, or employee of the fiduciary.

(xi) An individual preparing a claim for refund for a taxpayer in response to—

(A) A notice of deficiency issued to the taxpayer; or

(B) A waiver of restriction on assessment after initiation of an audit of the taxpayer or another taxpayer if a determination in the audit of the other taxpayer affects, directly or indirectly, the liability of the taxpayer for tax.

(xii) A person who prepares a return or claim for refund for a taxpayer with no explicit or implicit agreement for compensation, even if the person receives an insubstantial gift, return service, or favor.

(2) Paragraphs (f)(1)(vi) and (vii) of this section apply only if any assistance with a return of tax or claim for refund is directly related to a controversy with the IRS for which the qualified LITC is providing assistance or is an ancillary part of an LITC program to inform individuals for whom English is a second language about their rights and responsibilities under the Code.

(3) Notwithstanding paragraph (f)(2) of this section, paragraphs (f)(1)(vi) and (f)(1)(vii) of this section do not apply if an LITC charges a separate fee or varies a fee based on whether the LITC provides assistance with a return of tax or claim for refund under the Code or if the LITC charges more than a nominal fee for its services.

(4) For purposes of paragraph (f)(1)(ix) of this section, the employee of a corporation owning more than 50 percent of the voting power of another corporation, or the employee of a corporation more than 50 percent of the voting power of which is owned by another corporation, is considered the employee of the other corporation as well.

(5) For purposes of paragraph (f)(1)(x) of this section, an estate, guardianship, conservatorship, committee, or any similar arrangement for a taxpayer under a legal disability (such as a minor, an incompetent, or an infirm individual) is considered a trust or estate.

(6) *Examples*. The mechanical assistance exception described in paragraph (f)(1)(viii) of this section is illustrated by the following examples:

Example 1. A reporting agent received employment tax information from a client from the client's business records. The reporting agent did not render any tax advice to the client or exercise any discretion or independent judgment on the client's underlying tax positions. The reporting agent processed the client's information, signed the return as authorized by the client pursuant to Form 8655, Reporting Agent Authorization, and

filed the client's return using the information supplied by the client. The reporting agent is not a tax return preparer.

Example 2. A reporting agent rendered tax advice to a client on determining whether its workers are employees or independent contractors for Federal tax purposes. For compensation, the reporting agent received employment tax information from the client, processed the client's information and filed the client's return using the information supplied by the client. The reporting agent is a tax return preparer.

(g) *Effective/applicability date.* This section is applicable to returns and claims for refund filed, and advice provided, after December 31, 2008.

[T.D. 9436, 73 FR 78463, Dec. 22, 2008, as amended by T.D. 9436, 74 FR 5107, Jan. 29, 2009]

§ 301.7701–16 Other terms.

For a definition of the term ''withholding agent'' see § 1.1441–7(a). Any other terms that are defined in section 7701 and that are not defined in §§ 301.7701–1 to 301.7701–15, inclusive, shall, when used in this chapter, have the meanings assigned to them in section 7701.

(Secs. 1441(c)(4) (80 Stat. 1553; 26 U.S.C. 1441(c)(4)), 3401(a)(6) (80 Stat. 1554; 26 U.S.C. 3401(a)(6)), and 7805 (68A Stat. 917; 26 U.S.C. 7805), Internal Revenue Code of 1954)

[T.D. 7977, 49 FR 36836, Sept. 20, 1984]

§ 301.7701–17T Collective-bargaining plans and agreements (temporary).

Q-1: How did the Tax Reform Act of 1984 (TRA of 1984) change the laws with respect to plans that are maintained pursuant to collective bargaining agreements?

A-1: (a) Many of the requirements and rules applicable to deferred compensation and welfare benefit plans are different for plans maintained pursuant to a collective bargaining agreement. Prior to the TRA of 1984, the Internal Revenue Code provided no clear definition of an employee representative or whether there is a collective bargaining agreement between such employee representative and one or more employers.

(b) Section 526(c) of the TRA of 1984 added a new condition under a new section 7701(a)(46) that must be satisfied in order for a plan to be considered to be a plan maintained pursuant to a collective bargaining agreement between employee representatives and one or more employers for purposes of the Code after March 31, 1984. If more than one-half of the membership of an organization is comprised of owners, officers, and executives of employers covered by the plan, then such organization is not an employee representative for purposes of determining whether a plan is to be treated as maintained pursuant to a collective bargaining agreement between employee representatives and one or more employers. Whether an individual is an owner, officer or executive is to be determined separately with respect to each employer. Additionally, section 7701(a)(46) provides that the Internal Revenue Service shall make the determination for purposes of the Code as to whether there is a collective bargaining agreement between employee representatives and one or more employers.

Q-2: If an organization does not fail to be an employee representative under the 50 percent or less test of section 7701(a)(46), is a plan maintained pursuant to an agreement between such organization and one or more employers necessarily treated, under the Code, as a plan maintained pursuant to a collective bargaining agreement between an employee representative and one or more employers?

A-2: (a) No.

(b) Specific Code provisions generally require other conditions than that in section 7701(a)(46) to be satisfied in order for a plan to be considered to be collectively-bargained. For example, in order for a plan to be described in section 413(a), the Secretary of Labor must find that the plan is maintained pursuant to a collective bargaining agreement between employee representatives and one or more employers.

(c) Even if (1) the finding in the example in the preceding paragraph (b) is made by the Secretary of Labor, (2) the union has been recognized as exempt under section 501(c)(5), and (3) the percentage condition in section 7701(a)(46) is satisfied, the Internal Revenue Service has the authority, pursuant to section 7701(a)(46), to determine whether

there is a collective bargaining agreement under the Code.

[T.D. 8073, 51 FR 4337, Feb. 4, 1986]

§ 301.7701–18 Definitions; spouse, husband and wife, husband, wife, marriage.

(a) *In general*. For federal tax purposes, the terms *spouse*, *husband*, and *wife* mean an individual lawfully married to another individual. The term *husband and wife* means two individuals lawfully married to each other.

(b) *Persons who are lawfully married for federal tax purposes*—(1) *In general*. Except as provided in paragraph (b)(2) of this section regarding marriages entered into under the laws of a foreign jurisdiction, a marriage of two individuals is recognized for federal tax purposes if the marriage is recognized by the state, possession, or territory of the United States in which the marriage is entered into, regardless of domicile.

(2) *Foreign marriages*. Two individuals who enter into a relationship denominated as marriage under the laws of a foreign jurisdiction are recognized as married for federal tax purposes if the relationship would be recognized as marriage under the laws of at least one state, possession, or territory of the United States, regardless of domicile.

(c) *Persons who are not lawfully married for federal tax purposes*. The terms *spouse*, *husband*, and *wife* do not include individuals who have entered into a registered domestic partnership, civil union, or other similar formal relationship not denominated as a marriage under the law of the state, possession, or territory of the United States where such relationship was entered into, regardless of domicile. The term *husband and wife* does not include couples who have entered into such a formal relationship, and the term *marriage* does not include such formal relationships.

(d) *Applicability date*. The rules of this section apply to taxable years ending on or after September 2, 2016.

[T.D. 9785, 81 FR 60616, Sept. 2, 2016]

§ 301.7701(b)–0 Outline of regulation provision for section 7701(b)–1 through (b)–9.

This section lists the paragraphs contained in §§ 301.7701(b)–1 through 301.7701(b)–9.

§ 301.7701(b)–1 Resident alien.

(a) Scope.
(b) Lawful permanent resident.
(1) Green card test.
(2) Rescission of resident status.
(3) Administrative or judicial determination of abandonment of resident status.
(c) Substantial presence test.
(1) In general.
(2) Determination of presence.
(i) Physical presence.
(ii) United States.
(3) Current year.
(4) Thirty-one day minimum.
(d) Application of section 7701(b) to the possessions and territories.
(1) Application to aliens.
(2) Non-application to citizens.
(e) Examples.

§ 301.7701(b)–2 Closer connection exception.

(a) In general.
(b) Foreign country.
(c) Tax home.
(1) Definition.
(2) Duration and nature of tax home.
(d) Closer connection to a foreign country.
(1) In general.
(2) Permanent home.
(e) Special rule.
(f) Closer connection exception unavailable.
(g) Filing requirements.

§ 301.7701(b)–3 Days of presence in the United States that are excluded for purposes of section 7701(b).

(a) In general.
(b) Exempt individuals.
(1) In general.
(2) Foreign government-related individual.
(i) In general.
(ii) Definition of international organization.
(iii) Full-time diplomatic or consular status.
(3) Teacher or trainee.
(4) Student.
(5) Professional athlete.
(6) Substantial compliance.
(7) Limitation on teacher or trainee and student exemptions.
(i) Teacher or trainee limitation in general.
(ii) Special teacher or trainee limitation for section 872(b)(3) compensation.
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(iv) Transition rule.

(v) Examples.
(8) Immediate family.
(c) Medical condition.
(1) In general.
(2) Intent to leave the United States.
(3) Preexisting medical condition.
(4) Examples.
(d) Days in transit.
(e) Regular commuters from Mexico or Canada.
(1) General rule.
(2) Definitions.
(3) Examples.
(f) Determination of excluded days applies beyond year of determination.

§ 301.7701(b)–4 Residency time periods.

(a) First year of residency.
(b) Last year of residency.
(1) General rule.
(2) Exceptions.
(c) Rules relating to residency starting date and residency termination date.
(1) De minimis presence.
(2) Proration.
(3) Residency starting date for certain individuals.
(i) In general.
(ii) Determination of presence.
(iii) Thirty-one day period.
(iv) Period of continuous presence.
(v) Election procedure.
(A) Filing requirements.
(B) Election on behalf of a dependent child.
(C) Statement.
(vi) Penalty for failure to comply with filing requirements.
(A) General rule.
(B) Exception.
(d) Examples.
(e) No lapse.
(1) Residency in prior year.
(2) Residency in following year.
(3) Special rule.
(4) Example.

§ 301.7701(b)–5 Coordination with section 877.

(a) General rule.
(b) Tax imposed.
(c) Example.

§ 301.7701(b)–6 Taxable year.

(a) In general.
(b) Examples.

§ 301.7701(b)–7 Coordination with income tax treaties.

(a) Consistency requirement.
(1) Application.
(2) Computation of tax liability.
(3) Other Internal Revenue Code purposes.
(4) Special rules for S corporations. [Reserved]
(b) Filing requirements.
(c) Contents of statement.
(1) In general.
(i) Returns due after December 15, 1997.
(ii) Earlier returns.
(2) Controlled foreign corporation shareholders.
(3) S corporation shareholders. [Reserved]
(d) Relationship to section 6114(a) treaty-based return positions.
(e) Examples.

§ 301.7701(b)–8 Procedural rules.

(a) Who must file.
(1) Closer connection exception.
(2) Exempt individuals and individuals with a medical condition.
(3) De minimis presence and residency starting and termination dates.
(b) Contents of statement.
(1) Closer connection exception.
(i) Returns due after December 15, 1997.
(ii) Earlier returns.
(2) Exempt individuals and individuals with a medical condition.
(i) Returns due after December 15, 1997.
(ii) Earlier returns.
(3) De minimis presence and residency starting and termination dates.
(c) How to file.
(d) Penalty for failure to file statement.
(1) General rule.
(2) Exception.
(e) Filing requirement disregarded.

§ 301.7701(b)–9 Effective dates of §§ 301.7701(b)–1 through 301.7701(b)–7.

(a) In general.
(b) Special rules.
(1) Green card test-residency starting date.
(2) Substantial presence test-years included.
(3) Professional athletes.
(4) Procedural rules and filing requirements.

[T.D. 8411, 57 FR 15241, Apr. 27, 1992; 58 FR 17516, Apr. 5, 1993, as amended by T.D. 8733, 62 FR 53386, Oct. 14, 1997]

§ 301.7701(b)–1 Resident alien.

(a) *Scope.* Section 301.7701(b)–1(b) provides rules for determining whether an alien individual is a lawful permanent resident of the United States. Section 301.7701(b)–1(c) provides rules for determining if an alien individual satisfies the substantial presence test. Section 301.7701(b)–2 provides rules for determining when an alien individual will be considered to maintain a tax home in a foreign country and to have a closer connection to that foreign country. Section 301.7701(b)–3 provides rules for determining if an individual is an exempt individual because of his or her status as a foreign government-related

individual, teacher, trainee, student, or professional athlete. Section 301.7701(b)–3 also provides rules for determining whether an individual may exclude days of presence in the United States because the individual was unable to leave the United States because of a medical condition. Section 301.7701(b)–4 provides rules for determining an individual's residency starting and termination dates. Section 301.7701(b)–5 provides rules for applying section 877 to a nonresident alien individual. Section 301.7701(b)–6 provides rules for determining the taxable year of an alien. Section 301.7701(b)–7 provides rules for determining the effect of these regulations on rules in tax conventions to which the United States is a party. Section 301.7701(b)–8 provides procedural rules for establishing that an individual is a nonresident alien. Section 301.7701(b)–9 provides the effective dates of section 7701(b) and the regulations under that section. Unless the context indicates otherwise, the regulations under §§ 301.7701(b)–1 through 301.7701(b)–9 apply for purposes of determining whether a United States citizen is also a resident of the United States. (This determination may be relevant, for example, to the application of section 861(a)(1) which treats income from interest-bearing obligations of residents as income from sources within the United States.) The regulations do not apply and §§ 1.871–2 and 1.871–5 of this chapter continue to apply for purposes of the bona fide residence test of section 911. See § 1.911–2(c) of this chapter. For purposes of determining whether an individual is a resident of the United States for estate and gift tax purposes, see § 20.0–1(b)(1) and (2) and § 25.2501–1(b) of this chapter, respectively.

(b) *Lawful permanent resident*—(1) *Green card test.* An alien is a resident alien with respect to a calendar year if the individual is a lawful permanent resident at any time during the calendar year. A lawful permanent resident is an individual who has been lawfully granted the privilege of residing permanently in the United States as an immigrant in accordance with the immigration laws. Resident status is deemed to continue unless it is rescinded or administratively or judicially determined to have been abandoned.

(2) *Rescission of resident status.* Resident status is considered to be rescinded if a final administrative or judicial order of exclusion or deportation is issued regarding the alien individual. For purposes of this paragraph, the term ''final judicial order'' means an order that is no longer subject to appeal to a higher court of competent jurisdiction.

(3) *Administrative or judicial determination of abandonment of resident status.* An administrative or judicial determination of abandonment of resident status may be initiated by the alien individual, the Immigration and Naturalization Service (INS), or a consular officer. If the alien initiates this determination, resident status is considered to be abandoned when the individual's application for abandonment (INS Form I–407) or a letter stating the alien's intent to abandon his or her resident status, with the Alien Registration Receipt Card (INS Form I–151 or Form I–551) enclosed, is filed with the INS or a consular officer. If INS replaces any of the form numbers referred to in this paragraph or § 301.7701(b)–2(f), refer to the comparable INS replacement form number. For purposes of this paragraph, an alien individual shall be considered to have filed a letter stating the intent to abandon resident status with the INS or a consular office if such letter is sent by certified mail, return receipt requested (or a foreign country's equivalent thereof). A copy of the letter, along with proof that the letter was mailed and received, should be retained by the alien individual. If the INS or a consular officer initiates this determination, resident status will be considered to be abandoned upon the issuance of a final administrative order of abandonment. If an individual is granted an appeal to a federal court of competent jurisdiction, a final judicial order is required.

(c) *Substantial presence test*—(1) *In general.* An alien individual is a resident alien if the individual meets the substantial presence test. An individual satisfies this test if he or she has been present in the United States on at least 183 days during a three year

period that includes the current year. For purposes of this test, each day of presence in the current year is counted as a full day. Each day of presence in the first preceding year is counted as one-third of a day and each day of presence in the second preceding year is counted as one-sixth of a day. For purposes of this paragraph, any fractional days resulting from the above calculations will not be rounded to the nearest whole number. (See § 301.7701(b)–9(b)(2) for transitional rules for calendar years 1985 and 1986.)

(2) *Determination of presence*—(i) *Physical presence*. For purposes of the substantial presence test, an individual shall be treated as present in the United States on any day that he or she is physically present in the United States at any time during the day. (But see § 301.7701(b)–3 relating to days of presence that may be excluded.)

(ii) *United States*. For purposes of section 7701(b) and the regulations thereunder, the term *United States* when used in a geographical sense includes the states and the District of Columbia. It also includes the territorial waters of the United States and the seabed and subsoil of those submarine areas which are adjacent to the territorial waters of the United States and over which the United States has exclusive rights, in accordance with international law, with respect to the exploration and exploitation of natural resources. It does not include the possessions and territories of the United States or the air space over the United States.

(3) *Current year*. The term *current year* means any calendar year for which an alien individual is determining his or her resident status.

(4) *Thirty-one day minimum*. If an individual is not physically present for more than 30 days during the current year, the substantial presence test will not be applied for that year even if the three-year total is 183 or more days. For purposes of the substantial presence test, it is irrelevant that an individual was not present for more than 30 days in the first or second year preceding the current year.

(d) *Application of section 7701(b) to the possessions and territories*—(1) *Application to aliens for purposes of mirror systems*. Section 7701(b) provides the basis for determining whether an alien individual is a resident of a United States possession or territory that administers income tax laws that are identical (except for the substitution of the name of the possession or territory for the term ''United States'' where appropriate) to those in force in the United States, for purposes of applying such laws with respect to income tax liability incurred to such possession or territory.

(2) *Non-application for bona fide resident determination*. Section 7701(b) does not provide the basis for determining whether an individual (including an alien individual) is a bona fide resident of a United States possession or territory for Federal income tax purposes. For the applicable rules for making this determination, see section 937(a) and § 1.937–1 of this chapter.

(e) *Examples*. This section may be illustrated by the following examples:

Example 1. B, an alien individual, is present in the United States for 122 days in the current year. He was present in the United States for 122 days in the first preceding calendar year and for 122 days in the second preceding calendar year. In determining his status for the current year, B counts all 122 days in the United States in the current year plus ⅓ of the 122 days in the United States in the first preceding calendar year (40⅔ days) and ⅙ of the 122 days in the United States during the second preceding calendar year (20⅓ days). The total of 122 + 40⅔ + 20⅓ equals 183 days. B meets the substantial presence test and is a resident alien for the current year.

Example 2. C, an alien individual, is present in the United States for 25 days during the current year. She was present in the United States for 365 days during the first preceding year and 365 days during the second preceding year. The substantial presence test does not apply because C is present in the United States for fewer than 31 days during the current year.

Example 3. D, an alien individual, is present in the United States for 170 days during the current year. He was present in the United States for 30 days during the first preceding year and 30 days during the second preceding year. In determining his status for the current year, D counts all 170 days in the United States in the current year plus ⅓ of the 30 days in the United States in the first preceding calendar year (10 days) and ⅙ of the 30 days in the United States during the second preceding calendar year (5 days). The total of 170 + 10 + 5 equals 185 days. D meets

the substantial presence test and is a resident alien for the current year notwithstanding the fact that he was present in the United States for fewer than 31 days in each of the two preceding years.

[T.D. 8411, 57 FR 15242, Apr. 27, 1992; 57 FR 28612, June 26, 1992; 57 FR 37190, Aug. 18, 1992, as amended by T.D. 9194, 70 FR 18947, Apr. 11, 2005; T.D. 9391, 73 FR 19377, Apr. 9, 2008]

§ 301.7701(b)–2 Closer connection exception.

(a) *In general.* An alien individual who meets the substantial presence test may nevertheless be considered a nonresident alien for the current year if the following conditions are satisfied—

(1) The individual is present in the United States for fewer than 183 days in the current year;

(2) The individual maintains a tax home in a foreign country during the current year; and

(3) Except as provided in paragraph (e) of this section, the individual has a closer connection during the current year to a single foreign country in which he or she maintains a tax home than to the United States.

(b) *Foreign country.* For purposes of section 7701(b) and the regulations thereunder, the term ''foreign country'' when used in a geographical sense includes any territory under the sovereignty of the United Nations or a government other than that of the United States. It includes the territorial waters of the foreign country (determined in accordance with the laws of the United States), and the seabed and subsoil of those submarine areas which are adjacent to the territorial waters of the foreign country and over which the foreign country has exclusive rights, in accordance with international law, with respect to the exploration and exploitation of natural resources. It also includes the possessions and territories of the United States.

(c) *Tax home*—(1) *Definition.* For purposes of section 7701 (b) and the regulations under that section, the term ''tax home'' has the same meaning that it has for purposes of section 162(a)(2) (relating to travel expenses while away from home). Thus, an individual's tax home is considered to be located at the individual's regular or principal (if more than one regular) place of business. If the individual has no regular or principal place of business because of the nature of the business, or because the individual is not engaged in carrying on any trade or business within the meaning of section 162(a), then the individual's tax home is the individual's regular place of abode in a real and substantial sense.

(2) *Duration and nature of tax home.* The tax home maintained by the alien individual must be in existence for the entire current year. The tax home must be located in the same foreign country for which the individual is claiming to have the closer connection described in paragraph (d) of this section.

(d) *Closer connection to a foreign country*—(1) *In general.* For purposes of section 7701(b) and the regulations under that section, an alien individual will be considered to have a closer connection to a foreign country than the United States if the individual or the Commissioner establishes that the individual has maintained more significant contacts with the foreign country than with the United States. In determining whether an individual has maintained more significant contacts with a foreign country than the United States, the facts and circumstances to be considered include, but are not limited to, the following—

(i) The location of the individual's permanent home;

(ii) The location of the individual's family;

(iii) The location of personal belongings, such as automobiles, furniture, clothing and jewelry owned by the individual and his or her family;

(iv) The location of social, political, cultural or religious organizations with which the individual has a current relationship;

(v) The location where the individual conducts his or her routine personal banking activities;

(vi) The location where the individual conducts business activities (other than those that constitute the individual's tax home);

(vii) The location of the jurisdiction in which the individual holds a driver's license;

(viii) The location of the jurisdiction in which the individual votes;

(ix) The country of residence designated by the individual on forms and documents; and

(x) The types of official forms and documents filed by the individual, such as Form 1078 (Certificate of Alien Claiming Residence in the United States), Form W–8 (Certificate of Foreign Status) or Form W–9 (Payer's Request for Taxpayer Identification Number).

(2) *Permanent home.* For purposes of paragraph (d)(1)(i) of this section, it is immaterial whether a permanent home is a house, an apartment, or a furnished room. It is also immaterial whether the home is owned or rented by the alien individual. It is material, however, that the dwelling be available at all times, continuously, and not solely for stays of short duration.

(e) *Special Rule.* An alien individual may demonstrate in one year that he or she has a closer connection to two foreign countries (but no more than two) if he or she satisfies all of the following conditions—

(1) The individual maintains a tax home beginning on the first day of the current year in one foreign country;

(2) The individual changes his or her tax home during the current year to a second foreign country;

(3) The individual continues to maintain his or her tax home in the second foreign country for the remainder of the current year;

(4) The individual has a closer connection to each foreign country than to the United States for the period during which the individual maintains a tax home in that foreign country; and

(5) The individual is subject to taxation as a resident pursuant to the internal laws of either foreign country for the entire year or subject to taxation as a resident in both foreign countries for the period during which the individual maintains a tax home in each foreign country.

(f) *Closer connection exception unavailable.* An alien individual who has personally applied, or taken other affirmative steps, to change his or her status to that of a permanent resident during the current year or has an application pending for adjustment of status during the current year will not be eligible for the closer connection exception. Affirmative steps to change status to that of a permanent resident include, but are not limited to, the following—

(1) The filing of Immigration and Naturalization Form I–508 (Waiver of Immunities) by the alien;

(2) The filing of Immigration and Naturalization Form I–485 (Application for Status as Permanent Resident) by the alien;

(3) The filing of Immigration and Naturalization Form I–130 (Petition for Alien Relative) on behalf of the alien;

(4) The filing of Immigration and Naturalization Form I–140 (Petition for Prospective Immigrant Employee) on behalf of the alien;

(5) The filing of Department of Labor Form ETA-750 (Application for Alien Employment Certification) on behalf of the alien; or

(6) The filing of Department of State Form OF–230 (Application for Immigrant Visa and Alien Registration) by the alien.

(g) *Filing requirements.* See § 3O1.7701(b)–8 with regard to the statement that must be filed by an alien individual claiming the closer connection exception.

[T.D. 8411, 57 FR 15244, Apr. 27, 1992; 57 FR 28612, June 26, 1992; 57 FR 37190, Aug. 18, 1992; 58 FR 17516, Apr. 5, 1993]

§ 301.7701(b)–3 Days of presence in the United States that are excluded for purposes of section 7701(b).

(a) *In general.* In computing days of presence in the United States, an alien is considered to be present if the individual is physically present in the United States at any time during the day (see § 301.7701(b)–1(c)(2)(i)). However, for purposes of section 7701(b) and the regulations under that section, the following days shall be excluded and will not count as days of presence in the United States—

(1) Any day that an individual is present in the United States as an exempt individual;

(2) Any day that an individual is prevented from leaving the United States because of a medical condition that arose while the individual was present in the United States;

(3) Any day that an individual is in transit between two points outside the United States; and

(4) Any day on which a regular commuter residing in Canada or Mexico commutes to and from employment in the United States.

(b) *Exempt individuals*—(1) *In general.* An exempt individual is an individual who is either a—

(i) Foreign government-related individual as defined in paragraph (b)(2) of this section;

(ii) Teacher or trainee as defined in paragraph (b)(3) of this section;

(iii) Student as defined in paragraph (b)(4) of this section; or

(iv) Professional athlete as defined in paragraph (b)(5) of this section.

(2) *Foreign government-related individual*—(i) *In general.* A foreign government-related individual is an individual (and that individual's immediate family) who is temporarily present in the United States—

(A) As a full-time employee of an international organization;

(B) By reason of diplomatic status; or

(C) By reason of a visa that the Secretary of the Treasury or his or her delegate (after consultation with the Secretary of State when appropriate) determines represents full-time diplomatic or consular status. An individual described in this paragraph shall be considered to be temporarily present in the United States if the individual is not a lawful permanent resident as described in § 301.7701(b)–1(b)(1), regardless of the actual amount of time that the individual is present in the United States.

(ii) *Definition of international organization.* The term ''international organization'' means any public international organization that has been designated by the President by Executive Order as being entitled to enjoy the privileges, exemptions, and immunities provided for in the International Organizations Act (22 U.S.C. 288). An individual described in paragraph (b)(2)(i) of this section will be a full-time employee of an international organization if that individual's employment with the organization is consistent with an employment schedule of a person with a standard full-time work schedule with the organization.

(iii) *Full-time diplomatic or consular status.* An individual is considered to have full-time diplomatic or consular status if—

(A) The individual has been accredited by a foreign government recognized de jure or de facto by the United States;

(B) The individual intends to engage primarily in official activities for that foreign government while in the United States; and

(C) The individual has been recognized by the President, or by the Secretary of State, or by a consular officer acting on behalf of the Secretary of State, as being entitled to such status.

(3) *Teacher or trainee.* A teacher or trainee includes any individual (and that individual's immediate family), other than a student, who is admitted temporarily to the United States as a nonimmigrant under section 101(a)(15)(J) (relating to the admission of teachers and trainees into the United States) or section 101(a)(15)(Q) (relating to the admission of participants in international cultural exchange programs) of the Immigration and Nationality Act (8 U.S.C. 1101(a)(15) (J), (Q)) and who substantially complies with the requirements of being admitted.

(4) *Student.* A student is any individual (and that individual's immediate family) who is admitted temporarily to the United States as a nonimmigrant under section 101(a)(15)(F) or (M) (relating to the admission of students into the United States) or as a student under section 101(a)(15)(J) (relating to the admission of teachers and trainees into the United States) or section 101(a)(15)(Q) (relating to the admission of participants in international cultural exchange programs) of the Immigration and Nationality Act (8 U.S.C. 1101(a)(15) (F), (J), (M), (Q)) who substantially complies with the requirements of being admitted. For rules concerning taxation of certain nonresident students or trainees, see section 871(c) and § 1.871–9(a) of this chapter.

(5) *Professional athlete.* A professional athlete is an individual who is temporarily present in the United States to compete in a charitable sports event described in section 274(l)(1)(B). For

purposes of computing the days of presence in the United States, only days on which the athlete actually competes in a charitable sports event described in section 274(l)(1)(B) shall be excluded. Thus, days on which the individual is present to practice for the event, to perform promotional or other activities related to the event, or to travel between events shall be included for purposes of the substantial presence test.

(6) *Substantial compliance.* An individual described in paragraph (b) (3) or (4) of this section will be deemed to comply substantially with the visa requirements relevant to residence for tax purposes if the individual has not engaged in activities that are prohibited by the Immigration and Nationality Act and the regulations thereunder and could result in the loss of F, J or M visa status. An individual will not be deemed to comply substantially with the visa requirements relevant to residence for tax purposes merely by showing that the individual's visa has not been revoked. An independent determination of substantial compliance may be made by the Internal Revenue Service for any individual claiming to be an exempt individual under paragraph (b) (3) or (4) of this section. For example, if an individual with an F visa (student visa) is found to have accepted unauthorized employment or to have maintained a course of study that is not considered by the Internal Revenue Service to be full-time, the individual will not be considered to comply substantially with the individual's visa requirements regardless of whether the individual's visa has been revoked.

(7) *Limitation on teacher or trainee and student exemptions*—(i) *Teacher or trainee limitation in general.* Except as otherwise provided, an individual shall not exclude days of presence as a teacher or trainee if the individual has been exempt as a teacher, trainee, or student for any part of two of the six preceding calendar years.

(ii) *Special teacher or trainee limitation for section 872(b)(3) compensation.* If—

(A) A teacher or trainee receives compensation in the current year and all of that compensation is described in section 872(b)(3);

(B) That individual was present in the United States as a teacher or trainee in any prior year within the last 6 years; and

(C) During each prior year (within the 6 year period) in which the individual was present as a teacher or trainee, the individual received compensation all of which was described in section 872(b)(3);

Then that individual shall include days of presence as a teacher or trainee in the current year only if the individual has been exempt as a teacher, trainee, or student for any part of four of the six preceding calendar years.

(iii) *Limitation on student exemption.* An individual will not be able to exclude days of presence as a student if the individual has been exempt as a teacher, trainee, or student for any part of more than five calendar years, unless it is established to the satisfaction of the district director that the individual does not intend to reside permanently in the United States and has substantially complied with the requirements of the student visa providing for the individual's temporary presence in the United States. For purposes of this paragraph (b)(7), the facts and circumstances to be considered in determining if an individual has demonstrated an intent to reside permanently in the United States include (but are not limited to)—

(A) Whether the individual has maintained a closer connection with a foreign country as described in § 301.7701(b)–2; and

(B) Whether the individual has taken affirmative steps within the meaning of paragraph (f) of § 301.7701(b)–2 to adjust the individual's status from nonimmigrant to lawful permanent resident.

(iv) *Transition rule.* The rules in this paragraph (b)(7) relating to stated periods of exempt status apply only for those stated periods that occur after 1984. Thus, for example, an alien who is present as a student during the calendar years 1982–1990 will not be subject to the five year rule for students until 1990.

(v) *Examples.* The following examples illustrate the application of paragraphs (b)(7) (i) and (ii) of this section:

Example 1. B is temporarily present in the United States during the current year as a teacher, within the meaning of section 101(a)(15)(J) of the Immigration and Nationality Act. B does not receive compensation described in section 872(b)(3) in the current year. B has been treated as an exempt student for the past three years. Although this is the first year that B is seeking to be exempt as a teacher, he will not be considered an exempt individual for the year because he has been exempt as a student for at least two of the past six years.

Example 2. C is temporarily present in the United States during the current year as a teacher and receives compensation described in section 872(b)(3) in the current year. C has been treated as an exempt teacher for the past two years but C's compensation for those years was not described in section 872(b)(3). C will not be considered an exempt individual for the current year because she has been exempt as a teacher for at least two of the past six years.

Example 3. The facts are the same as in *Example 2*, except that all of C's compensation for the two preceding years was described in section 872(b)(3). C will be considered to be an exempt individual for the current year because she has not been exempt as a student, teacher or trainee for four of the six preceding calendar years.

Example 4. D is temporarily present in the United States during the current year as a teacher, within the meaning of section 101(a)(15)(J) of the Immigration and Nationality Act. D does not receive compensation described in section 872(b)(3) in the current year. D entered the United States in December of the second preceding year and intends to remain in the United States until June of the current year. D will not be considered an exempt individual for the current year because he has been exempt as a teacher for at least two of the past six years.

(8) *Immediate family.* The immediate family of an exempt individual includes the individual's spouse and unmarried children (whether by blood or adoption) but only if the spouse's or unmarried children's visa status are derived from and dependent on the visa classification of the exempt individual. For the purposes of this paragraph, the term *unmarried children* means those children who are under 21 years of age, who reside regularly in the household of the exempt individual, and who are not members of some other household. The immediate family of an exempt individual does not include the attendants, servants, and personal employees of that individual.

(c) *Medical condition*—(1) *In general.* An individual will not be considered present on any day that the individual intends to leave and is unable to leave the United States because of a medical condition or medical problem that arose while the individual was present in the United States. A day of presence will not be excluded if the individual, who was initially prevented from leaving, is subsequently able to leave the United States and then remains in the United States beyond a reasonable period for making arrangements to leave the United States. A day will also not be excluded if the medical condition arose during a prior stay in the United States (whether or not days of presence during the prior stay were excluded) and the alien returns to the United States for treatment of the medical condition or medical problem that arose during the prior stay.

(2) *Intent to leave the United States.* For purposes of paragraph (c)(1) of this section, whether an individual intends to leave the United States on a particular day will be determined based on all the facts and circumstances. Thus, if at the time an individual's medical condition or medical problem arose, the individual was present in the United States for a definite purpose which by its nature could be accomplished within the United States during a period of time that would not cause the individual to be a resident under the substantial presence test, the individual may be able to establish that he or she intended to leave the United States. However, if the individual's purpose is of such a nature that an extended period of time would be required for its accomplishment (sufficient to cause the individual to be a resident under the substanial presence test), the individual would not be able to establish the requisite intent to leave the United States. If the individual is present in the United States for no particular purpose or a purpose by its nature that does not require a specific period of time to accomplish, the determination of whether the individual has the requisite intent to leave the United States will depend on all

the surrounding facts and circumstances. In the case of an individual adjudicated mentally incompetent, proof of intent to leave the United States may be determined by analyzing the incompetent's pattern of behavior prior to the adjudication of incompetence. Generally, an individual will be presumed to have intended to leave during a period of illness if the individual leaves the United States within a reasonable period of time (time to make arrangements to leave) after becoming physically able to leave.

(3) *Pre-existing medical condition*. A medical condition or problem will not be considered to arise while the individual is present in the United States, if the condition or problem existed prior to the individual's arrival in the United States, and the individual was aware of the condition or problem, regardless of whether the individual required treatment for the condition or problem when the individual entered the United States.

(4) *Examples*. The following examples illustrate the application of this paragraph (c):

Example 1. B is in a serious automobile accident in the United States on March 25. B intended to leave the United States on March 31 (as evidenced by an airline ticket), but was unable to leave on that date as a result of the injuries suffered in the accident. B recovered from the injuries and was able to leave and did leave the United States on May 31. B's presence in the United States during the period from April 1 through May 31 will not be counted as days of presence in the United States.

Example 2. The facts are the same as in *Example 1*, except that B's return flight (as evidenced by an airline ticket) was scheduled for May 31. Because B did not intend to leave the United States until May 31, B may not exclude any days of presence in the United States.

(d) *Days in transit*. An alien individual may exclude days of presence in the United States if the individual is in transit between two foreign points, and is physically present in the United States for fewer than 24 hours. For purposes of this paragraph, an individual will be considered to be in transit if the individual pursues activities that are substantially related to completing his or her travel to a foreign point of destination. For example, an alien who travels between airports in the United States in order to change planes en route to the individual's destination will be considered to be in transit. However, if the individual attends a business meeting while he or she is present in the United States, whether or not that meeting is within the confines of the airport, the individual will not be considered to be in transit. For purposes of this paragraph, the term ''foreign point'' means any areas that are not included within the definition of the term ''United States'' provided in § 301.7701(b)–1(c)(2)(ii).

(e) *Regular commuters from Mexico or Canada*—(1) *General rule*. An alien individual will not be considered to be present in the United States on days that the individual commutes to the United States from the individual's residence in Mexico or Canada if the individual regularly commutes from Mexico or Canada. An alien individual will be considered to commute regularly if the individual commutes to the individual's location of employment or self-employment in the United States from his or her residence in Mexico or Canada on more than 75% of the workdays during the working period.

(2) *Definitions*. (i) The term *commutes* means to travel to employment or self-employment and to return to one's residence within a 24-hour period.

(ii) The term *workdays* means days on which the individual works in the United States or Canada or Mexico.

(iii) The term *working period* means the period beginning with the first day in the current year on which the individual is physically present in the United States for purposes of engaging in employment or self-employment and ending on the last day in the current year on which the individual is physically present in the United States for purposes of engaging in that employment or self-employment. If the nature of the employment or self-employment is such that it requires the individual to be present in the United States only on a seasonal or cyclical basis, the working period will begin with the first day of the season or cycle on which the individual is present in the United States for purposes of engaging in that employment or self-employment and

end on the last day of the season or cycle on which the individual is present in the United States for the purpose of engaging in that employment or self-employment. Thus, there may be more than one working period in a calendar year and a working period may begin in one calendar year and end in the following calendar year.

(3) *Examples*. The following examples illustrate the operation of this paragraph (e):

Example 1. B lives in Mexico and is employed by Corporation X in its office in Mexico. B was temporarily assigned to X's office in the United States. B's employment in the United States office began on February 1, 1988, and continued through June 1, 1988. On June 2, B resumed his employment in Mexico. On 59 days in the period beginning on February 1, 1988, and ending on June 1, 1988, B travelled each morning from his residence in Mexico to X Corporation's United States office for the purpose of engaging in his employment with X Corporation. B returned to his residence in Mexico on each of those evenings. On seven days in the period from February 1, 1988, through June 1, 1988, B worked in X's Mexico office. B is not considered to have been present in the United States on any of the days that he travelled to X's United States office for the purpose of engaging in employment with Corporation X because he commuted to his place of employment within the United States on more than 75% of the workdays during the working period (59 workdays in the United States/66 workdays in the working period = 89.4%).

Example 2. C, who lives in Canada, contracted with a resort located in the United States to provide snow-skiing instructions for the resort's customers for two skiing seasons, the first beginning on November 15, 1987, and ending on March 15, 1988, and the second beginning on November 15, 1988, and ending on March 15, 1989. On 90 days in each of the two skiing seasons, C travelled in the morning from Canada to the resort to provide skiing instructions pursuant to the contract. C returned to Canada on each of those evenings. On 20 days during each of the two skiing seasons, C worked in Canada. C is not considered to have been present in the United States on any of the days that she travelled to the United States to provide ski instructions in either the first working period beginning on November 15, 1987, and ending on March 15, 1988, or the second working period beginning on November 15, 1988, and ending on March 15, 1989, because she commuted to her employment within the United States on more than 75% of the workdays during each of the working periods (90 workdays in the United States/110 workdays in the working period = 81.8%).

Example 3. D, who lives in Canada, is the sole proprietor of a wholesale lumber business with offices in both the United States and Canada. Beginning on January 4, 1988, and ending on February 12, 1988, D commuted to work in his United States office on 30 days. Beginning on February 15, 1988, and ending on March 25, 1988, D commuted to work in his Canadian office on 30 days. Beginning on March 28, 1988, and ending on May 27, 1988, D commuted to work in his United States office on 45 days. Subsequent to May 27, D did not commute to the United States on any other days in 1988. D is considered to have been present in the United States on each day that he travelled to his office in the United States because D did not commute to the United States office on more than 75% of the workdays during the working period beginning on January 4, 1988, and ending on May 27, 1988 (75 workdays in the United States/105 workdays in the working period = 71.4%).

(f) *Determination of excluded days applies beyond year of determination*. If a day of presence is excluded under this section, then that day shall not be taken into account in the current year or the first or second preceding year.

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§ 301.7701(b)–4 Residency time periods.

(a) *First year of residency*. An alien individual who was not a United States resident during the preceding calendar year and who is a United States resident for the current year will begin to be a resident for tax purposes on the alien's residency starting date. The residency starting date for an alien who meets the substantial presence test is the first day during the calendar year on which the individual is present in the United States. The residency starting date for an alien who meets the lawful permanent resident test (green card test), described in paragraph (b)(1) of § 301.7701(b)–1, is the first day during the calendar year in which the individual is physically present in the United States as a lawful permanent resident. The residency starting date for an alien who satisfies both the substantial presence test and the green card test will be the earlier of the first day the individual is physically present in the United States as a lawful permanent resident of the United States or

the first day during the year that the individual is present for purposes of the substantial presence test. (See § 301.7701(b)–9(b)(1) for the transitional rule relating to the residency starting date of an alien individual who was a lawful permanent resident in 1984. See also § 301.7701(b)–3 for days that may be excluded.)

(b) *Last year of residency*—(1) *General rule.* An alien individual who is a United States resident during the current year but who is not a United States resident at any time during the following calendar year will cease to be a resident for tax purposes on the individual's residency termination date. Generally, the residency termination date will be the last day of the calendar year.

(2) *Exceptions.* Notwithstanding paragraph (b)(1) of this section, the residency termination date for an alien individual who meets the substantial presence test is the last day during the calendar year that the individual is physically present in the United States if the individual establishes that, for the remainder of the calendar year, the individual's tax home was in a foreign country and he or she maintained a closer connection (within the meaning of § 301.7701(b)–2(d)) to that foreign country than to the United States. Similarly, the residency termination date for an alien who meets the green card test is the first day during the calendar year that the alien is no longer a lawful permanent resident if the individual establishes that, for the remainder of the calendar year, his or her tax home was in a foreign country and he or she maintained a closer connection to that foreign country than to the United States. The residency termination date for an alien who satisfies both the substantial presence test and the green card test for the current year, will be the later of the first day the individual is no longer a lawful permanent resident of the United States or the last day the individual was physically present in the United States if the alien establishes that, for the remainder of the calendar year, his or her tax home was in a foreign country and he or she maintained a closer connection to that foreign country than to the United States. It is immaterial whether the individual's tax home was in the United States, or that the individual had a closer connection to the United States than to the foreign country, prior to the date of his or her departure from the United States or the date on which the individual was no longer a lawful permanent resident, whichever is applicable.

(c) *Rules relating to residency starting date and residency termination date*—(1) *De minimis presence.* An alien individual may be present in the United States for up to 10 days without triggering the residency starting date (for purposes of the substantial presence test) or extending the residency termination date (for purposes of the substantial presence test) if the individual is able to establish that, during that period, the individual's tax home was in a foreign country and he or she maintained a closer connection to that foreign country than to the United States. Days from more than one period of presence may be disregarded for purposes of determining an individual's residency starting date or termination date so long as the total is not more than 10 days. However, an individual may not disregard any days that occur in a period of consecutive days of presence, if all the days that occur during that period cannot be excluded. An individual must include days of presence for purposes of determining whether the individual meets the substantial presence test even though the days may be disregarded for purposes of determining the individual's residency starting date or residency termination date.

(2) *Proration.* If an individual's residency starting date does not fall on the first day of the tax year, or the individual's residency termination date does not fall on the last day of the tax year, the individual's income tax liability should be calculated in accordance with § 1.871–13 of this chapter dealing with the taxation of individuals who change residence status during the taxable year.

(3) *Residency starting date for certain individuals*—(i) *In general.* If an alien individual (who otherwise does not meet the substantial presence test or the green card test for the current year) is physically present in the United States for at least 31 consecutive days during

the current year, and also for a period of continuous presence beginning with the first day of that thirty-one day period (see paragraph (c)(3)(iii) of this section), then the individual may elect to be treated as a resident during the current year. The individual's residency starting date shall be the first day of that thirty-one day period, if—

(A) The individual was not a resident of the United States under the substantial presence test or the green card test in the year preceding the current year; and

(B) The individual is a resident of the United States in the subsequent year under the substantial presence test (whether or not the individual is also a resident of the United States under the green card test).

(ii) *Determination of presence*. Except as otherwise provided in paragraph (c)(3)(iii) of this section, an individual shall be treated as present in the United States on any day that the individual is physically present in the United States at any time during the day.

(iii) *Thirty-one day period*. For purposes of this paragraph (c)(3), the term *thirty-one day period* means any period of 31 consecutive days during which an individual is physically present in the United States during each day of the period.

(iv) *Period of continuous presence*. For purposes of this paragraph (c)(3), the term *continuous presence* means a period of presence in the United States that includes 75 percent of the days in the current year beginning with (and including) the first day of the individual's thirty-one day period of presence. Only for purposes of the continuous presence requirement, an individual will be deemed to be present in the United States for up to 5 days on which the individual is absent from the United States. These days will not be deemed to be days of presence for purposes of the thirty-one day period of presence requirement. If an individual is present for more than one thirty-one day period of presence and satisfies the continuous presence requirement with regard to each period, the individual's residency starting date shall be the first day of the first thirty-one day period of presence. If an individual is present for more than one thirty-one day period of presence but satisfies the continuous presence requirement only for a later thirty-one day period, the individual's residency starting date shall be the first day of the later thirty-one day period of presence. For purposes of this paragraph (c)(3), days of presence that are otherwise excluded under section 7701(b)(3)(D)(i) and § 301.7701(b)–3(a)(1) (exempt individual), (a)(2) (medical condition), (a)(3) (in transit between two foreign points), and (a)(4) (regular commuter) shall not be counted as days of presence for purposes of either the thirty-one day period or continuous presence requirement.

(v) *Election procedure*—(A) *Filing requirements*. An alien individual shall make an election to be treated as a resident under paragraph (c)(3) of this section by attaching a statement (described in paragraph (c)(3)(v)(C) of this section) to the individual's income tax return (Form 1040) for the taxable year for which the election is to be in effect (the election year). The alien individual may not make this election until such time as he has satisfied the substantial presence test for the year following the election year. If an alien individual has not satisfied the substantial presence test for the year following the election year as of the due date (not including extensions) of the tax return for the election year, the alien individual may request an extension of time for filing the return until a reasonable period after he or she has satisfied such test, provided that the individual pays with his or her extension application the amount of tax he or she expects to owe for the election year computed as if he or she were a nonresident alien throughout the election year. An election made under paragraph (c)(3) of this section may not be revoked without the approval of the Commissioner or his delegate.

(B) *Election on behalf of a dependent child*. An individual may make an election on behalf of a dependent child (as defined in paragraphs (1) and (2) of section 152(a), without regard to section 152(b)(3)) if the individual is qualified to make an election on his or her own behalf, the child qualifies to make an election under this paragraph (c)(3),

and the child is not required by section 6012 to file a United States income tax return for the year for which the election is to be effective.

(C) *Statement*. The statement required by paragraph (c)(3)(v)(A) of this section shall include the name and address of the alien individual and contain a signed declaration that the election is being made. If the individual is also making an election on behalf of any dependent children, then the statement must include the required information with respect to those children. The statement must specify—

(*1*) That the alien individual was not a resident in the year immediately preceding the election year;

(*2*) That the alien individual is a resident under the substantial presence test in the year following the election year;

(*3*) The individual's number of days of presence in the United States during the year following the election year;

(*4*) The date or dates of the alien individual's thirty-one day period of presence and period of continuous presence in the United States during the election year; and

(*5*) The date or dates of absence from the United States during the election year that are deemed to be days of presence.

(vi) *Penalty for failure to comply with filing requirements*—(A) *General rule*. If an individual fails to comply with the election procedure of paragraph (c)(3)(v) of this section, the individual must file his or her income tax return for the current year as a nonresident alien.

(B) *Exception*. The penalty described in paragraph (c)(3)(vi)(A) of this section shall not apply if the individual can show by clear and convincing evidence that he or she took reasonable actions to become aware of the filing requirements and significant affirmative steps to comply with the requirements. An individual who requests an extension of time to file his or her income tax return pursuant to paragraph (c)(3)(v) of this section will be considered to have taken significant affirmative steps to comply with the requirement that the individual pay his or her tax determined as if the individual were a nonresident alien if the individual paid with his or her extension application at least 90 percent of the amount of the tax the individual actually owed for the election year computed as if he or she were a nonresident alien throughout the election year.

(d) *Examples*. The following examples illustrate the operation of this section:

Example 1. B, a citizen of foreign country X, is an alien who has never before been a United States resident for tax purposes. B comes to the United States on January 6, 1985, to attend a business meeting and returns to country X on January 10, 1985. B is able to establish a closer connection to country X for the period January 6–10. On March 1, 1985, B moves to the United States and resides here until August 20, 1985, when he returns to country X. On December 12, 1985, B comes to the United States for pleasure and stays here until December 16, 1985 when he returns to country X. B is able to establish a closer connection to country X for the period December 12–16. B is not a United States resident for tax purposes during the following year and can establish a closer connection to country X for the remainder of calendar year 1985. B is a resident of the United States under the substantial presence test because B is present in the United States for 183 days (5 days in January plus 173 days for the period March 1–August 20 plus 5 days in December). B's residency starting date is March 1, 1985, and his residency termination date is August 20, 1985.

Example 2. The facts are the same as in *Example 1*, except that B remains in the United States until December 17, 1985, and is able to establish a closer connection to country X for the period December 18 through 31. B's residency termination date is December 17, 1985.

Example 3. C, a citizen of foreign country Y, is an alien who has never before been a United States resident for tax purposes. C comes to the United States for the first time on February 10, 1985, and attends a business conference until February 24, 1985, when she returns to country Y. On April 20, 1985, C enters the United States as a lawful permanent resident. On November 10, 1985, C ceases to be a lawful permanent resident but stays on in the United States until November 20, 1985 when she returns to country Y. On December 8, 1985, C comes to the United States and stays here until December 17, 1985 when she returns to country Y. She can establish a closer connection to country Y for that period. C is not a resident of the United States during the following calendar year and can establish a closer connection to country Y for the remainder of calendar year 1985. C qualifies as a United States resident under both the green card test and the substantial presence test. C's residency starting date

under the green card test is April 20, 1985. Under the substantial presence test, C's residency starting date is February 10, 1985, because she is present for more than ten days in February and cannot take advantage of the de minimis presence rule. Therefore, C's residency starting date is February 10, 1985. C's residency termination date under the green card test is November 10, 1985. Her residency termination date under the substantial presence test is November 20, because B can disregard ten days of presence in December. Thus, her residency termination date is November 20, 1985, the later of her residency termination date under the substantial presence test or the green card test.

Example 4. The facts are the same as in *Example 3*, except that C is initially present in the United States on business from February 5 to February 9, 1985. C is able to establish a closer connection to country Y for that period. C may take advantage of only ten days of de minimis presence and may exclude days from a continuous period of presence only if she can exclude all the days that occur during that period. Thus, C may choose either of the following periods of residency: residency starting date February 5, 1985, and residency termination date November 20, 1985, or residency starting date April 20, 1985, and residency termination date December 17, 1985.

Example 5. D, a citizen of foreign country Z, is an alien who has never before been a United States resident for tax purposes. D comes to the United States on November 1, 1985 and is present in the United States on 31 consecutive days (from November 1 through December 1, 1985). D returns to country Z on December 1 and does not come back to the United States until December 17, 1985. He remains in the United States for the rest of the year. During 1986, D is a resident of the United States under the substantial presence test. D may elect to be treated as a resident of the United States for 1985 because he was present in the United States in 1985 for a 31 consecutive day period of presence (November 1 through December 1, 1985) and for at least 75 percent of the days following (and including) the first day of D's 31 consecutive day period of presence (46 total days of presence in the United States/61 days in the period from November 1 through December 31 = 75.4%). If D makes the election to be treated as a resident, his residency starting date will be November 1, 1985.

Example 6. The facts are the same as in *Example 5*, except that D is absent from the United States on December 24, 25, 29, 30 and 31. D may make the election to be treated as a resident for 1985 because up to five days of absence will be deemed to be days of presence for purposes of the continuous presence requirement.

Example 7. F, a citizen of foreign country M, is an alien individual who has never before been a United States resident for tax purposes. F comes to the United States on January 1, 1985 and remains in the United States through January 31, 1985, when she returns to country M. F comes back to the United States on October 1, 1985 and is present in the United States through November 1, 1985. From November 1, 1985 through December 31, 1985, F is present in the United States for 38 days. Although F satisfies two 31 consecutive day periods of presence, (January 1 through January 31 and October 1 through November 1), she satisfies the continuous presence requirement only with regard to the later period of presence (69 total days of presence/92 days in the period from October 1 through December 31 = 75%). Thus, if F makes the election to be treated as a resident, his residency starting date is October 1, 1985.

(e) *No lapse*—(1) *Residency in prior year*. An alien individual who was a United States resident during any part of the preceding calendar year and who is a United States resident for any part of the current year will be considered to be taxable as a resident at the beginning of the current year. For purposes of this paragraph (e)(1), it is immaterial whether an individual is considered to be a resident under the substantial presence test or the green card test.

(2) *Residency in following year*. An alien individual who is a United States resident for any part of the current year and who is also a United States resident for any part of the following year (regardless of whether the individual has a closer connection to a foreign country than the United States during the current year) will be taxable as a resident through the end of the current year. For purposes of this paragraph (e)(2), it is immaterial whether an individual is considered to be a resident under the substantial presence test or the green card test.

(3) *Special rule*. If an individual meets the green card test for the current year but is not physically present in the United States during the current year, then the individual's residency starting date shall be the first day of the following year.

(4) *Example*. The following example illustrates the application of this paragraph (e).

Example. B, an alien individual who is a citizen of foreign country M, comes to the United States for the first time on May 1, 1985, and remains in the United States until November 5, 1985, when he returns to country

M. B comes back to the United States on March 5, 1986 as a lawful permanent resident and remains in the United States until September 10, 1986, when he ceases to be a lawful permanent resident and returns to country M. B is not a resident in calendar year 1987. B's United States residency in calendar year 1985 continues through December 31, 1985, because he is a United States resident in the following calendar year. In calendar year 1986, B's United States residency is deemed to begin on January 1, 1986 because B qualified as a resident in the preceding calendar year. Thus, B's residency period in the United States begins on May 1, 1985, and ends on September 10, 1986.

[T.D. 8411, 57 FR 15247, Apr. 27, 1992; 57 FR 28612, June 26, 1992]

§ 301.7701(b)–5 Coordination with section 877.

(a) *General rule.* An alien individual will be subject to United States income tax in the manner provided by section 877, regardless of whether the individual has a tax avoidance motive, if—

(1) The alien individual is a resident alien of the United States for at least three consecutive calendar years (the initial residency period) beginning after December 31, 1984;

(2) The period of residence for each of the three consecutive calendar years includes at least 183 days;

(3) The alien is once again taxed as a nonresident (including an individual taxed as a nonresident) under § 301.7701(b)–7(a)(1); and

(4) The alien then becomes a resident of the United States before the close of the third calendar year beginning after the individual's residency termination date in the initial residency period.

(b) *Tax imposed.* The tax provided for under paragraph (a) of this section will be imposed for the intervening period of nonresidency only if the amount of tax would exceed the amount of tax that would be imposed under section 871, relating to the taxation of nonresident aliens.

(c) *Example.* The following example illustrates the application of this section.

Example. B, a citizen of foreign country F, enters the United States on April 1, 1985, as a lawful permanent resident. On August 1, 1987, B ceases to be a lawful permanent resident and returns to country F. B meets the initial residency period requirement because he is a resident of the United States for at least 183 days in each of three consecutive years (1985, 1986 and 1987). B returns to the United States on October 5, 1990, as a lawful permanent resident. Because B became a resident of the United States before the close of the third calendar year (1990) beginning after the close of the initial residency period (August 1, 1987), he is subject to tax under section 877(b) for the intervening period of nonresidency, August 2, 1987 through October 4, 1990, if the amount of the tax imposed under section 877 is more than the tax imposed under section 871.

[T.D. 8411, 57 FR 15250, Apr. 27, 1992]

§ 301.7701(b)–6 Taxable year.

(a) *In general.* An alien individual who has not established a fiscal year as his or her taxable year prior to the period that the individual is subject to United States income tax as a resident or a nonresident shall adopt the calendar year as his or her taxable year. An alien who has established a fiscal year in a foreign country prior to the period that the individual is subject to United States income tax may adopt the calendar year as his or her taxable year for United States income tax purposes without requesting a change in accounting period. An individual will be considered to have established a fiscal year (whether in the United States or a foreign country) if the annual accounting period on which the individual computes his or her income is a fiscal year, the individual keeps his or her books in accordance with that fiscal year, and the requirements of section 441 and § 1.441–1(b) of this chapter are otherwise satisfied. An alien who has established a fiscal year and is a resident alien during the calendar year will be treated as a resident alien with respect to any portion of his or her taxable year (beginning with the individual's residency starting date and ending with the individual's residency termination date) that falls within such calendar year. Once the individual has established either a fiscal or calendar year taxable year for any period for which the individual is subject to United States income tax, the individual may not change that taxable year without the approval of the Secretary. See section 442.

(b) *Examples.* The following examples illustrate the operation of this section:

Example 1. B, a citizen and resident of foreign country F, was engaged in a United States business during 1982 and filed a return on a fiscal year basis. B's fiscal year runs from October 1 to September 30. B comes to the United States on March 8, 1985 and remains in the United States until October 10, 1985, when he returns to country F. B maintains a closer connection to and his tax home in Country F for the remainder of calendar year 1985. B, who is not a United States resident at any time in 1986, is a United States resident for the period that begins on March 8, 1985, and ends on October 10, 1985. B has adopted a fiscal year taxable year for purposes of computing his United States income tax liability. For his fiscal year that ends on September 30, 1985, B will be taxed as a United States resident for the period that begins on March 8, 1985 and ends on September 30, 1985. For his fiscal year that ends on September 30, 1986, B will only be taxed as a United States resident for the period that begins on October 1, 1985 and ends on October 10, 1985.

Example 2. The facts are the same as in *Example 1*, except that B's 1982 business was a country F business established on a fiscal year basis and at no time prior to 1985 was B subject to United States income tax. B may adopt a calendar year as his taxable year for United States income tax purposes without requesting a change of accounting period. B continues to use a fiscal year as his taxable year. For his fiscal year that ends on September 30, 1985, B will be taxed as a United States resident for the period that begins on March 8, 1985 and ends September 30, 1985. For his fiscal year that ends on September 30, 1986, B will be taxed as a United States resident for the period that begins on October 1, 1985 and ends on October 10, 1985.

Example 3. The facts are the same as in *Example 1*, except that B's 1982 business was a country F business established on a fiscal year basis and at no time prior to 1985 was B subject to United States income tax. B may adopt a calendar year as his taxable year for United States income tax purposes without requesting a change of accounting period. B adopts a calendar year as his taxable year for 1985. For his calendar year taxable year ending on December 31, 1985, B will be taxed as a United States resident for the period that begins on March 8, 1985, and ends on October 10, 1985.

[T.D. 8411, 57 FR 15250, Apr. 27, 1992; 57 FR 28612, June 26, 1992, as amended by T.D. 8996, 67 FR 35012, May 17, 2002]

§ 301.7701(b)–7 Coordination with income tax treaties.

(a) *Consistency requirement*—(1) *Application.* The application of this section shall be limited to an alien individual who is a dual resident taxpayer pursuant to a provision of a treaty that provides for resolution of conflicting claims of residence by the United States and its treaty partner. A ''dual resident taxpayer'' is an individual who is considered a resident of the United States pursuant to the internal laws of the United States and also a resident of a treaty country pursuant to the treaty partner's internal laws. If the alien individual determines that he or she is a resident of the foreign country for treaty purposes, and the alien individual claims a treaty benefit (as a nonresident of the United States) so as to reduce the individual's United States income tax liability with respect to any item of income covered by an applicable tax convention during a taxable year in which the individual was considered a dual resident taxpayer, then that individual shall be treated as a nonresident alien of the United States for purposes of computing that individual's United States income tax liability under the provisions of the Internal Revenue Code and the regulations thereunder (including the withholding provisions of section 1441 and the regulations under that section in cases in which the dual resident taxpayer is the recipient of income subject to withholding) with respect to that portion of the taxable year the individual was considered a dual resident taxpayer.

(2) *Computation of tax liability.* If an alien individual is a dual resident taxpayer, then the rules on residency provided in the convention shall apply for purposes of determining the individual's residence for all purposes of that treaty.

(3) *Other Code purposes.* Generally, for purposes of the Internal Revenue Code other than the computation of the individual's United States income tax liability, the individual shall be treated as a United States resident. Therefore, for example, the individual shall be treated as a United States resident for purposes of determining whether a foreign corporation is a controlled foreign corporation under section 957 or whether a foreign corporation is a foreign personal holding company under section 552. In addition, the application of paragraph (a)(2) of this section does not

affect the determination of the individual's residency time periods under § 301.7701(b)–4.

(4) *Special rules for S corporations.* [Reserved]

(b) *Filing requirements.* An alien individual described in paragraph (a) of this section who determines his or her U.S. tax liability as if he or she were a nonresident alien shall make a return on Form 1040NR on or before the date prescribed by law (including extensions) for making an income tax return as a nonresident. The individual shall prepare a return and compute his or her tax liability as a nonresident alien. The individual shall attach a statement (in the form required in paragraph (c) of this section) to the Form 1040NR. The Form 1040NR and the attached statement, shall be filed with the Internal Revenue Service Center, Philadelphia, PA 19255. The filing of a Form 1040NR by an individual described in paragraph (a) of this section may affect the determination by the Immigration and Naturalization Service as to whether the individual qualifies to maintain a residency permit.

(c) *Contents of statement*—(1) *In general*—(i) *Returns due after December 15, 1997.* The statement filed by an individual described in paragraph (a)(1) of this section, for a return relating to a taxable year for which the due date (without extensions) is after December 15, 1997, must be in the form of a fully completed Form 8833 (Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b)) or appropriate successor form. See section 6114 and § 301.6114–1 for rules relating to other treaty-based return positions taken by the same taxpayer.

(ii) *Earlier returns.* For returns relating to taxable years for which the due date for filing returns (without extensions) is on or before December 15, 1997, the statement filed by the individual described in paragraph (a)(1) of this section must contain the information in accordance with paragraph (c)(1) of this section in effect prior to December 15, 1997 (see § 301.7701(b)–7(c)(1) as contained in 26 CFR part 301, revised April 1, 1997).

(2) *Controlled foreign corporation shareholders.* If the taxpayer who claims a treaty benefit as a nonresident of the United States is a United States shareholder in a controlled foreign corporation (CFC), as defined in section 957 or section 953(c), and there are no other United States shareholders in that CFC, then for purposes of paragraph (c)(1) of this section, the approximate amount of subpart F income (as defined in section 952) that would have been included in the taxpayer's income may be determined based on the audited foreign financial statements of the CFC.

(3) *S corporation shareholders.* [Reserved]

(d) *Relationship to section 6114(a) treaty-based return positions.* The statement required by paragraph (b) of this section will be considered disclosure for purposes of section 6114 and § 301.6114–1(a), but only if the statement is in the form required by paragraph (c) of this section. If the taxpayer fails to file the statement required by paragraph (b) of this section on or before the date prescribed in paragraph (b) of this section, the taxpayer will be subject to the penalties imposed by section 6712. See section 6712 and § 301.6712–1.

(e) *Examples.* The following examples illustrate the application of this section:

Example 1. B, an alien individual, is a resident of foreign country X, under X's internal law. Country X is a party to an income tax convention with the United States. B is also a resident of the United States under the Internal Revenue Code. B is considered to be a resident of country X under the convention. The convention does not specifically deal with characterization of foreign corporations as controlled foreign corporations or the taxability of United States shareholders on inclusions of subpart F income, but it provides, in an ''Other Income'' article similar to Article 21 of the 1981 draft of the United States Model Income Tax Convention (U.S. Model), that items of income of a resident of country X that are not specifically dealt with in the convention shall be taxable only in country X. B owns 80% of the one class of stock of foreign corporation R. The remaining 20% is owned by C, a United States citizen who is unrelated to B. In 1985, corporation R's only income is interest that is foreign personal holding company income under § 1.954A-2 of this chapter. Because the United States-X income tax convention does not deal with characterization of foreign corporations as controlled foreign corporations, United States internal income tax law applies.

Therefore, B and C are United States shareholders within the meaning of § 1.951–1(g) of this chapter, corporation R is a controlled foreign corporation within the meaning of § 1.957–1 of this chapter, and corporation R's income is included in C's income as subpart F income under § 1.951–1 of this chapter. B may avoid current taxation on his share of the subpart F inclusion by filing as a nonresident (*i.e.*, by following the procedure in § 301.7701(b)–7(b)).

Example 2. The facts are the same as in *Example 1,* except that B also earns United States source dividend income. The United States-X income tax convention provides that the rate of United States tax on United States source dividends paid to residents of country X shall not exceed 15 percent of the gross amount of the dividends. B's United States tax liability with respect to the dividends would be smaller if he were treated as a resident alien, subject to tax on a net basis (*i.e.*, after the allowance of deductions) than if he were treated as a nonresident alien. If, however, B chooses to file as a nonresident in order to claim treaty benefits with respect to his share of R's subpart F income, his overall United States tax liability, including the portion attributable to the dividends, must be determined as if he were a nonresident alien.

Example 3. C, a married alien individual with three children, is a resident of foreign country Y, under Y's internal law. Country Y is a party to an income tax convention with the United States. C is also a resident of the United States under the Internal Revenue Code. C is considered to be a resident of country Y under the convention. The convention specifically covers, among other items of income, personal services income, dividends and interest. C is sent by her country Y employer to work in the United States from January 1, 1985 until December 31, 1985. During 1985, C also earns United States source dividends and interest and incurs mortgage interest expenses on her personal residence. The United States-Y treaty provides that remuneration for personal services performed in the United States by a country Y resident is exempt from United States tax if, among other things, the individual performing such services is present in the United States for a period that is not in excess of 183 days. The treaty provides that the rate of United States tax on United States source dividends paid to residents of Y shall not exceed 15 percent of the gross amount of the dividends and it exempts residents of Y from United States tax on United States source interest. In filing her 1985 tax return, C may choose to file either as a resident alien without claiming any treaty benefits or as a nonresident alien if she desires to claim any treaty benefit. C files as a nonresident (*i.e.* by following the procedure described in § 301.7701(b)–7(b)). Because C does not satisfy the requirements of the United States-Y treaty with regard to exempting personal services income from United States tax, C will be taxed on her personal services income at graduated rates under section 1 of the Code pursuant to section 871(b) of the Code. She will not be entitled to deduct her mortgage interest expenses or to claim more than one personal exemption because she is taxed as a nonresident alien under the Code by virtue of her decision to claim treaty benefits, and section 873 of the Code denies nonresidents the deduction for personal residence mortgage interest expense and generally limits them to only one personal exemption. C will be subject to a tax of 15 percent of the gross amount of her dividend income under section 871(a) of the Code as modified by the treaty, and she will be exempt from tax on her interest income. C is not entitled to file a joint return with her spouse even if he is a resident alien under the Code for 1985.

Example 4. The facts are the same as in *Example 3,* except that C does not choose to claim treaty benefits with respect to any items of income covered by the treaty (*i.e.*, she files as a resident). Therefore, she is taxed as a resident under the Code and pays tax at graduated rates on her personal services income, dividends, and interest. In addition, she is entitled to deduct her mortgage interest expenses and to take personal exemptions for her spouse and three children. C will be entitled to file a joint return with her spouse if he is a resident alien for 1985 or, if he is a nonresident alien, C and her spouse may elect to file a joint return pursuant to section 6013.

[T.D. 8411, 57 FR 15251, Apr. 27, 1992; 57 FR 28612, June 26, 1992, as amended by T.D. 8733, 62 FR 53387, Oct. 14, 1997]

§ 301.7701(b)–8 Procedural rules.

(a) *Who must file*—(1) *Closer connection exception.* An alien individual who otherwise meets the substantial presence test must file a statement to explain the basis of the individual's claim that he or she is able to satisfy the closer connection exception described in § 301.7701(b)–2.

(2) *Exempt individuals and individuals with a medical condition.* An alien individual must file a statement to explain the basis of the individual's claim that he or she is able to exclude days of presence in the United States because the individual—

(i) Is an exempt individual as described in § 301.7701(b)–3(b)(3) (teacher/trainee) or (b)(4) (student);

(ii) Is an exempt individual described in § 301.7701 (b)–3(b)(5) (professional athlete); or

(iii) Has a medical condition or problem as described in § 301.7701(b)–3(c).

(3) *De minimis presence and residency starting and termination dates.* A statement must be filed by an individual who is seeking to establish—

(i) That a period of de minimis presence of ten or fewer days should be disregarded for purposes of the individual's residency starting or termination date; or

(ii) A residency termination date.

(b) *Contents of statement*—(1) *Closer connection exception*—(i) *Returns due after December 15, 1997.* The statement filed by an individual described in paragraph (a)(1) of this section, for a return relating to a taxable year for which the due date (without extensions) is after December 15, 1997, must be in the form of a fully completed Form 8840 (Closer Connection Exception Statement) or appropriate successor form.

(ii) *Earlier returns.* For returns relating to taxable years for which the due date for filing returns (without extensions) is on or before December 15, 1997, the statement filed by the individual described in paragraph (a)(1) of this section must contain the information in accordance with paragraph (b)(1) of this section in effect prior to December 15, 1997 (see § 301.7701(b)–8(b)(1) as contained in 26 CFR part 301, revised April 1, 1997).

(2) *Exempt individuals and individuals with a medical condition*—(i) *Returns due after December 15, 1997.* The statement filed by an individual described in paragraph (a)(2) of this section, for a return relating to a taxable year for which the due date (without extensions) is after December 15, 1997, must be in the form of a fully completed Form 8843 (Statement for Exempt Individuals and Individuals with a Medical Condition) or appropriate successor form.

(ii) *Earlier returns.* For returns relating to taxable years for which the due date for filing returns (without extensions) is on or before December 15, 1997, the statement filed by the individual described in paragraph (a)(2) of this section must contain the information in accordance with paragraph (b)(2) of this section in effect prior to December 15, 1997 (see § 301.7701(b)–8(b)(2) as contained in 26 CFR part 301, revised April 1, 1997).

(3) *De minimis presence and residency starting and termination dates.* The statement filed by an individual described in paragraph (a)(3) of this section shall be dated, signed by the individual seeking to exclude de minimis presence for purposes of the individual's residency starting or termination date or to establish a residency termination date, and verified by a declaration that the statement is made under the penalty of perjury. The statement shall contain the information described in paragraphs (b)(1) (i), (ii) and (iii) of this section and the following information (as applicable)—

(i) The first day that the individual was present in the United States during the current year;

(ii) The last day that the individual was present in the United States during the current year;

(iii) Dates of de minimis presence that the individual is seeking to exclude from his or her residency starting or termination dates;

(iv) Sufficient facts to establish that the individual has maintained his or her tax home in and a closer connection to a foreign country during a period of de minimis presence;

(v) Sufficient facts to establish that the individual has maintained his or her tax home in and a closer connection to a foreign country following the individual's last day of presence in the United States during the current year or following the abandonment or rescission of the individual's status as a lawful permanent resident during the current year;

(vi) Date that the individual's status as a lawful permanent resident was abandoned or rescinded; and

(vii) Sufficient facts (including copies of relevant documents) to establish that the individual's status as lawful permanent resident has been abandoned or rescinded.

(c) *How to file.* Individuals described in paragraph (a) of this section who are required to make a return on Form 1040 or 1040NR pursuant to paragraph (a) or

(b) of § 1.6012–1 of this chapter must attach the statement described in paragraph (b) of this section to their return for the taxable year for which the statement is relevant. An individual who is not required to file either Form 1040 or 1040NR must file the statement with the Internal Revenue Service Center, Philadelphia, PA 19255 on or before the date prescribed by law (including extensions) for making an income tax return as a nonresident for the calendar year for which the statement applies. The statement may be signed and filed for the taxpayer by the taxpayer's agent in accordance with § 1.6061–1 of this chapter.

(d) *Penalty for failure to file statement*—(1) *General rule*. If an individual is required to file a statement pursuant to paragraph (a)(1), (a)(2)(ii), (a)(2)(iii) or (a)(3) of this section and fails to file such statement on or before the date prescribed by paragraph (c) of this section, the individual will not be eligible for the closer connection exception described in § 301.7701(b)–2 and will be required to include all days of presence in the United States (calculated without the benefit of §§ 301.7701(b)–3(b)(5), 301.7701(b)–3(c), and 301.7701(b)–4(c)(1)) for purposes of the substantial presence test and for determining the individual's residency starting and termination dates. If an individual is considered to be a resident because of this paragraph and the individual is also a resident of a country with which the United States has an income tax convention pursuant to that convention, the individual shall be treated in the manner provided in § 301.7701(b)–7 (a) (relating to the treatment of individuals who are dual residents).

(2) *Exception*. The penalty described in paragraph (d)(1) of this section shall not apply if the individual can show by clear and convincing evidence that he or she took reasonable actions to become aware of the filing requirements and significant affirmative steps to comply with those requirements.

(e) *Filing requirement disregarded*. Notwithstanding paragraph (d) of this section, the Secretary or his or her delegate may in their sole discretion, when it is in the best interest of the government to do so and based on all of the facts and circumstances, disregard the individual's failure to file timely the statement described in paragraph (a) of this section in determining the individual's days of presence in the United States.

[T.D. 8411, 57 FR 15252, Apr. 27, 1992; 57 FR 28612, June 26, 1992; 57 FR 37190, Aug. 18, 1992, as amended by T.D. 8733, 62 FR 53387, Oct. 14, 1997]

§ 301.7701(b)–9 Effective/applicability dates of §§ 301.7701(b)–1 through 301.7701(b)–7.

(a) *In general*. Except as indicated in paragraph (b) of this section, §§ 301.7701(b)–1 through 301.7701(b)–7 apply to taxable years beginning after December 31, 1984. For the rules applicable to earlier taxable years, see §§ 1.871–2 through 1.871–5 of this chapter.

(b) *Special rules*—(1) *Green card test-residency starting date*. If an alien was a lawful permanent resident throughout 1984 (regardless of whether the individual was physically present in the United States), or was physically present in the United States at any time during 1984 while a lawful permanent resident, the individual will be considered to have been a resident of the United States during 1984 for purposes of applying the provisions of section 7701(b)(2)(A) and § 301.7701(b)–4 such that the individual will, if he meets the substantial presence or green card test in 1985, be considered a resident of the United States as of January 1, 1985, regardless of when the individual was first present in the United States in 1985.

(2) *Substantial presence test-years included*. For purposes of applying the substantial presence test for calendar years 1985 and 1986, days of presence in 1984 will only be counted for aliens who had been residents under prior law (§§ 1.871–2 through 1.871–5 of this chapter) at the end of calendar year 1984. Days of presence in 1983 will only be counted for aliens who had been residents under prior law at the end of both calendar year 1983 and 1984.

(3) *Professional athletes*. For purposes of applying the substantial presence test, only days of presence in the United States after October 22, 1986,

shall be excluded for individuals described in § 301.7701(b)–3(b)(5) (professional athletes).

(4) *Procedural rules and filing requirements.* The procedural rules and filing requirements described in §§ 301.7701(b)–7(b) and 301.7701(b)–8 shall apply to taxable years beginning after December 31, 1991.

(5) *Possessions and territories.* For purposes of applying section 7701(b) and the regulations under that section, § 301.7701(b)–1(d) applies to taxable years ending after April 9, 2008.

[T.D. 8411, 57 FR 15253, Apr. 27, 1992, as amended by T.D. 9391, 73 FR 19377, Apr. 9, 2008]

§ 301.7701(i)–0 Outline of taxable mortgage pool provisions.

This section lists the major paragraphs contained in §§ 301.7701(i)–1 through 301.7701(i)–4.

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[T.D. 8610, 60 FR 40088, Aug. 7, 1995]

§ 301.7701(i)–1 Definition of a taxable mortgage pool.

(a) *Purpose.* This section provides rules for applying section 7701(i), which defines taxable mortgage pools. The purpose of section 7701(i) is to prevent income generated by a pool of real estate mortgages from escaping Federal

income taxation when the pool is used to issue multiple class mortgage-backed securities. The regulations in this section and in §§ 301.7701(i)–2 through 301.7701(i)–4 are to be applied in accordance with this purpose. The taxable mortgage pool provisions apply to entities or portions of entities that qualify for REMIC status but do not elect to be taxed as REMICs as well as to certain entities or portions of entities that do not qualify for REMIC status.

(b) *In general.* (1) A taxable mortgage pool is any entity or portion of an entity (as defined in § 301.7701(i)–2) that satisfies the requirements of section 7701(i)(2)(A) and this section as of any testing day (as defined in § 301.7701(i)–3(c)(2)). An entity or portion of an entity satisfies the requirements of section 7701(i)(2)(A) and this section if substantially all of its assets are debt obligations, more than 50 percent of those debt obligations are real estate mortgages, the entity is the obligor under debt obligations with two or more maturities, and payments on the debt obligations under which the entity is obligor bear a relationship to payments on the debt obligations that the entity holds as assets.

(2) Paragraph (c) of this section provides the tests for determining whether substantially all of an entity's assets are debt obligations and for determining whether more than 50 percent of its debt obligations are real estate mortgages. Paragraph (d) of this section defines real estate mortgages for purposes of the 50 percent test. Paragraph (e) of this section defines two or more maturities and paragraph (f) of this section provides rules for determining whether debt obligations bear a relationship to the assets held by an entity. Paragraph (g) of this section provides anti-avoidance rules. Section 301.7701(i)–2 provides rules for applying section 7701(i) to portions of entities and § 301.7701(i)–3 provides effective dates. Section 301.7701(i)–4 provides special rules for certain entities. For purposes of the regulations under section 7701(i), the term entity includes a portion of an entity (within the meaning of section 7701(i)(2)(B)), unless the context clearly indicates otherwise.

(c) *Asset composition tests*—(1) *Determination of amount of assets.* An entity must use the Federal income tax basis of an asset for purposes of determining whether substantially all of its assets consist of debt obligations (or interests therein) and whether more than 50 percent of those debt obligations (or interests) consist of real estate mortgages (or interests therein). For purposes of this paragraph, an entity determines the basis of an asset with the assumption that the entity is not a taxable mortgage pool.

(2) *Substantially all*—(i) *In general.* Whether substantially all of the assets of an entity consist of debt obligations (or interests therein) is based on all the facts and circumstances.

(ii) *Safe harbor.* Notwithstanding paragraph (c)(2)(i) of this section, if less than 80 percent of the assets of an entity consist of debt obligations (or interests therein), then less than substantially all of the assets of the entity consist of debt obligations (or interests therein).

(3) *Equity interests in pass-through arrangements.* The equity interest of an entity in a partnership, S corporation, trust, REIT, or other pass-through arrangement is deemed to have the same composition as the entity's share of the assets of the pass-through arrangement. For example, if an entity's stock interest in a REIT has an adjusted basis of $20,000, and the assets of the REIT consist of equal portions of real estate mortgages and other real estate assets, then the entity is treated as holding $10,000 of real estate mortgages and $10,000 of other real estate assets.

(4) *Treatment of certain credit enhancement contracts*—(i) *In general.* A credit enhancement contract (as defined in paragraph (c)(4)(ii) of this section) is not treated as a separate asset of an entity for purposes of the asset composition tests set forth in section 7701(i)(2)(A)(i), but instead is treated as part of the asset to which it relates. Furthermore, any collateral supporting a credit enhancement contract is not treated as an asset of an entity solely because it supports the guarantee represented by that contract.

(ii) *Credit enhancement contract defined.* For purposes of this section, a

credit enhancement contract is any arrangement whereby a person agrees to guarantee full or partial payment of the principal or interest payable on a debt obligation (or interest therein) or on a pool of such obligations (or interests), or full or partial payment on one or more classes of debt obligations under which an entity is the obligor, in the event of defaults or delinquencies on debt obligations, unanticipated losses or expenses incurred by the entity, or lower than expected returns on investments. Types of credit enhancement contracts may include, but are not limited to, pool insurance contracts, certificate guarantee insurance contracts, letters of credit, guarantees, or agreements whereby an entity, a mortgage servicer, or other third party agrees to make advances (regardless of whether, under the terms of the agreement, the payor is obligated, or merely permitted, to make those advances). An agreement by a debt servicer to advance to an entity out of its own funds an amount to make up for delinquent payments on debt obligations is a credit enhancement contract. An agreement by a debt servicer to pay taxes and hazard insurance premiums on property securing a debt obligation, or other expenses incurred to protect an entity's security interests in the collateral in the event that the debtor fails to pay such taxes, insurance premiums, or other expenses, is a credit enhancement contract.

(5) *Certain assets not treated as debt obligations*—(i) *In general.* For purposes of section 7701(i)(2)(A), real estate mortgages that are seriously impaired are not treated as debt obligations. Whether a mortgage is seriously impaired is based on all the facts and circumstances including, but not limited to: the number of days delinquent, the loan-to-value ratio, the debt service coverage (based upon the operating income from the property), and the debtor's financial position and stake in the property. However, except as provided in paragraph (c)(5)(ii) of this section, no single factor in and of itself is determinative of whether a loan is seriously impaired.

(ii) *Safe harbor*—(A) *In general.* Unless an entity is receiving or anticipates receiving payments with respect to a mortgage, a single family residential real estate mortgage is seriously impaired if payments on the mortgage are more than 89 days delinquent, and a multi-family residential or commercial real estate mortgage is seriously impaired if payments on the mortgage are more than 59 days delinquent. Whether an entity anticipates receiving payments with respect to a mortgage is based on all the facts and circumstances.

(B) *Payments with respect to a mortgage defined.* For purposes of paragraph (c)(5)(ii)(A) of this section, payments with respect to a mortgage mean any payments on the mortgage as defined in paragraph (f)(2)(i) of this section if those payments are substantial and relatively certain as to amount and any payments on the mortgage as defined in paragraph (f)(2) (ii) or (iii) of this section.

(C) *Entity treated as not anticipating payments.* With respect to any testing day (as defined in § 301.7701(i)–3(c)(2)), an entity is treated as not having anticipated receiving payments on the mortgage as defined in paragraph (f)(2)(i) of this section if 180 days after the testing day, and despite making reasonable efforts to resolve the mortgage, the entity is not receiving such payments and has not entered into any agreement to receive such payments.

(d) *Real estate mortgages or interests therein defined*—(1) *In general.* For purposes of section 7701(i)(2)(A)(i), the term real estate mortgages (or interests therein) includes all—

(i) Obligations (including participations or certificates of beneficial ownership therein) that are principally secured by an interest in real property (as defined in paragraph (d)(3) of this section);

(ii) Regular and residual interests in a REMIC; and

(iii) Stripped bonds and stripped coupons (as defined in section 1286(e) (2) and (3)) if the bonds (as defined in section 1286(e)(1)) from which such stripped bonds or stripped coupons arose would have qualified as real estate mortgages or interests therein.

(2) *Interests in real property and real property defined*—(i) *In general.* The definition of interests in real property set forth in § 1.856–3(c) of this chapter and

the definition of real property set forth in §1.856–3(d) of this chapter apply to define those terms for purposes of paragraph (d) of this section.

(ii) *Manufactured housing.* For purposes of this section, the definition of real property includes manufactured housing, provided the properties qualify as single family residences under section 25(e)(10) and without regard to the treatment of the properties under state law.

(3) *Principally secured by an interest in real property*—(i) *Tests for determining whether an obligation is principally secured.* For purposes of paragraph (d)(1) of this section, an obligation is principally secured by an interest in real property only if it satisfies either the test set out in paragraph (d)(3)(i)(A) of this section or the test set out in paragraph (d)(3)(i)(B) of this section.

(A) *The 80 percent test.* An obligation is principally secured by an interest in real property if the fair market value of the interest in real property (as defined in paragraph (d)(2) of this section) securing the obligation was at least equal to 80 percent of the adjusted issue price of the obligation at the time the obligation was originated (that is, the issue date). For purposes of this test, the fair market value of the real property interest is first reduced by the amount of any lien on the real property interest that is senior to the obligation being tested, and is reduced further by a proportionate amount of any lien that is in parity with the obligation being tested.

(B) *Alternative test.* An obligation is principally secured by an interest in real property if substantially all of the proceeds of the obligation were used to acquire, improve, or protect an interest in real property that, at the origination date, is the only security for the obligation. For purposes of this test, loan guarantees made by Federal, state, local governments or agencies, or other third party credit enhancement, are not viewed as additional security for a loan. An obligation is not considered to be secured by property other than real property solely because the obligor is personally liable on the obligation.

(ii) *Obligations secured by real estate mortgages (or interests therein), or by combinations of real estate mortgages (or interests therein) and other assets*—(A) *In general.* An obligation secured only by real estate mortgages (or interests therein), as defined in paragraph (d)(1) of this section, is treated as an obligation secured by an interest in real property to the extent of the value of the real estate mortgages (or interests therein). An obligation secured by both real estate mortgages (or interests therein) and other assets is treated as an obligation secured by an interest in real property to the extent of both the value of the real estate mortgages (or interests therein) and the value of so much of the other assets that constitute real property. Thus, under this paragraph, a collateralized mortgage obligation may be an obligation principally secured by an interest in real property. This section is applicable only to obligations issued after December 31, 1991.

(B) *Example.* The following example illustrates the principles of this paragraph (d)(3)(ii):

Example. At the time it is originated, an obligation has an adjusted issue price of $300,000 and is secured by a $70,000 loan principally secured by an interest in a single family home, a fifty percent co-ownership interest in a $400,000 parcel of land, and $80,000 of stock. Under paragraph (d)(3)(ii)(A) of this section, the obligation is treated as secured by interests in real property and under paragraph (d)(3)(i)(A) of this section, the obligation is treated as principally secured by interests in real property.

(e) *Two or more maturities*—(1) *In general.* For purposes of section 7701(i)(2)(A)(ii), debt obligations have two or more maturities if they have different stated maturities or if the holders of the obligations possess different rights concerning the acceleration of or delay in the maturities of the obligations.

(2) *Obligations that are allocated credit risk unequally.* Debt obligations that are allocated credit risk unequally do not have, by that reason alone, two or more maturities. Credit risk is the risk that payments of principal or interest will be reduced or delayed because of a default on an asset that supports the debt obligations.

(3) *Examples.* The following examples illustrate the principles of this paragraph (e):

Example 1. (i) Corporation M transfers a pool of real estate mortgages to a trustee in exchange for Class A bonds and a certificate representing the residual beneficial ownership of the pool. All Class A bonds have a stated maturity of March 1, 2002, but if cash flows from the real estate mortgages and investments are sufficient, the trustee may select one or more bonds at random and redeem them earlier.

(ii) The Class A bonds do not have different maturities. Each outstanding Class A bond has an equal chance of being redeemed because the selection process is random. The holders of the Class A bonds, therefore, have identical rights concerning the maturities of their obligations.

Example 2. (i) Corporation N transfers a pool of real estate mortgages to a trustee in exchange for Class C bonds, Class D bonds, and a certificate representing the residual beneficial ownership of the pool. The Class D bonds are subordinate to the Class C bonds so that cash flow shortfalls due to defaults or delinquencies on the real estate mortgages are borne first by the Class D bond holders. The terms of the bonds are otherwise identical in all relevant aspects except that the Class D bonds carry a higher coupon rate because of the subordination feature.

(ii) The Class C bonds and the Class D bonds share credit risk unequally because of the subordination feature. However, neither this difference, nor the difference in interest rates, causes the bonds to have different maturities. The result is the same if, in addition to the other terms described in paragraph (i) of this *Example 2*, the Class C bonds are accelerated as a result of the issuer becoming unable to make payments on the Class C bonds as they become due.

(f) *Relationship test*—(1) *In general.* For purposes of section 7701(i)(2)(A)(iii), payments on debt obligations under which an entity is the obligor (liability obligations) bear a relationship to payments (as defined in paragraph (f)(2) of this section) on debt obligations an entity holds as assets (asset obligations) if under the terms of the liability obligations (or underlying arrangement) the timing and amount of payments on the liability obligations are in large part determined by the timing and amount of payments or projected payments on the asset obligations. For purposes of the relationship test, any payment arrangement, including a swap or other hedge, that achieves a substantially similar result is treated as satisfying the test. For example, any arrangement where the timing and amount of payments on liability obligations are determined by reference to a group of assets (or an index or other type of model) that has an expected payment experience similar to that of the asset obligations is treated as satisfying the relationship test.

(2) *Payments on asset obligations defined.* For purposes of section 7701(i)(2)(A)(iii) and this section, payments on asset obligations include—

(i) A payment of principal or interest on an asset obligation, including a prepayment of principal, a payment under a credit enhancement contract (as defined in paragraph (c)(4)(ii) of this section) and a payment from a settlement at a discount (other than a substantial discount);

(ii) A payment from a settlement at a substantial discount, but only if the settlement is arranged, whether in writing or otherwise, prior to the issuance of the liability obligations; and

(iii) A payment from the foreclosure on or sale of an asset obligation, but only if the foreclosure or sale is arranged, whether in writing or otherwise, prior to the issuance of the liability obligations.

(3) *Safe harbor for entities formed to liquidate assets.* Payments on liability obligations of an entity do not bear a relationship to payments on asset obligations of the entity if—

(i) The entity's organizational documents manifest clearly that the entity is formed for the primary purpose of liquidating its assets and distributing proceeds of liquidation;

(ii) The entity's activities are all reasonably necessary to and consistent with the accomplishment of liquidating assets;

(iii) The entity plans to satisfy at least 50 percent of the total issue price of each of its liability obligations having a different maturity with proceeds from liquidation and not with scheduled payments on its asset obligations; and

(iv) The terms of the entity's liability obligations (or underlying arrangement) provide that within three years of the time it first acquires assets to be liquidated the entity either—

(A) Liquidates; or

(B) Begins to pass through without delay all payments it receives on its asset obligations (less reasonable allowances for expenses) as principal payments on its liability obligations in proportion to the adjusted issue prices of the liability obligations.

(g) *Anti-avoidance rules*—(1) *In general*. For purposes of determining whether an entity meets the definition of a taxable mortgage pool, the Commissioner can disregard or make other adjustments to a transaction (or series of transactions) if the transaction (or series) is entered into with a view to achieving the same economic effect as that of an arrangement subject to section 7701(i) while avoiding the application of that section. The Commissioner's authority includes treating equity interests issued by a non-REMIC as debt if the entity issues equity interests that correspond to maturity classes of debt.

(2) *Certain investment trusts*. Notwithstanding paragraph (g)(1) of this section, an ownership interest in an entity that is classified as a trust under § 301.7701–4(c) will not be treated as a debt obligation of the trust.

(3) *Examples*. The following examples illustrate the principles of this paragraph (g):

Example 1. (i) Partnership P, in addition to its other investments, owns $10,000,000 of mortgage pass-through certificates guaranteed by FNMA (FNMA Certificates). On May 15, 1997, Partnership P transfers the FNMA Certificates to Trust 1 in exchange for 100 Class A bonds and Certificate 1. The Class A bonds, under which Trust 1 is the obligor, have a stated principal amount of $5,000,000 and bear a relationship to the FNMA Certificates (within the meaning of § 301.7701(i)–1(f)). Certificate 1 represents the residual beneficial ownership of the FNMA Certificates.

(ii) On July 5, 1997, with a view to avoiding the application of section 7701(i), Partnership P transfers Certificate 1 to Trust 2 in exchange for 100 Class B bonds and Certificate 2. The Class B bonds, under which Trust 2 is the obligor, have a stated principal amount of $5,000,000, bear a relationship to the FNMA Certificates (within the meaning of § 301.7701(i)-1(f)), and have a different maturity than the Class A bonds (within the meaning of § 301.7701(i)-1(e)). Certificate 2 represents the residual beneficial ownership of Certificate 1.

(iii) For purposes of determining whether Trust 1 is classified as a taxable mortgage pool, the Commissioner can disregard the separate existence of Trust 2 and treat Trust 1 and Trust 2 as a single trust.

Example 2. (i) Corporation Q files a consolidated return with its two wholly-owned subsidiaries, Corporation R and Corporation S. Corporation R is in the business of building and selling single family homes. Corporation S is in the business of financing sales of those homes.

(ii) On August 10, 1998, Corporation S transfers a pool of its real estate mortgages to Trust 3, taking back Certificate 3 which represents beneficial ownership of the pool. On September 25, 1998, with a view to avoiding the application of section 7701(i), Corporation R issues bonds that have different maturities (within the meaning of § 301.7701(i)–1(e)) and that bear a relationship (within the meaning of § 301.7701(i)-1(f)) to the real estate mortgages in Trust 3. The holders of the bonds have an interest in a credit enhancement contract that is written by Corporation S and collateralized with Certificate 3.

(iii) For purposes of determining whether Trust 3 is classified as a taxable mortgage pool, the Commissioner can treat Trust 3 as the obligor of the bonds issued by Corporation R.

Example 3. (i) Corporation X, in addition to its other assets, owns $110,000,000 in Treasury securities. From time to time, Corporation X acquires pools of real estate mortgages, which it immediately uses to issue multiple-class debt obligations.

(ii) On October 1, 1996, Corporation X transfers $20,000,000 in Treasury securities to Trust 4 in exchange for Class C bonds, Class D bonds, Class E bonds, and Certificate 4. Trust 4 is the obligor of the bonds. The different classes of bonds have the same stated maturity date, but if cash flows from the Trust 4 assets exceed the amounts needed to make interest payments, the trustee uses the excess to retire the classes of bonds in alphabetical order. Certificate 4 represents the residual beneficial ownership of the Treasury securities.

(iii) With a view to avoiding the application of section 7701(i), Corporation X reserves the right to replace any Trust 4 asset with real estate mortgages or guaranteed mortgage pass-through certificates. In the event the right is exercised, cash flows on the real estate mortgages and guaranteed pass-through certificates will be used in the same manner as cash flows on the Treasury securities. Corporation X exercises this right of replacement on February 1, 1997.

(iv) For purposes of determining whether Trust 4 is classified as a taxable mortgage pool, the Commissioner can treat February 1, 1997, as a testing day (within the meaning of § 301.7701(i)-3(c)(2)). The result is the same if Corporation X has an obligation, rather than a right, to replace the Trust 4 assets

with real estate mortgages and guaranteed pass-through certificates.

Example 4. (i) Corporation Y, in addition to its other assets, owns $1,900,000 in obligations secured by personal property. On November 1, 1995, Corporation Y begins negotiating a $2,000,000 loan to individual A. As security for the loan, A offers a first deed of trust on land worth $1,700,000.

(ii) With a view to avoiding the application of section 7701(i), Corporation Y induces A to place the land in a partnership in which A will have a 95 percent interest and agrees to accept the partnership interest as security for the $2,000,000 loan. Thereafter, the loan to A, together with the $1,900,000 in obligations secured by personal property, are transferred to Trust 5 and used to issue bonds that have different maturities (within the meaning of § 301.7701(i)-1(e)) and that bear a relationship (within the meaning of § 301.7701(i)-1(f)) to the $1,900,000 in obligations secured by personal property and the loan to A.

(iii) For purposes of determining whether Trust 5 is a taxable mortgage pool, the Commissioner can treat the loan to A as an obligation secured by an interest in real property rather than as an obligation secured by an interest in a partnership.

Example 5. (i) Corporation Z, in addition to its other assets, owns $3,000,000 in notes secured by interests in retail shopping centers. Partnership L, in addition to its other assets, owns $20,000,000 in notes that are principally secured by interests in single family homes and $3,500,000 in notes that are principally secured by interests in personal property.

(ii) On December 1, 1995, Partnership L asks Corporation Z for two separate loans, one in the amount of $9,375,000 and another in the amount of $625,000. Partnership L offers to collateralize the $9,375,000 loan with $10,312,500 of notes secured by interests in single family homes and the $625,000 loan with $750,000 of notes secured by interests in personal property. Corporation Z has made similar loans to Partnership L in the past.

(iii) With a view to avoiding the application of section 7701(i), Corporation Z induces Partnership L to accept a single $10,000,000 loan and to post as collateral $7,500,000 of the notes secured by interests in single family homes and all $3,500,000 of the notes secured by interests in personal property. Ordinarily, Corporation Z would not make a loan on these terms. Thereafter, the loan to Partnership L, together with the $3,000,000 in notes secured by interests in retail shopping centers, are transferred to Trust 6 and used to issue bonds that have different maturities (within the meaning of § 301.7701(i)–1(e)) and that bear a relationship (within the meaning of § 301.7701(i)–1(f)) to the loans secured by interests in retail shopping centers and the loan to Partnership L.

(iv) For purposes of determining whether Trust 6 is a taxable mortgage pool, the Commissioner can treat the $10,000,000 loan to Partnership L as consisting of a $9,375,000 obligation secured by interests in real property and a $625,000 obligation secured by interests in personal property. Under § 301.7701(i)–1(d)(3)(ii)(A), the notes secured by single family homes are treated as $7,500,000 of interests in real property. Under § 301.7701(i)–1(d)(3)(i)(A), $7,500,000 of interests in real property are sufficient to treat a $9,375,000 obligation as principally secured by an interest in real property ($7,500,000 equals 80 percent of $9,375,000).

[T.D. 8610, 60 FR 40088, Aug. 7, 1995; 60 FR 49754, Sept. 27, 1995]

§ 301.7701(i)–2 Special rules for portions of entities.

(a) *Portion defined.* Except as provided in paragraph (b) of this section and § 301.7701(i)–1, a portion of an entity includes all assets that support one or more of the same issues of debt obligations. For this purpose, an asset supports a debt obligation if, under the terms of the debt obligation (or underlying arrangement), the timing and amount of payments on the debt obligation are in large part determined, either directly or indirectly, by the timing and amount of payments or projected payments on the asset or a group of assets that includes the asset. Indirect payment arrangements include, for example, a swap or other hedge, or arrangements where the timing and amount of payments on the debt obligations are determined by reference to a group of assets (or an index or other type of model) that has an expected payment experience similar to that of the assets. For purposes of this paragraph, the term payments includes all proceeds and receipts from an asset.

(b) *Certain assets and rights to assets disregarded*—(1) *Credit enhancement assets.* An asset that qualifies as a credit enhancement contract (as defined in § 301.7701(i)–1(c)(4)(ii)) is not included in a portion as a separate asset, but is treated as part of the assets in the portion to which it relates under § 301.7701(i)–1(c)(4)(i). An asset that does not qualify as a credit enhancement contract (as defined in § 301.7701(i)–1(c)(4)(ii)), but that nevertheless serves the same function as a credit enhancement contract, is not included in a portion as a separate asset or otherwise.

(2) *Assets unlikely to service obligations.* A portion does not include assets that are unlikely to produce any significant cash flows for the holders of the debt obligations. This paragraph applies even if the holders of the debt obligations are legally entitled to cash flows from the assets. Thus, for example, even if the sale of a building would cause a series of debt obligations to be redeemed, the building is not included in a portion if it is not likely to be sold.

(3) *Recourse.* An asset is not included in a portion solely because the holders of the debt obligations have recourse to the holder of that asset.

(c) *Portion as obligor*—(1) *In general.* For purposes of section 7701(i)(2)(A)(ii), a portion of an entity is treated as the obligor of all debt obligations supported by the assets in that portion.

(2) *Example.* The following example illustrates the principles of this section:

Example. (i) Corporation Z owns $1,000,000,000 in assets including an office complex and $90,000,000 of real estate mortgages.

(ii) On November 30, 1998, Corporation Z issues eight classes of bonds, Class A through Class H. Each class is secured by a separate letter of credit and by a lien on the office complex. One group of the real estate mortgages supports Class A through Class D, another group supports Class E through Class G, and a third group supports Class H. It is anticipated that the cash flows from each group of mortgages will service its related bonds.

(iii) Each of the following constitutes a separate portion of Corporation Z: the group of mortgages supporting Class A through Class D; the group of mortgages supporting Class E through Class G; and the group of mortgages supporting Class H. No other asset is included in any of the three portions notwithstanding the lien of the bonds on the office complex and the fact that Corporation Z is the issuer of the bonds. The letters of credit are treated as incidents of the mortgages to which they relate.

(iv) For purposes of section 7701(i)(2)(A)(ii), each portion described above is treated as the obligor of the bonds of that portion, notwithstanding the fact that Corporation Z is the legal obligor with respect to the bonds.

[T.D. 8610, 60 FR 40091, Aug. 7, 1995]

§ 301.7701(i)–3 Effective dates and duration of taxable mortgage pool classification.

(a) *Effective dates.* Except as otherwise provided, the regulations under section 7701(i) are effective and applicable September 6, 1995.

(b) *Entities in existence on December 31, 1991*—(1) *In general.* For transitional rules concerning the application of section 7701(i) to entities in existence on December 31, 1991, see section 675(c) of the Tax Reform Act of 1986.

(2) *Special rule for certain transfers.* A transfer made to an entity on or after September 6, 1995, is a substantial transfer for purposes of section 675(c)(2) of the Tax Reform Act of 1986 only if—

(i) The transfer is significant in amount; and

(ii) The transfer is connected to the entity's issuance of related debt obligations (as defined in paragraph (b)(3) of this section) that have different maturities (within the meaning of § 301.7701–1(e)).

(3) *Related debt obligation.* A related debt obligation is a debt obligation whose payments bear a relationship (within the meaning of § 301.7701–1(f)) to payments on debt obligations that the entity holds as assets.

(4) *Example.* The following example illustrates the principles of this paragraph (b):

Example. On December 31, 1991, Partnership Q holds a pool of real estate mortgages that it acquired through retail sales of single family homes. Partnership Q raises $10,000,000 on October 25, 1996, by using this pool to issue related debt obligations with multiple maturities. The transfer of the $10,000,000 to Partnership Q is a substantial transfer (within the meaning of § 301.7701(i)–3(b)(2)).

(c) *Duration of taxable mortgage pool classification*—(1) *Commencement and duration.* An entity is classified as a taxable mortgage pool on the first testing day that it meets the definition of a taxable mortgage pool. Once an entity is classified as a taxable mortgage pool, that classification continues through the day the entity retires its last related debt obligation.

(2) *Testing day defined.* A testing day is any day on or after September 6, 1995, on which an entity issues a related debt obligation (as defined in

paragraph (b)(3) of this section) that is significant in amount.

[T.D. 8610, 60 FR 40092, Aug. 7, 1995]

§ 301.7701(i)–4 Special rules for certain entities.

(a) *States and municipalities*—(1) *In general*. Regardless of whether an entity satisfies any of the requirements of section 7701(i)(2)(A), an entity is not classified as a taxable mortgage pool if—

(i) The entity is a State, territory, a possession of the United States, the District of Columbia, or any political subdivision thereof (within the meaning of § 1.103–1(b) of this chapter), or is empowered to issue obligations on behalf of one of the foregoing;

(ii) The entity issues the debt obligations in the performance of a governmental purpose; and

(iii) The entity holds the remaining interests in all assets that support those debt obligations until the debt obligations issued by the entity are retired.

(2) *Governmental purpose*. The term governmental purpose means an essential governmental function within the meaning of section 115. A governmental purpose does not include the mere packaging of debt obligations for resale on the secondary market even if any profits from the sale are used in the performance of an essential governmental function.

(3) *Determinations by the Commissioner*. If an entity is not described in paragraph (a)(1) of this section, but has a similar purpose, then the Commissioner may determine that the entity is not classified as a taxable mortgage pool.

(b) *REITs*. [Reserved]

(c) *Subchapter S corporations*—(1) *In general*. An entity that is classified as a taxable mortgage pool may not elect to be an S corporation under section 1362(a) or maintain S corporation status.

(2) *Portion of an S corporation treated as a separate corporation*. An S corporation is not treated as a member of an affiliated group under section 1361(b)(2)(A) solely because a portion of the S corporation is treated as a separate corporation under section 7701(i).

[T.D. 8610, 60 FR 40092, Aug. 7, 1995]

§ 301.7704–2 Transition provisions.

See the regulations under section 7704 contained in part 1 of this chapter for a definition of the ''substantial new line of business'' that an ''existing'' publicly traded partnership cannot enter without forfeiting its partnership status under the transition provisions applicable to section 7704.

[T.D. 8450, 57 FR 58710, Dec. 11, 1992]

§ 301.7705–1 Certified professional employer organization.

(a) *In general*. The definitions set forth in this section apply for purposes of this section, §§ 31.3511–1 and 301.7705–2, and sections 3302(h), 3303(a)(4), 6053(c)(8), and 7528(b)(4).

(b) *Definitions*—(1) *Certified professional employer organization* (CPEO) means a person that applies to be certified as a CPEO in accordance with § 301.7705–2(a) and has been certified by the Internal Revenue Service (IRS) as meeting the requirements of § 301.7705–2. For purposes of § 301.7705–2(g)(2), the term CPEO also includes the person before it applied for certification and while its application is pending with the IRS. For all other purposes, a person is a CPEO as of the effective date of its certification (as specified in the certification notice described in § 301.7705–2(a)(2)) and until its certification is revoked by the IRS (as described in § 301.7705–2(n)) or, if earlier and applicable, until the CPEO voluntarily terminates its certification in the time and manner prescribed by the Commissioner in further guidance.

(2) *CPEO applicant* means a person that has applied to be certified as a CPEO in accordance with § 301.7705–2(a) and whose application is pending with the IRS.

(3) *CPEO contract* means a service contract between a CPEO and a customer that is in writing and provides that, with respect to an individual providing services to the customer, the CPEO will—

(i) Assume responsibility for payment of wages to the individual, without regard to the receipt or adequacy

of payment from the customer for the services;

(ii) Assume responsibility for reporting, withholding, and paying any applicable federal employment taxes with respect to the individual's wages, without regard to the receipt or adequacy of payment from the customer for the services;

(iii) Assume responsibility for any employee benefits that the service contract may require the CPEO to provide to the individual, without regard to the receipt or adequacy of payment from the customer for such benefits;

(iv) Assume responsibility for recruiting, hiring, and firing the individual in addition to the customer's responsibility for recruiting, hiring, and firing the individual;

(v) Maintain employee records relating to the individual; and

(vi) Agree to be treated as a CPEO for purposes of section 3511 with respect to the individual.

(4) *Certified public accountant (CPA)* means a certified public accountant who—

(i) With respect to a CPEO applicant or CPEO, is independent of the CPEO applicant or CPEO (as prescribed by the American Institute of Certified Public Accountants' Professional Standards, Code of Professional Conduct, and its interpretations and rulings);

(ii) Is not currently under suspension or disbarment from practice before the IRS;

(iii) Is duly qualified to practice as a CPA in any state;

(iv) Files with the IRS a written declaration that he or she is currently qualified to practice as a CPA in any state; and

(v) Meets such other requirements as the Commissioner may prescribe in further guidance.

(5) *Covered employee* means, with respect to a customer, any individual (other than a self-employed individual, as defined in paragraph (b)(14) of this section) who performs services for the customer and who is covered by a CPEO contract between the CPEO and the customer.

(6) *Customer*—(i) *In general.* Except as provided in paragraph (b)(6)(ii) of this section, a customer is any person who enters into a CPEO contract with a CPEO.

(ii) *Persons who are not customers.* A provider of payroll services that uses its own EIN for filing federal employment tax returns on behalf of its clients (or that used its own EIN immediately prior to entering into a service contract with the CPEO) is not a customer, even if it has entered into a service contract with the CPEO that meets all of the requirements for a CPEO contract described in paragraph (b)(3) of this section other than being a contract between a CPEO and a customer.

(7) *Federal employment taxes* mean the taxes imposed by subtitle C of the Internal Revenue Code.

(8) *Guidance* includes guidance published in the FEDERAL REGISTER or Internal Revenue Bulletin, as well as administrative guidance such as forms, instructions, publications, or other guidance on the *irs.gov* website.

(9) *Partnership* means a business entity (as described in § 301.7701–2(a)) that is classified as a partnership for federal tax purposes under §§ 301.7701–1, 301.7701–2, and 301.7701–3. Accordingly, any references to a managing member or general partner of a partnership mean a managing member or general partner of an entity that is classified as a partnership for federal tax purposes.

(10) *Precursor entity*—(i) *In general.* A precursor entity means, with respect to a CPEO applicant, any related entity of the CPEO applicant that is or was a provider of payroll services that—

(A) Has made a substantial asset transfer to the CPEO applicant during the calendar year in which the CPEO applicant applies for certification or any of the three preceding calendar years or plans to make such a substantial asset transfer while the application for certification is pending or in the 12-month period following the date of the CPEO applicant's application for certification; or

(B) Has ceased operations or dissolved during the calendar year in which the CPEO applicant applied for certification or any of the three preceding calendar years.

(ii) *Related.* For purposes of this paragraph (b)(10), a provider of payroll services is considered a related entity of a CPEO applicant if it is a related entity within the meaning of paragraph (b)(12) of this section or if it would be or would have been such a related entity based on the ownership and responsible individuals of the provider of payroll services at the time of its substantial asset transfer, ceasing of operations, or dissolution, as applicable, and the ownership and responsible individuals of the CPEO applicant at the time of its application.

(11) *Provider of payroll services* means a person that provides federal employment tax administration, payroll services, or other similar federal employment tax-related compliance services to clients, including, but not limited to, collecting, reporting, and paying federal employment taxes with respect to wages or compensation paid by the person to individuals performing services for the clients. A provider of payroll services includes, but is not limited to, a CPEO.

(12) *Related entity* means, with respect to a CPEO applicant or CPEO, any person that meets one or more of the following criteria:

(i) The person is a member of a controlled group of which the CPEO applicant or CPEO is also a member. Additionally, CPEO applicants and CPEOs that, but for their status as disregarded entities would separately be members of a controlled group, are treated as members of a controlled group for purposes of this paragraph (b)(12)(i). For purposes of this paragraph (b)(12)(i), controlled group has the meaning given to such term by sections 414(b) and (c) and §§ 1.414(b)–1 and 1.414(c)–1 through 1.414(c)–6 of this chapter, except that—

(A) With respect to a person that is not a provider of payroll services ''more than 50 percent'' will be substituted for ''at least 80 percent'' each place it appears in section 1563(a) (which is cross-referenced in section 414(b) and § 1.414(c)–2 of this chapter); and

(B) With respect to a person that is a provider of payroll services, ''more than 5 percent'' will be substituted for ''at least 80 percent'' each place it appears in section 1563(a) and § 1.414(c)–2 of this chapter; or

(ii) The person is a provider of payroll services and—

(A) A majority of the directors or a majority of the officers (as described in paragraph (b)(13)(ii) of this section) of the CPEO applicant or CPEO are directors or officers (as described in paragraph (b)(13)(ii) of this section), respectively, of the provider of payroll services; or

(B) An individual is a responsible individual of both the provider of payroll services and the CPEO applicant or CPEO by reason of paragraph (b)(13)(i) of this section.

(13) *Responsible individual* means, with respect to a CPEO applicant or CPEO, (or, for purposes of paragraph (b)(10)(ii) or (b)(12)(ii) of this section, a provider of payroll services), the following individuals:

(i) Any individual who owns, directly or indirectly, applying the constructive ownership rules of section 1563(e) with respect to stock ownership and substituting the term ''interest'' for the term ''stock'' and the term ''partnership'' for the term ''corporation'' used in that section, as appropriate for purposes of determining whether an interest in a partnership is indirectly owned by any person, 33 percent or more of—

(A) In the case of a corporation, the total combined voting power of all classes of stock entitled to vote of such corporation or the total value of shares of all classes of stock of such corporation; or

(B) In the case of a partnership, the capital interest or profits interest of such partnership.

(ii) Any individual who is a director or an officer. For purposes of this paragraph (b)(13)(ii), a director is a voting member of the governing body (that is, the board of directors or equivalent controlling body authorized under state law to make governance decisions on behalf of the organization), and the officers are determined by reference to the organizing document, bylaws, or resolutions of the governing body, or otherwise designated consistent with state law. Officers may include individuals such as a president, vice-president, secretary, and treasurer.

(iii) Any individual who, regardless of title, has ultimate responsibility for implementing the decisions of the organization's governing body. An individual who serves with the title of chief executive officer, executive director, and/or president has this ultimate responsibility. An individual with this ultimate responsibility may include an individual who is not treated as an employee of the organization. If this ultimate responsibility resides with two or more individuals (for example, co-presidents), who may exercise such responsibility in concert or individually, then each such individual is a responsible individual.

(iv) Any individual who, regardless of title, has ultimate responsibility for supervising the management, administration, or operation of the organization. An individual who serves with the title of chief operating officer has this ultimate responsibility. An individual with this ultimate responsibility may include an individual who is not treated as an employee of the organization. If this ultimate responsibility resides with two or more individuals, who may exercise such responsibility in concert or individually, then each such individual is a responsible individual.

(v) Any individual who, regardless of title, has ultimate responsibility for managing the organization's finances. An individual who serves with the title of chief financial officer or treasurer has this ultimate responsibility. An individual with this ultimate responsibility may include an individual who is not treated as an employee of the organization. If this ultimate responsibility resides with two or more individuals who may exercise the responsibility in concert or individually, then each such individual is a responsible individual.

(vi) In the case of a partnership, any individual who is a managing member or general partner.

(vii) In the case of a sole proprietorship, the sole proprietor.

(viii) In the case of a disregarded entity owned by a corporation or partnership, the responsible individuals of that corporation or partnership.

(ix) In the case of a disregarded entity owned by an individual, the individual owner.

(x) Any other individual with primary responsibility for the organization's federal employment tax compliance.

(14) *Self-employed individual* means an individual with net earnings from self-employment (as defined in section 1402(a) without regard to the exceptions thereunder) derived from providing services covered by a CPEO contract, whether such net earnings from self-employment are derived from providing services as a non-employee to a customer of the CPEO, from the individual's own trade or business as a sole proprietor customer of the CPEO, or as an individual who is a partner in a partnership that is a customer of the CPEO, but only with regard to such net earnings.

(15) *Substantial asset transfer* means any transfer of 35 percent or more of the value of the operating assets of the person making the transfer, whether through one or a series of transactions and whether accomplished through sale, lease, gift, assignment, succession, merger, consolidation, corporate separation, or any other means. For purposes of this paragraph (b)(15), operating assets include both tangible and intangible resources related to the conduct of the person's trade or business, including, but not limited to, such intangible assets as contracts, agreements, receivables, employees, and goodwill (which includes the value of a trade or business based on expected continued customer patronage due to its name, reputation, or any other factors). In the case of a contract described in section 7705(e)(2) or a service agreement described in § 31.3504–2(b)(2) of this chapter entered into by a provider of payroll services, even if the contract or agreement is not sold, gifted, assigned, or otherwise formally transferred to a CPEO applicant, it will be considered transferred from the provider of payroll services to the CPEO applicant if the CPEO applicant reports, withholds, or pays, under its employer identification number (EIN), any applicable federal employment taxes with respect to the wages of any individuals covered by the contract or agreement.

(16) *Work site* means a physical location at which an individual regularly

performs services for a customer of a CPEO or, if there is no such location, the location from which the customer assigns work to the individual. A work site may not be the individual's residence or a telework site unless the customer requires the individual to work at that site. For purposes of this paragraph (b)(16), work sites that are contiguous locations will be treated as a single physical location and thus a single work site, and noncontiguous locations will be treated as separate physical locations and thus separate work sites, except as provided in the next sentence. A CPEO customer may treat noncontiguous locations as a single physical location and thus a single work site if each of the locations is separated by less than 35 miles from every other location in the single work site and all locations in the single work site operate in the same industry. For purposes of the preceding sentence, the determination of the industry of a work site is based on the nature of the CPEO customer's work at that work site, irrespective of work performed by other entities at the same site. When treating noncontiguous locations as a single physical location and thus a single work site, one noncontiguous location cannot be included in more than one work site. For example, assume there are three noncontiguous locations, A, B, and C, operating in the same industry and that B is 20 miles east from A and C is 20 miles east from B. A CPEO customer would not be permitted to treat these three locations as a single work site but would be permitted to treat either A and B as a single work site or B and C as a single work site.

(17) *Work site employee*—(i) *In general.* A work site employee means, with respect to a customer, a covered employee who performs services for such customer at a work site where at least 85 percent of the individuals performing services for the customer are covered employees of the customer.

(ii) *Self-employed individuals.* Solely for purposes of determining whether the 85 percent threshold described in paragraph (b)(17)(i) of this section is met, a self-employed individual described in paragraph (b)(14) of this section is treated as a covered employee if such individual would be a covered employee but for the exclusion of self-employed individuals from the definition of covered employee in paragraph (b)(5) of this section.

(iii) *Excluded employees.* In determining whether the 85 percent threshold described in paragraph (b)(17)(i) of this section is met, an individual who is an excluded employee described in section 414(q)(5) is not treated as either an individual providing services or a covered employee.

(iv) *Treatment for calendar quarter.* A covered employee will be considered a work site employee for the entirety of a calendar quarter if the employee qualifies as a work site employee at any time during that quarter.C

(v) *Separate determination for each work site.* The determination of whether a covered employee is a work site employee is made separately with regard to each work site at which the covered employee regularly provides services and for each customer for which the covered employee is providing services. A covered employee may be determined to be a work site employee of more than one work site during a calendar quarter.

(vi) *Good faith determination respected.* A CPEO's determination that a covered employee is a work site employee will be respected if the CPEO has made a good faith determination that the covered employee meets the requirements of section 7705(e), this paragraph (b)(17), and any further guidance related to work site employee determinations.

(c) *Applicability date.* The rules in this section apply on and after May 3, 2019.

[T.D. 9860, 84 FR 24382, May 28, 2019]

§ 301.7705–2 CPEO certification process.

(a) *Application requirement and certification*—(1) *Application.* To be certified as a certified professional employer organization (CPEO), a person must submit a properly completed and executed application for certification as a CPEO in the time and manner prescribed by, and providing such information as required by, this section and any further guidance issued by the Commissioner. In addition, the applicant's responsible

individuals must submit such information as is specified in this section and further guidance.

(2) *Notice.* A CPEO applicant will be notified by the Internal Revenue Service (IRS) whether its application for certification has been approved or denied, and, if approved, the effective date of certification. If the IRS denies the application, the IRS will inform the CPEO applicant of the reason(s) for denial. If the IRS denies an application for certification, or if the CPEO applicant withdraws an application for certification, the CPEO applicant may reapply for certification in such time and manner, and must include such information, as the Commissioner may prescribe in further guidance.

(3) *Public disclosure of certification.* If the IRS approves a CPEO applicant's application for certification, the IRS will make available to the public the name and address of the CPEO, as well as the effective date of its certification, in the time and manner described in further guidance.

(4) *Effective date of certification.* A CPEO's certification will be effective as of the effective date of certification specified in the notice described in paragraph (a)(2) of this section and in the public disclosure described in paragraph (a)(3) of this section and will continue in effect until the effective date of the revocation of the CPEO's certification, if any, as described in paragraph (n) of this section or, if earlier, the date that the CPEO voluntarily terminates its certification in the time and manner prescribed by the Commissioner in further guidance.

(b) *Requirements for certification.* To receive and maintain certification, a CPEO applicant or CPEO must meet the requirements described in this section, as well as any additional requirements the Commissioner may prescribe in further guidance. In addition, any precursor entities, related entities, and responsible individuals of the CPEO applicant or CPEO must meet any requirements applicable to them described in this section and in further guidance. The IRS may deny an application for certification or revoke or suspend a CPEO's certification if a CPEO applicant or CPEO, or one or more of its precursor entities, related entities, or responsible individuals, fails to meet any applicable requirement described in this section or other applicable guidance, and the IRS will do so if the IRS determines, in its sole discretion, that such failure presents a material risk to the IRS's collection of federal employment taxes. In determining whether one or more failures to meet the requirements described in this section presents a material risk to the IRS's collection of federal employment taxes, the IRS generally will consider all relevant facts and circumstances, including the size, scope, nature, significance, recurrence, and timing of and reason for the failure and, in the case of a CPEO, any prior failures of the CPEO to meet the requirements of this section.

(c) *Suitability*—(1) *In general.* The IRS may deny an application for certification or revoke or suspend a CPEO's certification for any of the following reasons:

(i) The CPEO applicant or CPEO, or any of its precursor entities, related entities, or responsible individuals, has failed to pay any applicable federal, state, or local taxes or file any required federal, state, or local tax or information returns in a timely and accurate manner, unless the failure is determined to be due to reasonable cause and not due to willful neglect.

(ii) The CPEO applicant or CPEO, or any of its precursor entities, related entities, or responsible individuals, has been charged with or convicted of any criminal offense under the laws of the United States or of a state or political subdivision thereof, or is the subject of an active IRS criminal investigation.

(iii) The CPEO applicant or CPEO, or any of its precursor entities, related entities, or responsible individuals, has been sanctioned, or had a license, registration, or accreditation (including a license, registration, or accreditation relating to its status or ability to operate as a professional employer organization) denied, suspended, or revoked, by a court of competent jurisdiction, licensing board, assurance or other professional organization, or federal or state agency, court, body, board, or other authority for any misconduct that involves dishonesty, fraud, or breach of trust or that otherwise bears

upon the suitability of the CPEO applicant or CPEO to perform its professional functions (including, but not limited to, any civil or criminal penalty described in 42 U.S.C. 503(k)(1)(D) imposed by state law).

(iv) The CPEO applicant or CPEO, or any of its precursor entities, related entities, or responsible individuals, is listed on any sanctions list compiled by the Office of Foreign Assets Control (OFAC) within the Department of Treasury, including, but not limited to, the OFAC Consolidated Sanctions List and the OFAC Specially Designated Nationals List.

(v) The CPEO applicant or CPEO, or any of its precursor entities, related entities, or responsible individuals, fails to demonstrate a history of financial responsibility, which the IRS may assess by checks on credit history and other similar indicators.

(vi) The CPEO applicant or CPEO and the responsible individuals of the CPEO applicant or CPEO fail to demonstrate adequate collective knowledge or experience with respect to:

(A) Federal or state employment tax reporting, depositing, and withholding requirements;

(B) Handling of and accounting for payroll, tax payments, and other funds on behalf of others;

(C) Effective recordkeeping systems;

(D) Retention of qualified personnel and legal advisors as needed; and

(E) General business and risk management.

(vii) The CPEO applicant or CPEO, or any of its responsible individuals, gives false or misleading information (including by intentionally omitting relevant information), or participates in any way in the giving of false or misleading information, to the IRS, knowing, or having reason to know, that the information is false or misleading. For the purpose of this paragraph (c)(1)(vii), ''information'' includes (but is not limited to) facts or other matters contained in testimony, federal tax returns, and financial statements and opinions regarding such statements; applications for certification (and all accompanying documentation); affidavits, declarations, assertions, attestations, statements, and agreements; and periodic verifications that the requirements of this section continue to be met; and any other information that is required to be provided by this section, section 3511(g), § 31.3511–1 of this chapter, or further guidance.

(2) *Must be a business entity or sole proprietorship*—(i) *In general.* A CPEO must be a business entity described in § 301.7701–2(a) or a sole proprietorship. Accordingly, a CPEO may not be an entity classified as a trust under § 301.7701–4.

(ii) *Ownership by a United States person.* In addition, a sole proprietorship or a business entity that is disregarded as an entity separate from its owner for federal tax purposes under §§ 301.7701–2 and 301.7701–3 (without regard to the special rule in § 301.7701–2(c)(2)(iv) that provides that such entities are corporations for federal employment tax purposes) must be wholly owned directly (including through one or more disregarded entities organized in the United States, in the case of a business entity) by a United States person (as defined in section 7701(a)(30)).

(iii) *Treatment as separate member of a controlled group.* Except as provided in paragraph (h) of this section, a CPEO applicant or CPEO that otherwise qualifies as a member of a controlled group (within the meaning of sections 414(b) and (c) and §§ 1.414(b)–1 and 1.414(c)–1 through 1.414(c)–6 of this chapter) but for its status as an entity disregarded as separate from its owner for federal tax purposes under §§ 301.7701–2 and 301.7701–3, is treated as a separate member of a controlled group for purposes of this section, § 301.7705–1, section 3511, § 31.3511–1 of this chapter, and section 7705.

(3) *Authorization to investigate suitability.* A CPEO applicant or CPEO, and each of its responsible individuals, must take such actions as are necessary to authorize the IRS to investigate the accuracy of statements and submissions, including waiving confidentiality and privilege when necessary (*i.e.*, in situations in which the IRS is otherwise unable to obtain or confirm information necessary to evaluate a CPEO applicant's or CPEO's qualification for certification), and to conduct comprehensive background

checks, including, but not limited to, Federal Bureau of Investigation or other similar criminal background checks, checks on tax compliance, professional experience (including through the contact of third-party references), credit history, and professional sanctions. In addition, a CPEO applicant or CPEO, and any of its responsible individuals, must provide the IRS with such additional information as the IRS may request to facilitate such background investigations. Each responsible individual of a CPEO applicant or CPEO must also submit fingerprints in the time and manner and under the circumstances prescribed by the Commissioner in further guidance.

(d) *Business location*—(1) *State of organization*. A CPEO applicant or CPEO must be created or organized in the United States or under the law of the United States or of any state.

(2) *Business location in the United States*. A CPEO applicant or CPEO must have one or more established, physical business locations in the United States at which regular operations of an activity that constitutes a trade or business within the United States (within the meaning of section 864(b)) take place and at which a significant portion of its CPEO-related functions are carried on and administrative records are kept.

(3) *United States responsible individuals*. A majority of the CPEO applicant's or CPEO's responsible individuals must be citizens or residents of the United States.

(4) *Use of financial institution*. A CPEO applicant or CPEO must use only financial institutions described in section 265(b)(5) to hold substantially all of its cash and cash equivalents, receive payments from customers, and pay wages and federal employment taxes.

(e) *Financial statements*—(1) *CPEOs*. By the last day of the sixth month after the end of each fiscal year, and beginning with the first fiscal year that ends after the CPEO's effective date of certification, a CPEO must cause to be prepared and provided to the IRS—

(i) A copy of its annual audited financial statements for the fiscal year;

(ii) An opinion of a certified public accountant (CPA) that such financial statements are presented fairly and in accordance with generally accepted accounting principles (GAAP); and

(iii) A statement in the Note to the Financial Statements covered by the CPA opinion that the CPEO's annual audited financial statements reflect positive working capital or, only if the CPEO satisfies the requirements of paragraph (e)(3) of this section, reflect negative working capital, with such statement in either case setting forth in detail a calculation of the CPEO's working capital as reflected in the annual audited financial statements (a working capital statement).

(2) *CPEO applicants*—(i) *In general*. A CPEO applicant must cause to be prepared and provided to the IRS, with its application, a copy of its annual audited financial statements, an opinion with respect to such financial statements, and a working capital statement (each as described in paragraph (e)(1) of this section) for the most recently completed fiscal year as of the date it applies for certification. Notwithstanding the preceding sentence, if a CPEO applicant applies for certification before the last day of the sixth month following its most recently completed fiscal year, and the audit of the financial statements for that fiscal year has not yet been completed at the time of application, a CPEO applicant must provide to the IRS, with its application, the financial statements, opinion, and working capital statement described in paragraph (e)(1) of this section for the immediately preceding fiscal year, if any, and must subsequently provide to the IRS the financial statements, opinion, and working capital statement for the most recently completed fiscal year by the last day of the sixth month after such fiscal year ends. In addition, for any fiscal year that ends after the CPEO applicant applies for certification and on or before the effective date of certification, if applicable, the CPEO applicant must provide the audited financial statements, opinion, and working capital statement by the last day of the sixth month after such fiscal year ends. The obligation to provide the annual audited financial statements described in the

preceding sentence continues to apply even if the CPEO applicant is certified as a CPEO prior to the date the annual audited financial statements are provided.

(ii) *Newly established CPEO applicants.* In addition to the requirements in paragraph (e)(2)(i) of this section, a CPEO applicant that was not operating as a provider of payroll services for all or part of its most recently completed fiscal year as of the date it applies for certification must provide a copy of the annual audited financial statements of any precursor entity, if one exists, an opinion with respect to such financial statements, and a working capital statement (each as described in paragraph (e)(1) of this section) for the precursor entity's most recently completed fiscal year as of the date of the application for certification in such time and manner as the Commissioner may prescribe in further guidance, as well as such additional information as the Commissioner may prescribe in further guidance.

(3) *Exception to positive working capital requirement.* A CPEO applicant or CPEO with annual audited financial statements for a fiscal year that do not reflect positive working capital will not fail to meet the requirements of paragraph (e)(1)(iii) of this section if—

(i) The CPEO applicant or CPEO has negative working capital for no more than two consecutive fiscal quarters of that fiscal year, as demonstrated by the financial statements (for the final fiscal quarter in the fiscal year) and the statements described in paragraph (f)(1)(ii) of this section (for any other fiscal quarter), as applicable;

(ii) The CPEO applicant or CPEO, or its CPA, provides, in such time and manner as the Commissioner may prescribe in further guidance, an explanation to the IRS describing the reason for the failure; and

(iii) The IRS determines, in its sole discretion, that the failure does not present a material risk to the IRS's collection of federal employment taxes.

(4) *Completed fiscal year.* For purposes of this paragraph (e), a fiscal year will be considered completed once the last day of that fiscal year has ended, regardless of whether the CPEO applicant or CPEO was in operation or certified for all 12 months of the fiscal year or the fiscal year consisted of fewer than 12 months.

(f) *Quarterly assertions and attestations*—(1) *CPEOs.* By the last day of the second month after the end of each calendar quarter, and beginning with the first calendar quarter that ends after the CPEO's effective date of certification, a CPEO must provide the following to the IRS:

(i) An assertion, signed by a responsible individual under penalties of perjury, stating that the CPEO has withheld and made deposits of all federal employment taxes (other than taxes imposed by chapter 23 of the Code) as required by subtitle C for such calendar quarter and an examination level attestation from a CPA stating that such assertion is fairly stated in all material respects.

(ii) A statement signed by a responsible individual under penalties of perjury verifying that the CPEO has positive working capital (as determined in accordance with GAAP) at the end of the most recently completed fiscal quarter, as well as such additional financial information that the Commissioner may specify in further guidance.

(2) *Exceptions*—(i) *Immaterial failures.* A CPEO will not fail to meet the requirements of paragraph (f)(1)(i) of this section if the CPA examination level attestation indicates that the CPEO has failed to withhold or make deposits in certain immaterial respects, provided that—

(A) The attestation provides a summary of the immaterial failures that were found;

(B) The attestation states that the failures were immaterial and isolated and do not reflect a meaningful lapse in compliance with federal employment tax withholding and deposit requirements; and

(C) The IRS determines, in its sole discretion, that the isolated and immaterial failures identified by the CPA do not present a material risk to the IRS's collection of federal employment taxes.

(ii) *Negative working capital.* A CPEO with negative working capital at the end of a fiscal quarter will not fail to meet the requirements of paragraph (f)(1)(ii) of this section if—

(A) The CPEO does not have negative working capital at the end of the two fiscal quarters immediately preceding such fiscal quarter, as demonstrated by the annual audited financial statements described in paragraph (e)(1) of this section, if available, or the statements described in paragraph (f)(1)(ii) of this section;

(B) The CPEO provides an explanation to the IRS describing the reason for such negative working capital in such time and manner as the Commissioner may prescribe in further guidance; and

(C) The IRS determines, in its sole discretion, that the negative working capital does not present a material risk to the IRS's collection of federal employment taxes.

(3) *CPEO applicants*—(i) *In general*. By the last day of the second month after the end of each calendar quarter, beginning with the most recently completed calendar quarter as of the date of a CPEO applicant's application for certification and ending with the most recently completed calendar quarter as of the effective date of certification (if applicable), a CPEO applicant must provide to the IRS the assertion, examination level attestation, and working capital statement described in paragraph (f)(1) of this section, subject to the exceptions described in paragraph (f)(2) of this section (though substituting ''CPEO applicant'' for ''CPEO'').

(ii) *Newly established CPEO applicants*. A CPEO applicant that was not operating as a provider of payroll services during the most recently completed calendar quarter as of the date of its application for certification or during any calendar quarter that ends while its application for certification is pending must provide to the IRS the assertion, examination level attestation, and working capital statement described in paragraph (f)(1) of this section with respect to any precursor entity, if applicable, in such time and manner as the Commissioner may prescribe in further guidance, as well as such additional information as the Commissioner may prescribe in further guidance.

(g) *Bond*—(1) *In general*. A CPEO must post a bond (or bonds, as described in paragraph (g)(3) of this section) from a qualified surety (as described in paragraph (g)(6) of this section) for the payment of federal employment taxes, issued in the form and containing the terms prescribed by the Commissioner in this paragraph (g) and in further guidance and in an amount described in paragraph (g)(2) of this section.

(2) *Bond amount*—(i) *In general*. The amount of the bond (or bonds, as described in paragraph (g)(3) of this section) must be, for each period beginning on April 1 of any calendar year and ending on March 31 of the following calendar year (or, in the case of a newly certified CPEO, beginning with the effective date of certification and ending on the subsequent March 31) (the bond period), at least equal to the greater of—

(A) Five percent of the CPEO's liability under section 3511 (or, if applicable, the liability described in paragraph (g)(2)(ii) of this section) during the calendar year preceding the beginning of the bond period, but not more than $1,000,000; or

(B) $50,000.

(ii) *Amount of bond in first and second year as a CPEO*. If a CPEO does not have any liability under section 3511 for all or a portion of a preceding calendar year because the CPEO was not certified as a CPEO for all or a portion of that preceding calendar year, the liability applied for purposes of paragraph (g)(2)(i)(A) of this section for the entirety or portion of the preceding calendar year during which the CPEO was not certified will be the federal employment tax liability of the CPEO, and of any precursor entity of the CPEO described in § 301.7705–1(b)(10)(i)(A), that results from one or more service agreements described in § 31.3504–2(b)(2) of this chapter. With respect to the federal employment tax liability of such precursor entity during a preceding calendar year, for purposes of paragraph (g)(2)(i)(A) of this section, the liability will be applied only to the extent it results from service agreements that have been transferred or are intended to be transferred by the precursor entity to the CPEO at the time the bond amount is determined. For purposes of this paragraph

(g)(2)(ii), an entity is considered a precursor entity of a CPEO described in § 301.7705–1(b)(10)(i)(A) if it was determined to be its precursor entity under that section at the time it was a CPEO applicant.

(iii) *One continuous obligation.* The bond, any riders thereto, and any strengthening bonds posted to satisfy the requirements of this section are considered one continuous obligation of the surety for unpaid tax liabilities accrued by the CPEO under subtitle C from the effective date of the bond until the bond is superseded or cancelled.

(3) *Increase in bond amount*—(i) *In general.* A CPEO must determine if an increase in the bond amount is necessary for each new bond period. If a CPEO's liability under section 3511 (or, if applicable, the liability described in paragraph (g)(2)(ii) of this section) for the preceding calendar year results in a minimum required bond amount specified in paragraph (g)(2) of this section that exceeds the current amount of the bond, the CPEO must increase the amount of its bond with respect to the new bond period in order to meet the minimum required bond amount specified in paragraph (g)(2) of this section. To increase the bond amount, a CPEO may amend an existing bond through the use of a rider, or post a strengthening, superseding, or new bond, where applicable, and in such time and manner as the Commissioner may prescribe in further guidance.

(ii) *To reflect adjustment or assessment.* Subject to the limit in paragraph (g)(2)(i)(A) of this section, if, during the bond period, the CPEO or the IRS determines that the applicable federal employment tax liability for the preceding calendar year was higher than the amount reported and paid and on which the bond amount for the bond period was based (and the applicable party makes an adjustment or assessment reflecting such determination), a CPEO must increase the amount of its bond to meet the minimum required bond amount specified in paragraph (g)(2) of this section through the use of a rider, or by posting a strengthening, superseding, or new bond in such time and manner as the Commissioner may prescribe in further guidance.

(4) *Cancellation*—(i) *Notice.* A bond required under this paragraph (g) must provide that it may be cancelled by the surety only after the surety gives written notice of such cancellation to the IRS and the CPEO in such time and manner as the Commissioner may prescribe in further guidance.

(ii) *New or superseding bond required.* If a CPEO either receives notice of cancellation from the surety provider of its bond, or gives notice to the IRS of the CPEO's intent to cancel the bond, the CPEO must post a new or superseding bond for the minimum required bond amount specified in paragraph (g)(2) of this section in such time and manner as the Commissioner may prescribe in further guidance.

(iii) *Ongoing liability.* A bond required under this paragraph (g) must provide that, if a surety cancels the bond without issuing a superseding bond to the CPEO, the surety will, notwithstanding the cancellation, remain liable for all federal employment tax liability accrued by the CPEO during the period beginning with the effective date of the first bond issued by the surety to the CPEO in any consecutive series of bonds issued by that surety prior to cancellation and ending with the cancellation of the bond (the total bond period), up to the penal amount of the bond at the time of the cancellation. A cancelling surety will remain liable as described in this paragraph (g)(4)(iii) for federal employment tax liability accrued during the total bond period up to the penal amount of the bond for as long as the Commissioner may assess and collect taxes for such period under sections 6501 and 6502.

(5) *No posting of collateral*—(i) *In general.* Except as provided in paragraph (g)(5)(iii) of this section, a CPEO must meet the bond requirements of this paragraph (g) without posting collateral.

(ii) *Surety's retention of the right to seek collateral by itself not a violation of paragraph (g)(5)(i) of this section.* A surety's retention of the right to seek collateral, as long as no collateral is actually required by the surety or posted by the CPEO, does not violate the rule in paragraph (g)(5)(i).

(iii) *Exceptions to no collateral requirement.* The Commissioner may provide

exceptions to the rule in paragraph (g)(5)(i) of this section in further guidance published in the Internal Revenue Bulletin.

(6) *Requirements for surety*. Any surety that issues a bond required by this paragraph (g) to a CPEO must be a surety company that holds a certificate of authority from the Secretary as an acceptable surety on federal bonds and meets such other requirements as the Commissioner may prescribe in further guidance.

(7) *Bond definitions*—(i) *Rider*. A rider is an amendment to an existing bond that increases the bond amount. The rider must apply to liabilities that arise on or after the effective date of the bond that the rider amends. The surety remains liable under the existing bond, as amended by the rider, for the assessment and collection periods applicable to the CPEO under sections 6501 and 6502, respectively, with respect to any taxable period that occurs during the term of the bond unless and until the bond is superseded.

(ii) *Strengthening bond*. A strengthening bond is an additional bond posted in the incremental amount of the increase so that the strengthening bond together with the existing bond equal the total minimum required bond amount specified in paragraph (g)(2) of this section. The strengthening bond must apply to liabilities that arise on or after the effective date of the bond it strengthens. Both the strengthening bond and the bond it strengthens must remain in effect, and the surety remains liable under both bonds for the assessment and collection periods applicable to the CPEO under sections 6501 and 6502, respectively, with respect to any taxable period that occurs during the term of the bonds, unless and until the bonds are superseded.

(iii) *New bond*. A new bond is a bond posted for the total required bond amount, and a new bond may only be posted upon the CPEO's initial certification or immediately following cancellation of an existing bond. In the case of a cancellation of an existing bond, the effective date of the new bond must be no later than the effective date of the cancellation of the existing bond, and the surety providing the existing (now cancelled) bond remains liable for liabilities that accrued during the term of the cancelled bond for the assessment and collection periods applicable to the CPEO under sections 6501 and 6502, respectively, with respect to any taxable period that occurred during the term of that bond.

(iv) *Superseding bond*. A superseding bond is a bond posted for the total minimum required bond amount specified in paragraph (g)(2) of this section, not just for an incremental increase. Upon execution of the superseding bond, the superseded bond is no longer in effect, and the surety that provided the superseded bond is no longer liable under the superseded bond. The superseding bond must apply to liabilities that arise on or after the effective date of the superseded bond.

(h) *Controlled group*. All CPEO applicants and CPEOs that are members of a controlled group within the meaning of sections 414(b) and (c), and §§ 1.414(b)–1 and 1.414(c)–1 through 1.414(c)–6 of this chapter, will be treated as a single CPEO applicant or CPEO for purposes of paragraphs (e) (other than (e)(1)(iii)), (f) (other than (f)(1)(ii)), and (g) of this section.

(i) *Consents to disclose*. To receive and maintain certification, a CPEO applicant or CPEO must provide such consents for the IRS to disclose confidential tax information to its customers, and to other persons as necessary to carry out the purposes of these regulations, that relates to its certification and obligations to report, deposit, and pay federal employment taxes as the Commissioner may require in further guidance.

(j) *Periodic verification*. A CPEO must periodically verify that it continues to meet the requirements of this section in the time and manner prescribed by the Commissioner in further guidance.

(k) *Notification of material changes*. A CPEO applicant or CPEO must notify the IRS, in the time and manner prescribed by the Commissioner in further guidance, of any change that materially affects the continuing accuracy of any agreement or information that was previously made or provided to the IRS.

(l) *Accrual method of accounting.* A CPEO must compute its taxable income using an accrual method of accounting or, if applicable, another method that the Commissioner provides for in further guidance.

(m) *Compliance with reporting obligations*—(1) *In general.* A CPEO must agree to make reports to the IRS and to its clients as provided in section 3511(g) and § 31.3511–1 of this chapter, including filing all federal employment tax returns and information returns as required.

(2) *Filing on magnetic media.* A CPEO must file all returns, schedules, reports, and other forms and documents on magnetic media when required by section 3511(g) and § 31.3511–1 of this chapter, other Treasury regulations, or other guidance.

(n) *Suspension and revocation*—(1) *In general.* The IRS may suspend or revoke the certification of any CPEO, in the time and manner and under the circumstances prescribed by the Commissioner in this section and in further guidance, as a result of one or more failures to meet any of the requirements for CPEOs described in this section, section 3511(g), § 31.3511–1 of this chapter, and any further guidance and will suspend or revoke certification if the IRS determines, in its sole discretion, that such failure(s) present a material risk to the IRS's collection of federal employment taxes. See paragraph (b) of this section for the factors the IRS will consider in determining whether one or more failures to meet any of the requirements described in this section presents a material risk to the IRS's collection of federal employment taxes.

(2) *Suspension.* Section 3511 will not apply to any contract described in section 7705(e)(2) into which the CPEO enters while its certification is suspended.

(3) *Revocation.* If an organization's certification as a CPEO is revoked, the organization will not be considered a CPEO for purposes of section 3511 unless and until it again applies to be certified as a CPEO in accordance with paragraph (a) of this section and is again certified by the IRS as meeting the requirements of this section. An organization whose certification as a CPEO has been revoked may not reapply to be certified as a CPEO until one year has passed after the effective date of its revocation.

(4) *Disclosure of suspension and revocation*—(i) *Notification by the CPEO.* An organization whose certification as a CPEO has been suspended or revoked must notify its customers of such suspension or revocation in the time and manner prescribed by the Commissioner in further guidance.

(ii) *Disclosure by the IRS.* If the IRS suspends or revokes an organization's certification as a CPEO, the IRS will make available to the public the fact of such suspension or revocation in the time and manner described in further guidance. The IRS may also separately notify the organization's customers of such suspension or revocation.

(o) *Applicability date.* The rules in this section apply on and after May 3, 2019.

[T.D. 9860, 84 FR 24382, May 28, 2019]

General Rules

APPLICATION OF INTERNAL REVENUE LAWS

§ 301.7803–1 Security bonds covering personnel of the Internal Revenue Service.

For regulations relating to the procurement of security bonds covering designated personnel of the Internal Revenue Service between January 1, 1956, and June 6, 1972, see 31 CFR part 226.

(Sec. 7805 of the Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805))

[T.D. 7239, 37 FR 28628, Dec. 28, 1972]

§ 301.7805–1 Rules and regulations.

(a) *Issuance.* The Commissioner, with the approval of the Secretary, shall prescribe all needful rules and regulations for the enforcement of the Code (except where this authority is expressly given by the Code to any person other than an officer or employee of the Treasury Department), including all rules and regulations as may be necessary by reason of any alteration of law in relation to internal revenue.

(b) *Retroactivity.* The Commissioner, with the approval of the Secretary, may prescribe the extent, if any, to

which any regulation or Treasury decision relating to the internal revenue laws shall be applied without retroactive effect. The Commissioner may prescribe the extent, if any, to which any ruling relating to the internal revenue laws, issued by or pursuant to authorization from him, shall be applied without retroactive effect.

(c) *Preparation and distribution of regulations, forms, stamps, and other matters.* The Commissioner, under the direction of the Secretary, shall prepare and distribute all the instructions, regulations, directions, forms, blanks, stamps, and other matters pertaining to the assessment and collection of internal revenue.

§ 301.7811–1 Taxpayer assistance orders.

(a) *Authority To Issue*—(1) *In general.* When an application for a taxpayer assistance order (TAO) is filed by the taxpayer or the taxpayer's authorized representative in the form, manner and time specified in paragraph (b) of this section, the National Taxpayer Advocate (NTA) may issue a TAO if, in the determination of the NTA, the taxpayer is suffering or is about to suffer a significant hardship as a result of the manner in which the internal revenue laws are being administered by the Internal Revenue Service (IRS), including action or inaction on the part of the IRS.

(2) *The National Taxpayer Advocate defined.* The term *National Taxpayer Advocate* includes any designee of the NTA, such as a Local Taxpayer Advocate.

(3) *Issuance without a written application.* The NTA may issue a TAO in the absence of a written application by the taxpayer under section 7811(a).

(4) *Significant hardship*—(i) *Determination required.* Before a TAO may be issued, the NTA is required to make a determination regarding significant hardship.

(ii) *Term defined.* The term *significant hardship* means a serious privation caused or about to be caused to the taxpayer as the result of the particular manner in which the revenue laws are being administered by the IRS. Significant hardship includes situations in which a system or procedure fails to operate as intended or fails to resolve the taxpayer's problem or dispute with the IRS. A significant hardship also includes, but is not limited to:

(A) An immediate threat of adverse action;

(B) A delay of more than 30 days in resolving taxpayer account problems;

(C) The incurring by the taxpayer of significant costs (including fees for professional representation) if relief is not granted; or

(D) Irreparable injury to, or a long-term adverse impact on, the taxpayer if relief is not granted.

(iii) *A delay of more than 30 days in resolving taxpayer account problems is further defined.* A delay of more than 30 days in resolving taxpayer account problems exists under the following conditions:

(A) When a taxpayer does not receive a response by the date promised by the IRS; or

(B) When the IRS has established a normal processing time for taking an action and the taxpayer experiences a delay of more than 30 days beyond the normal processing time.

(iv) *Examples of significant hardship.* The provisions of this section are illustrated by the following examples:

Example 1. Immediate threat of adverse action. The IRS serves a levy on A's bank account. A needs the bank funds to pay for a medically necessary surgical procedure that is scheduled to take place in one week. If the levy is not released, A will lack the funds necessary to have the procedure. A is experiencing an immediate threat of adverse action.

Example 2. Delay of more than 30 days. B files a Form 4506, ''Request for a Copy of Tax Return.'' B does not receive the photocopy of the tax return after waiting more than 30 days beyond the normal time for processing. B is experiencing a delay of more than 30 days.

Example 3. Significant costs. The IRS sends XYZ, Inc. a notice requesting payment of the outstanding employment taxes and penalties owed by XYZ, Inc. The notice indicates that XYZ, Inc. has small employment tax balances with respect to 12 employment tax quarters totaling $10X. XYZ, Inc. provides documentation to the IRS which it contends shows that if all payments were applied to each quarter correctly, there would be no balance due. The IRS requests additional records and documentation. Because there are 12 quarters involved, to comply with this request XYZ, Inc. asserts that it will need to hire an accountant, who estimates he will

charge at least $5X to organize all the records and provide a detailed analysis of how to apply the deposits and payments. XYZ, Inc. is facing significant costs.

Example 4. Irreparable injury. D has arranged with a bank to refinance his mortgage to lower his monthly payment. D is unable to make the current monthly payment. Unless the monthly payment amount is lowered, D will lose his residence to foreclosure. The IRS refuses to subordinate the Federal tax lien, as permitted by section 6325(d), or discharge the property subject to the lien, as permitted by section 6325(b). As a result, the bank will not allow D to refinance. D is facing an irreparable injury if relief is not granted.

(5) *Distinction between significant hardship and the issuance of a TAO.* A finding that a taxpayer is suffering or about to suffer a significant hardship as a result of the manner in which the internal revenue laws are being administered by the IRS will not automatically result in the issuance of a TAO. After making a determination of significant hardship, the NTA must determine whether the facts and the law support relief for the taxpayer. In cases where any IRS employee is not following applicable published administrative guidance (including the Internal Revenue Manual), the NTA shall construe the factors taken into account in determining whether to issue a TAO in the manner most favorable to the taxpayer.

(b) *Generally.* A TAO is an order by the NTA to the IRS. The IRS will comply with a TAO unless it is appealed and then modified or rescinded by the NTA, the Commissioner, or the Deputy Commissioner. If a TAO is modified or rescinded by the Commissioner or the Deputy Commissioner, a written explanation of the reasons for the modification or rescission must be provided to the NTA. The NTA may not make a substantive determination of any tax liability. A TAO is also not intended to be a substitute for an established administrative or judicial review procedure, but rather is intended to supplement existing procedures if a taxpayer is about to suffer or is suffering a significant hardship. A request for a TAO shall be made on a Form 911, ''Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order)'' (or other specified form) or in a written statement that provides sufficient information for the Taxpayer Advocate Service (TAS) to determine the nature of the harm or the need for assistance. A taxpayer's right to administrative or judicial review will not be diminished or expanded in any way as a result of the taxpayer's seeking assistance from TAS.

(c) *Contents of taxpayer assistance orders.* After establishing that the taxpayer is facing significant hardship and determining that the facts and law support relief to the taxpayer, the NTA may issue a TAO ordering the IRS within a specified time to—

(1) *Release a levy.* Release levied property (to the extent that the IRS may by law release such property); or

(2) *Take certain other actions.* Cease any action, take any action as permitted by law, or refrain from taking any action with respect to a taxpayer pursuant to—

(i) Chapter 64 (relating to collection);

(ii) Chapter 70, subchapter B (relating to bankruptcy and receiverships);

(iii) Chapter 78 (relating to discovery of liability and enforcement of title); or

(iv) Any other provision of the internal revenue laws specifically described by the NTA in the TAO.

(3) *Expedite, review, or reconsider an action at a higher level.* Although the NTA may not make the substantive determination, a TAO may be issued to require the IRS to expedite, reconsider, or review at a higher level an action taken with respect to a determination or collection of a tax liability.

(4) *Examples.* The following examples assume the existence of significant hardship:

Example 1. J contacts a Local Taxpayer Advocate because a wage levy is causing financial difficulties. The NTA determines that the levy should be released as it is causing economic hardship (within the meaning of section 6343(a)(1)(D) and § 301.6343–1(b)(4)). The NTA may issue a TAO ordering the IRS to release the levy in whole or in part by a specified date.

Example 2. The IRS rejects K's offer in compromise. K files a Form 911, ''Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order).'' The NTA discovers facts that support acceptance of the offer in compromise. The NTA may issue a TAO ordering the IRS to reconsider its rejection of the offer or to review

the rejection of the offer at a higher level. The TAO may include the NTA's analysis of and recommendation for resolving the case.

Example 3. L files a protest requesting Appeals consideration of IRS's proposed denial of L's request for innocent spouse relief. Appeals advises L that it is going to issue a Final Determination denying the request for innocent spouse relief. L files a Form 911, ''Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order).'' The NTA reviews the administrative record and concludes that the facts support granting innocent spouse relief. The NTA may issue a TAO ordering Appeals to refrain from issuing a Final Determination and reconsider or review at a higher level its decision to deny innocent spouse relief. The TAO may include the NTA's analysis of and recommendation for resolving the case.

(d) *Issuance.* A TAO may be issued to any office, operating division, or function of the IRS. A TAO shall apply to persons performing services under a qualified tax collection contract (as defined in section 6306(b)) to the same extent and in the same manner as the order applies to IRS employees. A TAO will not be issued to IRS Criminal Investigation division (CI), or any successor IRS division responsible for the criminal investigation function, if the action ordered in the TAO could reasonably be expected to impede a criminal investigation. CI will determine whether the action ordered in the TAO could reasonably be expected to impede an investigation. Generally, a TAO may not be issued to the Office of Chief Counsel.

(e) *Suspension of statutes of limitations*—(1) *In general.* The running of the applicable period of limitations for any action which is the subject of a taxpayer assistance order shall be suspended for the period beginning on the date the Ombudsman receives an application for a taxpayer assistance order in the form, manner, and time specified in paragraph (b) of this section and ending on the date on which the Ombudsman makes a determination with respect to the application, and for any additional period specified by the Ombudsman in an order issued pursuant to a taxpayer's application. For the purpose of computing the period suspended, all calendar days except the date of receipt of the application shall be included.

(2) *Date of decision.* The ''date on which the Ombudsman makes a decision with respect to the application'' is the date on which the taxpayer's request for a taxpayer assistance order is denied, or agreement is reached with the involved function of the Service, or a taxpayer assistance order is issued (except that when the taxpayer assistance order is reviewed by an official who may modify or rescind the taxpayer assistance order as provided in paragraph (d) of this section, the decision date is the date on which such review is completed).

(3) *Periods suspended.* The periods of limitations which are suspended under section 7811(d) are those which apply to the taxable periods to which the application for a taxpayer assistance order relate or the taxable periods specifically indicated in the terms of a taxpayer assistance order.

Example 1. On August 31, 1989, the Internal Revenue Service levies on funds in the taxpayer's checking account. On September 1, 1989 (at which time 7 months remain before the period of limitations on collection after assessment will expire on April 1, 1990) the Ombudsman receives the taxpayer's written application for a taxpayer assistance order. Subsequently, on September 6, 1989, the Ombudsman determines that the levy has caused a significant hardship and the Internal Revenue Service function which served the levy agrees to release the levy. The levy is released. As a result of the application and the decision by the Ombudsman and the involved function of the Service resolving the hardship, the statute of limitations on collection after assessment is suspended from the date the Ombudsman received the application, September 1, 1989, until the date on which the decision was made to release the levy, September 6, 1989. Therefore, the statute of limitations on collection after assessment will not expire until after April 6, 1990, which is 7 months plus 5 days after the date on which the application for a taxpayer assistance order was received by the Ombudsman.

Example 2. The facts are the same as in example 1 except that the Internal Revenue Service function which served the levy does not agree to release the levy, and the Ombudsman, having made a determination that the levy is causing a significant hardship, issues a taxpayer assistance order on September 6, 1989, in which the levy is ordered to be released and specifies that the statute of limitations on collection after assessment is

suspended for an additional 15 days. The period of limitations on collection after assessment will therefore not expire until after April 21, 1990, which is 7 months and 20 days (5 days plus 15 days) after the application for the taxpayer assistance order was received by the Ombudsman.

Example 3. The facts are the same as in example 2 except that the Ombudsman does not specifically suspend the statute of limitations on collection after assessment for an additional number of days in the taxpayer assistance order, but rather the function seeks modification or rescission of the taxpayer assistance order and the appropriate official charged with that responsibility completes his consideration of the assistance order on September 8, 1989. The period of limitations on collection after assessment will therefore not expire until after April 8, 1990, which is 7 months and 7 days after the application for the taxpayer assistance order was received by the Ombudsman.

(4) *Absence of a written application.* The statute of limitations is not suspended in cases where the Ombudsman issues an order in the absence of a written application for relief by the taxpayer or the taxpayer's duly authorized representative.

(f) *Effective/applicability date.* These regulations are applicable for TAOs issued on or after April 1, 2011, except that paragraph (e) of this section is applicable beginning March 20, 1992.

[T.D. 8246, 54 FR 11700, Mar. 22, 1989, as amended by T.D. 8403, 56 FR 9977, Mar. 23, 1992; T.D. 9519, 76 FR 18060, Apr. 1, 2011]

MISCELLANEOUS PROVISIONS

§ 301.9000–1 Definitions when used in §§ 301.9000–1 through 301.9000–6.

(a) *IRS records or information* means any material (including copies thereof) contained in the files (including paper, electronic or other media files) of the Internal Revenue Service (IRS), any information relating to material contained in the files of the IRS, or any information acquired by an IRS officer or employee, while an IRS officer or employee, as a part of the performance of official duties or because of that IRS officer's or employee's official status with respect to the administration of the internal revenue laws or any other laws administered by or concerning the IRS. IRS records or information includes, but is not limited to, returns and return information as those terms are defined in section 6103(b)(1) and (2) of the Internal Revenue Code (Code), tax convention information as defined in section 6105 of the Code, information gathered during Bank Secrecy Act and money laundering investigations, and personnel records and other information pertaining to IRS officers and employees. IRS records and information also includes information received, generated or collected by an IRS contractor pursuant to the contractor's contract or agreement with the IRS. The term does not include records or information obtained by IRS officers and employees, solely for the purpose of a federal grand jury investigation, while under the direction and control of the United States Attorney's Office. The term IRS records or information nevertheless does include records or information obtained by the IRS before, during, or after a Federal grand jury investigation if the records or information are obtained—

(1) At the administrative stage of a criminal investigation (prior to the initiation of the grand jury);

(2) From IRS files (such as transcripts or tax returns); or

(3) For use in a subsequent civil investigation.

(b) *IRS officers and employees* means all officers and employees of the United States appointed by, employed by, or subject to the directions, instructions, or orders of the Commissioner or IRS Chief Counsel and also includes former officers and employees.

(c) *IRS contractor* means any person, including the person's current and former employees, maintaining IRS records or information pursuant to a contract or agreement with the IRS, and also includes former contractors.

(d) A *request* is any request for testimony of an IRS officer, employee or contractor or for production of IRS records or information, oral or written, by any person, which is not a demand.

(e) A *demand* is any subpoena or other order of any court, administrative agency or other authority, or the Congress, or a committee or subcommittee of the Congress, and any notice of deposition (either upon oral examination

or written questions), request for admissions, request for production of documents or things, written interrogatories to parties, or other notice of, request for, or service for discovery in a matter before any court, administrative agency or other authority.

(f) An *IRS matter* is any matter before any court, administrative agency or other authority in which the United States, the Commissioner, the IRS, or any IRS officer or employee acting in an official capacity, or any IRS officer or employee (including an officer or employee of IRS Office of Chief Counsel) in his or her individual capacity if the United States Department of Justice or the IRS has agreed to represent or provide representation to the IRS officer or employee, is a party and that is directly related to official business of the IRS or to any law administered by or concerning the IRS, including, but not limited to, judicial and administrative proceedings described in section 6103(h)(4) and (l)(4) of the Internal Revenue Code.

(g) An *IRS congressional matter* is any matter before the Congress, or a committee or subcommittee of the Congress, that is related to the administration of the internal revenue laws or any other laws administered by or concerning the IRS, or to IRS records or information.

(h) A *non-IRS matter* is any matter that is not an IRS matter or an IRS congressional matter.

(i) A *testimony authorization* is a written instruction or oral instruction memorialized in writing within a reasonable period by an authorizing official that sets forth the scope of and limitations on proposed testimony and/or disclosure of IRS records or information issued in response to a request or demand for IRS records or information. A testimony authorization may grant or deny authorization to testify or disclose IRS records or information and may make an authorization effective only upon the occurrence of a precedent condition, such as the receipt of a consent complying with the provisions of section 6103(c) of the Internal Revenue Code. To authorize testimony means to issue the instruction described in this paragraph (i).

(j) An *authorizing official* is a person with delegated authority to authorize testimony and the disclosure of IRS records or information.

[T.D. 9178, 70 FR 7397, Feb. 14, 2005]

§ 301.9000–2 Considerations in responding to a request or demand for IRS records or information.

(a) *Situations in which disclosure shall not be authorized.* Authorizing officials shall not permit testimony or disclosure of IRS records or information in response to requests or demands if testimony or disclosure of IRS records or information would—

(1) Violate a Federal statute including, but not limited to, sections 6103 or 6105 of the Internal Revenue Code (Code), the Privacy Act of 1974 (5 U.S.C. 552a), or a rule of procedure, such as the grand jury secrecy rule, Fed. R. Crim. P. 6(e);

(2) Violate a specific Federal regulation, including, but not limited to, 31 CFR 103.53;

(3) Reveal classified national security information, unless properly declassified;

(4) Reveal the identity of an informant; or

(5) Reveal investigatory records or information compiled for law enforcement purposes that would permit interference with law enforcement proceedings or would disclose investigative techniques and procedures, the effectiveness of which could thereby be impaired.

(b) *Assertion of privileges.* Any applicable privilege or protection under law may be asserted in response to a request or demand for testimony or disclosure of IRS records or information, including, but not limited to, the following—

(1) Attorney-client privilege;

(2) Attorney work product doctrine; and

(3) Deliberative process (executive) privilege.

(c) *Non-IRS matters.* If any person makes a request or demand for IRS records or information in connection with a non-IRS matter, authorizing officials shall take into account the following additional factors in responding to the request or demand—

(1) Whether the requester is a Federal agency, or a state or local government or agency thereof;

(2) Whether the demand was issued by a Federal or state court, administrative agency or other authority;

(3) The potential effect of the case on the administration of the internal revenue laws or any other laws administered by or concerning the IRS;

(4) The importance of the legal issues presented;

(5) Whether the IRS records or information are available from other sources;

(6) The IRS's anticipated commitment of time and anticipated expenditure of funds necessary to comply with the request or demand;

(7) The number of similar requests and their cumulative effect on the expenditure of IRS resources;

(8) Whether the request or demand allows a reasonable time for compliance (generally, at least fifteen business days);

(9) Whether the testimony or disclosure is appropriate under the rules of procedure governing the case or matter in which the request or demand arises;

(10) Whether the request or demand involves expert witness testimony;

(11) Whether the request or demand is for the testimony of an IRS officer, employee or contractor who is without personal knowledge of relevant facts;

(12) Whether the request or demand is for the testimony of a presidential appointee or senior executive and whether the testimony of a lower-level official would suffice;

(13) Whether the procedures in § 301.9000–5 have been followed; and

(14) Any other relevant factors that may be brought to the attention of the authorizing official.

[T.D. 9178, 70 FR 7397, Feb. 14, 2005]

§ 301.9000–3 Testimony authorizations.

(a) *Prohibition on disclosure of IRS records or information without testimony authorization.* Except as provided in paragraph (b) of this section, when a request or demand for IRS records or information is made, no IRS officer, employee or contractor shall testify or disclose IRS records or information to any court, administrative agency or other authority, or to the Congress, or to a committee or subcommittee of the Congress without a testimony authorization. However, an IRS officer, employee or contractor may appear in person to advise that he or she is awaiting instructions from an authorizing official with respect to the request or demand.

(b) *Exceptions.* No testimony authorization is required in the following circumstances—

(1) To respond to a request or demand for IRS records or information by the attorney or other government representative representing the IRS in a particular IRS matter;

(2) To respond solely in writing, under the direction of the attorney or other government representative, to requests and demands in IRS matters, including, but not limited to, admissions, document production, and written interrogatories to parties;

(3) To respond to a request or demand issued to a former IRS officer, employee or contractor for expert or opinion testimony if the testimony sought from the former IRS officer, employee or contractor involves general knowledge (such as information contained in published procedures of the IRS or the IRS Office of Chief Counsel) gained while the former IRS officer, employee or contractor was employed or under contract with the IRS; or

(4) If a more specific procedure established by the Commissioner governs the disclosure of IRS records or information. These procedures include, but are not limited to, those relating to: procedures pursuant to § 601.702(d) of this chapter; Freedom of Information Act requests pursuant to 5 U.S.C. 552; Privacy Act of 1974 requests pursuant to 5 U.S.C. 552a; disclosures to state tax agencies pursuant to section 6103(d) of the Internal Revenue Code (Code); and disclosures to the United States Department of Justice pursuant to an ex parte order under section 6103(i)(1) of the Code.

(c) *Disclosures of IRS records or information with or without testimony authorization must be permitted under other applicable law.* Any disclosure of IRS records or information that is otherwise permissible under this section must not be prohibited under applicable law. For example, in a case in

which returns and return information may be disclosed, the disclosure must be authorized under section 6103, even if any required testimony authorization is obtained. If tax convention information (as defined under section 6105) may be disclosed, in deciding whether the disclosure is authorized, the authorizing official must coordinate the disclosure with the U.S. Competent Authority.

[T.D. 9178, 70 FR 7397, Feb. 14, 2005]

§ 301.9000–4 Procedure in the event of a request or demand for IRS records or information.

(a) *Purpose and scope.* This section prescribes procedures to be followed by IRS officers, employees and contractors upon receipt of a request or demand in matters in which a testimony authorization is or may be required.

(b) *Notification of the Disclosure Officer.* Except as provided in paragraphs (c), (d), and (e) of this section, an IRS officer, employee or contractor who receives a request or demand for IRS records or information for which a testimony authorization is or may be required shall notify promptly the disclosure officer servicing the IRS officer's, employee's or contractor's geographic area. The IRS officer, employee or contractor shall await instructions from the authorizing official concerning the response to the request or demand. An IRS officer, employee, or contractor who receives a request or demand in one of the following matters should not notify the disclosure officer, but should follow the instructions in paragraph (c), (d), or (e) of this section, as applicable:

(1) United States Tax Court cases.

(2) Personnel matters, labor relations matters, government contract matters, matters related to informant claims or matters related to the rules of *Bivens* v. *Six Unknown Named Agents of Federal Bureau of Narcotics*, 403 U.S. 388 (1971) (Bivens matters), or matters under the Federal Tort Claims Act (FTCA).

(3) IRS congressional matters.

(c) *Requests or demands in United States Tax Court cases.* An IRS officer, employee or contractor who receives a request or demand for IRS records or information on behalf of a petitioner in a United States Tax Court case shall notify promptly the IRS Office of Chief Counsel attorney assigned to the case. The IRS Office of Chief Counsel attorney shall notify promptly the authorizing official. The IRS officer, employee or contractor who received the request or demand shall await instructions from the authorizing official.

(d) *Requests or demands in personnel, labor relations, government contract, Bivens or FTCA matters, or matters related to informant claims.* An IRS officer, employee or contractor who receives a request or demand, on behalf of an appellant, grievant, complainant or representative, for IRS records or information in a personnel, labor relations, government contract, Bivens or FTCA matter, or matter related to informant claims, shall notify promptly the IRS Associate Chief Counsel (General Legal Services) attorney assigned to the case. If no IRS Associate Chief Counsel (General Legal Services) attorney is assigned to the case, the IRS officer, employee or contractor shall notify promptly the IRS Associate Chief Counsel (General Legal Services) attorney servicing the geographic area. The IRS Associate Chief Counsel (General Legal Services) attorney shall notify promptly the authorizing official. The IRS officer, employee or contractor who received the request or demand shall await instructions from the authorizing official.

(e) *Requests or demands in IRS congressional matters.* An IRS officer, employee or contractor who receives a request or demand in an IRS congressional matter shall notify promptly the IRS Office of Legislative Affairs. The IRS officer, employee or contractor who received the request or demand shall await instructions from the authorizing official.

(f) *Opposition to a demand for IRS records or information in IRS and non-IRS matters.* If, in response to a demand for IRS records or information, an authorizing official has not had a sufficient opportunity to issue a testimony authorization, or determines that the demand for IRS records or information should be denied, the authorizing official shall request the government attorney or other representative of the government to oppose the demand and

respectfully inform the court, administrative agency or other authority, by appropriate action, that the authorizing official either has not yet issued a testimony authorization, or has issued a testimony authorization to the IRS officer, employee or contractor that denies permission to testify or disclose the IRS records or information. If the authorizing official denies authorization in whole or in part, the government attorney or other representative of the government shall inform the court, administrative agency or other authority of the reasons the authorizing official gives for not authorizing the testimony or the disclosure of the IRS records or information or take other action in opposition as may be appropriate (including, but not limited to, filing a motion to quash or a motion to remove to Federal court).

(g) *Procedure in the event of an adverse ruling.* In the event the court, administrative agency, or other authority rules adversely with respect to the refusal to disclose the IRS records or information pursuant to the testimony authorization, or declines to defer a ruling until a testimony authorization has been received, the IRS officer, employee or contractor who has received the request or demand shall, pursuant to this section, respectfully decline to testify or disclose the IRS records or information.

(h) *Penalties.* Any IRS officer or employee who discloses IRS records or information without following the provisions of this section or § 301.9000–3, may be subject to administrative discipline, up to and including dismissal. Any IRS officer, employee or contractor may be subject to applicable contractual sanctions and civil or criminal penalties, including prosecution under 5 U.S.C. 552a(i), for willful disclosure in an unauthorized manner of information protected by the Privacy Act of 1974, or under section 7213 of the Internal Revenue Code, for willful disclosure in an unauthorized manner of return information.

(i) *No creation of benefit or separate privilege.* Nothing in §§ 301.9000–1 through 301.9000–3, this section, and §§ 301.9000–5 and 301.9000–6, creates, is intended to create, or may be relied upon to create, any right or benefit, substantive or procedural, enforceable at law by a party against the United States. Nothing in these regulations creates a separate privilege or basis to withhold IRS records or information.

[T.D. 9178, 70 FR 7397, Feb. 14, 2005]

§ 301.9000–5 Written statement required for requests or demands in non-IRS matters.

(a) *Written statement.* A request or demand for IRS records or information for use in a non-IRS matter shall be accompanied by a written statement made by or on behalf of the party seeking the testimony or disclosure of IRS records or information, setting forth—

(1) A brief description of the parties to and subject matter of the proceeding and the issues;

(2) A summary of the testimony, IRS records or information sought, the relevance to the proceeding, and the estimated volume of IRS records involved;

(3) The time that will be required to present the testimony (on both direct and cross examination);

(4) Whether any of the IRS records or information is a return or is return information (as defined in section 6103(b) of the Internal Revenue Code (Code)), or tax convention information (as defined in section 6105(c)(1) of the Code), and the statutory authority for the disclosure of the return or return information (and, if no consent to disclose pursuant to section 6103(c) of the Code accompanies the request or demand, the reason consent is not necessary);

(5) Whether a declaration of an IRS officer, employee or contractor under penalties of perjury pursuant to 28 U.S.C. 1746 would suffice in lieu of deposition or trial testimony;

(6) Whether deposition or trial testimony is necessary in a situation in which IRS records may be authenticated without testimony under applicable rules of evidence and procedure;

(7) Whether IRS records or information are available from other sources; and

(8) A statement that the request or demand allows a reasonable time (generally at least fifteen business days) for compliance.

(b) *Permissible waiver of statement.* The requirement of a written statement in paragraph (a) of this section may be

waived by the authorizing official for good cause.

[T.D. 9178, 70 FR 7397, Feb. 14, 2005]

§ 301.9000–6 Examples.

The following examples illustrate the provisions of §§ 301.9000–1 through 301.9000–5:

Example 1. A taxpayer sues a practitioner in state court for malpractice in connection with the practitioner's preparation of a Federal income tax return. The taxpayer subpoenas an IRS employee to testify concerning the IRS employee's examination of the taxpayer's Federal income tax return. The taxpayer provides the statement required by § 301.9000–5. This is a non-IRS matter. A testimony authorization would be required for the IRS employee to testify. (In addition, the taxpayer would be required to execute an appropriate consent under section 6103(c) of the Code). The IRS would oppose the IRS employee's appearance in this case because the IRS is a disinterested party with respect to the dispute and would consider the commitment of resources to comply with the subpoena inappropriate.

Example 2. In a state judicial proceeding concerning child support, the child's custodial parent subpoenas for a deposition an IRS agent who is examining certain post-divorce Federal income tax returns of the non-custodial parent. This is a non-IRS matter. The custodial parent submits with the subpoena the statement required by § 301.9000–5 stating as the reason for the lack of taxpayer consent to disclosure that the non-custodial parent has refused to provide the consent (both a consent from the taxpayer complying with section 6103(c) and a testimony authorization would be required prior to the IRS agent testifying at the deposition). If taxpayer consent is obtained, the IRS may provide a declaration or certified return information of the taxpayer. A deposition would be unnecessary under the circumstances.

Example 3. The chairperson of a congressional committee requests the appearance of an IRS employee before the committee and committee staff to submit to questioning by committee staff concerning the procedures for processing Federal employment tax returns. This is an IRS congressional matter. Even though questioning would not involve the disclosure of returns or return information, the questioning would involve the disclosure of IRS records or information; therefore, a testimony authorization would be required. The IRS employee must contact the IRS Office of Legislative Affairs for instructions before appearing.

Example 4. The IRS opens a criminal investigation as to the tax liabilities of a taxpayer. This is an IRS matter. During the criminal investigation, the IRS refers the matter to the United States Department of Justice, requesting the institution of a Federal grand jury to investigate further potential criminal tax violations. The United States Department of Justice approves the request and initiates a grand jury investigation. The grand jury indicts the taxpayer. During the taxpayer's trial, the taxpayer subpoenas an IRS special agent for testimony regarding the investigation. The records and information collected during the administrative stage of the investigation, including the taxpayer's tax returns from IRS files, are IRS records and information. A testimony authorization is required for the IRS special agent to testify regarding this information. However, no IRS testimony authorization is required regarding the information collected by the IRS special agent when the IRS special agent was acting under the direction and control of the United States Attorney's Office in the Federal grand jury investigation. That information is not IRS records or information within the meaning of § 301.9000–1(a). Disclosure of that information should be coordinated with the United States Attorney's Office.

Example 5. The United States Department of Justice attorney representing the IRS in a suit for refund requests testimony from an IRS revenue agent. This is an IRS matter. A testimony authorization would not be required for the IRS revenue agent to testify because the testimony was requested by the government attorney.

Example 6. In response to a request by the taxpayer's counsel to interview an IRS revenue agent who was involved in a case at the administrative level, the United States Department of Justice attorney representing the IRS in a suit for refund asks that the IRS revenue agent be made available to be interviewed. This is an IRS matter. A testimony authorization would be required for the IRS revenue agent to testify because the testimony was first requested by taxpayer's counsel.

Example 7. A state assistant attorney general, acting in accordance with a recommendation from his state's department of revenue, is prosecuting a taxpayer under a state criminal law proscribing the intentional failure to file a state income tax return. The assistant attorney general serves an IRS employee with a subpoena to testify concerning the taxpayer's Federal income tax return filing history. This is a non-IRS matter. This is also a state judicial proceeding pertaining to tax administration within the meaning of section 6103(h)(4) and (b)(4). As such, the requirements of section 6103(h)(4) apply. A testimony authorization would be required for the testimony demand in the subpoena.

Example 8. A former IRS revenue agent is requested to testify in a divorce proceeding. The request seeks testimony explaining the

meaning of entries appearing on one party's transcript of account, which is already in the possession of the parties. This is a non-IRS matter. No testimony authorization is required because the testimony requested from the former IRS employee involves general knowledge gained while the former IRS revenue agent was employed with the IRS.

Example 9. A Department of Justice attorney requests an IRS employee to testify in a refund suit involving Taxpayer A. The testimony may include tax convention information, as defined in section 6105, which was originally obtained by the IRS from a treaty partner in connection with a tax case against Taxpayer B. While no testimony authorization is necessary, because the testimony is being requested by government counsel in a tax matter, the IRS employee may not testify (or otherwise disclose IRS records or information) without coordinating with the U.S. Competent Authority, as disclosure of tax convention information is governed by section 6105. The disclosure must also meet the requirements in section 6103(h)(4).

Example 10. In a state court tort action, Defendant subpoenas IRS for Plaintiff's federal income tax returns for particular taxable years. This is a non-IRS matter. The Disclosure Officer instructs Defendant that the IRS has established procedures for obtaining copies of Federal income tax returns. Section 601.702(d)(1) of this chapter establishes the procedures for obtaining Federal tax returns by requiring written requests for copies of tax returns using IRS Form 4506, ''Request for Copy of Tax Return.'' At Defendant's request, Plaintiff executes Form 4506, naming Defendant's counsel as designee, and the form is properly submitted to IRS. A testimony authorization would not be required to disclose Plaintiff's returns to Defendant's counsel.

[T.D. 9178, 70 FR 7397, Feb. 14, 2005]

§ 301.9000–7 Effective date.

These regulations are applicable on February 14, 2005.

[T.D. 9178, 70 FR 7397, Feb. 14, 2005]

§ 301.9001 Statutory provisions; Outer Continental Shelf Lands Act Amendments of 1978.

Section 302 of the Outer Continental Shelf Lands Act Amendments of 1978 (92 Stat. 629) provides as follows:

Sec. 302. (a) There is hereby established in the Treasury of the United States an Offshore Oil Pollution Compensation Fund in an amount not to exceed $200,000,000, except that such limitation shall be increased to the extent necessary to permit any moneys recovered or collected which are referred to in subsection (b)(2) of this section to be paid into the Fund. The Fund shall be administered by the Secretary[1] and the Secretary of the Treasury as specified in this title. The Fund may sue and be sued in its own name.

(b) The Fund shall be composed of—

(1) All fees collected pursuant to subsection (d) of this section; and

(2) All other moneys recovered or collected on behalf of the Fund under section 308 or any other provision of this title.

(c) The Fund shall be immediately available for—

(1) Removal costs described in section 301(22):

(2) The processing and settlement claims under section 307 of this title (including the costs of assessing injury to, or destruction of, natural resources); and

(3) Subject to such amounts as are provided in appropriation Acts, all administrative and personnel costs of the Federal Government incident to the administration of this title, including, but not limited to, the claims settlement activities and adjudicatory and judicial proceedings, whether or not such costs are recoverable under section 308 of this title.

The Secretary is authorized to promulgate regulations designating the person or persons who may obligate available money in the Fund for such purposes.

(d)(1) The Secretary shall levy and the Secretary of the Treasury shall collect a fee of not to exceed 3 cents per barrel on oil obtained from the Outer Continental Shelf, which shall be imposed on the owner of the oil when such oil is produced.

(2) The Secretary of the Treasury, after consulting with the Secretary, may promulgate reasonable regulations relating to the collection of the fees authorized by paragraph (1) of this subsection and, from time to time, the modification thereof. Any modification shall become effective on the date specified in the regulation making such modification, but no earlier than the ninetieth day following the date such regulation is published in the FEDERAL REGISTER. Any modification of the fee shall be designed to insure that the Fund is maintained at a level of not less than $100,000,000 and not more than $200,000,000. No regulation that sets or modifies fees, whether or not in effect, may be stayed by any court pending completion of judicial review of such regulation.

(3)(A) Any person who fails to collect or pay any fee as required by any regulation promulgated under paragraph (2) of this subsection shall be liable for a civil penalty not to exceed $10,000, to be assessed by the Secretary of the Treasury, in addition to the fee

[1] ''Secretary'' wherever used in this section means the Secretary of Transportation.

required to be collected or paid and the interest on such fee at the rate such fee would have earned if collected or paid when due and invested in special obligations of the United States in accordance with subsection (e)(2) of this section. Upon the failure of any person so liable to pay any penalty, fee, or interest upon demand, the Attorney General may, at the request of the Secretary of the Treasury, bring an action in the name of the Fund against that person for such amount.

(B) Any person who falsifies records or documents required to be maintained under any regulation promulgated under this subsection shall be subject to prosecution for a violation of section 1001 of title 18, United States Code.

(4) The Secretary of the Treasury may, by regulation, designate the reasonably necessary records and documents to be kept by persons from whom fees are to be collected pursuant to paragraph (1) of this subsection, and the Secretary of the Treasury and the Comptroller General of the United States shall have access to such records and documents for the purpose of audit and examination.

(e)(1) The Secretary shall determine the level of funding required for immediate access in order to meet potential obligations of the Fund.

(2) The Secretary of the Treasury may invest any excess in the Fund above the level determined under paragraph (1) of this subsection, in interest-bearing special obligations of the United States. Such special obligations may be redeemed at any time in accordance with the terms of the special issue and pursuant to regulations promulgated by the Secretary of the Treasury. The interest on, and the proceeds from the sale of, any obligations held in the Fund shall be deposited in and credited to the Fund.

(f) If at any time the moneys available in the Fund are insufficient to meet the obligations of the Fund, the Secretary shall issue to the Secretary of the Treasury notes or other obligations in the forms and denominations, bearing the interest rates and maturities, and subject to such terms and conditions as may be prescribed by the Secretary of the Treasury. Redemption of such notes or other obligations shall be made by the Secretary from moneys in the Fund. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the average market yield on outstanding marketable obligations of comparable maturity. The Secretary of the Treasury shall purchase any notes or other obligations issued under this subsection and, for that purpose, he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act. The purpose for which securities may be issued under that Act are extended to include any purchase of such notes or other obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States.

(Sec. 302(d) of the Outer Continental Shelf Lands Act Amendments of 1978 (92 Stat. 672) and sec. 7805 of the Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805))

[T.D. 7697, 45 FR 33974, May 21, 1980]

§ 301.9001–1 Collection of fee.

(a) *Imposition of fee*—(1) *In general.* Under section 302(d) of the Outer Continental Shelf Lands Act Amendments of 1978 (Act), the Internal Revenue Service is authorized to collect a fee of not more than 3 cents per barrel on oil that is obtained from the Outer Continental Shelf. This fee is established by the Commandant, United States Coast Guard, and is imposed on the owner of the oil as defined in paragraph (a)(2) of this section. The barrels subject to the fee shall be those barrels reported by the owner of the oil (§ 301.9001–1 (a)(2)), or a person authorized to act for the owner, on the monthly royalty reports, Form 9–153, filed with the U.S. Geological Survey as required by 30 CFR 250.94. For the purpose of computing this fee, the owner of the oil shall measure the Outer Continental Shelf oil production by employing the criteria of the U.S. Geological Survey contained in 30 CFR 250.60 and Outer Continental Shelf Gulf of Mexico Order 13. No reduction in the amount due will be permitted by reason of theoretical or actual oil lost in transit. To ensure that the Fund is maintained at a level of not less than $100,000,000 and not more than $200,000,000, the Commandant, United States Coast Guard, may modify the amount of this fee.

(2) *Owner of oil.* For the purposes of §§ 301.9001–1, 301.9001–2, and 301.9001–3, the owner of oil is the person in whom is vested ownership of the oil as it is produced at the wellhead without regard to the existence of contractual arrangements for the sale or other disposition of the oil between such a person and third parties. Under this rule, the Federal government entitlement to

royalty oil does not constitute ownership of oil by the Federal government at the time of production.

(3) *Example*. The provisions of paragraph (a)(2) of this section may be illustrated by the following example:

Example. X is the owner of oil produced on the Outer Continental Shelf. During one reporting period, 10,000 barrels of oil were obtained from this location. X will use a portion of this oil to make a royalty payment to the United States government. X also has a contract with Y to sell Y the remaining barrels of oil. For the purpose of the Act, X is the owner of the oil and must pay a fee of 3 cents per barrel on all 10,000 barrels of oil.

(4) *Cross-references*. See § 301.9001–2(a) for the definition of barrel, § 301.9001–2(b) for the definition of oil, and § 301.9001–2(c) for the definition of person.

(5) *Effective Date*. The provisions of §§ 301.9001–1, 301.9001–2, and 301.9001–3 are effective on July 25, 1979, at 7:00 a.m., local time. If, however, the established practice has been to gauge oil production at a time other than 7:00 a.m., the effective date is July 25, 1979, at the time production has been gauged.

(b) *Collection of fee*. The Internal Revenue Service shall collect the fee imposed by section 302(d) of the Act. Administrative procedures for the collection of this fee shall be prescribed from time to time by the Commissioner. The Commissioner may designate the reasonably necessary records and documents to be kept by the person or persons from whom the fee is collected. See also the regulations under 33 CFR 135.103 for additional rules relating to the implementation of the Act.

(c) *Time and place for payment of the fee*—(1) *In general*. Payment of the fee shall be made in accordance with the rules established in paragraph (c)(2), (3) and (4) of this section. When a deposit is required by these rules, it must be filed with the Internal Revenue Service Center, Austin, Texas 73301 using Form 6008, Fee Deposit for Offshore Oil. Adjustments required in the amount paid during the calendar quarter to reflect the actual amount due for the quarter shall be made on Form 6009, Quarterly Report of Fees Due. Form 6009 must be filed on or before the last day of the month following the end of the calendar quarter with the Austin Service Center. The rules under section 7502, relating to the treatment of timely mailing as timely filing and paying, and section 7503, relating to the time for performance of acts where the last day falls on Saturday, Sunday, or legal holiday are applicable to the filing of Form 6009.

(2) *$100 or less of fees*. If the owner of oil is liable in any calendar quarter for $100 or less of fees, the owner or a person authorized to act for the owner may either deposit this amount or pay the full amount of the fee when Form 6009 is filed.

(3) *More than $100 of fees*. If the owner of oil is liable in the first or second month of the calendar quarter for more than $100 of fees and is not required to make a semimonthly deposit (see paragraph (c)(4) of this section), the owner or a person authorized to act for the owner must deposit the amount on or before the last day of the following month following the month of production.

(4) *More than $2000 of fees*. The owner of oil who is liable for more than $2000 of fees for any month of a calendar quarter must deposit fees for the following quarter (regardless of amount) on a semimonthly basis. The deposit must be made on or before the ninth day following the semimonthly period for which it is reportable. The first deposit for a month may be reasonably estimated when an accounting of oil production is normally done by the month. Under these circumstances, the second for that month deposit should be adjusted to reflect the total barrels produced in that month.

(d) *Responsibility for payment of fee*—(1) *In general*. Form 6009, Quarterly Report of Fees Due, must be filed and the fee must be paid either by the owner of the oil (§ 301.9001–1(a)(2)) or by a person authorized to act for the owner of the oil under an acceptable power of attorney filed with the Austin Service Center. For the purposes of the regulations at §§ 301.9001–1, 301.9001–2, and 301.9001–3, an operating agreement between the operator of the oil-producing facility and the owner of oil is considered an acceptable power of attorney if the operating agreement specifically states that the operator is authorized to pay

the fee imposed by section 302(d) of the Outer Continental Shelf Lands Act Amendments of 1978.

(2) *Example*. The provisions of this paragraph may be illustrated by the following example:

Example. W, X, Y, and Z are oil companies that own equal interests in oil produced on the Outer Continental Shelf. W was selected to be the operator of the offshore facility. Additionally, X, Y, and Z authorized W to file Form 6009 and to pay the fee imposed by section 302(d) of the Act on the oil produced at this facility. Pursuant to this authorization, W paid a fee of $16,600. Since the ownership of the oil is divided equally among W, X, Y, and Z, each company's share of the fee is $4,150.

(e) *Penalty and Interest*. Failure to collect or pay the fee shall result in a civil penalty assessed by the Secretary of the Treasury. The amount of the penalty is not to exceed $10,000 in addition to the fee and the interest on the unpaid fee that would have been earned if paid when due and invested in the special Treasury securities which are to be purchased by the fund. The computation of the rate of interest to be levied on underpayment of fees shall be based on the average interest rate earned by the interest-bearing special obligations of the United States in the fund for each calendar quarter for which there is underpayment. Unless it can be shown that the failure to collect or pay the fee is due to reasonable cause and not due to the willful neglect, the amount of the penalty is the lesser of—

(1) $10,000 or

(2) The amount of the fee.

(Sec. 302(d) of the Outer Continental Shelf Lands Act Amendments of 1978 (92 Stat. 672) and sec. 7805 of the Internal Revenue Code of 1954 (68A Stat. 917: 26 U.S.C. 7805))

[T.D. 7697, 45 FR 33975, May 21, 1980]

§ 301.9001–2 Definitions.

The terms enumerated in this section are to be defined for the purposes of §§ 301.9001–1, 301.9001–2, and 301.9001–3 in the following manner:

(a) ''Barrel'' means 42 United States gallons at 60 degrees Fahrenheit.

(b) ''Oil'' means petroleum, including crude oil or any fraction or residue therefrom, and natural gas condensate, except that the term does not include natural gas.

(c) ''Person'' means an individual, firm, corporation, association, partnership, consortium, joint venture, or governmental entity.

(d) ''Outer Continental Shelf'' means all submerged lands lying seaward and outside of the area of lands beneath navigable waters as defined in section 1301 of title 43 and of which the subsoil and seabed appertain to the United States and are subject to its jurisdiction and control;

(Sec. 302(d) of the Outer Continental Shelf Lands Act Amendments of 1978 (92 Stat. 672) and sec. 7805 of the Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805))

[T.D. 7697, 45 FR 33976, May 21, 1980]

§ 301.9001–3 Cross reference.

See the Coast Guard regulations under 33 CFR parts 135 and 136 for rules relating to the implementation of the Act.

(Sec. 302(d) of the Outer Continental Shelf Lands Act Amendments of 1978 (92 Stat. 672) and sec. 7805 of the Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805))

[T.D. 7697, 45 FR 33976, May 21, 1980]

§ 301.9100–0 Outline of regulations.

This section lists the paragraphs in §§ 301.9100–1 through 301.9100–3.

§ 301.9100–1 Extensions of time to make elections.

(a) Introduction.
(b) Terms.
(c) General standards for relief.
(d) Exceptions.
(e) Effective dates.

§ 301.9100–2 Automatic extensions.

(a) Automatic 12-month extension.
(1) In general.
(2) Elections eligible for automatic 12-month extension.
(b) Automatic 6-month extension.
(c) Corrective action.
(d) Procedural requirements.
(e) Examples.

§ 301.9100–3 Other extensions.

(a) In general.
(b) Reasonable action and good faith.
(1) In general.
(2) Reasonable reliance on a qualified tax professional.
(3) Taxpayer deemed to have not acted reasonably or in good faith.

(c) Prejudice to the interests of the Government.
(1) In general.
(i) Lower tax liability.
(ii) Closed years.
(2) Special rules for accounting method regulatory elections.
(3) Special rules for accounting period regulatory elections.
(d) Effect of amended returns.
(1) Second examination under section 7605(b).
(2) Suspension of the period of limitations under section 6501(a).
(e) Procedural requirements.
(1) In general.
(2) Affidavit and declaration from taxpayer.
(3) Affidavits and declarations from other parties.
(4) Other information.
(5) Filing instructions.
(f) Examples.

[T.D. 8742, 62 FR 68169, Dec. 31, 1997]

§ 301.9100–1 Extensions of time to make elections.

(a) *Introduction*. The regulations under this section and §§ 301.9100–2 and 301.9100–3 provide the standards the Commissioner will use to determine whether to grant an extension of time to make a regulatory election. The regulations under this section and § 301.9100–2 also provide an automatic extension of time to make certain statutory elections. An extension of time is available for elections that a taxpayer is otherwise eligible to make. However, the granting of an extension of time is not a determination that the taxpayer is otherwise eligible to make the election. Section 301.9100–2 provides automatic extensions of time for making regulatory and statutory elections when the deadline for making the election is the due date of the return or the due date of the return including extensions. Section 301.9100–3 provides extensions of time for making regulatory elections that do not meet the requirements of § 301.9100–2.

(b) *Terms*. The following terms have the meanings provided below—

Election includes an application for relief in respect of tax; a request to adopt, change, or retain an accounting method or accounting period; but does not include an application for an extension of time for filing a return under section 6081.

Regulatory election means an election whose due date is prescribed by a regulation published in the FEDERAL REGISTER, or a revenue ruling, revenue procedure, notice, or announcement published in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter).

Statutory election means an election whose due date is prescribed by statute.

Taxpayer means any person within the meaning of section 7701(a)(1).

(c) *General standards for relief*. The Commissioner in exercising the Commissioner's discretion may grant a reasonable extension of time under the rules set forth in §§ 301.9100–2 and 301.9100–3 to make a regulatory election, or a statutory election (but no more than 6 months except in the case of a taxpayer who is abroad), under all subtitles of the Internal Revenue Code except subtitles E, G, H, and I.

(d) *Exceptions*. Notwithstanding the provisions of paragraph (c) of this section, an extension of time will not be granted—

(1) For elections under section 4980A(f)(5); or

(2) For elections that are expressly excepted from relief or where alternative relief is provided by a statute, a regulation published in the FEDERAL REGISTER, or a revenue ruling, revenue procedure, notice, or announcement published in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter).

(e) *Effective dates*. In general, this section and §§ 301.9100–2 and 301.9100–3 apply to all requests for an extension of time submitted to the Internal Revenue Service (IRS) on or after December 31, 1997. However, the automatic 12-month and 6-month extensions provided in § 301.9100–2 apply to elections for which corrective action is taken on or after December 31, 1997. For other requests for an extension of time, see §§ 301.9100–1T through 301.9100–3T in effect prior to December 31, 1997 (§§ 301.9100–1T through 301.9100–3T as contained in the 26 CFR part 1 edition revised as of April 1, 1997).

[T.D. 8742, 62 FR 68169, Dec. 31, 1997]

§ 301.9100–2 Automatic extensions.

(a) *Automatic 12-month extension*—(1) *In general*. An automatic extension of

12 months from the due date for making a regulatory election is granted to make elections described in paragraph (a)(2) of this section provided the taxpayer takes corrective action as defined in paragraph (c) of this section within that 12-month extension period. For purposes of this paragraph (a), the due date for making a regulatory election is the extended due date of the return if the due date of the election is the due date of the return or the due date of the return including extensions and the taxpayer has obtained an extension of time to file the return. This extension is available regardless of whether the taxpayer timely filed its return for the year the election should have been made.

(2) *Elections eligible for automatic 12-month extension.* The following regulatory elections are eligible for the automatic 12-month extension described in paragraph (a)(1) of this section—

(i) The election to use other than the required taxable year under section 444;

(ii) The election to use the last-in, first-out (LIFO) inventory method under section 472;

(iii) The 15-month rule for filing an exemption application for a section 501(c)(9), 501(c)(17), or 501(c)(20) organization under section 505;

(iv) The 15-month rule for filing an exemption application for a section 501(c)(3) organization under section 508;

(v) The election to be treated as a homeowners association under section 528;

(vi) The election to adjust basis on partnership transfers and distributions under section 754;

(vii) The estate tax election to specially value qualified real property (where the Internal Revenue Service (IRS) has not yet begun an examination of the filed return) under section 2032A(d)(1);

(viii) The chapter 14 gift tax election to treat a qualified payment right as other than a qualified payment under section 2701(c)(3)(C)(i); and

(ix) The chapter 14 gift tax election to treat any distribution right as a qualified payment under section 2701(c)(3)(C)(ii).

(b) *Automatic 6-month extension.* An automatic extension of 6 months from the due date of a return excluding extensions is granted to make regulatory or statutory elections whose due dates are the due date of the return or the due date of the return including extensions provided the taxpayer timely filed its return for the year the election should have been made and the taxpayer takes corrective action as defined in paragraph (c) of this section within that 6-month extension period. This paragraph (b) does not apply to regulatory or statutory elections that must be made by the due date of the return excluding extensions.

(c) *Corrective action.* For purposes of this section, corrective action means taking the steps required to file the election in accordance with the statute or the regulation published in the FEDERAL REGISTER, or the revenue ruling, revenue procedure, notice, or announcement published in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter). For those elections required to be filed with a return, corrective action includes filing an original or an amended return for the year the regulatory or statutory election should have been made and attaching the appropriate form or statement for making the election. Taxpayers who make an election under an automatic extension (and all taxpayers whose tax liability would be affected by the election) must file their return in a manner that is consistent with the election and comply with all other requirements for making the election for the year the election should have been made and for all affected years; otherwise, the IRS may invalidate the election.

(d) *Procedural requirements.* Any return, statement of election, or other form of filing that must be made to obtain an automatic extension must provide the following statement at the top of the document: ''FILED PURSUANT TO § 301.9100–2''. Any filing made to obtain an automatic extension must be sent to the same address that the filing to make the election would have been sent had the filing been timely made. No request for a letter ruling is required to obtain an automatic extension. Accordingly, user fees do not apply to taxpayers taking corrective

action to obtain an automatic extension.

(e) Examples. The following examples illustrate the provisions of this section:

Example 1. Automatic 12-month extension. Taxpayer A fails to make an election described in paragraph (a)(2) of this section when filing A's 1997 income tax return on March 16, 1998, the due date of the return. This election does not affect the tax liability of any other taxpayer. The applicable regulation requires that the election be made by attaching the appropriate form to a timely filed return including extensions. In accordance with paragraphs (a) and (c) of this section, A may make the regulatory election by taking the corrective action of filing an amended return with the appropriate form by March 15, 1999 (12 months from the March 16, 1998 due date of the return). If A obtained a 6-month extension to file its 1997 income tax return, A may make the regulatory election by taking the corrective action of filing an amended return with the appropriate form by September 15, 1999 (12 months from the September 15, 1998 extended due date of the return).

Example 2. Automatic 6-month extension. Taxpayer B fails to make an election not described in paragraph (a)(2) of this section when filing B's 1997 income tax return on March 16, 1998, the due date of the return. This election does not affect the tax liability of any other taxpayer. The applicable regulation requires that the election be made by attaching the appropriate form to a timely filed return including extensions. In accordance with paragraphs (b) and (c) of this section, B may make the regulatory election by taking the corrective action of filing an amended return with the appropriate form by September 15, 1998 (6 months from the March 16, 1998 due date of the return).

[T.D. 8742, 62 FR 68170, Dec. 31, 1997]

§ 301.9100–3 Other extensions.

(a) *In general.* Requests for extensions of time for regulatory elections that do not meet the requirements of § 301.9100–2 must be made under the rules of this section. Requests for relief subject to this section will be granted when the taxpayer provides the evidence (including affidavits described in paragraph (e) of this section) to establish to the satisfaction of the Commissioner that the taxpayer acted reasonably and in good faith, and the grant of relief will not prejudice the interests of the Government.

(b) *Reasonable action and good faith*—(1) *In general.* Except as provided in paragraphs (b)(3)(i) through (iii) of this section, a taxpayer is deemed to have acted reasonably and in good faith if the taxpayer—

(i) Requests relief under this section before the failure to make the regulatory election is discovered by the Internal Revenue Service (IRS);

(ii) Failed to make the election because of intervening events beyond the taxpayer's control;

(iii) Failed to make the election because, after exercising reasonable diligence (taking into account the taxpayer's experience and the complexity of the return or issue), the taxpayer was unaware of the necessity for the election;

(iv) Reasonably relied on the written advice of the Internal Revenue Service (IRS); or

(v) Reasonably relied on a qualified tax professional, including a tax professional employed by the taxpayer, and the tax professional failed to make, or advise the taxpayer to make, the election.

(2) *Reasonable reliance on a qualified tax professional.* For purposes of this paragraph (b), a taxpayer will not be considered to have reasonably relied on a qualified tax professional if the taxpayer knew or should have known that the professional was not—

(i) Competent to render advice on the regulatory election; or

(ii) Aware of all relevant facts.

(3) *Taxpayer deemed to have not acted reasonably or in good faith.* For purposes of this paragraph (b), a taxpayer is deemed to have not acted reasonably and in good faith if the taxpayer—

(i) Seeks to alter a return position for which an accuracy-related penalty has been or could be imposed under section 6662 at the time the taxpayer requests relief (taking into account any qualified amended return filed within the meaning of § 1.6664–2(c)(3) of this chapter) and the new position requires or permits a regulatory election for which relief is requested;

(ii) Was informed in all material respects of the required election and related tax consequences, but chose not to file the election; or

(iii) Uses hindsight in requesting relief. If specific facts have changed since the due date for making the election

that make the election advantageous to a taxpayer, the IRS will not ordinarily grant relief. In such a case, the IRS will grant relief only when the taxpayer provides strong proof that the taxpayer's decision to seek relief did not involve hindsight.

(c) *Prejudice to the interests of the Government*—(1) *In general.* The Commissioner will grant a reasonable extension of time to make a regulatory election only when the interests of the Government will not be prejudiced by the granting of relief. This paragraph (c) provides the standards the Commissioner will use to determine when the interests of the Government are prejudiced.

(i) *Lower tax liability.* The interests of the Government are prejudiced if granting relief would result in a taxpayer having a lower tax liability in the aggregate for all taxable years affected by the election than the taxpayer would have had if the election had been timely made (taking into account the time value of money). Similarly, if the tax consequences of more than one taxpayer are affected by the election, the Government's interests are prejudiced if extending the time for making the election may result in the affected taxpayers, in the aggregate, having a lower tax liability than if the election had been timely made.

(ii) *Closed years.* The interests of the Government are ordinarily prejudiced if the taxable year in which the regulatory election should have been made or any taxable years that would have been affected by the election had it been timely made are closed by the period of limitations on assessment under section 6501(a) before the taxpayer's receipt of a ruling granting relief under this section. The IRS may condition a grant of relief on the taxpayer providing the IRS with a statement from an independent auditor (other than an auditor providing an affidavit pursuant to paragraph (e)(3) of this section) certifying that the interests of the Government are not prejudiced under the standards set forth in paragraph (c)(1)(i) of this section.

(2) *Special rules for accounting method regulatory elections.* The interests of the Government are deemed to be prejudiced except in unusual and compelling circumstances if the accounting method regulatory election for which relief is requested—

(i) Is subject to the procedure described in §1.446–1(e)(3)(i) of this chapter (requiring the advance written consent of the Commissioner);

(ii) Requires an adjustment under section 481(a) (or would require an adjustment under section 481(a) if the taxpayer changed to the method of accounting for which relief is requested in a taxable year subsequent to the taxable year the election should have been made);

(iii) Would permit a change from an impermissible method of accounting that is an issue under consideration by examination, an appeals office, or a federal court and the change would provide a more favorable method or more favorable terms and conditions than if the change were made as part of an examination; or

(iv) Provides a more favorable method of accounting or more favorable terms and conditions if the election is made by a certain date or taxable year.

(3) *Special rules for accounting period regulatory elections.* The interests of the Government are deemed to be prejudiced except in unusual and compelling circumstances if an election is an accounting period regulatory election (other than the election to use other than the required taxable year under section 444) and the request for relief is filed more than 90 days after the due date for filing the Form 1128, Application to Adopt, Change, or Retain a Tax Year (or other required statement).

(d) *Effect of amended returns*—(1) *Second examination under section 7605(b).* Taxpayers requesting and receiving an extension of time under this section waive any objections to a second examination under section 7605(b) for the issue(s) that is the subject of the relief request and any correlative adjustments.

(2) *Suspension of the period of limitations under section 6501(a).* A request for relief under this section does not suspend the period of limitations on assessment under section 6501(a). Thus, for relief to be granted, the IRS may require the taxpayer to consent under section 6501(c)(4) to an extension of the period of limitations on assessment for

the taxable year in which the regulatory election should have been made and any taxable years that would have been affected by the election had it been timely made.

(e) *Procedural requirements*—(1) *In general*. Requests for relief under this section must provide evidence that satisfies the requirements in paragraphs (b) and (c) of this section, and must provide additional information as required by this paragraph (e).

(2) *Affidavit and declaration from taxpayer*. The taxpayer, or the individual who acts on behalf of the taxpayer with respect to tax matters, must submit a detailed affidavit describing the events that led to the failure to make a valid regulatory election and to the discovery of the failure. When the taxpayer relied on a qualified tax professional for advice, the taxpayer's affidavit must describe the engagement and responsibilities of the professional as well as the extent to which the taxpayer relied on the professional. The affidavit must be accompanied by a dated declaration, signed by the taxpayer, which states: ''Under penalties of perjury, I declare that I have examined this request, including accompanying documents, and, to the best of my knowledge and belief, the request contains all the relevant facts relating to the request, and such facts are true, correct, and complete.'' The individual who signs for an entity must have personal knowledge of the facts and circumstances at issue.

(3) *Affidavits and declarations from other parties*. The taxpayer must submit detailed affidavits from the individuals having knowledge or information about the events that led to the failure to make a valid regulatory election and to the discovery of the failure. These individuals must include the taxpayer's return preparer, any individual (including an employee of the taxpayer) who made a substantial contribution to the preparation of the return, and any accountant or attorney, knowledgeable in tax matters, who advised the taxpayer with regard to the election. An affidavit must describe the engagement and responsibilities of the individual as well as the advice that the individual provided to the taxpayer. Each affidavit must include the name, current address, and taxpayer identification number of the individual, and be accompanied by a dated declaration, signed by the individual, which states: ''Under penalties of perjury, I declare that I have examined this request, including accompanying documents, and, to the best of my knowledge and belief, the request contains all the relevant facts relating to the request, and such facts are true, correct, and complete.''

(4) *Other information*. The request for relief filed under this section must also contain the following information—

(i) The taxpayer must state whether the taxpayer's return(s) for the taxable year in which the regulatory election should have been made or any taxable years that would have been affected by the election had it been timely made is being examined by a district director, or is being considered by an appeals office or a federal court. The taxpayer must notify the IRS office considering the request for relief if the IRS starts an examination of any such return while the taxpayer's request for relief is pending;

(ii) The taxpayer must state when the applicable return, form, or statement used to make the election was required to be filed and when it was actually filed;

(iii) The taxpayer must submit a copy of any documents that refer to the election;

(iv) When requested, the taxpayer must submit a copy of the taxpayer's return for any taxable year for which the taxpayer requests an extension of time to make the election and any return affected by the election; and

(v) When applicable, the taxpayer must submit a copy of the returns of other taxpayers affected by the election.

(5) *Filing instructions*. A request for relief under this section is a request for a letter ruling. Requests for relief should be submitted in accordance with the applicable procedures for requests for a letter ruling and must be accompanied by the applicable user fee.

(f) *Examples*. The following examples illustrate the provisions of this section:

Example 1. Taxpayer discovers own error. Taxpayer A prepares A's 1997 income tax return. A is unaware that a particular regulatory election is available to report a transaction in a particular manner. A files the 1997 return without making the election and reporting the transaction in a different manner. In 1999, A hires a qualified tax professional to prepare A's 1999 return. The professional discovers that A did not make the election. A promptly files for relief in accordance with this section. Assume paragraphs (b)(3) (i) through (iii) of this section do not apply. Under paragraph (b)(1)(i) of this section, A is deemed to have acted reasonably and in good faith because A requested relief before the failure to make the regulatory election was discovered by the IRS.

Example 2. Reliance on qualified tax professional. Taxpayer B hires a qualified tax professional to advise B on preparing B's 1997 income tax return. The professional was competent to render advice on the election and B provided the professional with all the relevant facts. The professional fails to advise B that a regulatory election is necessary in order for B to report income on B's 1997 return in a particular manner. Nevertheless, B reports this income in a manner that is consistent with having made the election. In 2000, during the examination of the 1997 return by the IRS, the examining agent discovers that the election has not been filed. B promptly files for relief in accordance with this section, including attaching an affidavit from B's professional stating that the professional failed to advise B that the election was necessary. Assume paragraphs (b)(3) (i) through (iii) of this section do not apply. Under paragraph (b)(1)(v) of this section, B is deemed to have acted reasonably and in good faith because B reasonably relied on a qualified tax professional and the tax professional failed to advise B to make the election.

Example 3. Accuracy-related penalty. Taxpayer C reports income on its 1997 income tax return in a manner that is contrary to a regulatory provision. In 2000, during the examination of the 1997 return, the IRS raises an issue regarding the reporting of this income on C's return and asserts the accuracy-related penalty under section 6662. C requests relief under this section to elect an alternative method of reporting the income. Under paragraph (b)(3)(i) of this section, C is deemed to have not acted reasonably and in good faith because C seeks to alter a return position for which an accuracy-related penalty could be imposed under section 6662.

Example 4. Election not requiring adjustment under section 481(a). Taxpayer D prepares D's 1997 income tax return. D is unaware that a particular accounting method regulatory election is available. D files D's 1997 return without making the election and uses another permissible method of accounting. The applicable regulation provides that the election is made on a cut-off basis (without an adjustment under section 481(a)). In 1998, D requests relief under this section to make the election under the regulation. If D were granted an extension of time to make the election, D would pay no less tax than if the election had been timely made. Assume that paragraphs (c)(2) (i), (iii), and (iv) of this section do not apply. Under paragraph (c)(2)(ii) of this section, the interests of the Government are not deemed to be prejudiced because the election does not require an adjustment under section 481(a).

Example 5. Election requiring adjustment under section 481(a). The facts are the same as in Example 4 of this paragraph (f) except that the applicable regulation provides that the election requires an adjustment under section 481(a). Under paragraph (c)(2)(ii) of this section, the interests of the Government are deemed to be prejudiced except in unusual or compelling circumstances.

Example 6. Under examination by the IRS. A regulation permits an automatic change in method of accounting for an item on a cut-off basis. Taxpayer E reports income on E's 1997 income tax return using an impermissible method of accounting for the item. In 2000, during the examination of the 1997 return by the IRS, the examining agent notifies E in writing that its method of accounting for the item is an issue under consideration. Any change from the impermissible method made as part of an examination is made with an adjustment under section 481(a). E requests relief under this section to make the change pursuant to the regulation for 1997. The change on a cut-off basis under the regulation would be more favorable than if the change were made with an adjustment under section 481(a) as part of an examination. Under paragraph (c)(2)(iii) of this section, the interests of the Government are deemed to be prejudiced except in unusual and compelling circumstances because E seeks to change from an impermissible method of accounting that is an issue under consideration in the examination on a basis that is more favorable than if the change were made as part of an examination.

[T.D. 8742, 62 FR 68171, Dec. 31, 1997]

§ 301.9100–4T Time and manner of making certain elections under the Economic Recovery Tax Act of 1981.

(a) *Miscellaneous elections*—(1) *Elections to which this paragraph applies.* This paragraph applies to the following elections provided under the Economic Recovery Tax Act of 1981:

Section of Act	Section of code	Description of election	Availability of election
201(a) ...	168(b)(3)	Different recovery period	Property placed in service after 1980.
201(a) ...	168(d)(2)(A)	Inclusion in income of entire proceeds of disposition.	Property placed in service after 1980.
201(a) ...	168(e)(2)	Exclusion of property from recovery system ..	Property placed in service after 1980.
201(a) ...	168(f)(2)(C)	Different recovery period for property used outside U.S..	Property placed in service after 1980.
202(a) ...	179	Expensing certain depreciable property	Taxable years beginning after 1981.
237	474	For small business to use one inventory pool when LIFO is elected.	Taxable years beginning after 1981.
266(a) ...	.....	Deferral of commencement of amortization period for motor carrier operating authority.	Taxable years ending after June 30, 1980.
508(c) ...	.....	Application of title V of the Act to all regulated futures contracts or positions held on June 23, 1981.	Property held on June 23, 1981.
509	.....	Application of Code sec. 1256 and extension of time for payment of tax for all regulated futures contracts held at any time during taxable year that includes June 23, 1981.	Property held during taxable year that includes June 23, 1981.

(2) *Time for making elections*—(i) *In general*. Except as otherwise provided in this paragraph (a)(2), the elections specified in paragraph (a)(1) of this section shall be made by the later of—

(A) The due date (taking extensions into account) of the income tax return for the taxable year for which the election is to be effective, or

(B) April 15, 1982.

(ii) *No extension of time for payment*. Payments of tax due shall be made in accordance with chapter 62 of the Code.

(iii) *Elections under section 508(c) or 509 of the Act*. Elections under section 508(c) or 509 of the Act shall be made by the due date (taking extensions into account) of the income tax return for the taxable year for which the election is to be effective.

(3) *Manner of making elections*. The elections specified in paragraph (a)(1) of this section shall be made by attaching a statement to the income tax return (or amended return) for the taxable year for which the election is made. Except as otherwise provided in the return or in the instructions accompanying the return for the taxable year, the statement shall—

(i) Contain the name, address, and taxpayer identification number of the electing taxpayer,

(ii) Identify the election,

(iii) Indicate the section of the Code (or, if the provision is not codified, the section of the Act) under which the election is being made,

(iv) Specify the period for which the election is being made and the property to which the election is to apply, and

(v) Provide any information required by the relevant statutory provisions and any information necessary to show that the taxpayer is entitled to make the election.

(b) *Designation of principal campaign committee*. This paragraph applies to the designation of a principal campaign committee under section 527(h) of the Code, as added by section 128 of the Act. References in this section to ''elections'' include designations under section 527(h). Under that provision a candidate for Congress may designate one committee as the candidate's principal campaign committee. The political organization taxable income of that committee shall be taxed at the appropriate rates under section 11(b); that income is ordinarily taxed at the highest rate specified in section 11(b). The candidate shall designate the principal campaign committee by filing a statement of designation with the income tax return of the committee for the first taxable year of the committee ending after 1981 for which the designation is to be effective. The return and the statement shall be filed by the due date (taking extensions into account) of the return. The rules of section 21 (relating to effects of changes in rates during a taxable year) shall apply in the case of any taxable year beginning before 1982 for which a designation is made. The statement of designation

shall be signed by the candidate and shall—

(1) Contain the name, address, and taxpayer identification number of the candidate and of the committee,

(2) Identify the statement as a designation under section 527(h) of the Code, and

(3) Designate the committee as the principal campaign committee of the candidate.

The candidate shall attach to the statement a copy of the statement of designation filed with the Federal Election Commission.

(c) *Election to be treated as a qualified fund for purposes of the research credit.* This paragraph applies to the election provided under section 44F(e)(4) of the Code, as added by section 221(a) of the Act. The election to be treated as a qualified fund for purposes of the research credit may be made effective as of any date after June 30, 1981, and before January 1, 1986. An organization shall make this election by filing with the service center with which it files its annual return a statement signed by a person authorized to act on behalf of the organization. That statement shall—

(1) Contain the name, address, and taxpayer identification number of the electing organization and of the organization that established and maintains the electing organization,

(2) Identify the election as an election under section 44F(e)(4) of the Code,

(3) Specify the date on which the election is to become effective (in the case of elections filed before February 1, 1982, not earlier than the date that is 7 months before the date on which the election is filed; in the case of elections filed after January 31, 1982, not earlier than the date on which the election is filed), and

(4) Provide all information necessary to show that the organization is entitled to make the election.

(d) *Election to treat qualified subchapter S trust as grantor trust.* This paragraph applies to the election provided under section 1371(g)(2) of the Code, as added by section 234(b) of the Act. The election to treat a qualified subchapter S trust as a grantor trust described in section 1371(e)(1)(A) of the Code is available for taxable years beginning after 1981. The beneficiary of the trust (or the legal representative of the beneficiary) shall make this election by signing and filing with the service center with which the subchapter S corporation files its income tax return a statement that—

(1) Contains the name, address, and taxpayer identification number of the beneficiary, the trust, and the subchapter S corporation,

(2) Identifies the election as an election under section 1371(g)(2) of the Code,

(3) Specifies the date on which the election is to become effective (not earlier than 60 days before the date on which the election is filed), and

(4) Provides all information necessary to show that the beneficiary is entitled to make the election.

Note that this election does not itself constitute an election as to the status of the corporation; the corporation must make the election provided in section 1372(a) to be treated as an electing small business corporation.

(e) *Election to have Code section 422A apply to options granted before 1981.* This paragraph applies to the election provided under section 251(c)(1)(B) of the Act to have Code section 422A apply to certain options granted before 1981. A corporation may make only one election under this provision. Thus, a corporation that makes an election under this provision with respect to certain options granted before 1981 may not make any subsequent election under this provision with respect to other options granted before 1981. An election under this provision shall be made no later than the due date (taking extensions into account) of the income tax return of the corporation for its first taxable year during which either an option subject to the election or an option subject to the rules of section 422A of the Code is exercised. In any event, no election under this provision will be permitted after the due date (taking extensions into account) of the income tax return for the taxable year including December 31, 1982. A corporation shall make this election by attaching to its income tax return (or amended return) a statement that—

(1) Contains the name, address, and taxpayer identification number of the corporation,

(2) Identifies the election as an election under section 251(c)(1)(B) of the Economic Recovery Tax Act of 1981,

(3) Specifies the options to which the election applies, and

(4) Provides all information necessary to show that the corporation is entitled to make the election.

(f) *Election to increase basis of property on which additional estate tax is imposed.* This paragraph applies to the election provided under section 1016(c) of the Code, as amended by section 421(g) of the Act. The election to increase the basis of property on which additional estate tax is imposed is available with respect to the estates of decedents dying after 1981. The qualified heir shall make this election by filing with the Form 706–A (Additional Estate Tax Return) a statement that—

(1) Contains the name, address, and taxpayer identification number of the qualified heir and of the estate,

(2) Identifies the election as an election under section 1016(c) of the Code,

(3) Specifies the property with respect to which the election is made, and

(4) Provides any additional information required by the instructions accompanying Form 706–A.

A qualified heir making an election under this paragraph must pay interest on the additional estate tax from the date that is 9 months after the date of the decedent's death to the date of the payment of the additional estate tax.

(g) *Revocation of elections.* Elections under paragraph (f) of this section are irrevocable. Other elections made under this section may be revoked only with the consent of the Commissioner. An application for consent to revoke an election shall be signed by the applicant and filed with the service center with which the election was filed and shall—

(1) Contain the name, address, and taxpayer identification number of all parties identified in connection with the election,

(2) Identify the election being revoked by reference to the section of the Code or Act under which the election was made,

(3) Specify the scope of the election, and

(4) Explain why the applicant seeks to revoke the election.

(h) *Additional information required.* If later regulations issued under the section of the Code or Act under which the election was made require the furnishing of information in addition to that which was furnished with the statement of election and an office of the Internal Revenue Service requests the taxpayer to provide the additional information, the taxpayer shall furnish the additional information in a statement filed with that office of the Internal Revenue Service within 60 days after the request is made. This statement shall also—

(1) Contain the name, address, and taxpayer identification numbers of all parties identified in connection with the election,

(2) Identify the election by reference to the section of the Code or Act under which the election was made, and

(3) Specify the scope of the election.

If the additional information is not provided within 60 days after the request is made, the election may, at the discretion of the Commissioner, be held invalid.

(i) *Effective date.* This section applies to elections made after August 12, 1981.

[T.D. 7793, 46 FR 54538, Nov. 3, 1981. Redesignated by T.D. 8435, 57 FR 43895, Sept. 23, 1992. Amended by T.D. 9481, 75 FR 17857, Apr. 8, 2010]

§ 301.9100–5T Time and manner of making certain elections under the Tax Equity and Fiscal Responsibility Act of 1982.

(a) *Miscellaneous elections*—(1) *Elections to which this paragraph applies.* This paragraph applies to the following elections provided under the Tax Equity and Fiscal Responsibility Act of 1982.

Section of act	Section of code	Description of election	Availability of election
201(c) ...	58(i)(1)	Optional 10-year write off of certain tax preferences.	Taxable years beginning after Dec. 31, 1982.
201(c)(1)	58(i)(4)	Intangible drilling and development costs.	Taxable years beginning after Dec. 31, 1982.

Section of act	Section of code	Description of election	Availability of election
205(a) ...	48(q) ..	Reduced investment credit in lieu of basis adjustment.	Generally to period beginning after Dec. 31, 1982.
256(f)	820	Insurance company revocation of election under section 820.	Contracts which took effect in 1980 or 1981.

(2) *Time for making elections*—(i) *In general*. Except as otherwise provided in paragraph (a)(2) of this section, the elections specified in paragraph (a)(1) of this section shall be made by the later of—

(A) The due date (taking extensions into account) of the income tax return for the taxable year for which the election is to be effective, or

(B) April 15, 1983.

(ii) *No extensions of time for payment*. Payments of tax due shall be made in accordance with chapter 62 of the Code.

(iii) *Election by insurance companies relating to repeal of section 820*. Elections under section 256(f) of the Act, relating to special rule allowing reinsured insurance company to revoke an election under section 820, must be made before March 5, 1983.

(3) *Manner of making elections*. The elections specified in paragraph (a)(1) of this section shall be made by attaching a statement to the income tax return (or amended return) for the taxable year for which the election is made. Except as otherwise provided in the return or in the instructions accompanying the return for the taxable year, the statement shall—

(i) Contain the name, address, and taxpayer identification number of the electing taxpayer,

(ii) Identify the election,

(iii) Indicate the section of the Code (or, if the provision is not codified, the section of the Act) under which the election is being made,

(iv) Specify the period for which the election is being made and the property to which the election is to apply, and

(v) Provide any information required by the relevant statutory provisions and any information necessary to show that the taxpayer is entitled to make the election.

(b) *Special rules for reduced investment credit in lieu of basis adjustment*—(1) *Appropriate return*. For purposes of section 48(q) of the Code and paragraph (a)(2)(i)(A) and (3) of this section the term ''income tax return for the taxable year for which the election is effective'' with respect to any property is the tax return for the taxable year in which such property is placed in service, or in the case of property to which an election under section 46(d) (relating to qualified progress expenditures) applies, the appropriate return is the return for the first taxable year for which qualified progress expenditures were taken into account with respect to such property.

(2) *Applicability of election*. In general, the election under section 48(q) is applicable to periods beginning after December 31, 1982 under rules similar to the rules of section 48(m) of the Code. However, the election does not apply to property excepted by section 205(c)(1)(B) of the Act.

(c) *Election by a reinsurer to make installment payments of taxes owed resulting from the repeal of section 820*. This paragraph applies to the election by an insurance company provided under section 256(e) of the Act. A reinsurer that is a calendar year tax-payer shall be considered to have made an election under section 256(e) of the Act if by March 15, 1983 it files its income tax return (or an application on Form 7004 for an automatic extension of time to file its income tax return), with the statement required to be filed under this paragraph attached and, unless the reinsurer is making a further election under section 256(e)(2)(B) of the Act, pays one-third of the amount described in section 256(e)(1) of the Act by March 15, 1983. A reinsurer making an election under section 256(e)(2)(B) of the Act must pay one-sixth of the amount described in section 256(e)(1) of the Act by March 15, 1983 and one-sixth of such amount by June 15, 1983. The statement required to be filed under this paragraph shall—

(1) Contain the name, address, and tax-payer identification number of the corporation,

(2) Identify the election as an election under section 256(e) of the Act, and section 256(e)(2)(B) if applicable, and

(3) Provide all information necessary to show the taxpayer is entitled to make the election.

For provisions relating to the use of authorized financial institutions in depositing the taxes, see § 1.6302–1.

(d) [Reserved]

(e) *Additional information required.* If later regulations issued under the section of the Code or Act under which the election was made require the furnishing of information in addition to that which was furnished with the statement of election and an office of the Internal Revenue Service requests the taxpayer to provide the additional information, the taxpayer shall furnish the additional information in a statement filed with that office of the Internal Revenue Service within 60 days after the request is made. This statement shall also—

(1) Contain the name, address, and taxpayer identification numbers of all parties identified in connection with the election,

(2) Identify the election by reference to the section of the Code or Act under which the election was made, and

(3) Specify the scope of the election.

If the additional information is not provided within 60 days after the request is made, the election may, at the discretion of the Commissioner, be held invalid.

(f) *Effective date.* This section applies to elections made after September 3, 1982.

[T.D. 7870, 48 FR 1486, Jan. 13, 1983. Redesignated by T.D. 8435, 57 FR 43895, Sept. 23, 1992, as amended by T.D. 8952, 66 FR 33832, June 26, 2001]

§ 301.9100–6T Time and manner of making certain elections under the Deficit Reduction Act of 1984.

(a) *Miscellaneous elections*—(1) *Elections to which this paragraph applies.* This paragraph applies to the following elections provided under the Deficit Reduction Act of 1984 (the Act):

TABLE 1 TO PARAGRAPH (a)(1)

Section of act	Section of code	Description of election	Availability of election
31(a) and 31(g)(16).	168(j)(4)(E)(ii)	Election by certain 501(c)(12) organizations to be treated as taxable organizations and to have certain arbitrage profits taxed.	Generally for property placed in service after May 23, 1983, or leased after such date.
31(f)	46(e)(4)(C)	Election by section 593 organizations not to apply section 46(e)(4)(A).	Generally for property placed in service after Nov. 5, 1983, or leased after such date.
41(a)	1282(b)(2)	Election to have section 1281 apply to all short-term obligations acquired on or after the first day of the first taxable year to which the election relates (but not to obligations acquired before July 19, 1984).	Taxable years ending after July 18, 1984, with respect to obligations acquired after such date.
41(a)	1283(c)(2)	Election to have section 1283(c)(1) not apply to all obligations acquired on or after the first day of the first taxable year to which the election relates (but not to obligations acquired before July 19, 1984).	Do.
113	48(r)	Election by all persons having an ownership interest in a sound recording to treat such recording as 3-yr. recovery property.	Property placed in service after Mar. 15, 1984.
431(e)(2)	46(c) (8) and (9), 48(d)(6), 47(d) (1) and (2).	Election to apply the investment tax credit at risk rules as modified by the Tax Reform Act of 1984 to all transactions covered by sec. 211(f) of the Economic Recovery Tax Act of 1981.	Generally to property placed in service between Feb. 18, 1981, and July 19, 1984.
712(l)(7)(B)	304	Election to apply certain technical corrections of sec. 304 to all transfers covered by the changes made to sec. 304 by the Tax Equity and Fiscal Responsibility Act of 1982.	Stock acquired after Aug. 31, 1982, and before June 19, 1984.
712(l)(7)(C)(ii)	304	Election with respect to bank holding companies to apply certain technical corrections of sec. 304 to stock acquired after June 18, 1984.	Generally to transfers to bank holding companies formed pursuant to application filed with Federal Reserve Board before June 18, 1984.
1066	163(d)	Elections to treat certain income from S corporations, for purposes of sec. 163(d), as such income would have been treated prior to the Subchapter S Revision Act of 1982.	With respect to S corporation taxable years beginning in 1983 or 1984.

Section of act	Section of code	Description of election	Availability of election
1078	.....	Election to exclude from gross income payments from U.S. Forest Service as result of restricting motorized traffic in the boundary waters canoe area.	Payments in taxable years beginning after Dec. 31, 1979.

(2) *Time for making elections*—(i) *In general*. Except as otherwise provided in this paragraph (a)(2), the elections specified in paragraph (a)(1) of this section shall be made by the later of—

(A) The due date (taking extensions into account) of the tax return for the first taxable year for which the election is to be effective, or

(B) April 15, 1985 (in which case the election generally must be made by amended return).

(ii) *No extension of time for payment*. Payments of tax due shall be made in accordance with chapter 62 of the Code.

(iii) [Reserved]

(iv) *Time for making the election to exclude from gross income payments received from the U.S. Forest Service as a result of the restriction of motorized traffic in the Boundary Waters Canoe Area*. Elections under section 1078 of the Act shall be made by the later of the expiration of the period for making a claim for credit or refund of the tax imposed by chapter 1 of the Code for the taxable year in which the reinvestment of the payment occurred, or July 18, 1985. Amended returns for years after the year for which the election is made must be filed if making this election affects the tax liability for such years.

(3) *Manner of making elections*—(i) *In general*. The elections specified in paragraph (a)(1) of this section shall be made by attaching a statement to the tax return for the taxable year in which the election is made. If because of paragraph (a)(2)(i)(B) the election may be filed after the due date of the tax return for the first taxable year for which the election is to be effective, such election must be attached to a tax return or amended return for the taxable year to which the election relates. Except as otherwise provided in the return or in the instructions accompanying the return for the taxable year, the statement shall—

(A) Contain the name, address, and taxpayer identification number of the electing taxpayer,

(B) Identify the election,

(C) Indicate the section of the Code (or, if the provision is not codified, the section of the Act) under which the election is made,

(D) Specify, as applicable, the period for which the election is being made and/or the property or other items to which the election is to apply, and

(E) Provide any information required by the relevant statutory provisions and any information necessary to show that the taxpayer is entitled to make the election.

(ii) *Special rules for making the election with respect to sound recordings*. The election under section 48(r), as amended by section 113 of the Act, shall be made separately for each sound recording and must be made by all persons having an ownership interest in the sound recording. In the case of an ownership interest held by a partnership or an S corporation, the partnership or S corporation shall make the election. Each person making the election shall do so in accordance with paragraph (a)(2) and (3) of this section, and shall identify in the statement described in paragraph (a)(3) of this section the persons with ownership interests in the sound recording, and shall state that each such person is making the election with respect to that sound recording.

(iii) *Special rules for making the election with respect to redemption through use of related corporations*. For either election available under section 712(l)(7) of the Act (relating to redemptions through related corporations) to be effective, such election must be made jointly by both the issuing and acquiring corporations. The election is made jointly when both the issuing and acquiring corporations make the election in accordance with paragraph (a)(2) and (3) of this section.

(iv) *Special rules for making the election for investment tax credit at risk rules.* The election under section 431(e)(2) of the Act is made by filing an amended return for the first taxable year ending after February 18, 1981, during which taxable year property, to which the amendments made by section 211(f) of the Economic Recovery Tax Act of 1981 apply, was placed in service. If that taxable year is a closed year, the election is made by filing an amended return for the first succeeding open taxable year, but in such event this election can be made only if the aggregate amount of the investment tax credit that would have been allowable in the closed years had the election been effective for those years is greater than or equal to the amount of the investment tax credits actually claimed in the closed years. In the case of partnerships and S corporations, the election under section 431(e) is made, respectively, at the partner or the shareholder level. Any election made under section 431(e) shall apply to all property of the taxpayer to which the amendments made by section 211(f) of the Economic Recovery Tax Act of 1981 apply. Amended returns must be filed for any year the tax liability for which is affected by making this election.

(4) *Revocation.* The elections under Act sections 31(a), 31(g)(16), 31(f), 113, 431(e)(2), and 712(l)(7) (B) and (C)(ii) are irrevocable. Elections under Act sections 41(a) (Code sections 1282(b)(2) and 1283(c)(2)), 1066, and 1078 are revocable only with the consent of the Commissioner.

(b) *Church or qualified church-controlled organization's election of exemption from social security taxes under chapter 21*—(1) *In general.* This paragraph applies to the election under section 3121(w) of the Code, as added by section 2603(b) of the Act, by a church or qualified church-controlled organization (as defined in section 3121(w)(3)) that service performed in the employ of such church or organization shall be excluded from employment for purposes of title II of the Social Security Act and chapter 21 of the Internal Revenue Code. Any election made under section 3121(w) shall apply to all services performed on or after January 1, 1984, by employees of such church or organization (whether or not they were employees on that date or on the date the election is made). Employees of the electing church or organization are subject to the provisions of chapter 2 of the Code (relating to the tax on self-employment income) as amended by section 2603 (c)(2) and (d)(2) of the Act for service performed for such church or organization on or after January 1, 1984.

(2) *Time for making the election.* Any election under section 3121(w) by a church or qualified church-controlled organization for which a quarterly employment tax return for the tax imposed under section 3111 is due (or would be due but for the election) on October 31, 1984, must be made on or before October 30, 1984. Any election under section 3121(w) by a church or organization for which the first quarterly employment tax return for the tax imposed under section 3111 is due (or would be due but for this election) after October 31, 1984, must be made on or before the day before the first date that such tax return would be due from the church or organization (disregarding any extension of such due date). A purported election filed after the date prescribed in this paragraph (b)(2) shall be void.

(3) *Manner of making the election.* To make an election under section 3121(w), a church or qualified church-controlled organization must certify that it is opposed for religious reasons to the payment of the tax imposed by section 3111 (relating to the employer tax) of the Code. The election and certification are made by executing and filing Form 8274 in accordance with the form and its instructions. The form shall be signed by an official authorized to sign tax returns for the church or organization. Where tax imposed by section 3111 is reported (or would be reported but for this election) with respect to more than one church or organization on a single quarterly employment tax return, and the election under section 3121(w) is made, then all of the churches and organizations covered by the last such return filed before such election was made for which the time for making the election has not expired shall be covered by the election unless

specifically excluded by stating such exclusion in the election.

(4) *Refunds of FICA taxes paid.* Where a church or qualified church-controlled organization makes a timely election under section 3121(w), a refund, without interest, shall be made to such church or organization of any taxes paid under sections 3101 and 3111 with respect to service performed after December 31, 1983, covered by the election. However, the refund will be made only if the church or organization agrees on its claim for the refund to pay to each employee covered by the election the portion of the refund attributable to the tax imposed on the wages of the employee by section 3101. The employee may not receive any other refund of such taxes. The claim for refund shall be made by the church or organization by filing Form 843 with the service center where the Form 941 on which the taxes subject to refund was filed. Form 843 shall be executed in accordance with the form and its instructions, and also in accordance with the instructions to Form 8274 that relate to Form 843.

(5) *Irrevocability of election except by Commissioner.* An election under section 3121 shall be irrevocable by the electing church or organization. The Commissioner, however, shall permanently revoke the election if the church or organization fails to furnish the information required under section 6051 to the Internal Revenue Service for a period of 2 years or more and also fails to furnish such information within 60 days after a written request therefor is made by the Internal Revenue Service.

(c) *Election to issue taxable student loan bonds.* This paragraph applies to the election by an issuer to issue taxable student loan bonds under section 625(c) of the Act. The election is available for obligations issued after December 31, 1983, and is made by filing a statement and necessary attachments with the Internal Revenue Service Center, Philadelphia, PA 19255, prior to the issuance of such taxable bonds. The statement shall identify the election as made under section 625(c) of the Tax Reform Act of 1984 and shall contain the name, address and taxpayer identification number of the issuer, and the total purchase price, face amount and interest rate of the issue, bond issuance costs, amounts allocated to reasonably required reserve or replacement funds, and the date of issue. The issuer shall attach to the statement of election a copy of previous Internal Revenue Service correspondence relating to the tax exempt status of the issuing authority and a statement containing the total purchase price, face amount, interest rate, bond issuance costs, amounts allocated to reasonably required reserve or replacement funds, and the date of issuance of outstanding tax exempt issues of student loan bonds of the issuer. With respect to outstanding tax exempt issues of student loan bonds of the issuer issued after December 31, 1982, the issuer may alternatively attach copies of the Form 8038 filed with respect to such issues. Each taxable student loan bond must state on its face that the interest paid on such bond is subject to federal income taxation. An election with respect to an issue is irrevocable once made.

(d) [Reserved]

(e) *Election not to claim the credit for alcohol used as fuel.* The election under section 40(f) (as added by section 474(k) of the Act) not to claim the alcohol fuels credit is available for taxable years beginning after December 31, 1983, and shall be made for the taxable year in which such credit is determined by not claiming such credit on an original return or amended return at any time before the expiration of the 3-year period beginning on the last date prescribed by law for filing the return for the taxable year (determined without regard for extensions). The election may be revoked within the 3-year period by filing an amended return and claiming the credit on the return.

(f) *Protective election to adopt LIFO method*—(1) *Time for making the election.* A protective election in connection with the enactment of section 95 of the Act to adopt the LIFO method of accounting for inventory under section 472 of the Code can only be made for the taxpayer's first taxable year beginning after July 18, 1984, and must be made on or before the due date (including extensions) of the tax return for

such taxable year. Once made, the election is irrevocable unless the Commissioner authorizes the use of another inventory method (see § 1.472–5).

(2) *Manner for making a protective election*. The protective election is made by completing all line items on a current Form 970 and indicating that the election is a protective election filed in connection with the enactment of section 95 of the Tax Reform Act of 1984. The Form 970 must be attached to the taxpayer's income tax return for the taxable year for which the protective election is made. The LIFO method adopted under the protective election must be consistent in all respects with the taxpayer's LIFO method used in the taxpayer's most recently completed taxable year for which the LIFO method was used. In completing the current Form 970, the taxpayer shall specify the method of inventory valuation that the taxpayer would have used, the opening LIFO inventory for the taxable year for which the protective election is made, and the section 481 adjustment that would be required, as if the taxpayer were not on the LIFO method for the taxable year immediately preceding the taxable year for which the protective election is made.

(g) *Election by an estate or trust to recognize gain or loss on the distribution of property (other than cash) to a beneficiary*. This paragraph applies to the election made by a trust or estate to recognize gain or loss on the distribution of property (other than cash) to a beneficiary under section 643(d) of the Code as amended by section 81 of the Act. The election is available for distributions made after June 1, 1984, in taxable years ending after such date. The election must be made by the fiduciary who is required to make the return of the estate or trust under section 641 and § 1.641(b)–2. The election shall be made by such fiduciary on the tax return of the estate or trust for the taxable year with respect to which the distribution of property was made and must be filed by the due date (including extensions) of such return. Until the Form 1041, U.S. Fiduciary Income Tax Return is revised, the election should be made by including the gain or loss on the Schedule D (or other appropriate schedule, if applicable) of the Form 1041 and attaching the statement described in paragraph (a)(3) of this section to the tax return on which the election is made and including on that statement the name and taxpayer identification number of the distributee. For distributions made after June 1, 1984, and before July 18, 1984, the election must be filed by the later of the due date (including extentions) of the tax return of the estate or trust for the taxable year with respect to which the distribution was made or January 1, 1985. For those distributions, the fiduciary may make the election in the manner described above on a tax return, or amended return, for the year with respect to which the distribution was made. An election under section 643(d) may be revoked only with the consent of the Commissioner. The request for revocation of an election should be made by the fiduciary in the form of a ruling request and must contain the information required by regulations and revenue procedures pertaining thereto.

(h) *Election to treat a stapled foreign entity as a subsidiary*. This paragraph applies to the election, provided under section 136(c)(6) of the Act, to treat a foreign corporation which was a stapled entity with a domestic corporation as of June 30, 1983, as being owned (to the extent of its stapled interests) by the domestic corporation with which it is stapled. This treatment, if so elected, is in lieu of the treatment prescribed in section 269B(a)(1) of the Code, as added by the Act. This election may be made by the domestic corporation with which the foreign entity is stapled. The election may not be made by the foreign entity or by shareholders of the domestic corporation. This election must be made no later than January 14, 1985, and may be revoked only with the consent of the Commissioner. This election shall be effective after December 31, 1986. The domestic corporation shall make this election by filing with the service center with which the domestic corporation files its income tax return a statement that—

(1) Contains the name, address, and taxpayer identification number of the domestic corporation,

(2) Identifies the election as made under section 136(c)(6) of the Tax Reform Act of 1984, and,

(3) Identifies the foreign entity and the interests in the foreign entity which constitute stapled interests with respect to the stock of the domestic corporation, and specifies the date on which those interests became stapled interests.

If this election is not made, the foreign corporation (interests in which were stapled interests as of June 30, 1983) will be treated as a domestic corporation, effective January 1, 1987, under section 269B(a)(1) of the Code.

(i) *Election to treat certain section 1248 amounts as included in gross income under section 951(a)(1)(A).* This paragraph applies to the elections, provided under section 133(d)(3) of the Act, to treat amounts included in the gross income of any person as a dividend by reason of section 1248 (a) or (f) after October 9, 1975, and before July 19, 1985, as an amount included in the gross income of such person under section 951(a)(1)(A). The election with respect to transactions to which section 1248(a) applies may be made by the foreign corporation described in section 1248(a) (or its successor in interest). The election with respect to transactions to which section 1248(f) applies may be made by the domestic corporation described in section 1248(f)(1) (or its successor in interest). Neither election may be made by an affected shareholder of any such corporation (unless the shareholder is the successor in interest). This election must be made no later than January 14, 1985, and shall apply with respect to all transactions to which section 1248 (a) or (f) applies that occurred after October 9, 1975, and before July 19, 1984. Once made, the election may be revoked only with the consent of the Commissioner. A foreign corporation shall make this election by filing the statement described in this paragraph with the Internal Revenue Service Center, Philadelphia, PA 19255. A domestic corporation shall make this election by filing the statement described in this paragraph with the service center with which the domestic corporation files its income tax return. In either case, the statement shall—

(1) Contain the name, address, and taxpayer identification number (if any) of the corporation making the election,

(2) Identify the election as made under section 133(d)(3) of the Tax Reform Act of 1984, and

(3) Identify all of the transactions (including the date of each transaction), shareholders involved in those transactions, and amounts to which the election applies.

(j) *Special election for computing investment company taxable income.* This paragraph applies to the election by a regulated investment company provided under section 1071(b) of the Act, which added section 852(b)(2)(F) to the Code. Under section 852(b)(2)(F), the taxable income of a regulated investment company shall be computed without regard to section 454(b) (relating to short-term obligations issued on a discount basis) if the company so elects. The election may be made only for taxable years beginning after December 31, 1978. A regulated investment company shall make the election by computing taxable income without regard to section 454(b) on its return for the first taxable year for which it desires the election to apply and shall attach the statement described in paragraph (a)(3) of this section to the return on which the election is made. A regulated investment company shall make the election by the time set forth in paragraph (a)(2) of this section. Once made, the election applies to the first taxable year for which it is made and to all subsequent taxable years and cannot be revoked without the consent of the Commissioner.

(k) *Election of extension of time for payment of estate tax for interests in certain holding companies.* An election under section 6166(b)(8), as added by section 1021(a) of the Act, or under section 1021(d)(2) of the Act, shall be made by including on the notice of election under section 6166 required by § 20.6166–1(b) a statement that an election is being made under section 6166(b)(8) or section 1021(d)(2) of the Act (whichever is applicable) and the facts which formed the basis for the executor's conclusion that the estate qualified for such election. If a taxpayer makes an election described in this paragraph (k), then the special 4-percent interest

rate of section 6601(j) and the 5-year deferral of principal payments of section 6166(a)(3) are not available. Thus, the first installment of tax is due on the date prescribed by section 6151(a) and subsequent installments bear interest at the rate determined under section 6621. If the executor makes an election described in this paragraph (k) and the notice of election under section 6166 fails to state the amount of tax to be paid in installments or the number of installments, then the election is presumed to be for the maximum amount so payable and for payment thereof in 10 equal annual installments, beginning on the date prescribed in section 6151(a). The elections described under this paragraph (k) are available for estates of decedents dying after July 18, 1984.

(l) *Subchapter S election by commodities dealers and options dealers.* This paragraph applies to a commodities dealer or options dealer referred to in section 102(d)(3) of the Act (relating to the election by such a dealer to be an S corporation) whose taxable year is the calendar year and that was a small business corporation (as defined in section 1361(b) of the Code) as of January 1, 1984. The election by such a dealer under section 102(d)(3) of the Act shall be made in the manner prescribed by section 1362 and the regulations thereunder, except that the election under section 102(d)(3) must be made before October 2, 1984. In addition to making the election in the manner prescribed under such section 1362 and the regulations thereunder, the commodities dealer or options dealer must indicate on Form 2553 that the election is made under section 102(d)(3) of the Act. Although section 102(d)(3) of the Act applies to dealers not covered by this paragraph, and such dealers may make an election under such section 102(d)(3), guidelines for making such an election are not provided in this paragraph and are forthcoming.

(m) *Election with respect to treatment of S termination year.* For the election provided under section 1362(e)(3), as amended by section 721(h) of the Act, see § 18.1362–4 of this chapter.

(n) *Election to be an S corporation; certain short taxable years.* For the election provided under section 1362(b), as amended by section 721(l) of the Act, see § 18.1362–1(b) of this chapter.

(o) *Election with respect to subchapter S passive investment income rules.* For the election provided under section 721(i) of the Act which amends section 6(b) of the Subchapter S Revision Act of 1982, see § 18.1362–5 of this chapter.

(p) *Election with respect to subchapter S distributions during certain post-termination transition periods.* For the election provided under section 1371(e), as amended by section 721(o) of the Act, see § 18.1371–1 of this chapter.

(q) *No elections for closed year.* Any election under this section which is allowed to be made by filing an amended return may only be made if the period for making a claim for refund or credit with respect to the taxable year for which such election is to be effective has not expired. This paragraph shall not apply to the election under paragraph (a)(2)(iv) of this section with respect to the election under section 1078 of the Act.

(r) *Additional information required.* Later regulations or revenue procedures issued under provisions of the Code or Act covered by this section may require the furnishing of information in addition to that which was furnished with the statement of election described herein. In such event the later regulations or revenue procedures will provide guidance with respect to the furnishing of such additional information.

[T.D. 7976, 49 FR 35487, Sept. 10, 1984; T.D. 7976, 49 FR 43640, Oct. 31, 1984; 49 FR 43951, Nov. 1, 1984, as amended by T.D. 8062, 50 FR 46004, Nov. 6, 1985. Redesignated by T.D. 8435, 57 FR 43895, Sept. 23, 1992; T.D. 9172, 70 FR 296, Jan. 4, 2005: T.D. 9911, 85 FR 64394, Oct. 13, 2020]

§ 301.9100–7T Time and manner of making certain elections under the Tax Reform Act of 1986.

(a) *Miscellaneous elections*—(1) *Elections to which this paragraph applies.* This paragraph applies to the elections set forth below provided under the Tax Reform Act of 1986 (the Act). General rules regarding the time for making the elections are provided in paragraph (a)(2) of this section. General rules regarding the manner for making the elections are provided in paragraph

(a)(3) of this section. Special rules regarding the time and manner for making certain elections are contained in paragraphs (a) through (i) of this section. If a special rule applies to one of the elections listed below, a cross-reference to the special rule is shown in brackets at the end of the description of the ''Availability of Election.'' Paragraph (j) of this section provides that additional information with respect to elections may be required by future regulations or revenue procedures.

Section of Act	Section of Code	Description of Election	Availability of Election
201(a)	168(b)(5)	Election to depreciate property using the straight line method of recovery with respect to one or more classes of property for any taxable year	Property placed in service after 12–31–86. Election must be made for taxable year in which property is placed in service. Election shall apply to all property in the class placed in service during the taxable year for which the election is made.
201(a)	168(f)(1)	Election to exclude certain property from the accelerated cost recovery system	Property placed in service after 12–31–86. Election must be made for taxable year in which property is placed in service.
201(a)	168(g)(7)	Election to use alternative depreciation system with respect to one or more classes of property for any taxable year (except for residential rental or non-residential real property where the election may be made separately with respect to each property)	Property placed in service after 12–31–86. Election must be made for taxable year in which property is placed in service. Except for residential rental or non-residential real property, election shall apply to all property in the class placed in service during the taxable year for which the election is made.
201(a), 1802(a)	168(h)(6)(F)(ii), 168(j) (as in effect before October 22, 1986).	Election by a tax-exempt controlled entity to treat any gain recognized by the tax-exempt parent on any disposition of an interest in the tax-exempt controlled entity (and to treat any dividends or interest received or accrued from the tax-exempt controlled entity) as unrelated business taxable income under Code section 511 in order for the tax-exempt controlled entity to not be treated as a tax-exempt entity (or as a successor to a tax-exempt entity)	Property placed in service after 9–27–85, but can apply to property placed in service before such date if the tax-exempt controlled entity so elects. [See paragraph (a)(3)(ii) of this section.]
203(a)(1)(B)		Election to apply Act section 201 (including all elections within section 201)	Property placed in service after 7–31–86 and before 1–1–87.
204(e)		Election to have Act section 201 either (i) not apply to any property placed in service during 1987 or 1988 which is replacement property for property lost, damaged or destroyed in a flood which occurred 11–3–85 through 11–7–85 and which was declared a natural disaster area by the President of the United States, or (ii) apply to all such replacement property placed in service during 1985 or 1986	(i) Property placed in service during 1987 or 1988; or (ii) property placed in service during 1985 or 1986.
243(a)		Election to begin the 60 month amortization period with the first month of the taxpayer's first taxable year beginning after 11–19–82 in lieu of the 11–19–82 date or the bus operating authority acquisition date	Bus operating authorities held on 11/19/82, or acquired after that date under a written contract that was binding on that date.
243(b)		Election to begin the 60 month amortization period on the first month of the taxpayer's first taxable year beginning after the deregulation month in lieu of the deregulation month	Freight forwarder operating authorities held at the beginning of the 60 month period applicable to the taxpayer (*i.e.,* the deregulation date or the first month of the first taxable year beginning after the deregulation date).
243 (a), (b)		Election by a qualified corporate taxpayer to allocate a portion of the cost basis of a qualified acquiring corporation in the stock of an acquired corporation to the basis of the authority	For bus operating authorities: authorities held on 11/19/82, or acquired after that date under a written contract that was binding on that date. For freight forwarders: authorities held at the beginning of the 60-month period applicable to the taxpayer.

Section of Act	Section of Code	Description of Election	Availability of Election
252(a)	42(f)(1)	Election concerning beginning of credit period for low-income housing credit	Buildings placed in service after 12–31–86 and before 1–1–90 (before 1–1–91 for buildings described in Code section 42(n)(2)(B)). [See paragraph (b) of this section.]
252(a)	42(g)(1)	Election concerning qualified low-income housing project to either satisfy the 20–50 or the 40–60 occupancy test	Buildings placed in service after 12–31–86 and before 1–1–90 (before 1–1–91 for buildings described in Code section 42(n)(2)(B)). [See paragraph (b) of this section.]
252(a)	42(i)(2)	Election to reduce eligible basis by outstanding balance of Federal loan subsidy	Buildings placed in service after 12–31–86 and before 1–1–90 (before 1–1–91 for buildings described in Code section 42(n)(2)(B)). [See paragraph (b) of this section.]
252(a)	42(j)(5)	Election to have certain partnerships treated as the taxpayer eligible for low-income housing credit	Buildings placed in service after 12–31–86 and before 1–1–90 (before 1–1–91 for buildings described in Code section 42(n)(2)(B) [See paragraph (b) of this section.]
311(d)(2)		Revocation of prior election under Code section 631(a).	Election for taxable years beginning before 1–1–87 may be revoked for taxable years ending after 12–31–86.
411(b)(1)	263(i)	For intangible drilling and development costs paid or incurred with respect to an oil, gas, or geothermal well located outside the United States, election to include such costs in adjusted basis for purposes of computing the amount of any deduction under Code section 611 (without regard to section 613).	Costs paid or incurred after 12–31–86 in taxable years ending after such date. [See paragraph (a)(2)(iii) of this section.]
411(b)(2)	616(d)	For expenditures paid or incurred with respect to the development of a mine or other natural deposit (other than an oil, gas, or geothermal well) located outside the United States, election to include such expenditures paid or incurred during the taxable year for which made in adjusted basis for purposes of computing the amount of any deduction under Code section 611 (without regard to section 613)	Costs paid or incurred after 12–31–86 in taxable years ending after such date. [See paragraph (a)(2)(iv) of this section.]
411(b)(2)	617(h)	For expenditures paid or incurred before the development stage for the purpose of ascertaining the existence, location, extent or quality of any deposit of ore or other mineral deposit (other than an oil, gas or geothermal well) located outside the United States, election to include all such expenditures, paid or incurred during the taxable year with respect to any such deposit, in adjusted basis for purposes of computing the amount of any deduction under Code section 611 (without regard to section 613)	Costs paid or incurred after 12–31–86 in taxable years ending after such date. [See paragraph (a)(2)(v) of this section.]
501(a)	469(j)(9)	Election to increase basis of property by amount of disallowed credit for purposes of determining gain or loss from a disposition of property used in a passive activity	Taxable years beginning after 12–31–86. [See paragraph (a)(3)(iii) of this section.]
614(b)	1059(c)(4)	Election to determine whether a dividend is extraordinary by reference to the fair market value of the share of stock with respect to which the dividend was received	Dividends declared after July 18, 1986 in taxable years ending after such date.
644(d)	216(b)(3)	Election by a cooperative housing corporation to allocate real estate taxes or interest or both to each tenant-stockholder's dwelling unit in a manner which reasonably reflects the cost to the corporation of the tenant-stockholder's dwelling unit	Taxable years beginning after 12–31–86. [See paragraph (a)(3)(iv) of this section.]

Section of Act	Section of Code	Description of Election	Availability of Election
646		Election by an entity to be treated as a trust under the Internal Revenue Code if such entity was created in 1906 as a common law trust and governed by the trust laws of the State of Minnesota, receives royalties from iron ore leases, and income interests in the entity are publicly traded on a national stock exchange	The election is effective beginning on the first day of the first taxable year beginning after October 22, 1986 and following the year in which the election is made. Such election must be made by the board of trustees of such entity and must be accompanied by a written agreement signed by the board of trustees of the entity.
651	4982(e)(4)	Election by a regulated investment company to use taxable years ending on 11–30 or 12–31 for purposes of computing capital gain net income under Code section 4982	Calendar years beginning after 12–31–86. [See paragraph (a)(2)(vi) of this section.]
701(a)	56(f)(3)(B)	Election to have amount of net book income be equal to amount of earnings and profits	Taxable years beginning after 12–31–86.
801(a)	448(d)(4)	Election of common parent of an affiliated group that all members of such group be treated as one taxpayer if substantially all the activities of all members of the affiliated group involve performance of services in the same field	Taxable years beginning after 12–31–86.
801(d)(2)		Election to continue using the cash method of accounting for loans, leases and related party transactions	Loans, leases and related party transactions entered into before 9–26–85.
802	474	Election by certain small businesses to use the simplified dollar-value LIFO method	Taxable years beginning after 12–31–86. [See paragraph (a)(3)(v) of this section.]
803(a)	263A(d)(3)	Election to have rules of Code section 263A (relating to capitalization and inclusion in inventory costs of certain expenses) not apply to any plant or animal produced in any farming business conducted by the electing taxpayer	Unless consent is obtained from the Commissioner, the first taxable year beginning after 12–31–86 during which the taxpayer engages in a farming business. [See paragraph (c) of this section.]
806(e)(2)(C)		Election to have net income for the short taxable year of a partnership or S corporation which results from the required change in accounting period included entirely in income for such short taxable year	Partner and shareholder taxable years beginning after 12–31–86 with or within which the short taxable year created under section 806 of the Act ends. [See paragraph (d) of this section.]
		Election to reduce partnership or S corporation income for the short taxable year resulting from a required change in accounting period under section 806 of the Act by an unamortized adjustment amount existing as of October 22, 1986, where such adjustment was required to effectuate a previous accounting period change under Rev. Proc. 72–51, 1972–2 C.B. 832 or Rev. Proc. 83–25, 1983–1 C.B. 689	Short taxable years of partnerships or S corporations beginning after 12–31–86. [See paragraph (e) of this section.]
811(a)	453C(b)(2)(B)	Election to compute adjusted bases using depreciation deduction used under Code section 312(k)	Taxable years ending after 12–31–86 with respect to dispositions made after 2–28–86.
811(a)	453C(e)(4)	Election to have Code section 453C not apply to obligations arising from sales of timeshares and unimproved residential lots to invididuals	Taxable years ending after 12–31–86 with respect to dispositions made after 2–28–86. [See paragraph (a)(3)(vi) of this section.]
905(a)	165(l)(1)	Election to treat amount of reasonably estimated loss on a deposit in insolvent or bankrupt qualified financial institution as a loss described in Code section 165(c)(3) and incurred in the taxable year	Taxable years beginning after 12–31–81. [See the cross-–reference in paragraph (f) of this section.]
905(c)		Election to apply Code section 451(f) (relating to treatment of interest on frozen deposits in certain financial institutions)	Taxable years beginning after 12–31–82 and before 1–1–87.
1301(b)	141(b)(9)	Election by issuer of tax-exempt bonds to treat a portion of an issue as a qualified 501(c)(3) bond if such portion would have qualified as a 501(c)(3) bond had it been issued separately	Bonds issued after 8–15–86. [See paragraph (g) of this section.]
1301(b)	142(d)(1)	Election by issuer of tax-exempt bonds for residential rental property to satisfy either the 20–50 or the 40–60 occupancy test	Bonds issued after 8–15–86. [See paragraph (g) of this section.]

Section of Act	Section of Code	Description of Election	Availability of Election
1301(b)	142(d)(4)(B)	Election by issuer of tax-exempt bonds for residential rental property to treat the project as a deep rent skewed project	Bonds issued after 8–15–86. [See paragraph (g) of this section.]
1301(b)	143(k)(9)(D)(iii)	Election to treat limited equity cooperative housing as residential rental property and not as owner-occupied housing	Bonds issued after 8–15–86 and before 1–1–89. [See paragraph (g) of this section.]
1301(b)	145(d)	Election by issuer of tax-exempt bonds to have Code section 145 not apply to the issue if the issue is an issue of exempt facility bonds or qualified redevelopment bonds, to which the volume cap applies	Bonds issued after 8–15–86. [See paragraph (g) of this section.]
1301(b)	147(b)(4)(A)	Election by issuer of qualified 501(c)(3) bonds to have such bonds treated as meeting the limitation on maturity requirements of Code section 147(b)(1) if the requirements of section 147(b)(4)(B) are met	Bonds issued after 8–15–86. [See paragraph (g) of this section.]
1704(b)		Election to revoke prior election under Code section 1402(e) (relating to exemption from social security taxes for certain clergy)	Remuneration received in taxable years ending on or after October 22, 1986. [See paragraph (h) of this section.]
1801(a)	168(i) (as in effect before October 22, 1986).	Election to make finance leasing rules inapplicable to property which would otherwise be subject to them under the transitional rules of section 12(c)(1) of the Tax Reform Act of 1984	Personal property leased under certain lease agreements effective on or after 1–1–84. [See paragraph (a)(3)(vii) of this section.]
1804(e)(4)		Election by a common parent of an affiliated group to apply amendments made by the Tax Reform Act of 1984 for taxable years beginning after 12–31–83	Groups which include a corporation which on 6–22–84 is a member of the group which files a consolidated return for such corporation's taxable year which includes 6–22–84.
1807(a)(7)	468B	Election to treat a qualified payment made to a court-ordered fund as a payment made to a designated settlement fund	Generally, liabilities arising out of personal injury, death or property damage that are incurred after 7–18–84 under law in effect before the enactment of Code section 461(h). Election is made for the taxable year in which qualified payments are made to a designated settlement fund.
1809(e)(2)	48(b)(2)	Election by lessee and lessor not to apply the rule of Code section 48(b)(2) concerning the date leased property is treated as originally placed in service	Property originally placed in service after 4–11–84 (as determined under Code section 48(b) prior to its amendment by section 114(a)of the Tax Reform Act of 1984). [See paragraph (a)(3)(viii) of this section.]
1810(1)(4)	7701(b)	Election to be treated as a resident alien	Taxable years beginning after December 31, 1984. [See paragraph (a)(3)(ix) of this section.]
1879(p)(1)	83(c)(3)	Election to treat certain stock acquired upon the exercise of nonqualified stock options as subject to a substantial risk of forfeiture by reason of Code section 83(c)(3) even though the transfer of stock pursuant to such exercise occurred before 1–1–82, the effective date of section 83(c)(3)	Transfers of stock described in section 1879(p)(1) of the Act. [See paragraph (a)(2)(vii) and(a)(3)(x) of this section.]
1882(c)	3121(w)(2)	Election to revoke prior election under Code section 3121(w) (relating to exemption from social security taxes for certain churches and qualified church-controlled organizations)	Remuneration paid after 12–31–86 unless such electing church or church-controlled organization had withheld and paid over all employment taxes due, as if such election had never been in effect during the period from the stated effective date of the election being revoked through 12–31–86. [See paragraph (i) of this section.]

(2) *Time for making elections*—(i) *In general*. Except as otherwise provided in this section, the elections specified in paragraph (a)(1) of this section shall be made by the later of—

(A) The due date (taking extensions into account) of the tax return for the first taxable year for which the election is to be effective, or

(B) April 15, 1987 (in which case the election generally must be made by amended return).

(ii) *No extension of time for payment.* Payments of tax due shall be made in accordance with chapter 62 of the Code.

(iii) *Time for making the election with respect to foreign intangible drilling costs.* With respect to the election under Act section 411(b)(1) (Code section 263(i)(2)(A)), the election shall be made on a property-by-property basis for each oil, gas, or geothermal property (as defined in Code section 614). The election shall be made by the due date (taking extensions into account) of the income tax return for the first taxable year in which the taxpayer pays or incurs any cost with respect to the development of such property for which the election is available.

(iv) *Time for making the election with respect to foreign development expenditures.* With respect to the election under Act section 411(b)(2) (Code section 616(d)(2)(A)), the election shall be made for each mine or other natural deposit not later than the time prescribed by law for filing the income tax return (taking extensions into account) for the taxable year to which such election is applicable.

(v) *Time for making the election with respect to foreign exploration expenditures.* With respect to the election under Act section 411(b)(2) (Code section 617(h)(2)(A)), the election may be made at any time before the expiration of the period prescribed for filing a claim for credit or refund of the tax imposed by chapter 1 of the Code for the first taxable year for which the taxpayer desires the election to be applicable.

(vi) *Time for making certain elections by regulated investment companies.* The election under Act section 651 (Code section 4982(e)(4)) shall be made on a statement attached to the form prescribed by the Internal Revenue Service which is used to report and pay the excise tax liability under section 4982. The election shall be filed on or before the later of—

(A) March 15 of the first calendar year beginning after the end of the first excise tax period for which the election is to be effective, or

(B) If the regulated investment company has been granted an extension of time to file a return for the excise tax under Code section 4982 for such excise tax period, the due date (including extensions thereof) for such return.

The statement of election under section 4982(e)(4) shall be attached to the prescribed form regardless of whether the regulated investment company is liable for the excise tax imposed by section 4982 for the excise tax period in question.

(vii) *Time for making the election with respect to certain nonqualified stock options.* The election under section 1879(p)(1) of the Act (Code section 83(c)(3)) shall be made—

(A) By April 21, 1987, in any case in which the operation of any law or rule of law on or before such date would prevent the credit or refund of any overpayment of tax resulting from such election, and

(B) By no later than any date after April 21, 1987 on which the operation of any law or rule of law would prevent the credit or refund of any overpayment of tax resulting from such election.

(3) *Manner of making elections*—(i) *In general.* Except as otherwise provided in this section, the elections specified in paragraph (a)(1) of this section shall be made by attaching a statement to the tax return for the taxable year for which the election is to be effective. If because of paragraph (a)(2)(i)(B) of this section the election may be filed after the due date of the tax return for the first taxable year for which the election is to be effective, such statement must be attached to a tax return or amended return for the taxable year to which the election relates. Except as otherwise provided in the return or in the instructions accompanying the return for the taxable year, the statement shall—

(A) Contain the name, address and taxpayer identification number of the electing taxpayer,

(B) Identify the election,

(C) Indicate the section of the Code (or, if the provision is not codified, the section of the Act) under which the election is made,

(D) Specify, as applicable, the period for which the election is being made

and/or the property or other items to which the election is to apply, and

(E) Provide any information required by the relevant statutory provisions and any information necessary to show that the taxpayer is entitled to make the election.

(ii) *Special rules for making the transitional rule elections with respect to certain tax-exempt controlled entities.* The irrevocable election under Act sections 201(a) and 1802(a) (Code sections 168(h)(6)(F)(ii) and 168(j), as in effect before October 22, 1986), shall be made by the tax-exempt controlled entity at the time and in the manner described in paragraphs (a)(2) and (a)(3)(i) of this section. A copy of the election statement filed by the tax-exempt controlled entity shall also be attached to the Federal tax returns (e.g., Form 990 or 5500) of each of the tax-exempt shareholders or beneficiaries of the controlled entity.

(iii) *Special rule for making the election with respect to gain or loss from a disposition of property used in a passive activity.* The election under Act section 501(a) (Code section 469(j)(9)) shall be made on the form prescribed by the Internal Revenue Service for computing the taxpayer's passive activity loss and credit for the taxable year in which the property is disposed.

(iv) *Special rules for making the election with respect to cooperative housing corporations.* The election under Act section 644(d) (Code section 216(b)(3)(B)(ii)) may be made by a cooperative housing corporation with respect to its real estate taxes or interest or both. The election is available for any taxable year beginning after December 31, 1986, if the cooperative housing corporation has, by January 31 of the year following the first calendar year that includes any period to which the election applies, furnished to each tenant-stockholder during that period a written statement showing the amount of the allocation (or allocations) under section 216(b)(3)(B)(i) attributable to such tenant-stockholder's dwelling unit (or units) for that period. Any cooperative housing corporation making the election shall do so in accordance with paragraphs (a) (2) and (3) of this section and shall identify in the statement described in paragraph (a)(3) of this section whether the election is for real estate taxes or interest or both.

(v) *Special rules for making the election with respect to the simplified dollar-value LIFO method.* The election under Act section 802 (Code section 474) may be made only if the taxpayer files with the taxpayer's income tax return for the taxable year as of the close of which the method is first to be used a statement of the taxpayer's election to use the simplified dollar-value LIFO inventory method. The statement shall be on Form 970 pursuant to the instructions to the form and to the requirements of the regulations under section 474, or in such other manner as may be acceptable to the Commissioner.

(vi) *Special rules for making the election to have section 453C not apply to obligations arising from sales of timeshares and unimproved residential lots to individuals.* The election under Act section 811(a) (Code section 453C(e)(4)) to have section 453C not apply to obligations arising from sales of timeshares and unimproved residential lots to individuals may be made with respect to any obligation, or with respect to a class of such obligations. In the case of an election made with respect to a class of obligations, such election shall describe the class of obligations with such specificity as to make the class readily identifiable.

(vii) *Special rules for making certain finance leasing transitional rule elections.* The election relating to finance leases under Act section 1801(a)(1) (Code section 168(i) as in effect before October 22, 1986) shall be made by the lessor under a lease agreement subject to the finance lease rules of section 168(i) of the Code, as in effect before October 22, 1986, by noting this election in the books and records relating to the lease agreement within 12 months after February 5, 1987.

(viii) *Special rules for making the election relating to the date leased property is treated as originally placed in service.* The election under Act section 1809(e)(2) (Code section 48(b)(2)) must be made jointly by the lessee and the lessor. The election is made jointly when both the lessee and the lessor make the election in accordance with paragraphs

(a)(2) and (a)(3)(i) of this section. In addition to the other information required to be provided under paragraph (a)(3)(i) of this section, the statement described therein shall include a copy of the lease agreement and shall be signed by both the lessee and the lessor.

(ix) *Special rules for making the election to be treated as a resident alien*. The election under Act section 1810(l)(4) (Code section 7701(b)) to be treated as a resident under Code section 7701(b) shall be made by an alien individual by attaching a statement to the individual's income tax return (Form 1040), for the taxable year for which the election is to be in effect (the election year). The alien individual may not make this election until such time as he has satisfied the substantial presence test of Code section 7701(b)(1)(A)(ii) for the year following the election year. If an alien individual has not satisfied the substantial presence test for the year following the election year as of the due date (without regard to extensions) of the tax return for the election year, the alien individual may request an extension of time for filing the return until after he has satisfied such test, provided that he pays with his extension application the amount of tax he expects to owe for the election year, computed as if he were a non-resident alien throughout the election year. The statement shall include the name and address of the alien individual and contain a signed declaration that the election is being made. It must specify—

(A) That the alien individual was not a resident in the year immediately preceding the election year;

(B) That the alien individual is a resident in the year immediately following the election year under the substantial presence test and the individual's number of days of presence in the United States during such year;

(C) The date or dates of the alien individual's 31 consecutive day period of presence and continuous presence in the United States during the election year; and

(D) The date or dates of absence from the United States during the election year that are deemed to be days of presence.

(x) *Special rules for making the election with respect to the treatment of the exercise of certain nonqualified stock options*. The election under Act section 1879(p)(1) (Code section 83(c)(3)) is made by filing on Form 1040X a claim for credit or refund of the overpayment of tax resulting from the election. In order to satisfy the requirements of § 301.6402–2(b)(1) (relating to grounds set forth in claim), the claim for credit or refund must set forth)—

(A) The date on which the option was granted,

(B) The name of the corporation which granted the option,

(C) The date on which the stock was transferred pursuant to the exercise of the option,

(D) The fair market value of such stock on December 4, 1973,

(E) The fair market value on July 1, 1974 of the stock received upon the reorganization of the corporation which granted the option, and

(F) The date on which the taxpayer sold substantially all of the stock received in such reorganization. The taxpayer shall file a single claim for credit or refund of the entire overpayment of tax resulting from the election under Act section 1879(p)(1).

(4) *Revocation*—(i) *Irrevocable elections*. The elections described in this section under:

Act Sections	Code Sections
201(a)	168(b)(5), 168(f)(1), 168(g)(7), 168(h)(6)(F)(ii)
203(a)(1)(B), 252(a)	42(f)(1), 42(g)(1), 42(i)(2), 42(j)(5)
411(b)(1)	263(i)
411(b)(2)(A)	616(d)(2)(A)
501(a)	469(j)(9)
801(d)(2), 905(c), 1301(b)	141(b)(9), 142(d)(1), 142(d)(4)(B) 143(k)(9)(D)(iii), 145(d), 147(b)(4)(A)
1704(b), 1802(a)	168(j) as in effect before October 22, 1986
1804(e)(4), 1879(p)(1)	83(c)(3)
1882(c)	3121(w)(2)

are irrevocable.

(ii) *Elections revocable with the consent of the Commissioner*. The elections described in this section under:

Act Sections	Code Sections
204(e), 243(a), 243(b), 243(a)(b), 411(b)(2)(B)	617(h)(2)(A)
614(b)	1059(c)(4)
644(d)	216(b)(3)
646, 651	4982(e)(4)(B)
701(a)	56(f)(3)(B)
801(a)	448(d)(4)
802	474
803(a)	263A(d)(3)
806(e)(2)(C) and the election described in H.R. Rep. No. 99–841 at II–320, 811(a)	453C(b)(2)(B)(i), 453C(e)(4)
905(a)	165(l)(1)
1801(a)	168(i) as in effect before October 22, 1986
1807(a)(7)	468B)
1809(e)(2)	48(b)(2)
1810(l)(4)	7701(b)

are revocable only with the consent of the Commissioner.

(iii) *Freely revocable election.* The election described in this section under Act section 311(d)(2) is freely revocable.

(b) *Elections with respect to the low-income housing credit.* The elections under Act section 252(a) (Code sections 42(f)(1), 42(g)(1), 42(i)(2), and 42(j)(5)) must be made for the taxable year in which the project is placed in service and shall be made in the certification required to be filed pursuant to section 42(l)(1).

(c) *Election to have the rules of section 263A (relating to capitalization and inclusion in inventory costs of certain expenses) not apply to any plant or animal produced in any farming business conducted by the electing taxpayer*—(1) *In general.* This paragraph applies to the election under Act section 803(a) (Code section 263A(d)(3)) to have the rules of section 263A (relating to capitalization and inclusion in inventory costs of certain expenses) not apply to any plant or animal produced in any farming business conducted by the electing taxpayer. The election is available to taxpayers engaged in the business of farming, including producers of agricultural crops, livestock, nursery stock, sod, trees bearing fruit, nuts or other crops, and ornamental trees (for purposes of section 263A, an evergreen tree that is more than 6 years old at the time it is severed from the roots shall not be treated as an ornamental tree). The election is not available to a corporation, partnership, or tax shelter that is required to use the accrual method of accounting under section 447 or section 448(a)(3), or farming syndicates (as defined in section 464(c)), or with respect to the planting, cultivation, maintenance or development of pistachio trees. In addition, the election does not apply with respect to costs incurred for the planting, cultivation, maintenance or development of any citrus or almond grove incurred during the 4-taxable-year period beginning with the taxable year in which such grove was planted. If a citrus or almond grove is planted in more than one taxable year, the portion of the grove planted in one taxable year is treated as a separate grove for this purpose.

(2) *Time and manner of making the election.* Unless consent is obtained from the Commissioner, the election may only be made for the taxpayer's first taxable year that begins after December 31, 1986, and during which the taxpayer engages in a farming business. The election shall be made on the Schedule E, F or other schedule required to be attached to the income tax return for the first taxable year for which the election is effective. In the case of a partnership or S corporation, the election must be made at the partner or shareholder level.

(3) *Election treated as if made if certain requirements satisfied.* A taxpayer eligible to make the election under section 263A(d)(3) shall be treated as having made the election if such taxpayer reports income and expense, in accordance with the rules under the election on a timely filed income tax return.

(4) *Revocation.* Once the election is made, it is revocable only with the consent of the Commissioner.

(5) *Special rules for treatment of expenses.* If the election is made, the plant or animal produced is treated as section 1245 property and gain is recaptured (treated as ordinary income) in the amount of deductions which, but for the election, would have been required to be capitalized with respect to the plant or animal. If the taxpayer or a related person makes the election, a non-accelerated method of depreciation (as defined in section 168(g)(2)) shall be applied to all property used predominantly in any farming business of the taxpayer or related person and placed in service in any taxable year during

which the election is in effect. For purposes of this election, related party means: (i) The members of the taxpayer's family (defined for this purpose to include the spouse of the taxpayer and any of his or her children who have not reached the age of 18 as of the last day of the taxable year); (ii) any corporation (including an S corporation) 50 percent or more of the value of which is owned directly or indirectly (through the application of section 318) by the taxpayer or members of the taxpayer's family; (iii) any corporation that is a member of the same controlled group (within the meaning of section 1563) as the taxpayer; and (iv) any partnership if 50 percent or more of the value of the interests in such partnership is owned directly or indirectly (through the application of section 318) by the taxpayer or members of the taxpayer's family.

(d) *Election with respect to the treatment of net income for the short taxable year resulting from a required change in accounting period.* This paragraph applies to the election under section 806(e)(2)(C) of the Act. Net income for the short taxable year resulting from a required change in accounting period under the provisions of section 806 of the Act which is to be included ratably in the partners' and S corporation shareholders' income for the first four taxable years (including the short taxable year) beginning after December 31, 1986, or included entirely in income for the short taxable year at the election of the partner or shareholder, shall be taken into account in accordance with section 702 (with respect to partners) and section 1366 (with respect to S corporation shareholders).

(e) *Election with respect to reducing partnership or S corporation income for the short taxable year resulting from a required change in accounting period under section 806 of the Act by an unamortized adjustment amount existing as of October 22, 1986*—(1) *In general.* This paragraph applies to the election described in H.R. Rep. No. 99–841 at II–320.

(2) *Partnerships or S corporations that make the election to reduce income for the short taxable year by an unamortized adjustment amount existing as of October 22, 1986.* Where a partnership or S corporation elects to reduce its income for the short taxable year required under the provisions of section 806 of the Act by the unamortized adjustment amount existing as of October 22, 1986, in accordance with paragraph (a) of this section, the income for the short taxable year (reduced by the unamortized adjustment amount) may then be subject to the election, under section 806(e)(2)(C) of the Act, by partners and S corporation shareholders to include all the net income for the short taxable year entirely in income for the partners' or shareholders' taxable year with or within which the short taxable year ends.

(3) *Partnerships or S corporations that do not make the election to reduce income for the short taxable year by an unamortized adjustment amount existing as of October 22, 1986.* Where a partnership or S corporation does not elect to reduce its income for the short taxable year created by the provisions of section 806 of the Act by the unamortized adjustment amount existing as of October 22, 1986, as provided in paragraph (a) of this section, the short taxable year required under the provisions of section 806 of the Act shall be considered one taxable year for purposes of amortizing the adjustment amount under the requirements of Rev. Proc. 72–51, 1972–2 C.B. 832, or Rev. Proc. 83–25, 1983–1 C.B. 689. The net income of the partnership or S corporation after reduction by the adjustment amount for the short taxable year may then be subject to the election under section 806(e)(2)(C) of the Act by partners or S corporation shareholders to include all the net income for the short taxable year entirely in income for the partners' or shareholders' taxable year with or within which the short taxable year of the partnership or S corporation ends.

(f) *Cross-reference.* See § 301.9100–8(d) for rules on both the election under section 905(a) of the Act, relating to section 165(l)(1), and the related election under section 165(l)(5), added by section 1009(d) of the Technical and Miscellaneous Revenue Act of 1988, 102 Stat. 3342. An election under section 165(l) is available only to qualified individuals and, in general, applies to reasonably estimated losses on deposits in

an insolvent or bankrupt financial institution.

(g) *Elections with respect to certain bonds.* The elections under Act section 1301(b) (Code sections 141(b)(9), 142(d)(1), 142(d)(4)(B), 143(k)(9)(D)(iii), 145(d), and 147(b)(4)(A)) must be made in the bond indenture or a related document (as defined in §1.103–13(b)(8)) on or before the date of issue. With respect to obligations issued on or before March 9, 1987 these elections must be made on or before March 9, 1987 and need not be made in the bond indenture or a related document, but must be made in writing and retained as part of the issuer's books and records.

(h) *Revocation of the election for exemption from social security taxes by certain clergy*—(1) *In general.* This paragraph applies to the election under Act section 1704(b) to revoke an election under section 1402(e)(1) of the Code by a duly ordained, commissioned, or licensed minister of a church, a member of a religious order (other than a member of a religious order who has taken a vow of poverty as a member of such order), or a Christian Science practitioner. Only elections which are effective for the taxable year containing October 22, 1986 may be revoked under this paragraph.

(2) *Time for revoking the election.* The election shall be revoked by filing Form 2031 before the date on which the individual becomes entitled to benefits under sections 202(a) or 223 of the Social Security Act (without regard to sections 202(j)(1) or 223(b) of such Act), and not later than the due date of the Federal income tax return (including any extension thereof) for the individual's first taxable year beginning after October 22, 1986.

(3) *Manner of revoking the election.* To revoke an election under section 1402(e)(1), the individual shall file Form 2031 in accordance with the instructions accompanying that form. The revocation shall be made effective, as designated by the individual on the form, either with respect to the individual's first taxable year ending on or after October 22, 1986, or with respect to the individual's first taxable year beginning after October 22, 1986.

(4) *Special rules for payment of self-employment taxes with respect to certain taxable years ending on or after October 22, 1986*—(i) *Elections filed after the due date of the Federal income tax return.* If Form 2031 is filed on or after the due date of the Federal income tax return (including any extension thereof) for the individual's first taxable year ending on or after October 22, 1986, and the election made therein is effective with respect to that taxable year, Form 2031 shall be accompanied by an amended Federal income tax return for such taxable year together with payment in full of an amount equal to the total of the taxes that would have been imposed by section 1401 of the Code with respect to all of the individual's income derived in that taxable year which would have constituted net earnings from self-employment for purposes of chapter 2 of subtitle A of the Code (notwithstanding paragraph (4) or (5) of section 1402(c)) but for the exemption under section 1402(e)(1).

(ii) *Elections filed before the due date of the Federal income tax return.* If Form 2031 is filed before the due date of the Federal income tax return (including any extension thereof) for the individual's first taxable year ending on or after October 22, 1986, and the election is effective with respect to that taxable year, payment in full of an amount equal to the total of the taxes that would have been imposed by section 1401 of the Code with respect to all of the individual's income derived in that taxable year which would have constituted net earnings from self-employment for purposes of chapter 2 of subtitle A of the Code (notwithstanding paragraph (4) or (5) of section 1402(c)) but for the exemption under section 1402(e)(1) shall be made:

(A) In the case of Forms 2031 that are filed on or before the date on which the individual's Federal income tax return for such first taxable year is filed, with the individual's Federal income tax return for such taxable year; and

(B) In the case of Forms 2031 that are filed after the date on which the individual's Federal income tax return for such first taxable year is filed, with an amended Federal income tax return for that taxable year filed on or before the due date for the individual's Federal income tax return (including any extension thereof) for such taxable year.

(iii) *Interest on amounts paid after the due date of the Federal income tax return.* If any amount of tax imposed by section 1401 for an individual's taxable year with respect to which an election under this paragraph (h) is effective is paid after the due date of the individual's Federal income tax return (without regard to extensions) for such taxable year, interest will be assessed on such tax from the due date of such return (without regard to extensions) to the date on which such tax is paid.

(5) *Revocability of the revocation of the election.* Once having filed Form 2031, the individual may not thereafter file an application for an exemption under section 1402(e)(1).

(6) *Effective date of this provision.* This provision shall apply with respect to remuneration received in the taxable years for which the individual designates the revocation to be effective, as described in paragraph (h)(3) of this section, and with respect to monthly insurance benefits payable under title II of the Social Security Act on the basis of the wages and self-employment income of any individual for months in or after the calendar year in which such individual's application for revocation is effective (and lump-sum death payments payable under such title on the basis of such wages and self-employment income in the case of deaths occurring in or after such calendar year).

(i) *Revocation of the election for exemption from social security taxes by certain churches on qualified church-controlled organizations*—(1) *In general.* This paragraph applies to the election under Act section 1882 (Code section 3121 (w)(2)) to revoke an election under section 3121(w) by a church or qualified church-controlled organization (as defined in section 3121(w)(3)).

(2) *Time and manner of revoking the election.* The revocation described in this paragraph (i) shall be made by filing a Form 941 on or before the due date for filing Form 941 (without regard to extensions) for the first quarter for which the revocation is to be effective, accompanied by payment in full of the taxes that would be due for that quarter had there been no election under section 3121(w). See paragraph (i)(4) of this section for the effective date of revocations made under this paragraph (i).

(3) *Revocability of the revocation of the election.* Once an election under section 3121(w) is revoked under this paragraph (i), a new election under section 3121(w) may not be made.

(4) *Effective date of this paragraph.* A revocation made under this paragraph (i) shall be effective for the quarter of the calendar year covered by the Form 941 on which the revocation is made in accordance with paragraph (i)(2) of this section and all subsequent quarters. However, no revocation shall be effective prior to January 1, 1987 unless such electing church or church-controlled organization had withheld and paid over all employment taxes due, as if such election had never been in effect, during the period from the effective date of the election being revoked through December 31, 1986.

(j) *Additional information required.* Later regulations or revenue procedures issued under provisions of the Code or Act covered by this section may require the furnishing of information in addition to that which was furnished with the statement of election described in this section. In such event, the later regulations or revenue procedures will provide guidance with respect to the furnishing of such additional information.

[T.D. 8124, 52 FR 3624, Feb. 5, 1987; 52 FR 8405, Mar. 17, 1987; 52 FR 10085, Mar. 30, 1987, as amended by T.D. 8180, 53 FR 6147, Mar. 1, 1988; T.D. 8267, 54 FR 38980, Sept. 22, 1989. Redesignated and amended by T.D. 8435, 57 FR 43895, 43896, Sept. 23, 1992; T.D. 8513, 58 FR 68764, 68765, Dec. 29, 1993; T.D. 8530, 59 FR 12844, Mar. 18, 1994; T.D. 8644, 60 FR 66926, Dec. 27, 1995]

§ 301.9100–8 Time and manner of making certain elections under the Technical and Miscellaneous Revenue Act of 1988.

(a) *Miscellaneous elections*—(1) *Elections to which this paragraph applies.* This paragraph applies to the elections set forth below provided under the Technical and Miscellaneous Revenue Act of 1988, 102 Stat. 3342 (the Act). General rules regarding the time for making the elections are provided in paragraph (a)(2) of this section. General rules regarding the manner for making the elections are provided in

paragraph (a)(3) of this section. Special rules regarding the time and manner for making certain elections are contained in paragraphs (a) through (i) of this section. In this paragraph (a)(1), a cross-reference to a special rule applicable to an election is shown in brackets at the end of the description of the ''Availability of Election.'' Paragraph (j) of this section lists certain elections provided under the Act that are not addressed in this section. Paragraph (k) of this section provides that additional information with respect to elections may be required by future regulations or revenue procedures.

Section of act	Section of code	Description of election	Availability of election
1002 (a)(11)(A)	168(b)(2)	Election to depreciate property using the 150 percent declining balance method for one or more classes of property for any taxable year.	For property placed in service after December 31, 1986, the election must be made for the taxable year in which the property is placed in service. For taxable years ending before January 1, 1989, taxpayers have until January 22, 1990, to amend their returns to elect the 150 percent declining balance method, regardless of whether the taxpayer had used or elected to use a different method for property placed in service during those taxable years. The election will apply to all property in the class placed in service during the taxable year for which the election is made.
1002(a)(23)(B)	168(d)(3)(B)	Election to disregard property placed in service and disposed of in the same taxable year in applying the 40 percent test to determine if the mid-quarter convention applies.	Available for property placed in service in taxable years beginning on or before March 31, 1988. Election will apply to all property placed in service and disposed of during the taxable year for which the election is made.
1002(l)(1)(A)	42(b)(2)(A)(ii)	Election to use the applicable percentage for a month other than the month in which a building is placed in service.	Available for qualified buildings placed in service after December 31, 1987, and with respect to which either a binding agreement is made as to the allocable credit dollar amount or tax-exempt bonds are issued. [See paragraph (b) of this section.]
1002(l)(2)(B)	42(f)(1)	Election to defer the beginning of the credit period for the low-income housing credit.	Available for qualified buildings placed in service after December 31, 1986.
1002(l)(4)	42(d)(3)(B)	Election to exclude excess costs of disproportionate units.	Available for qualified buildings placed in service after December 31, 1986.
1002(l)(12)	42(g)(3)(B)(i)	Election to aggregate buildings in a low-income housing project to satisfy the minimum set-aside requirement elected under section 42(g)(1) of the Code.	Available for qualified buildings placed in service after December 31, 1986.
1002(l)(19)(B)	42(i)(2)(B)	Election to reduce eligible basis by outstanding balance of Federal loan subsidy or proceeds of tax-exempt obligation.	Available for qualified buildings placed in service after December 31, 1986.
1005(c)(11)	469,163	Election to treat certain carryovers of disallowed investment interest expense as passive activity deductions for the first taxable year beginning after December 31, 1986.	Available for investment interest that is disallowed for the last taxable year beginning before January 1, 1987, and is properly allocable to a passive activity for the first taxable year beginning after December 31, 1986. [See paragraph (c) of this section.]
1006(d)(15)	382	As a general rule, a firm commitment underwriter of an offering of a loss corporation's stock made before September 19, 1986 (January 1, 1989, for an institution described in section 591) is not treated as acquiring underwritten stock if it is disposed of pursuant to the offering on or before 60 days after the initial offering. The loss corporation may elect not to apply the general rule.	Available to any loss corporation to which the general rule would otherwise apply. The election is to be made by filing a statement with the District Director with whom the loss corporation would file its Federal income tax return. The statement must identify the election as an election under section 1006(d)(15) of the Act and must (1) contain the taxpayer's name, address, and employee identification number, (2) identify the transaction to which the election relates, (3) represent that the conditions for making the election have been satisfied, and (4) be signed by a person authorized to sign the Federal income tax return of the loss corporation.

Section of act	Section of code	Description of election	Availability of election
1006(j)(1)(C)	171(e)	Election to reduce interest payments received on certain bonds by allocable bond premium in accordance with section 171(e) of the Code.	Available for obligations acquired after October 22, 1986, and before January 1, 1988.
1006(t)(18)(B)	860F(e)	Election not treat a REMIC (real estate mortgage investment conduit) as a partnership for purposes of determining who may sign the REMIC return.	Available for REMICs with a start-up date (as defined in section 860G(a)(9) of the Code, as in effect on November 9, 1988) before November 10, 1988. The election is made by attaching a statement to the amended tax return for tax year 1987 or to the tax return for the first taxable year for which the election is to be effective.
1008(c)(4)(A)	460(b)(3)	Election not to discount an amount received or accrued after completion of a contract to its value as of the completion of the contract for purposes of applying the look-back method.	Effective as if included in the Tax Reform Act of 1986 (1986 Act) (available for contracts entered into after February 28, 1986). The election must be made on a contract-by-contract basis by attaching a statement to the tax return for the first year after completion in which the taxpayer includes in income any adjustments to the contract price or deducts any adjustments to contract costs (or, if later, the first tax return filed after October 23, 1989).
1009(d)	165(1)	Election to treat amount of reasonably estimated loss on a deposit in an insolvent or bankrupt qualified financial institution as a loss described in either section 165(c) (2) or (3) of the Code and incurred in the taxable year for which the election is made.	Available for taxable years beginning after December 31, 1981. [See paragraph (d) of this section.]
1010(f)(1)	831(b)(2)(A)	Election for insurance companies other than life to use alternative tax under certain circumstances.	Available for taxable years beginning after December 31, 1986.
1010(f)(2)	835(a)	Election for an interinsurer or reciprocal underwirter mutual insurance company subject to section 831(a) of the Code to be subject to section 835(b) limitation.	Available for taxable years beginning after December 31, 1986.
1011(a)	219(g)(4)	Election to treat a married individual as not married for purposes of certain contributions made to an individual retirement plan for 1987.	Available to a married individual who (1) was an active participant during 1987, (2) lived apart from the other spouse during the entire 1987 calendar year, (3) filed a separate income tax return for 1987, (4) had adjusted gross income of not more than $35,000 for 1987, and (5) made a contribution to an individual retirement plan for 1987.
1012(d)(4)	865(f)	Election to treat an affiliate and its wholly-owned subsidiaries as one corporation.	Shareholder-level election, available, subject to certain conditions, to United States residents selling stock in an affiliate which is a foreign corporation. Available for taxable years beginning after December 31, 1986.
1012(d)(6)	865(g)(3)	Election to treat a corporation and its wholly-owned subsidiaries as one corporation.	Shareholder-level election, available only to individual bona fide residents of Puerto Rico, if the corporate group is engaged in active trade or business in Puerto Rico and meets a gross income test. Available for taxable years beginning after December 31, 1986.
1012(d)(8)	865(h)(2)	Election to apply treaty source rule to treat gain from a sale of an intangible or of stock in a foreign corporation as foreign source.	Taxpayer election for treatment of gain on the disposition of certain stocks and intangibles. Available for taxable years beginning after December 31, 1986.
1012(1)(2)	245(a)(10)	Election to apply treaty source rules to treat dividends received from a qualified 10-percent owned foreign corporation as foreign source.	Available to corporations for distributions out of earnings and profits for taxable years beginning after December 31, 1986.

Section of act	Section of code	Description of election	Availability of election
1012(n)(3)	936	Election to reduce the amount of qualified possession source investment income for certain corporations that fail the 75 percent active trade or business income requirement of section 936(a)(2)(B) of the Code due to section 1231(d) of the 1986 Act.	Corporate-level election, available for any taxable year beginning in 1987 or 1988.
1012(bb)(4)	904(g)(10)	Election to apply treaty source rules (in lieu of rules in section 904(g) of the Code) to treat an amount derived from a U.S.-owned foreign corporation as foreign source.	Available generally beginning July 18, 1984 (the amendment is to take effect as if included in the amendment made in section 121 of the Tax Reform Act of 1984).
1014(c)(1)	664(b)	Election by a beneficiary of a trust to which section 664 of the Code applies to obtain certain benefits of section 1403(c)(2) of the 1986 Act, relating to the ratable inclusion of certain income over 4 taxable years.	Available for taxable years beginning after December 31, 1986, provided the trust was required to change its taxable year under section 1403(a) of the 1986 Act. Election is made by attaching a statement to an amended return for the trust beneficiary's first taxable year beginning after December 31, 1986. Amended return must be filed on or before January 22, 1990. If no such election is filed, the benefits of section 1403(c)(2) are waived.
1014(c)(2)	652, 662	Election by any trust beneficiary (other than a beneficiary of a trust to which section 664 of the Code applies), to waive the benefits of section 1403(c)(2) of the 1986 Act.	Available for taxable years beginning after December 31, 1986. Election is made by attaching a statement to an amended return for the trust beneficiary's first taxable year beginning after December 31, 1986. Amended return must be filed on or before January 22, 1990.
1014(d)(3)(B), 1014(d)(4).	643(g)(2)	Election to have certain payments of estimated tax made by a trust or estate treated as paid by the beneficiary.	Available for taxable years beginning after December 31, 1986. In the case of an estate, the election is available only for a taxable year reasonably expected to be the estate's last taxable year. Election must be made by the fiduciary of the trust or estate on or before the 65th day after the close of the taxable year for which the election is made. The election must be made by that date by filing Form 1041–T with the Internal Revenue Service Center where the trust's return for such taxable year is required to be filed. The trust's return (or amended return) for that year must include a copy of the Form 1041–T.
2004(j)(1)	1503(e)	Election, made by an affiliated group filing a consolidated return upon the disposition of intragroup stock on or before December 15, 1987, to reduce the disposing member's basis in the indebtedness of the subsidiary member whose stock has been disposed of, in lieu of taking into account as negative basis the "unrecaptured amount" allocable to the stock disposed of.	Available to an affiliated group filing a consolidated return in which a member disposes of intragroup stock on or before December 15, 1987.
2004(m)(5)	384	Election to have amendments (to the limitation on use of preacquisition losses to offset corporate built-in gains) made by section 2004(m) of the Act not apply in any case where the acquisition date is before March 31, 1988.	Available when the acquisition date is before March 31, 1988. Election must be made not later than the later of the due date (including extensions) for filing the return for the taxable year of the acquiring corporation in which the acquisition date occurs or March 10, 1989.
4004(a)	42(j)(5)(B)	Election to have certain partnerships not treated as the taxpayer to which the low-income housing credit is allowable.	Available for qualified buildings placed in service after December 31, 1986, and owned by partnerships with 35 or more partners. [See paragraph (b) of this section.]

Section of act	Section of code	Description of election	Availability of election
4008(b)	41(h)	Election to have the research credit under secction 41 of the Code not apply for any taxable year.	Available in any taxable year beginning after December 31, 1988. The election is made by not claiming the research credit on an original return, or by filing an amended return on which no research credit is claimed, at any time before the expiration of the 3-year period beginning on the last day prescribed by law for filing the return for the taxable year (determined without regard to extensions). The election may be revoked within the above-described 3-year period by filing an amended return on which the credit is claimed.
5012(e)(4)	7002A(c)(3) 72(e).	Election to recognize gain on exchange of life insurance contracts to avoid the characterization of life insurance contract as a modified endowment contract.	Available for contracts entered into after June 20, 1988, and before November 6, 1988, which are exchanged before February 10, 1989.
5031(a)	7520(a)	Election to use 120 percent of the Applicable Federal Midterm rate for either of the two months preceding a valuation date in valuing certain interests transferred to charity for which an income, estate, or gift tax charitable deduction is allowable.	Available in cases where the valuation date occurs on or after May 1, 1989. The election is made by attaching a statement to the last income, estate, or gift tax return filed before the due date, or if a timely return is not filed, the first return filed after the due date. The statement shall contain the following: (1) A statement that an election under section 7520(a) is being made; (2) the transferor's name and taxpayer identification number as they appear on the return; (3) a description of the interest being valued; (4) the recipients, beneficiaries, or donees of the transferred interest; (5) the date of the transfer; (6) the Applicable Federal Midterm rate that is used to value the transferred interest and the month to which the rate pertains.
5033(a)(2)	2056(d)	Election to treat a trust for the benefit of a surviving spouse who is not a U.S. citizen as a Qualified Domestic Trust, transfers to which are deductible under section 2056(a) of the Code.	Available in the case of estates of decedents dying after November 11, 1988. The election is made by the executor on the last Federal estate tax return filed by the executor before the due date of the return, or if a timely return is not filed by the executor, on the first estate tax return filed by the executor after the due date. However, elections made on or after May 5, 1991, may not be made on any return filed more than one year after the time prescribed for filing the return (including extensions).
6006(a)	1(i)(7)	Election to include certain unearned income of a child on the parent's return.	Available for taxable years beginning after December 31, 1988. The election must be made in the manner prescribed by the appropriate forms for the parent's return for the year for which the election is effective. The election must be made by the due date (taking extensions into account) of such tax return.
6011	121(d)(9)	Election to exclude gain on the sale of a principal residence by certain incapacitated taxpayers age 55 or over.	Election may be made for a sale or exchange after September 30, 1988, by a taxpayer who becomes physically or mentally incapable of self-care and meets the required use rule provided in section 121(d)(9) of the Code. For the time and manner of making the election see § 1.121–4 of the Income Tax Regulations.
6026(a)	263A(h)	Election for certain authors, photographers, and artists to apply the exemption from the uniform capitalization rules for the first taxable year ending after November 10, 1988.	Available for the first taxable year ending after November 10, 1988. An eligible taxpayer will be treated as having made the election if the taxpayer reports income and expenses for the first taxable year ending after November 10, 1988 in accordance with the exemption from section 263A of the Code.

Section of act	Section of code	Description of election	Availability of election
6026(b)(1)	263A(d)(1)	Revocation of prior election under section 263A(d)(3) of the Code (relating to the capitalization of certain expenses for the production of animals).	Election for any taxable year beginning before January 1, 1989, may be revoked for the first taxable year beginning after December 31, 1988.
6026(c)	263A(d)(3)(B)	Election by eligible taxpayers not to have section 263A of the Code apply to costs incurred in the planting, cultivation, maintenance, or development of pistachio trees.	Available without the consent of the Commissioner for the first taxable year beginning after December 31, 1986, during which the taxpayer engages in the planting, cultivation, maintenance, or development of pistachio trees. Consent must be obtained from the Commissioner for the election to be made for any subsequent taxable year.
6152(a), 6152(c)(3).	2056(b)(7)(C)(ii)	Election to treat a survivor annuity payable to a surviving spouse that is otherwise deductible under section 2056(b)(7)(C) of the Code as a nondeductible terminable interest.	Available in the case of estates of decedents dying after December 31, 1981, and in no event will the time for making the election expire before November 11, 1990. [See paragraph (e) of this section.]
6152(b), 6152(c)(3).	2523(f)(6)(B)	Election to treat a joint and survivor annuity in which the donee spouse has a survivorship interest that is otherwise deductible under section 2523(f)(6)(A) of the Code as a nondeductible terminable interest.	Available in the case of transfers made after December 31, 1981, and in no event will the time for making the election expire before November 11, 1990. [See paragraph (f) of this section.]
6152(c)(2)	2056(b)(7)(C)(ii), 2523(f)(6)(B).	Election to treat as deductible for estate or gift tax purposes under sections 2056(b)(7)(C) or 2523(f)(6) of the Code, respectively, a survivor's annuity payable to a surviving spouse reported on an estate or gift tax return filed prior to November 11, 1988, as a nondeductible terminable interest.	Available to estates of decedents dying after December 31, 1981, or to transfers made after December 31, 1981, where: (1) the estate or gift tax return was filed prior to November 11, 1988; (2) the annuity was not deducted on the return as qualified terminable interest property under sections 2056(b)(7) or 2523(f) of the Code; and (3) the executor or donor elects to treat the interest as a deductible terminable interest under sections 2056(b)(7)(C) or 2523(f)(6) prior to November 11, 1990. [See paragraph (g) of this section.]
6180(b)(1)	142(i)(2)	Election by a nongovernmental owner of a highspeed intercity rail facility not to claim any deduction under section 167 or 168 of the Code and any credit under subtitle A, in order for the facility to be described in section 142(a)(11).	Available for bonds issued after November 10, 1988. [See paragraph (h) of this section.]
6181(c)(2)	148(f)(4)(A)	One-time election by the issuer of tax-exempt bonds outstanding as of November 11, 1988, other than private activity bonds, to apply the amendments made by section 148(b) of the Code to amounts deposited after such date in bona fide debt service funds.	Available for bonds outstanding as of November 11, 1988. The election must be made in writing on the later of March 21, 1990, or the first date any payment is required under section 148(f) of the Code. The election should be retained as part of the issuer's books and records (as defined in § 1.103–10(b)(2)(vi) of the regulations) of the bond issue to which it relates.
6277	382, 383	Election by a loss corporation that otherwise qualifies for the exception of section 621(f)(5) of the 1986 Act not to apply that exception. That exception provides for the inapplicability, in certain situations, of the amendments to sections 382 and 383 of the Code made by the 1986 Act (relating to limitation of corporate attributes after an ownership change). That exception applies with respect to a loss corporation's ownership change resulting from a reorganization described in section 368(a)(1)(G) of the Code or from an exchange of debt for stock in a title 11 or similar case if a petition was filed with the court before August 14, 1986.	Available for ownership changes described in section 621(f)(5) of the 1986 Act, if a petition was filed with the court before August 14, 1986. The election is to be made by filing a statement with the District Director with whom the loss corporation would file its Federal income tax return. The statement must identify the election as an election under section 6277 of the Act and must (1) contain the taxpayer's name, address, and employee identification number, (2) identify the transaction to which the election relates, (3) represent that the conditions for making the election have been satisfied, and (4) be signed by a person authorized to sign the Federal income tax return of the loss corporation.

Section of act	Section of code	Description of election	Availability of election
8007(a)(1)	3127	Election to be exempted from the taxes imposed by sections 3101 and 3111 of the Code.	An individual employer and an employee, both of whom are members of a recognized religious sect or a division thereof described in section 1402(g)(1) of the Code and adherents of established tenets or teachings of such sect or division, may, if both qualify and make elections, obtain exemptions from the taxes imposed by sections 3101 and 3111. [See paragraph (i) of this section.]

(2) *Time for making elections*—(i) *In general*. Except as otherwise provided in this section, the elections described in paragraph (a)(1) of this section must be made by the later of—

(A) The due date (taking into account any extensions of time to file obtained by the taxpayer) of the tax return for the first taxable year for which the election is effective, or

(B) January 22, 1990 (in which case the election generally must be made by amended return).

(ii) *No extension of time for payment*. Payments of tax due must be made in accordance with chapter 62 of the Code.

(3) *Manner of making elections*. Except as otherwise provided in this section, the elections described in paragraph (a)(1) of this section must be made by attaching a statement to the tax return for the first taxable year for which the election is to be effective. If such tax return is filed prior to the making of the election, the statement must be attached to an amended tax return of the first taxable year for which the election is to be effective. Except as otherwise provided in the return or in the instructions accompanying the return for the taxable year, the statement must—

(i) Contain the name, address and taxpayer identification number of the electing taxpayer;

(ii) Identify the election;

(iii) Indicate the section of the Code (or, if the provision is not codified, the section of the Act) under which the election is made;

(iv) Specify, as applicable, the period for which the election is being made and the property or other items to which the election is to apply; and

(v) Provide any information required by the relevant statutory provisions and any information requested in applicable forms and instructions, such as the information necessary to show that the taxpayer is entitled to make the election.

Notwithstanding the foregoing, an amended return need not be filed for an election made prior to October 23, 1989, if the taxpayer made the election in a reasonable manner.

(4) *Revocation*—(i) *Irrevocable elections*. The elections described in this section that are made under the following sections of the Act are irrevocable: 1002(a)(11)(A) (Code section 168(b)(2)), 1002(a)(23)(B), 1002(l)(1)(A) (Code section 42(b)(2)(A)(ii)), 1002 (l)(2)(B) (Code section 42(f)(1)), 1005(c)(11), 1008(c)(4)(A) (Code section 460(b)(3)), 1014(c)(1), 1014(c)(2), 1014(d)(3)(B) and 1014(d)(4) (Code section 643(g)(2)), 2004(m)(5), 4004(a) (Code section 42(j)(5)(B)), 5033(a)(2) (Code section 2056A(d)), 6006(a) (Code section 1(i)(7)), 6026(a) (Code section 263A(h)), 6026(b)(1) (Code section 263A(d)(1)), 6152(a) and 6152(c)(3) (Code section 2056(b)(7)(C)(ii)), 6152(b) and 6152(c)(3) (Code section 2523(f)(6)(B)), 6152(c)(2) (Code sections 2056(b)(7)(C)(ii) and 2523(f)(6)(B)), and 6180(b)(1) (Code section 142(i)(2)).

(ii) *Elections revocable with the consent of the Commissioner*. The elections described in this section that are made under the following sections of the Act are revocable only with the consent of the Commissioner: 1006(d)(15), 1006(j)(1)(C), 1006(t)(18)(B), 1009(d) (Code section 165(l)), 1010(f)(1) (Code section 831(b)(2)(A)), 1010(f)(2) (Code section 835(a)), 1012(d)(4) (Code section 865(f)), 1012(d)(6) (Code section 865(g)(3)), 1012(d)(8) (Code section 865(h)(2)), 1012(l)(2) (Code section 245(a)(10)), 1012(n)(3), 1012(bb)(4) (Code section 904(g)(10)), 2004(j)(1), 5031(a) (Code section 7520(a)), 6026(c) (Code section 263A(d)(3)(B)), and 6277.

(iii) *Freely revocable elections.* The election described in this section that is made under section 6011 of the Act is revocable without the consent of the Commissioner. (See section 121(c) of the Code and § 1.121–4 of the regulations.)

(b) *Elections with respect to the low-income housing credit.* The elections under sections 42(d)(3)(B), 42(f)(1), 42(g)(3)(B)(i), 42(i)(2)(B), and 42(j)(5)(B) of the Code generally must be made for the taxable year in which the building is placed in service, or the succeeding taxable year if the section 42(f)(1) election is made to defer the start of the credit period, and must be made in the certification required to be filed pursuant to section 42(l) (1) and (2), as amended by the Act. The election under section 42(j)(5)(B) of the Code must be made by the later of the due date of the certification or January 22, 1990. The election under section 42(b)(2)(A)(ii) must be made in accordance with the requirements of Notice 89–1, 1989–2 I.R.B. 10.

(c) *Election to treat certain carryovers of disallowed investment interest expense as passive activity deductions.* The requirements of paragraphs (a) (2) and (3) of this section do not apply to an election under section 1005(c)(11) of the Act. Instead, the election must be made at the time and in the manner prescribed in Notice 89–36, 1989–13 I.R.B. 6. Thus, the election must be made before the filing deadline specified in Notice 89–36 by amending previously filed returns to reflect any change in the computation of tax liability that results from the election.

(d) *Election with respect to the treatment of reasonably estimated losses in an insolvent or bankrupt financial institution*—(1) *In general.* This paragraph (d) applies to an election under section 905(a) of the 1986 Act, and to an election under section 1009(d) of the Act, both relating to section 165(l) of the Code. If—

(i) As of the close of the taxable year, it can reasonably be estimated that there is a loss on a deposit (within the meaning of section 165(l)(4)) of a qualified individual (as defined in section 165(l)(2)) in a qualified financial institution (as defined in section 165(l)(3)), and

(ii) Such loss is on account of the bankruptcy or insolvency of such institution, then the qualified individual may elect under either section 165(l)(1) or (5) (but not both), to treat the amount (subject to the applicable limitations if under section 165(l)(5)) so estimated for that taxable year as a loss described in either section 165(c)(3), relating to casualty losses, or section 165(c)(2), relating to transactions entered into for profit, and incurred during the taxable year.

The election will apply to all losses of the qualified individual on deposits in the institution with respect to which an election is made. For additional information and examples of the application of the election rules, see Notice 89–28, 1989–12 I.R.B. 72.

This paragraph (d) includes the procedural and the principal substantive rules first issued in Notice 89–28. For specific rules relating to an election under section 165(1)(5), see paragraph (d)(2) of this section.

(2) *Specific rules relating to the section 165(1)(5) election*—(i) *Applicability.* An election under section 165(1)(5) of the Code may be made only if no part of the taxpayer's deposits in the financial institution is federally insured. Generally, this requirement will be met only in cases in which none of the deposits in the financial institution are federally insured.

(ii) *Dollar limitations.* An election under section 165(1)(5) of the Code is limited to $20,000 ($10,000 in the case of a separate return by a married individual) in aggregate losses on deposits in any one financial institution. The applicable dollar limit must be reduced by the amount of any insurance proceeds that can reasonably be expected to be received under any state law.

(3) *Time and manner of determining loss and making the election*—(i) *Year of election and determination of loss.* A qualified individual may make an election under section 165(1) of the Code either for the first taxable year in which a reasonable estimate of the loss can be made or for a later taxable year that is prior to the taxable year in which the loss is sustained. The amount of the loss is determined by the difference between a taxpayer's basis in the deposits

and the amount that is reasonably estimated to be recovered, taking into account all facts and circumstances reasonably available to the taxpayer as of the date the election is made. A reasonable estimate might be based, for example, on the percentage of total deposits likely to be recovered by the depositors according to a determination made by the regulatory authority or trustee having responsibility over the institution. In addition, the taxpayer's basis in the deposits must be reduced to the extent that a loss is claimed.

(ii) *Time and manner of making election*. A qualified individual may make an election under section 165(1) of the Code on—

(A) The income tax return for the taxable year with respect to which the taxpayer made a reasonable estimate of the loss;

(B) An amended income tax return for a taxable year described in paragraph (d)(3)(ii)(A) of this section, if the period prescribed for filing a claim for refund or credit for that taxable year has not yet expired; or, if applicable,

(C) An amended income tax return for a taxable year (beginning after December 31, 1981) described in paragraph (d)(3)(ii)(A) of this section, whether or not the claim for refund or credit is barred by another provision of law, but only if the amended return is properly filed on or before November 9, 1989.

(iii) *Information to include with election*. The election should include any information requested in the applicable forms and instructions (e.g., Form 4684, Casualties and Thefts). If the applicable form(s) and instructions do not make reference to or request information concerning this election, the taxpayer should, on an appropriate line or space clearly indicate the name of the financial institution, include the following language: ''Insolvent Financial Institution Election,'' and include the calculation of the reasonably estimated loss claimed.

(4) *Revocability of the election*—(i) *In general*. If a taxpayer desires to revoke an election under section 165(l) of the Code, the taxpayer must request, in writing, the consent of the Secretary setting forth the pertinent facts surrounding the election and the reasons for requesting a revocation.

(ii) *Exception*. With respect to an election made under section 165(l)(1) of the Code prior to November 9, 1989, a qualified individual may revoke such election without securing the prior consent of the Secretary but only if the taxpayer makes an election under section 165(l)(5) by November 9, 1989, in the manner prescribed in paragraph (d)(3) of this section.

(5) *Effective date*. Paragraph (d) of this section is generally effective for elections made under section 165(1) of the Code on or after November 10, 1988. However, an election filed prior to February 24, 1989, that is made in any reasonable manner will be effective.

(e) *Election to treat a survivor annuity payable to a surviving spouse as a nondeductible terminable interest*. Where the time for making the election under section 2056(b)(7)(C)(ii) of the Code to treat the survivor annuity as nondeductible otherwise expires before November 11, 1990, the election may be made before November 11, 1990, by filing with the Service Center where the original return was filed supplemental information under § 20.6081–1(c) of the Estate Tax Regulations containing:

(1) A statement that the election under section 2056(b)(7)(C)(ii) of the Code is being made;

(2) The applicable revised schedules;

(3) A recomputation of the tax due; and

(4) Payment of any additional tax due.

(f) *Election to treat a joint and survivor annuity in which the donee spouse has a survivor interest as a nondeductible terminable interest*. Where the time for making the election under section 2523(f)(6)(B) of the Code to treat the interest as nondeductible otherwise expires before November 11, 1990, the election may be made before November 11, 1990, by filing with the appropriate Service Center an original return (or an amended return if an original return was filed) containing:

(1) A statement that the election under section 2523(f)(6)(B) is being made;

(2) A recomputation of the tax due; and

(3) Payment of any additional tax due.

(g) *Election to treat survivor's annuity payable to the surviving spouse as qualified terminable interest property deductible under sections 2056(b)(7)(C) or 2523(f)(6) of the Code in the case of a return filed prior to November 11, 1988.* (1) In the case of an estate tax election under section 2056(b)(7)(C) the election is made by filing with the Service Center where the estate tax return was filed supplemental information under § 20.6081–1(c) of the Estate Tax Regulations (and timely claim for refund under section 6511 of the Code, if applicable) containing:

(i) A statement that the election under section 6152(c)(2) of the Technical and Miscellaneous Revenue Act of 1988 is being made;

(ii) The applicable revised schedules; and

(iii) A recomputation of the estate's tax liability showing the amount of any refund due.

(2) In the case of a gift tax election under section 2523(f)(6) of the Code, the election is made by filing with the Service Center where the original return was filed an amended return (and timely claim for refund under section 6511, if applicable) containing:

(i) A statement that the election under section 6152(c)(2) of the Technical and Miscellaneous Revenue Act of 1988 is being made;

(ii) The applicable revised schedules; and

(iii) A recomputation of the gift tax liability showing the amount of any refund due.

(h) *Elections with respect to certain nongovernmentally owned rail facilities*—(1) *In general.* This paragraph applies to the election under section 6180(b)(1) of the Act (Code section 142(i)(2)) not to claim a deduction under section 167 or 168 of the Code or any credit with respect to certain bond-financed property. An electing owner that is not a governmental unit must make the election at the time the loan agreement with the issuer of the bond is executed. The election must be signed by the owner and include—

(i) A description of the property with respect to which the election is being made;

(ii) The name, address, and taxpayer identification number of the issuing authority;

(iii) The name, address, and taxpayer identification number of the electing owner; and

(iv) The date and face amount of the issue used to provide the property.

(2) *Other requirements.* The electing owner must provide a copy of the election to the issuing authority and to any person purchasing the facilities during the period the bonds are outstanding or within 6 years after the last bond that is part of the issue is retired. The electing owner, purchaser, and all successors in interest to the electing owner or purchaser must each retain the original election document or a copy thereof in its records until 6 years after the later of the date the last bond that is part of the issue is retired or the date such owner, purchaser or successor in interest ceases to own the facilities. The issuer must retain a copy of the election until 6 years after the date the last bond that is part of the issue is retired. In addition, while the facilities are nongovernmentally owned, any publicly recorded document with respect to the facilities must state that neither the electing owner, nor any person purchasing the facilities during the period the bonds are outstanding or within 6 years after the date the last bond that is part of the issue is retired, nor any successor in interest to the electing owner or such purchaser, may claim any deduction under section 167 or 168 of the Code or any credit with respect to the facilities.

(3) *Election is binding on purchasers and successors.* The election is binding at all times on any person purchasing the facilities during the period the bonds are outstanding or within 6 years after the date the last bond that is part of the issue is retired and on all successors in interest to the electing owner and such purchaser.

(i) *Election under section 3127 of the Code to be exempted from the taxes imposed by sections 3111 and 3101*—(1) *Application for exemption.* To be exempt from the taxes imposed under section 3111 and 3101 of the Code with regard to wages paid after December 31, 1988, an individual who is an employer and his

or her employee must each file an application on the prescribed form with the Internal Revenue Service office designated in the instructions relating to the application for exemption.

(2) *Approval of application for exemption*. The application for exemption by the individual employer or the employee will be approved only if:

(i) The application contains or is accompanied by the evidence described in section 1402(g)(1)(A) of the Code and a waiver described in section 1402(g)(1)(B);

(ii) The Secretary of Health and Human Services makes the findings described in section 1402(g)(1) (C), (D), and (E) with respect to the religious sect or division described in section 1402(g)(1) of which the individual employer and employee are members; and

(iii) No benefit or other payment referred to in section 1402(g)(1)(B) became payable (or, but for sections 203 or 222(b) of the Social Security Act, would have become payable) to the employee filing the application at or before the time of the filing.

(3) *Effective period of exemption*. The election provided in paragraph (h)(1) of this section will apply with respect to wages paid by such individual employer during the period commencing with the first day of the first calendar quarter, after the quarter in which such application is filed, throughout which such individual employer or employee meets the applicable requirements specified in paragraphs (h)(2) and (h)(3).

(4) *Termination of election*. The exemption granted under section 3127 of the Code will end on the last day of the calendar quarter preceding the first calendar quarter thereafter in which:

(i) Such individual employer or the employee involved ceases to meet the applicable requirements of paragraphs (h)(2) and (h)(3), or

(ii) The sect or division thereof of which such individual employer or employee is a member is found by the Secretary of Health and Human Services to have failed to meet the requirements of section 3127(b)(2).

(5) *Both the individual employer and employee must qualify and elect*. The exemption from the taxes imposed under sections 3101 and 3111 of the Code is applicable only if both the individual employer and the employee qualify and make the election under the provisions of section 3127.

(j) *Certain elections not addressed in this section*. Elections under the Act that are not addressed in this section include:

(1) An election relating to the effective date of certain source rules under section 861(a) of the Code (section 1012(g)(1) of the Act);

(2) An election relating to transitional rules for interest allocation under 864(e) of the Code (section 1012(h)(7) of the Act);

(3) An election relating to the chain deficit rules under section 952(c)(1)(C) of the Code (section 1012(i)(25) of the Act);

(4) An election relating to the definition of a passive foreign investment company in section 1296 of the Code (section 1012(p)(27) of the Act);

(5) An election by a shareholder of a qualified electing fund under section 1291(d)(2)(B) of the Code (section 1012(p)(28) of the Act);

(6) An election to be treated as a qualified electing fund under section 1295 of the Code (section 6127 of the Act);

(7) An election relating to treatment of an insurance branch as a separate corporation under section 964(d) of the Code (section 6129 of the Act);

(8) An election relating to certain regulated futures contracts and nonequity options under section 988(c)(1)(D) of the Code (section 6130(b) of the Act);

(9) An election relating to certain qualified funds under section 988(c)(1)(E) of the Code (section 6130(b) of the Act);

(10) An election under section 952(c)(1)(B) of the Code to apply section 953(a) without regard to the same country exception (section 6131(a) of the Act);

(11) An election relating to treatment of a foreign insurance company as a domestic corporation under section 953(d) of the Code (section 6135 of the Act).

Guidance concerning the elections described in this paragraph (j) will generally be provided in regulations to be issued under the relevant Code sections. With respect to certain elections

described in this paragraph (j), preliminary guidance has been published. See Notice 88–125, 1988–52 I.R.B. 4, for guidance with respect to the election described in paragraph (j)(6) of this section, relating to the qualified electing fund election. See Notice 88–124, 1988–51 I.R.B. 6, for guidance with respect to the elections described in paragraph (j)(8) and (9) of this section, relating to section 988(c)(1) (D) and (E) of the Code.

(k) *Additional information required.* Later regulations or revenue procedures issued under provisions of the Code or Act covered by this section may require the furnishing of information in addition to that which was furnished with the statement of election described in this section. In that event, the later regulations or revenue procedures will provide guidance with respect to the furnishing of additional information.

[T.D. 8267, 54 FR 38980, Sept. 22, 1989; 54 FR 41243, 41364, Oct. 6, 1989. Redesignated and amended by T.D. 8435, 57 FR 43895, 43896, Sept. 23, 1992; 57 FR 47373, Oct. 15, 1992]

§ 301.9100–9T Election by a bank holding company to forego grandfather provision for all property representing pre-June 30, 1968, activities.

(a) *In general.* For purposes of sections 1101 through 1103 and 6158 of the Code, a bank holding company may elect under section 1103(g) to have the determination of whether property is prohibited property or is property eligible to be distributed without recognition of gain under section 1101(b)(1) made under the Bank Holding Company Act (12 U.S.C. 1841 *et seq.*) as if the Act did not contain the proviso of section 4(a)(2) thereof.

(b) *Manner of making election.* The election under section 1103(g) shall be made in a written statement filed with the Federal Reserve Board indicating that by resolution of its board of directors, the bank holding company is electing to apply the provisions of section 1103(g). In addition, the bank holding company shall indicate on its income tax return for each taxable year in which the election applies to a distribution or sale of property (in the manner specified in the Internal Revenue Service's instructions for the preparation of the return) that it has made the election under section 1103(g). The election shall be considered to be made on the date on which the written statement is received by the Federal Reserve Board.

(c) *Scope of election.* The election under section 1103(g) applies to all determinations of whether property is prohibited property or is property eligible to be distributed without recognition of gain under section 1101(b)(1).

(d) *Election; binding effect.* An election made under section 1103(g) is irrevocable.

(e) *Final certification.* An election under section 1103(g) shall not apply unless the final certification referred to in section 1101(e) or section 6158(c)(2), as the case may be, includes a certification by the Federal Reserve Board that the bank holding company has disposed of either all banking property or all nonbanking property (including property described in the proviso of section 4(a)(2) of the Bank Holding Company Act).

(f) *Conditional certification.* A certification by the Federal Reserve Board under section 1101 (a)(1)(B), 1101 (b)(1)(B), 1101 (c)(2)(C), 1101 (c)(3)(C), or 6158(a) that is conditioned upon the bank holding company's making an election under section 1103(g) shall not be considered to be made before the distribution or sale unless the certification and the election are made before the distribution or sale.

[T.D. 7570, 43 FR 52057, Nov. 8, 1978. Redesignated by T.D. 8435, 57 FR 43896, Sept. 23, 1992]

§ 301.9100–10T Election by certain family-owned bank holding companies to divest all banking or nonbanking property.

(a) *In general.* For purposes of sections 1101 through 1103 and 6158 of the Code, a bank holding company may elect under section 1103(h) to have the determination of whether property is prohibited property or is property eligible to be distributed without recognition of gain under section 1101(b)(1) made under the Bank Holding Company Act (12 U.S.C. 1841 *et seq.*) as if the Act did not contain clause (ii) of section 4(c) thereof.

(b) *Manner of making election.* The election under section 1103(h) shall be

made in a written statement filed with the Federal Reserve Board indicating that by resolution of its board of directors, the bank holding company is electing to apply, the provisions of section 1103(h). In addition, the bank holding company shall indicate on its income tax return for each taxable year in which the election applies to a distribution or sale of property (in the manner specified in the Internal Revenue Service's instructions for the preparation of the return) that it has made the election under section 1103(h). The election shall be considered to be made on the date on which the written statement is received by the Federal Reserve Board.

(c) *Scope of election.* The election under section 1103(h) applies to all determinations of whether property is prohibited property or is property eligible to be distributed without recognition of gain under section 1101(b)(1).

(d) *Election; binding effect.* An election made under section 1103(h) is irrevocable.

(e) *Final certification.* An election under section 1103(h) shall not apply unless the final certification referred to in section 1101(e) or section 6158(c)(2), as the case may be, includes a certification by the Federal Reserve Board that the bank holding company has disposed of either all banking property or all nonbanking property.

(f) *Conditional certification.* A certification by the Federal Reserve Board under section 1101 (a)(1)(B), 1101 (b)(1)(B), 1101 (c)(2)(C), 1101 (c)(3)(C), or 6158(a) that is conditioned upon the bank holding company's making an election under section 1103(h) shall note considered to be made before the distribution or sale unless the certification and the election are made before the distribution or sale.

[T.D. 7570, 43 FR 52057, Nov. 8, 1978. Redesignated by T.D. 8435, 57 FR 43896, Sept. 23, 1992]

§ 301.9100–11T Election by a qualified bank holding corporation to pay in installments the tax attributable to sales under the Bank Holding Company Act.

(a) *In general.* Under section 6158(a) of the Code, a qualified bank holding corporation may elect to pay in installments the tax under chapter I of the Code attributable to the sale of bank property or prohibited property (as those terms are defined in section 6158(f) (2) and (3)) if—

(1) It meets the conditions described in paragraph (b) of this section, and

(2) It files an election in accordance with the rules set forth in paragraph (c) of this section.

(b) *Conditions.* (1) The sale of bank property or prohibited property must take place after July 7, 1970.

(2) The Federal Reserve Board must certify before the sale of the bank property or prohibited property that the divestiture of such property is necessary or appropriate to effectuate section 4 or the policies of the Bank Holding Company Act (12 U.S.C. 1841 *et seq.*).

(3) If bank property is sold, the qualified bank holding corporation (or a corporation having control of it or a subsidiary of it) must not have—

(i) Previously elected to apply section 6158 to a sale of prohibited property, or

(ii) Previously distributed prohibited property under section 1101(a).

(4) If prohibited property is sold, the qualified bank holding corporation (or a corporation having control of it or a subsidiary of it) must not have—

(i) Previously elected to apply section 6158 to a sale of bank property, or

(ii) Previously distributed bank property under section 1101(b).

(5) The qualified bank holding corporation must not have elected to return the income from the sale under the installment provisions of section 453.

(c) *Time and manner of making election.* (1) Except as provided in paragraph (c)(2) of this section, a qualified bank holding corporation shall make the election under section 6158(a) by—

(i) Attaching a statement to its income tax return for the taxable year in which the prohibited property or bank property is sold showing the tax computation under paragraph (f) of this section and the amount of the installment paid with the return, and

(ii) Entering the amount of the installment payment followed by the words ''computed under section 6158'' in the appropriate place on the tax return.

(2) If the qualified bank holding corporation filed its income tax return for the year of sale before February 6, 1979 (without electing under section 6158(a)), then it shall make the election under section 6158(a) by attaching a statement to its claim for credit or refund (amended tax return) for its overpayment of income tax attributable to the application of section 6158 showing the tax computation under paragraph (f) of this section and entering the amount of the credit or refund followed by the words ''attributable to the application of section 6158'' in the appropriate place on the claim. In order for the election to be effective, the claim must be filed before the earlier of—

(i) The expiration of the period of limitation for the filing of the claim, or

(ii) February 6, 1979.

(d) *Scope of election*. An election under section 6158 will apply only to the particular sale or sales of property with respect to which the election is being made.

(e) *Special rule for certifying sales*. For purposes of section 6158(a) and paragraph (b)(2) of this section, in the case of a sale which takes place after July 7, 1970, and before January 1, 1977, a certification by the Federal Reserve Board shall be treated as made before the sale if application for such certification was made before January 1, 1977.

(f) *Tax attributable to sales*. The tax under chapter I of the Code attributable to sales with respect to which an election under section 6158 has been made shall be the amount, if any, by which the tax under chapter I on the taxable income of the qualified bank holding corporation (computed without regard to section 6158) for the taxable year during which the sales occur exceeds the greater of—

(1) The tax under chapter I for such year on the taxable income of the corporation exclusive of gains on sales of property with respect to which an election under section 6158 has been made, or

(2) The tax under chapter I for such year on the taxable income of the corporation exclusive of gains and losses on all sales of the type of property (either bank property or prohibited property) with respect to which an election under section 6158 has been made.

[T.D. 7570, 43 FR 52057, Nov. 8, 1978. Redesignated by T.D. 8435, 57 FR 43896, Sept. 23, 1992]

§ 301.9100–12T Various elections under the Tax Reform Act of 1976.

(a) *Elections covered by temporary rules*. The sections of the Internal Revenue Code of 1954, or of the Tax Reform Act of 1976, to which this section applies and under which an election or notification may be made pursuant to the procedures described in paragraphs (b) and (d) are as follows:

(1) FIRST CATEGORY

Section	Description of election	Availability of election
167(o) of Code	Substantially rehabilitated historic property	Additions to capital account occurring after June 30, 1976, and before July 1, 1981.
172(b)(3)(E) of Code	Forego of carryback period	Any taxable year ending after December 31, 1975.
402(e)(4)(L) of Code	Lump sum distributions from qualified plans.	Distributions and payments made after December 31, 1975, in taxable years beginning after such date.
812(b)(3) of Code	Forego of carryback period by life insurance companies.	Any taxable year ending after December 31, 1975
819A of Code	Contiguous country branches of domestic life insurance companies.	All taxable years beginning after December 31, 1975.
825(d)(2) of Code	Forego of carryback period by mutual insurance companies.	Any taxable year ending after December 31, 1975.
911(e) of Code	Foregoing of benefits of section 911	All taxable years beginning after December 31, 1975.

(2) SECOND CATEGORY

185(d) of Code	Amortization of railroad grading and tunnel bores.	All taxable years beginning after December 31, 1974.
1057 of Code	Transfer to foreign trusts etc	Any transfer of property after October 2, 1975.

(b) *Time for making election or serving notice*—(1) *Category (1)*. A taxpayer may make an election under any section referred to in paragraph (a)(1) of this section for the first taxable year for which the election is required to be made or for the taxable year selected by the taxpayer when the choice of the taxable year is optional. The election must be made by the later of the time, including extensions thereof, prescribed by law for filing income tax returns for such taxable year or March 8, 1977.

(2) *Category (2)*. A taxpayer may make an election under any section referred to in paragraph (a)(2) for the first taxable year for which the election is allowed or for the taxable year selected by the taxpayer when the choice of the taxable year is optional. The election must be made (i) for any taxable year ending before December 31, 1976, for which a return has been filed before January 31, 1977, by filing an amended return, provided that the period of limitation for filing claim for credit or refund of overpayment of tax, determined from the time the return was filed, has not expired or (ii) for all other years by filing the income tax return for the year for which the election is made not later than the time, including extensions thereof, prescribed by law for filing income tax returns for such year.

(c) *Certain other elections*. The elections described in this paragraph shall be made in the manner and within the time prescribed herein and in paragraph (d) of this section.

(1) The following elections under the Tax Reform Act of 1976 shall be made:

(i) Section 207(c)(3) of Act; change from static value method of accounting; all taxable years beginning after December 31, 1976.

by filing Form 3115 with the National Office of the Internal Revenue Service before October 5, 1977.

(ii) Section 604 of Act; travel expenses of State legislators; all taxable years beginning before January 1, 1976.

by filing an amended return for any taxable year for which the period for assessing or collecting a deficiency has not expired before October 4, 1976, by the last day for filing a claim for refund or credit for the taxable year but in no event shall such day be earlier than October 4, 1977.

(iii) Section 804(e)(2) of Act; retroactive applications of amendments to property described in section 50(a) of Code; certain taxable years beginning before January 1, 1975.

by filing amended returns before October 5, 1977, for all taxable years to which applicable for which the period of limitation for filing claim for credit or refund for overpayment of tax has not expired.

(iv) Section 1608(d)(2) of Act; election as a result of determination as defined in section 859(c) of the Code; determinations made after October 4, 1976.

by filing a statement with the district director for the district in which the taxpayer maintains its principal place of business within 60 days after such determination.

(v) Section 2103 of Act; treatment of certain 1972 disaster losses. Any taxable year in which payment is received or indebtedness is foregiven.

by filing a return for the taxable year or an amended return by the last day for making a claim for credit or refund for the taxable year but in no event shall such day be earlier than October 4, 1977.

(2) [Reserved]

(3) The election provided for in section 167(e)(3) of the Code shall be made in accordance with §1.167(e)–1(d) except that the election shall be applicable for the first taxable year of the taxpayer beginning after December 31, 1975.

(d) *Manner of making election*. Unless otherwise provided in the return or in a form accompanying a return for the taxable year, the elections described in paragraphs (a) and (c) (except paragraphs (c)(1)(i), and (c)(5)) shall be made by a statement attached to the return (or amended return) for the taxable year. The statement required when making an election pursuant to this section shall indicate the section under which the election is being made and shall set forth information to identify the election, the period for which it applies, and the taxpayer's basis or entitlement for making the election.

(e) *Effect of election*—(1) *Consent to revoke required.* Except where otherwise provided by statute or except as provided in subparagraph (2) of this paragraph, an election to which this section applies made in accordance with this section shall be binding unless consent to revoke the election is obtained from the Commissioner. An application for consent to revoke the election will not be accepted before the promulgation of the permanent regulations relating to the section of the Code or Act under which the election is made. Such regulations will provide a reasonable period of time within which taxpayers will be permitted to apply for consent to revoke the election.

(2) *Revocation without consent.* An election to which this section applies, made in accordance with this section, may be revoked without the consent of the Commissioner not later than 90 days after the permanent regulations relating to the section of the Code or Act under which the election is made are filed with the Office of the Federal Register, provided such regulations grant taxpayers blanket permission to revoke that election within such time without the consent of the Commissioner. Such blanket permission to revoke an election will be provided by the permanent regulations in the event of a determination by the Secretary or his delegate that such regulations contain provisions that may not reasonably have been anticipated by taxpayers at the time of making such election.

(f) *Furnishing of supplementary information required.* If the permanent regulations which are issued under the section of the Code or Act referred to in this section to which the election relates require the furnishing of information in addition to that which was furnished with the statement of election filed pursuant to paragraph (d) of this section, the taxpayer must furnish such additional information in a statement addressed to the district director, or the director of the regional service center, with whom the election was filed. This statement must clearly identify the election and the taxable year for which it was made. If such information is not provided the election may, at the discretion of the Commissioner, be held invalid.

(Sec. 191(b), Internal Revenue Code of 1954 (90 Stat. 1916, 26 U.S.C. 191(b))

[T.D. 7459, 42 FR 1469, Jan. 7, 1977]

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting § 301.9100–12T, see the List of CFR Sections Affected, which appears in the Finding Aids section of the printed volume and at *www.govinfo.gov*.

§ 301.9100–14T Individual's election to terminate taxable year when case commences.

(a) *Scope.* The regulations prescribed in this section provide rules for making the election under section 1398(d)(2) to terminate the taxable year of an individual taxpayer.

(b) *Availability of election.* This election is available to an individual taxpayer in a case commenced after March 24, 1981, under chapter 7 (relating to liquidations) or chapter 11 (relating to reorganizations) of title 11 of the United States Code. If the case is dismissed, the taxpayer cannot make the election, and an election previously made will be void. For purposes of this section, a partnership is not treated as an individual. If the taxpayer making the election is married (within the meaning of section 143), the election is available to the taxpayer's spouse, but only if the spouse is eligible to file, and does file, a joint return with the taxpayer for the taxable year ended as a result of the election.

(c) *Effect of election.* The election terminates the taxable year of the taxpayer (and of a spouse who joins in the election) on the day before the commencement date of the case. A new taxable year begins on the commencement date and (unless terminated earlier) ends on the date on which the taxpayer's taxable year in which the case commenced would have ended if the election had not been made.

(d) *Time and manner.* A taxpayer to whom the election is available makes the election by filing a return for the short taxable year ending the day before commencement of the case (the ''first short taxable year'') on or before the 15th day of the fourth full month following the end of that first short taxable year. The spouse of such a taxpayer makes the election by making a

joint return with the taxpayer for that first short taxable year within the time prescribed in the preceding sentence. To facilitate processing, the taxpayer should write ''Section 1398 Election'' at the top of the return. A taxpayer may also make the election by attaching a statement of election to an application for extension of time for filing a return that satisfies the requirements under section 6081 for the first short taxable year. The application for extension must be submitted under section 6081 on or before the due date of the return for the first short taxable year. The statement must state that the taxpayer elects under section 1398(d)(2) to close his or her taxable year as of the day before commencement of the case. If the taxpayer's spouse elects to close his or her taxable year, the spouse must join in the application for extension and in the statement of election. If a joint return is not filed for the first short taxable year, the election of the spouse made with the application is void.

(e) *Irrevocability of election.* The election is irrevocable.

(f) *Subsequent bankruptcy case of debtor's spouse.* If a case under chapter 7 or chapter 11 of title 11 of the United States Code commences with respect to the spouse of a debtor to whom an election under this section was available, the spouse can make an election under this section even if the spouse's case commences in the same taxable year in which the debtor's case commences. The spouse can make the election whether or not the spouse previously joined in the debtor's election. If the spouse joined in the debtor's election, or if the debtor did not make the election, the debtor may join in the spouse's election, assuming the debtor is otherwise eligible to file a joint return with the spouse.

(g) *Examples.*

Example. (1) Assume that husband and wife are calendar-year taxpayers, that a bankruptcy case involving only the husband commences on March 1, 1982, and that a bankruptcy case involving only the wife commences on October 10, 1982.

(2) If the husband does not make an election, his taxable year would not be affected; *i.e.,* it does not terminate on February 28. If the husband does make an election, his first short taxable year would be January 1 through February 28; his second short taxable year would begin March 1. The tax return for his first short taxable year would be due on June 15. The wife could join in the husband's election, but only if they file a joint return for the taxable year January 1 through February 28.

(3) The wife could elect to terminate her taxable year on October 9. If she did, and if the husband had not made an election or if the wife had not joined in the husband's election, she would have two taxable years in 1982—the first from January 1 through October 9, and the second from October 10 through December 31. The tax return for her first short taxable year would be due on February 15, 1983. If the husband had not made an election to terminate his taxable year on February 28, the husband could join in an election by his wife, but only if they file a joint return for the taxable year January 1 through October 9. If the husband had made an election but the wife had not joined in the husband's election, the husband could not join in an election by the wife to terminate her taxable year on October 9, since they could not file a joint return for such year.

(4) If the wife makes the election relating to her own bankruptcy case, and had joined the husband in making an election relating to his case, she would have two additional taxable years with respect to her 1982 income and deductions—the second short taxable year would be March 1 through October 9, and the third short taxable year would be October 10 through December 31. The husband could join in the wife's election if they file a joint return for the second short taxable year. If the husband joins in the wife's election, they could file joint returns for the short taxable year ending December 31, but would not be required to do so.

[T.D. 7775, 46 FR 25292, May 6, 1981; 46 FR 30495, June 9, 1981. Redesignated by T.D. 8435, 57 FR 43896, Sept. 23, 1992]

§ 301.9100–15T Election to use retroactive effective date.

(a) *Scope.* The regulations prescribed in this section provide rules for making the election to use a retroactive effective date under section 7(f) of the Bankruptcy Tax Act of 1980.

(b) *Availability of election.* The election is available to the debtor (or debtors) in a case under title 11 of the United States Code (or a receivership, foreclosure, or similar proceeding in a Federal or State court) that commences after September 30, 1979, and before January 1, 1981. The court must approve the election. For purposes of this paragraph (b), a receivership, foreclosure, or similar proceeding before a

Federal or State agency involving a financial institution to which section 585 or 593 applies shall be treated as a proceeding before a court.

(c) *Effect of election*—(1) *In general*. An election under this section changes the effective date of certain amendments to the Code made by the Bankruptcy Tax Act of 1980. The amendments affected by an election under this section are listed in paragraph (c) (2) and (3) of this section. If the election is made, all of the amendments listed in paragraph (c) (2) and (3) of this section apply to all transactions in the case (or similar proceeding) and to all parties in respect of all transactions in the case (or similar proceeding). Thus, the debtor may not elect to have only certain of the amendments apply to transactions in the case (or similar proceeding) and may not elect to have the amendments apply only to certain transactions in the case (or similar proceeding). An election under this section will not make the amendments listed in paragraph (c) (2) and (3) applicable to transactions occurring prior to commencement of the case (or similar proceeding) or transactions not in the case (or similar proceeding).

(2) *Amendments affected*. An election under this section changes the effective date of the amendments to the following sections:

(i) 111, relating to recovery of bad debts, prior taxes, and delinquency amounts,

(ii) 302, relating to the repeal of special treatment for certain railroad redemptions,

(iii) 312, relating to the effect of debt discharge on earnings and profits,

(iv) 337, relating to the application of the 12-month liquidation rule,

(v) 351, relating to certain transfers to controlled corporations,

(vi) 354 (other than the amendment made by section 6(i)(2) of the Bankruptcy Tax Act of 1980), 355, 357, 368, and 381, relating to corporate reorganizations,

(vii) 382, relating to special limitations on net operating loss carryover,

(viii) 542, relating to the personal holding company tax, and

(ix) 703, relating to elections of partnerships.

(3) *Other amendments affected in part*. Subject to the transitional rule of section 7(a)(2) of the Bankruptcy Tax Act of 1980, an election under this section changes the effective date of the amendments to sections 108 and 1017, relating to the tax treatment of discharge of indebtedness.

(4) *Substitution of effective dates*. The election under this section changes the effective date of the amendments listed in paragraph (c) (2) and (3) of this section by substituting ''September 30, 1979'' for ''December 31 1980'' wherever it appears in section 7(a), (c), and (d) of the Bankruptcy Tax Act of 1980.

(d) *Time and manner*—(1) *Time and place*. A debtor makes the election under this section by filing the written statement and evidence of court approval required under paragraph (d) (2) and (3) of this section on or before November 2, 1981, with the District Director or the Director of the Internal Revenue Service Center with whom an income tax return for the debtor would be filed if it were due on the date the election is filed. The election shall be considered to be made on the date on which the written statement and evidence of court approval is filed. The debtor should attach a copy of the statement and evidence of court approval to the next income tax return filed on or after the date the election is made.

(2) *Statement*. The written statement must be signed by the debtor (or a person duly authorized to sign the income tax return of the debtor) and must contain the following:

(i) The name, address, and taxpayer identification number of the debtor,

(ii) A statement that the debtor is making the election under section 7(f) of the Bankruptcy Tax Act of 1980, and

(iii) Information (including the date of commencement) sufficient to identify the bankruptcy case or similar proceeding.

(3) *Evidence of court approval*. The evidence of court approval (or of approval of an agency in certain proceedings described in paragraph (b) of this section) must be a copy of an order or other document properly signed by the judge or other presiding officer. In addition to information identifying the debtor and the case or proceeding over which

the officer presides, the order or other document must state that the court (or agency, as the case may be) approves the election of the debtor under section 7(f) of the Bankruptcy Tax Act of 1980.

(e) *Revocability*. An election under this section may be revoked only with the consent of the Commissioner. A request for revocation can be made only with approval of the court (or agency).

[T.D. 7775, 46 FR 25292, May 6, 1981. Redesignated by T.D. 8435, 57 FR 43896, Sept. 23, 1992]

§ 301.9100–16T Election to accrue vacation pay.

(a) *In general*. Section 463 provides that taxpayers whose taxable income is computed under an accrual method of accounting may elect without the consent of the Commissioner, to deduct certain amounts with respect to vacation pay which, because of contingencies, would not otherwise be deductible. Such election must apply to the liability for all vacation pay accounts maintained by the taxpayer within a single trade or business if the liability is contingent when vacation pay is earned.

(b) *Time for making election*. (1) In the case of a taxpayer who established or maintained a vacation pay account pursuant to I.T. 3956 and who continued to maintain such account pursuant to section 97 of the Technical Amendments Act of 1958, as amended, for its last taxable year ending before January 1, 1973, the election must be made for each trade or business for which such account was maintained on or before the later of (i) July 21, 1975, or (ii) the due date for filing the income tax return (determined with regard to any extensions of time granted the taxpayer for filing such return) for the first taxable year beginning after December 31, 1973. The election pursuant to this paragraph shall be effective with respect to an account described in this paragraph (b)(1) for taxable years ending after December 31, 1972. Failure to file such election shall constitute a change in the method of accounting for vacation pay for the first taxable year ending after December 31, 1972. Such change in accounting method will be considered a change initiated by the taxpayer.

(2) In the case of a trade or business of a taxpayer to which paragraph (b)(1) does not apply, the election provided for in this section may be made for any taxable year beginning after December 31, 1973, by making the election not later than (i) July 21, 1975, or (ii) the due date for filing the income tax return (determined with regard to any extensions of time granted the taxpayer for filing such return) for the first taxable year for which the election is made.

(3) A taxpayer who elects under section 463 to treat vacation pay as provided in this section and who wishes to revoke such election may only do so with the consent of the Commissioner. Such revocation shall constitute a change in the method of accounting.

(c) *Manner of making election*. (1) Except as otherwise provided in paragraph (c)(2) of this section, the election provided for in this section must be made by means of a statement attached to a timely filed income tax return. The statement shall indicate that the taxpayer is electing to apply the provisions of section 463, and shall contain the following information:

(i) The taxpayer's name and a description of each vacation pay plan to which the election is to apply.

(ii) A schedule with appropriate explanations showing—

(A) In the case of a vacation pay account established or maintained pursuant to I.T. 3956 and section 97 of the Technical Amendments Act of 1958, as amended,

(*1*) The balance of each such vacation pay account maintained by the taxpayer, and

(*2*) The amount, determined as if the taxpayer had maintained a vacation pay account for the last taxable year ending before January 1, 1973, representing the taxpayer's liability for vacation pay earned by employees, before the close of the taxable year and payable during such taxable year or within 12 months following the close of such taxable year.

(B) In the case of other vacation pay accounts, the amount of the closing balances the taxpayer would have had for the taxpayer's 3 taxable years immediately preceding the taxable year for which the election was made, had

the taxpayer maintained an account representing the taxpayer's liability for vacation pay earned by the employees before the close of the taxable year and payable during the taxable year or within 12 months following the close of the taxable year throughout the 3 immediately preceding taxable years.

(iii) The amounts accrued and deducted for prior years for vacation pay but not paid at the close of the taxable year preceding the year for which the election is made.

(2) Where a taxpayer has filed its return for a taxable year beginning after December 31, 1973 prior to July 21, 1975, and has not made the election pursuant to this section, the election may be made by filing an amended return (showing adjustments, in any) for such year and attaching the statement required by paragraph (c)(1) of this section on or before July 21, 1975.

(d) The time for making the election may be illustrated by the following examples:

Example (1). X, whose taxable year begins on February 1, files, its return based on the accrual method of accounting. X has continuously accrued and deducted for income tax purposes contingent amounts of vacation pay, pursuant to I.T. 3956. Pursuant to section 463 and these regulations, in order for X to continue accruing and deducting its vacation pay amounts, X must elect to account for vacation pay under section 463 by attaching the election to its timely filed return for its taxable year ending on January 31, 1975, or if X has already filed such return by July 21, 1975, without such election, by filing the election statement with an amended return by July 21, 1975. If X does not make the election under section 463, X will be treated as having initiated a change in its method of accounting for vacation pay in its taxable year ending on January 31, 1973.

Example (2). Y, a calendar year taxpayer files its returns based on the accrual method of accounting. Y deducted its vacation pay amounts only when paid since such amounts were contingent when earned and Y was not entitled to the benefits of I.T. 3956, Y may elect for its taxable year ending on December 31, 1974, to deduct certain amounts with respect to contingent vacation pay which were not otherwise deductible, by filing an election pursuant to these regulations with its timely filed income tax return for such year or if such return was already filed by [insert date 90 days after publication of this document as a Treasury decision], without such election, by filing the election with an amended return filed by July 21, 1975. If Y does not make the election for its taxable year ending on December 31, 1974, Y may make the election with respect to any subsequent taxable year by filing an election with its return for such year.

[T.D. 7353, 40 FR 17554, Apr. 21, 1975; 40 FR 25590, June 17, 1975. Redesignated by T.D. 8435, 57 FR 43896, Sept. 23, 1992]

§ 301.9100–17T Procedure applicable to certain elections.

(a) *Elections covered by temporary rules.* The sections of the Internal Revenue Code of 1954, or of the Tax Reform Act of 1969, to which paragraph (b) of this section applies and under which an election or notification may be made pursuant to the procedures prescribed in such paragraph are as follows:

Section	Description of election	Availability of election
(1) First category:		
231(d)(2) of Act	Moving expenses	Expenses paid or incurred before July 1, 1970, if employee was notified of move by employer on or before Dec. 19, 1969.
503(c)(2) of Act	Carved-out mineral production payments	All mineral production payments carved out of mineral properties after beginning of last taxable year ending before Aug. 7, 1969.
516(d)(3) of Act	Contingent payments by transferee of franchise, trademark, or trade name.	Payments made in taxable years ending after Dec. 31, 1969, and beginning before Jan. 1, 1980, on transfers made before Jan. 1, 1970.
642(c)(1) of Code ..	Charitable contributions of estates or trusts paid in following year.	Amounts paid in any taxable year beginning after Dec. 31, 1969.
1251(b)(4) of Code	No additions to excess deductions account of taxpayers electing to compute taxable income from farming in certain manner.	Any taxable year beginning after Dec. 31, 1969.
(2) Second category:		
184(b) of Code	Amortization of qualified railroad rolling stock	Any taxable year beginning after Dec. 31, 1969, in which rolling stock was placed in service (or succeeding taxable year).
(3) Third category:		
504(d)(2) of Act	Notification not to have sec. 615(e) election treated as a sec. 617(a) election.	Exploration expenditures paid or incurred after Dec. 31, 1969.

(b) *Manner of making election or serving notice*—(1) *In general.* (i) Except as provided in subparagraph (2) of this paragraph, a taxpayer may make an election under any section referred to in paragraph (a) (1) or (2) of this section for the first taxable year for which the election is required to be made or for the taxable year selected by the taxpayer when the choice of a taxable year is optional. The election must be made not later than (*a*) the time, including extensions thereof, prescribed by law for filing the income tax return for such taxable year or (*b*) 90 days after the date on which the regulations in this section are filed with the Office of the Federal Register, whichever is later.

(ii) The election shall be made by a statement attached to the return (or an amended return) for the taxable year, indicating the section under which the election is being made and setting forth information to identify the election, the period for which it applies, and the facility, property, or amounts to which it applies.

(2) *Additional time for certain elections.* An election under section 503(c)(2) of the Act or section 642(c)(1) of the Code must be made in accordance with subparagraph (1) of this paragraph but not later than (i) the time, including extensions thereof, prescribed by law for filing the income tax return for the taxable year following the taxable year for which the election is made or (ii) 90 days after the date on which the regulations in this section are filed with the Office of the Federal Register, whichever is later.

(3) *Notification as to section 615(e) election.* (i) The notification referred to in paragraph (a)(3) of this section in respect of an election under section 615(e) which was made before the date on which the regulations in this section are filed with the Office of the Federal Register shall be made in a statement attached to the taxpayer's income tax return for the first taxable year in which expenditures are paid or incurred after December 31, 1969, which would be deductible by the taxpayer under section 617 if he so elects. The statement shall indicate the first taxable year for which such election was effective and the district director, or the director of the regional service center, with whom the election was filed.

(ii) The notification referred to in paragraph (a)(3) of this section, in respect of an election under section 615(e) which is made on or after the date on which the regulations in this section are filed with the Office of the Federal Register, shall be made in the statement of election required by paragraph (a)(2) of §15.1–1 of this chapter (Temporary Income Tax Regulations Relating to Exploration Expenditures in the Case of Mining).

(iii) The serving of notice pursuant to this subparagraph shall not preclude the subsequent making of an election under section 617(a). A failure to serve notice pursuant to this subparagraph shall be treated as an election under section 617(a) and paragraph (a)(1) of §15.1–1 of this chapter with respect to exploration expenditures paid or incurred after December 31, 1969, whether or not the taxpayer subsequently revokes his election under section 615(e) with respect to exploration expenditures paid or incurred before January 1, 1970.

(iv) For rules relating to the revocation of an election under section 615(e), including such an election which is treated pursuant to this subparagraph as an election under section 617(a), see paragraph (a) of §15.1–2 of this chapter (T.D. 6907, C.B. 1967–1, 531, 535).

(c) *Effect of election*—(1) *Revocations*—(i) *Consent to revoke required.* Except as provided in subdivision (ii) of this subparagraph, an election made in accordance with paragraph (b)(1) of this section shall be binding unless consent to revoke the election is obtained from the Commissioner. An application for consent to revoke the election will not be accepted before the promulgation of the permanent regulations relating to the section of the Code or Act under which the election is made. Such regulations will provide a reasonable period of time within which taxpayers will be permitted to apply for consent to revoke the election.

(ii) *Revocation without consent.* An election made in accordance with paragraph (b)(1) of this section may be revoked without the consent of the Commissioner not later than 90 days after the permanent regulations relating to

the section of the Code or Act under which the election is made are filed with the Office of the Federal Register, provided such regulations grant taxpayers blanket permission to revoke that election within such time without the consent of the Commissioner. Such blanket permission to revoke an election will be provided by the permanent regulations in the event of a determination by the Secretary or his delegate that such regulations contain provisions that may not reasonably have been anticipated by taxpayers at the time of making such election.

(iii) *Election treated as tentative.* Until the expiration of the reasonable period referred to in subdivision (i) of this subparagraph or the 90-day period referred to in subdivision (ii) of this subparagraph, an election under section 433(d)(2) of the Act will be considered a tentative election, subject to revocation under the provisions of such subdivisions.

(iv) *Place for filing revocations.* A revocation under subdivision (i) or (ii) of this subparagraph shall be made by filing a statement to that effect with the district director, or the director of the regional service center, with whom the election was filed.

(2) *Termination without consent.* An election which is made in accordance with paragraph (b)(1) of this section under a section referred to in paragraph (a)(2) of this section and is not revoked pursuant to subparagraph (1) of this paragraph may, without the consent of the Commissioner, be terminated at any time after making the election by filing a statement to that effect with the district director, or the director of the regional service center, with whom the election was filed. This statement giving notice of termination must be filed before the beginning of the month specified in the statement for which the termination is to be effective. If pursuant to this subparagraph the taxpayer terminates an election made under any such section, he may not thereafter make a new election under that section with respect to the facility, property, or equipment to which the termination relates.

(d) *Furnishing of supplementary information required.* If the permanent regulations which are issued under the section of the Code or Act referred to in paragraph (a) (1) or (2) of this section to which the election relates require the furnishing of information in addition to that which was furnished with the statement of election filed pursuant to paragraph (b)(1) of this section, the taxpayer must furnish such additional information in a statement addressed to the district director, or the director of the regional service center, with whom the election was filed. This statement must clearly identify the election and the taxable year for which it was made.

(e) *Other elections.* Elections under the following sections of the Code may not be made pursuant to paragraph (b)(1) of this section but are to be made under regulations, whether temporary or permanent, which will be issued under amendments made by the Act. If necessary, such regulations will provide a reasonable period of time within which taxpayers will be permitted to make elections under these sections for taxable years ending before the date on which such regulations are filed with the Office of the Federal Register:

Section	Description
167(k)(1)	Expenditures to rehabilitate low-income rental housing.
167(l)(4)	Post-1969 property of certain utilities representing growth in capacity.
170(b)(1)(D)(iii)	Special limitation with respect to contributions of certain capital gain property.
453(c)	Revocation of election to report income on installment basis.
507(b)(1)(B)(ii)	Notice of termination of private foundation status.
1564(a)(2)	Allowance of certain amounts to component member of controlled group of corporations.
4942(h)(2)	Deficient distributions of private foundations for prior taxable years.
4943(c)(4)(E)	Determination of holdings of a private foundation in a business enterprise where substantial contributors hold more than 15 percent of voting stock.

(f) *Cross reference.* For temporary regulations under sections 57(c) and 163(d)(7) of the code, relating to elections with respect to net leases of real property, see § 12.8 of the regulations in this part (Temporary Income Tax Regulations Under the Revenue Act of 1971).

(83 Stat. 487, 85 Stat. 522, 523; 26 U.S.C. 1 nt., 57(c)(4), 163(d)(7))

[T.D. 7032, 35 FR 4330, Mar. 11, 1970]

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting § 301.9100–17T, see the List of CFR Sections Affected, which appears in the Finding Aids section of the printed volume and at *www.govinfo.gov*.

§ 301.9100–18T Election to include in gross income in year of transfer.

(a) *In general*. Under section 83(b) of the Internal Revenue Code of 1954 any person who performs services in connection with which property is transferred which at the time of transfer is not transferable by the transferee and is subject to a substantial risk of forfeiture may elect to include in his gross income for the taxable year in which such property is transferred, the excess of the fair market value of such property at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) over the amount (if any) paid for such property. If this election is made section 33(a) does not apply with respect to such property, and any subsequent appreciation in the value of the property is not taxable as compensation. However, if the property is later forfeited, no deduction is allowed to any person with respect to such forfeiture. This election is not necessary in the case of property which is transferred subject only to a restriction which by its terms will never lapse.

(b) *Manner of making election*. The election referred to in paragraph (a) of this section is made by filing two copies of a written statement with the internal revenue officer with whom the person who performed the services files his return.

(c) *Additional copies*. The person who performed the services shall also submit a copy of the statement referred to in paragraph (b) of this section to the person for whom the services are performed, and, in addition, if the person who performs the services in connection with which restricted property is transferred and the transferee of such property are not the same person, the person who performs the services shall submit a copy of such statement to the transferee of the property.

(d) *Content of statement*. The statement shall indicate that it is being made under section 83(b) of the Code, and shall contain the following information:

(1) The name, address, taxpayer identification number and the taxable year (For example, ''Calendar year 1969'' or ''Fiscal year ending May 31, 1970'') of the person who performed the services;

(2) A description of each property with respect to which the election is being made;

(3) The date or dates on which the property is transferred;

(4) The nature of the restriction or restrictions to which the property is subject;

(5) The fair market value at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) of each property with respect to which the election is being made; and

(6) The amount (if any) paid for such property.

(e) *Time for making election*. The statement referred to in paragraph (b) of this section shall be filed not later than 30 days after the date the property was transferred (or, if later, January 29, 1970). Any statement filed before February 15, 1970, may be amended not later than 30 days after the publication of this Treasury decision in the FEDERAL REGISTER in order to make it conform to the requirements of paragraph (d) of this section (January 17, 1970).

(f) *Revocability of election*. An election under section 83(b) may not be revoked except with the consent of the Commissioner.

[T.D. 7021, 35 FR 626, Jan. 17, 1970; 35 FR 889, Jan. 22, 1970. Redesignated by T.D. 8435, 57 FR 43895, Sept. 23, 1992]

§ 301.9100–19T Election relating to passive investment income of electing small business corporations.

(a) *In general*. Section 3(a) of the Act of April 14, 1966 (Pub. L. 89–389) amends section 1372(e)(5) of the Internal Revenue Code of 1954 (relating to passive investment income of electing small business corporations). This amendment, which applies to taxable years of electing small business corporations ending after April 14, 1966, provides, in general, that an election of a small business corporation under section 1372(a) of the Code shall not terminate

for a taxable year of the corporation in which it has gross receipts more than 20 percent of which is passive investment income, if—

(1) Such taxable year is the first taxable year in which the corporation commenced the active conduct of any trade or business or the next succeeding taxable year; and

(2) The amount of passive investment income for such taxable year is less than $3,000.

Section 3(b) of the Act of April 14, 1966, provides that the amendment made by section 3(a) thereof shall also apply to taxable years of a corporation beginning after December 31, 1962, and ending before April 15, 1966, if the corporation elects to have the amendment apply to such years, and all persons (or their personal representatives) who were shareholders of such corporation at any time during any of such years consent to such election and the application of the amendment. This section prescribes the time for, and manner of, making such election and consents, and also extends the time within which certain new shareholders may consent to an election under section 1372(a) of the Code.

(b) *Application of amendment to taxable years beginning after December 31, 1962, and ending before April 15, 1966*—(1) *In general*. An election by a corporation under section 1372(a) of the Code shall not be treated as terminated under section 1372(e)(5) of the Code for any taxable year of the corporation beginning after December 31, 1962, and ending before April 15, 1966, if—

(i) Such taxable year is the first taxable year in which the corporation commenced the active conduct of any trade or business, or the next succeeding taxable year;

(ii) The amount of passive investment income for such taxable year is less than $3,000;

(iii) The corporation makes an election, within such time and in such manner as provided in subparagraph (2) of this paragraph; and

(iv) All persons (or their personal representatives) who were shareholders of the corporation at any time during any taxable year of the corporation beginning after December 31, 1962, and ending before April 15, 1966, consent to such election, within such time and in such manner as provided in subparagraph (3) of this paragraph.

If an election by a corporation under section 1372(a) of the Code is not treated as terminated for a taxable year of the corporation as a result of an election and consents under this paragraph, such election under section 1372(a) of the Code shall be treated as being in effect with respect to all subsequent taxable years of the corporation unless it is otherwise terminated or revoked for any such subsequent year pursuant to section 1372(e) of the Code.

(2) *Election by corporation*. An election by a corporation pursuant to subparagraph (1)(iii) of this paragraph shall be filed with the district director with whom the corporation was required to file its return of income (see section 6037 of the Code and the regulations thereunder) for the earliest of its taxable years beginning after December 31, 1962, and ending before April 15, 1966, for which an election terminated under section 1372(e)(5) of the Code. Such election shall be filed within 3 years after the date prescribed by law (not including any extension thereof) on which such return was required to be filed, or within 90 days from February 28, 1967, whichever is later. (However, credit or refund of any overpayment attributable to the election may not be allowed or made if claim therefor has not been filed within the time prescribed by law; and, see subparagraph (3) of this paragraph providing that the statutory period for assessment of certain deficiencies against shareholders may not have expired on the date the election and consents under this paragraph are filed.) Such election shall be in the form of a statement, signed by a person authorized to sign the corporation's return of income, which shall expressly provide that the corporation elects the application of section 1372(e)(5) of the Internal Revenue Code, as amended by Pub. L. 89–389, with respect to its taxable years beginning after December 31, 1962, and ending before April 15, 1966. The statement shall set forth the name, address, and employer identification number of the

corporation; the internal revenue officer with whom the corporation's returns of income have been filed for each of its taxable years beginning after December 31, 1962; the names and addresses of all persons who have been shareholders of the corporation at any time during each of its taxable years beginning after December 31, 1962; computations showing the amount of the corporation's overpayment or deficiency of tax for any taxable year which is attributable to the election under this paragraph; and computations showing each shareholder's portion of the undistributed taxable income (determined as provided in section 1373(b) of the Code) or net operating loss (determined as provided in section 1374(c) of the Code) for each taxable year of the corporation beginning after December 31, 1962, unless such computations were made on the corporation's returns of income for each of such years. In order for an election under this paragraph to be effective, it must be accompanied by the consents of certain shareholders as provided in subparagraph (3) of this paragraph.

(3) *Consents by shareholders.* An election by a corporation pursuant to this paragraph must be accompanied by the consent of each person who was a shareholder of the corporation at any time during any taxable year of the corporation beginning after December 31, 1962, and ending before April 15, 1966. This includes persons who may not be shareholders on the date the election is filed. Where stock of the corporation was owned by a husband and wife as community property (or the income from which was community property), or was owned by tenants in common, joint tenants, or tenants by the entirety, each person who had a community interest in such stock and each tenant in common, joint tenant, and tenant by the entirety must consent to the election. The consent of a minor shall be made by the minor or by his legal guardian, or by his natural guardian if no legal guardian has been appointed. The consent of an estate shall be made by the executor or administrator thereof. If a person who is required to file a consent under this subparagraph is deceased, the executor or administrator of such person's estate, or other person charged with the property of such person, shall file the required consent. The consent of each shareholder shall be in the form of a statement signed by the shareholder in which he states that he consents to the election by the corporation under this paragraph. Each of such statements shall set forth the name and address of the corporation and of the shareholder; the number of shares of stock of the corporation owned by such shareholder at any time during any taxable year of the corporation beginning after December 31, 1962; the date (or dates) on which such stock was acquired, and, if disposed of, the date (or dates) of disposition; and the internal revenue officer with whom the shareholder's income tax returns have been filed for each of such taxable years in which he owned any such stock. In addition, a consent under this paragraph is not effective unless (i) the statutory period for assessment of any deficiency for each taxable year for which there would be a deficiency attributable to the election and consents under this paragraph has not expired on the date the election and consents under this paragraph are filed, and (ii) there is included in, or attached to, the statement of consent a written consent that the statutory period for assessment of any deficiency for any taxable year (to the extent that such deficiency is attributable to the election and consents under this paragraph) shall not expire before the expiration of 1 year after the date the election and consents under this paragraph are filed. Each of the statements of consent under this subparagraph shall be filed with the corporation's election under this paragraph. The consents of all shareholders may be incorporated in one statement.

(4) *Election and consents are binding.* The election and consents under this paragraph are binding and may not be withdrawn.

(c) *New shareholders.* Section 1372(e)(1) of the Code provides that an election by a corporation under section 1372(a) of the Code shall terminate if certain new shareholders do not consent to such election within the time prescribed by regulations. New shareholders of a corporation which makes

an election under paragraph (b) of this section may not have consented to the corporation's election under section 1372(a) of the Code within such prescribed time as a result of a termination of such election under section 1372(e)(5) of the Code prior to the enactment of Pub. L. 89–389. Therefore, notwithstanding the provisions of section 1372(e)(1) of the Code, and the regulations thereunder, an election by a corporation under section 1372(a) of the Code shall not be treated as terminated for the failure of any new shareholder to file a timely consent under section 1372(e)(1) of the Code, for any of the taxable years of the corporation between and including the earliest taxable year determined under subparagraph (1) of this paragraph, and the taxable year during which the corporation files an election under paragraph (b) of this section, if—

(1) The corporation's election under section 1372(a) of the Code would have terminated for a taxable year under section 1372(e)(5) of the Code in the event it had not made an election under paragraph (b) of this section, and

(2) A proper consent under section 1372(e)(1) of the Code is filed by such new shareholder with the corporation's election under paragraph (b) of this section.

[T.D. 6912, 32 FR 3343, Feb. 28, 1967. Redesignated by T.D. 8435, 57 FR 43896, Sept. 23, 1992]

§ 301.9100–20T Election to treat certain distributions as made on the last day of the taxable year.

(a) *In general.* Section 233(b) of the Revenue Act of 1964 (78 Stat. 112) amends the Internal Revenue Code of 1954 by adding to section 1375 a new subsection (e) (relating to certain distributions after close of taxable year). Section 1375(e) provides that a corporation, with the consent of its shareholders, may elect, for purposes of chapter 1 of the Code, to treat a distribution of money made after the close of the taxable year as made, and as received by its shareholders, on the last day of such taxable year if the following conditions are satisfied:

(1) The corporation makes a distribution of money to its shareholders on or before the 15th day of the third month following the close of a taxable year with respect to which it was an electing small business corporation within the meaning of section 1371(b);

(2) Such distribution is made pursuant to a resolution of the corporation's board of directors, adopted before the close of such taxable year, to distribute to its shareholders all or a part of the proceeds of one or more sales of capital assets, or of property described in section 1231(b), made during such taxable year; and

(3) Each shareholder on the day such distribution is received—

(i) Owns the same proportion of the stock of the corporation on such day as he owned on the last day of such taxable year, and

(ii) Consents to such election. Section 1375(e) applies only with respect to taxable years of corporations beginning after December 31, 1957.

(b) *Time and manner for making election*—(1) *Taxable years ending after February 26, 1964.* For taxable years ending after February 26, 1964, an election under section 1375(e) with respect to a taxable year shall be made by attaching to the corporation income tax return for such taxable year, filed not later than the time (including extensions thereof) prescribed by law, the following documents:

(i) A statement that the corporation elects the application of section 1375(e) and the date and amount of each distribution to which the election applies;

(ii) A copy of the resolution of the board of directors referred to in paragraph (a)(2) of this section; and

(iii) A statement of the consent of each shareholder of the corporation containing the information required by, and filed in the manner provided in, paragraph (c) of this section.

(2) *Taxable years beginning after December 31, 1957, and ending on or before February 26, 1964.* For taxable years beginning after December 31, 1957, and ending on or before February 26, 1964, an election under section 1375(e) with respect to a taxable year shall be made on or before June 25, 1964, by either attaching the documents described in subparagraph (1) of this paragraph to its income tax return for such taxable year, or by filing such documents with the district director with whom the corporation has filed, or intends to file,

its income tax return for such taxable year.

(3) *Election is binding*. An election under subparagraph (1) or (2) of this paragraph is binding and may not be withdrawn.

(c) *Shareholders' consent*. The consent of a shareholder to an election under section 1375(e) shall be in the form of a statement signed by the shareholder in which such shareholder consents to the election of the corporation. Such shareholder's consent is binding and may not be withdrawn after a valid election is made by the corporation. Each person who is a shareholder of the electing corporation must consent to the election; thus, where stock of the corporation is owned by a husband and wife as community property (or the income from which is community property), or is owned by tenants in common, joint tenants, or tenants by the entirety, each person having a community interest in such stock and each tenant in common, joint tenant, and tenant by the entirety must consent to the election. The consent of a minor shall be made by the minor or by his legal guardian, or his natural guardian if no legal guardian has been appointed. The consent of an estate shall be made by the executor or administrator thereof. The statement shall set forth the name, address, and account number of the corporation and of the shareholder, the date the distribution is received, the number and proportion of the shares of stock of the corporation owned by him on the date the distribution is received, and the number and proportion of such shares owned by him on the last day of the taxable year of the corporation with respect to which the election is made. The consents of all shareholders may be incorporated in one statement.

[T.D. 6719, 29 FR 4771, Apr. 3, 1964. Redesignated by T.D. 8435, 57 FR 43896, Sept. 23, 1992]

§ 301.9100–21 References to other temporary elections under various tax acts.

Regulations regarding elections under various other tax acts are found at the following sections in title 26 of the Code of Federal Regulations:

Section of 26 CFR	Description of election
5c.168(f)(8)–2	Election to characterize transaction as a section 168(f)(8) lease, under the Economic Recovery Tax Act of 1981.
5c.1256–1	Election with respect to property held on June 23, 1981, under section 508(c) of the Economic Recovery Tax Act of 1981.
5c.1256–2	Election with respect to taxable years beginning before June 23, 1981, and ending after June 22, 1981, under section 509 of the Economic Recovery Tax Act of 1981.
7.48–1	Election to have investment credit for movie and television films determined in accordance with previous litigation, under the Tax Reform Act of 1976.
7.48–2	Election of forty-percent method of determining investment credit for movie and television films placed in service in a taxable year beginning before January 1, 1975, under the Tax Reform Act of 1976.
7.48–3	Election to apply the amendments made by sections 804 (a) and (b) of the Tax Reform Act of 1976 to property described in section 50(a) of the Code.
7.57(d)–1	Election with respect to straight line recovery of intangibles, under the Tax Reform Act of 1976.
11.402(a)(4)(B)–1	Election to treat an amount as a lump sum distribution, under the Employee Retirement Income Security Act of 1974.
11.410–1	Election by church to have participation, vesting, funding, etc., provisions apply, under the Employee Retirement Income Security Act of 1974.
11.412(c)–7	Election to treat certain retroactive plan amendments as made on the first day of the plan year, under the Employee Retirement Income Security Act of 1974.
11.412(c)–11	Election with respect to bonds, under the Employee Retirement Income Security Act of 1974.
11.415(c)(4)–1	Special elections for section 403(b) annuity contracts purchased by educational institutions, hospitals and home health service agencies, under the Employee Retirement Income Security Act of 1974.
12.4	Election of Class Life Asset Depreciation Range System (ADR), under the Revenue Act of 1971.
12.7	Election to be treated as a DISC, under the Revenue Act of 1971.
12.8	Elections with respect to net leases of real property, under the Revenue Act of 1971.
12.9	Election to postpone determination with respect to the presumption described in section 183(d), under the Revenue Act of 1971.
15.1–1	Elections to deduct, relating to exploration expenditures in the case of mining.
15.1–2	Revocation of election to deduct, relating to exploration expenditures in the case of mining.
15.1–3	Elections as to methods of recapture, relating to exploration expenditures in the case of mining.

Section of 26 CFR	Description of election
18.1361–1	Election to treat qualified subchapter S trust as a trust described in section 1361(c)(2)(A)(i), under the Subchapter S Revision Act of 1982.
18.1362–1	Election to be an S corporation, under the Subchapter S Revision Act of 1982.
18.1362–3	Revocation of election, under the Subchapter S Revision Act of 1982.
18.1362–5	Election not to have new passive income rules apply during 1982, under the Subchapter S Revision Act of 1982.
18.1371–1	Election to treat distributions as dividends during certain post-termination transition periods, under the Subchapter S Revision Act of 1982.
18.1377–1	Election to terminate year, under the Subchapter S Revision Act of 1982.
18.1379–2	Special rules for all elections, consents, and refusals, under the Subchapter S Revision Act of 1982.
22.0	Certain estate taxes elections under the Economic Recovery Tax Act of 1981.
23.1	Election and eligibility to treat interests in property held jointly on December 31, 1976, as qualified joint interests, under the Revenue Act of 1978.

[T.D. 8435, 57 FR 43894, Sept. 23, 1992]

§ 301.9100–22 Time, form, and manner of making the election under section 1101(g)(4) of the Bipartisan Budget Act of 2015 for returns filed for partnership taxable years beginning after November 2, 2015 and before January 1, 2018.

(a) *Election*. Pursuant to section 1101(g)(4) of the Bipartisan Budget Act of 2015, Public Law 114–74 (BBA), a partnership may elect at the time and in such form and manner as described in this section for amendments made by section 1101 of the BBA, except section 6221(b) as added by the BBA, to apply to any return of the partnership filed for an eligible taxable year as defined in paragraph (d) of this section. An election is valid only if made in accordance with this section. Once made, an election may only be revoked with the consent of the Internal Revenue Service (IRS). An election is not valid if it frustrates the purposes of section 1101 of the BBA. A partnership may not request an extension of time under § 301.9100–3 for an election described in this section.

(b) *Election on notification by the IRS*—(1) *Time for making the election*. Except as described in paragraph (c) of this section, an election under this section must be made within 30 days of the date of notification to a partnership, in writing, that a return of the partnership for an eligible taxable year has been selected for examination (a notice of selection for examination).

(2) *Form and manner of making the election*—(i) *In general*. The partnership makes an election under this section by providing a written statement with the words ''Election under Section 1101(g)(4)'' written at the top that satisfies the requirements of paragraph (b)(2) of this section to the individual identified in the notice of selection for examination as the IRS contact regarding the examination.

(ii) *Statement requirements*. A statement making an election under this section must be in writing and be dated and signed by the tax matters partner, as defined under section 6231(a)(7) (prior to amendment by the BBA), and the applicable regulations, or an individual who has the authority to sign the partnership return for the taxable year under section 6063, the regulations thereunder, and applicable forms and instructions. The fact that an individual dates and signs the statement making the election described in this paragraph (b) shall be prima facie evidence that the individual is authorized to make the election on behalf of the partnership. A statement making an election must include—

(A) The partnership's name, taxpayer identification number, and the partnership taxable year for which the election described in this paragraph (b) is being made;

(B) The name, taxpayer identification number, address, and daytime telephone number of the individual who signs the statement;

(C) Language indicating that the partnership is electing application of section 1101(c) of the BBA for the partnership return for the eligible taxable year identified in the notice of selection for examination;

(D) The information required to properly designate the partnership representative as defined by section 6223 as amended by the BBA, which must include the name, taxpayer identification number, address, and daytime telephone number of the partnership

representative and any additional information required by applicable regulations, forms and instructions, and other guidance issued by the IRS;

(E) The following representations—

(*1*) The partnership is not insolvent and does not reasonably anticipate becoming insolvent before resolution of any adjustment with respect to the partnership taxable year for which the election described in this paragraph (b) is being made;

(*2*) The partnership has not filed, and does not reasonably anticipate filing, voluntarily a petition for relief under title 11 of the United States Code;

(*3*) The partnership is not subject to, and does not reasonably anticipate becoming subject to, an involuntary petition for relief under title 11 of the United States Code; and

(*4*) The partnership has sufficient assets, and reasonably anticipates having sufficient assets, to pay a potential imputed underpayment with respect to the partnership taxable year that may be determined under subchapter C of chapter 63 of the Internal Revenue Code as amended by the BBA; and

(F) A representation, signed under penalties of perjury, that the individual signing the statement is duly authorized to make the election described in this paragraph (b) and that, to the best of the individual's knowledge and belief, all of the information contained in the statement is true, correct, and complete.

(iii) *Notice of Administrative Proceeding.* Upon receipt of the election described in this paragraph (b), the IRS will promptly mail a notice of administrative proceeding to the partnership and the partnership representative, as required under section 6231(a)(1) as amended by the BBA. Notwithstanding the preceding sentence, the IRS will not mail the notice of administrative proceeding before the date that is 30 days after receipt of the election described in paragraph (b) of this section.

(c) *Election for the purpose of filing an administrative adjustment request (AAR) under section 6227 as amended by the BBA*—(1) *In general.* A partnership that has not been issued a notice of selection for examination as described in paragraph (b)(1) of this section may make an election with respect to a partnership return for an eligible taxable year for the purpose of filing an AAR under section 6227 as amended by the BBA. Once an election under this paragraph (c) is made, all of the amendments made by section 1101 of the BBA, except section 6221(b) as added by the BBA, apply with respect to the partnership taxable year for which such election is made.

(2) *Time for making the election.* No election under this paragraph (c) may be made before January 1, 2018.

(3) *Form and manner of making an election.* An election under this paragraph (c) must be made in the manner prescribed by the IRS for that purpose in accordance with applicable regulations, forms and instructions, and other guidance issued by the IRS.

(4) *Effect of filing an AAR before January 1, 2018.* Except in the case of an election made in accordance with paragraph (b) of this section, an AAR filed on behalf of a partnership before January 1, 2018, is deemed for purposes of paragraph (d)(2) of this section, to be an AAR filed under section 6227(c) (prior to amendment by the BBA) or an amended return of partnership income, as applicable.

(d) *Eligible taxable year*—(1) *In general.* For purposes of this section, the term *eligible taxable year* means any partnership taxable year beginning after November 2, 2015 and before January 1, 2018, except as provided in paragraph (d)(2) of this section.

(2) *Exception if AAR or amended return filed or deemed filed.* Notwithstanding paragraph (d)(1) of this section, a partnership taxable year is not an eligible taxable year for purposes of this section if for the partnership taxable year—

(i) The tax matters partner has filed an AAR under section 6227(c) (prior to amendment by the BBA),

(ii) The partnership is deemed to have filed an AAR under section 6227(c) (prior to the amendment by the BBA) in accordance with paragraph (c)(4) of this section, or

(iii) An amended return of partnership income has been filed or has been deemed to be filed under paragraph (c)(4) of this section.

(e) *Applicability date.* These regulations are applicable to returns filed for

partnership taxable years beginning after November 2, 2015 and before January 1, 2018.

[T.D. 9839, 83 FR 39350, Aug. 9, 2018]

PART 302—TAXES UNDER THE INTERNATIONAL CLAIMS SETTLEMENT ACT, AS AMENDED AUGUST 9, 1955

Sec.
302.1 Statutory provisions and Executive order; section 212 of the International Claims Settlement Act, and Executive Order 10644.
302.1–1 Definitions.
302.1–2 Application of regulations.
302.1–3 Protection of internal revenue prior to tax determination.
302.1–4 Computation of taxes.
302.1–5 Payment of taxes.
302.1–6 Interest and penalties.
302.1–7 Claims for credit or refund.

AUTHORITY: Sec. 7805, I.R.C. 1954; 68A Stat. 917; 26 U.S.C. 7805, and sec. 212 of the International Claims Settlement Act of 1949, as added by the Act of Aug. 9, 1955, Pub. L. 285, 84th Cong., 69 Stat. 562.

SOURCE: T.D. 6470, 25 FR 6470, July 9, 1960, unless otherwise noted.

§ 302.1 Statutory provisions and Executive order; section 212 of the International Claims Settlement Act, and Executive Order 10644.

SEC. 212. (a) The vesting in any officer or agency designated by the President under this title of any property or the receipt by such designee of any earnings, increment, or proceeds thereof shall not render inapplicable any Federal, State, Territorial, or local tax for any period before or after such vesting.

(b) The officer or agency designated by the President under this title shall, notwithstanding the filing of any claim or the institution of any suit under this title, pay any tax incident to any such property, or the earnings, increment, or proceeds thereof, at the earliest time appearing to him to be not contrary to the interest of the United States. The former owner shall not be liable for any such tax accruing while such property, earnings, increment, or proceeds are held by such designee, unless they are returned pursuant to this title without payment of such tax by the designee. Every such tax shall be paid by the designee to the same extent, as nearly as may be deemed practicable, as though the property had not been vested, and shall be paid only out of the property, or earnings, increment, or proceeds thereof, to which they are incident or out of other property acquired from the same former owner, or earnings, increment, or proceeds thereof. No tax liability may be enforced from any property or the earnings, increment, or proceeds thereof while held by the designee except with his consent. Where any property is transferred otherwise than pursuant to section 207(a) or 207(b) hereof, the designee may transfer the property free and clear of any tax, except to the extent of any lien for a tax existing and perfected at the date of vesting, and the proceeds of such transfer shall, for tax purposes, replace the property in the hands of the designee.

(c) Subject to the provisions of subsection (b) of this section, the manner of computing any Federal taxes, including without limitation by reason of this enumeration, the applicability in such computation of credits, deductions, and exemptions to which the former owner is or would be entitled, and the time and manner of any payment of such taxes and the extent of any compliance by the designee with provisions of Federal law and regulations applicable with respect to Federal taxes, shall be in accordance with regulations prescribed by the Secretary of the Treasury to effectuate this section. Statutes of limitations on assessments, collection, refund, or credit of Federal taxes shall be suspended with respect to any vested property or the earnings, increment, or proceeds thereof, while vested and for six months thereafter; but no interest shall be paid upon any refund with respect to any period during which the statute of limitations is so suspended.

(d) The word ''tax'' as used in this section shall include, without limitation by reason of this enumeration, any property, income, excess-profits, war-profits, excise, estate, and employment tax, import duty, and special assessment; and also any interest, penalty, additional amount, or addition thereto not arising from any act, omission, neglect, failure, or delay on the part of the designee.

[Section 212, International Claims Settlement Act of 1949, as added by Act of August 9, 1955 (Pub. L. 585, 84th Cong., 69 Stat. 562)]

EXECUTIVE ORDER 10644, APPROVED NOVEMBER 7, 1955 (20 FR 8363)

By virtue of the authority vested in me by title II of the International Claims Settlement Act of 1949, as added by Public Law 285, 84th Congress, approved August 9, 1955 (69 Stat. 562), and by section 301 of title 3 of the United States Code, and as President of the United States, it is ordered as follows:

SECTION 1. The Attorney General, and, as designated by the Attorney General for this purpose, any Assistant Attorney General are hereby designated and empowered to perform the functions conferred by the said title II of the International Claims Settlement Act of 1949 upon the President, and the functions