



Department of the Treasury
Internal Revenue Service

www.irs.gov

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Interest and Penalty Information

The interest rate on underpayment and overpayment of taxes and the penalty for underpayment of estimated tax are as follows:

Period	Underpayment Interest Rate and Estimated Tax Penalty Rate	Overpayment Interest Rate
7/1/94-9/30/94.....	8%	7%
10/1/94-3/31/95.....	9%	8%
4/1/95-6/30/95.....	10%	9%
7/1/95-3/31/96.....	9%	8%
4/1/96-6/30/96.....	8%	7%
7/1/96-3/31/98.....	9%	8%
4/1/98-12/31/98.....	8%	7%
1/1/99-3/31/99.....	7%	7%
4/1/99-3/31/00.....	8%	8%
4/1/00-3/31/01.....	9%	9%
4/1/01-6/30/01.....	8%	8%
7/1/01-12/31/01.....	7%	7%
1/1/02-12/31/02.....	6%	6%
1/1/03-9/30/03.....	5%	5%
10/1/03-3/31/04.....	4%	4%
4/1/04-6/30/04.....	5%	5%
7/1/04-9/30/04.....	4%	4%
Beginning 10/1/04.....	5%	5%

The law requires us to determine these interest rates quarterly. We compound interest daily except on late or underpaid estimated taxes for individuals or corporations.

We charge 120% of the underpayment interest rate if: (1) the return was due before January 1, 1990, excluding extensions; (2) the underpayment was over \$1,000; and (3) the underpayment was from a tax-motivated transaction.

For (C) Corporations with underpayments over \$100,000, we charge the underpayment interest rate plus 2%.

We'll continue to charge interest until you pay the amount you owe in full.

The penalty for late filing is 4 and 1/2% a month when the 1/2% a month penalty for late payment applies at the same time. The late filing penalty applies on the amount showing due on the return for any month (or part of a month) the return is filed after the return due date (including extensions) but cannot exceed 5 months. If you don't file your tax return within 60 days of the due date, the minimum penalty is \$100 or 100% of the tax due on your return, whichever is less.

The penalty for late payment is 1/2% (1/4% for months covered by an installment agreement) of the tax due for each month or part of a month your payment is late. The penalty increases to 1% per month if we send a notice of intent to levy, and you don't pay the tax due within 10 days from the date of the notice. The late filing penalty cannot be applied at monthly rates totaling more than 25%.

The deposit penalty for employment, excise, or railroad retirement tax varies from 2% to 15% depending on how late the deposit is.

The penalty for filing an exempt organization return late prior to 1998 is \$10 a day for each day the return is late, but not more than \$5,000 or 5% of the gross receipts for the year, whichever is less. For 1998 and subsequent, if gross receipts are equal to or less

(over)

than \$1 million, the penalty is \$20 a day for each day the return is late, not to exceed \$10,000 or 5% of gross receipts for the year, whichever is less. If gross receipts exceed \$1 million the penalty is \$100 a day for each day the return is late, not to exceed \$50,000.

Appeal Rights—Arithmetic Error

You may appeal the changes shown on the enclosed notice within 60 days from your notice date. Send your explanation with a copy of the notice to the address shown on your notice.

We'll notify you if we don't accept your explanation. If we accept it, we'll reduce any tax increase due to the change. We'll refund any tax you overpaid if you owe no other tax or have no other debts the law requires us to collect.

We'll continue to charge interest if you don't pay the balance you owe by the date requested in this enclosed notice.

Interest on Certain Penalties

We charge interest on penalties from the return due date for late filing, valuation overstatements or understatements and substantial understatement of the tax due. The interest rate on penalties is the same as the underpayment interest rate. On fraud and negligence penalties for returns due after December 31, 1988, we charge interest from the return due date or a valid extended due date.

Removal of Penalty and Interest

Reasonable Cause

The law allows us to remove or reduce a penalty based on reasonable cause. To request a penalty reduction, send a statement to us fully explaining the facts. You or your representative with your power of attorney must sign your statement under penalty of perjury. In some cases, we may request that you pay the tax in full before we remove or reduce the late payment penalty. The law does not allow us to remove or reduce *interest* based on reasonable cause.

Erroneous Written Advice from IRS

We'll remove the penalty (but not the interest) if: (1) you wrote to us and asked for advice on a specific issue; (2) you gave us complete and accurate information; (3) we wrote back to you and told you what to do or explained what not to do; (4) you followed our written advice in the way we told you to; and (5) you received a penalty for the action we advised you to take.

If you meet this criteria, complete Form 843, Claim for Refund and Request for Abatement, and ask us to remove the penalty.

Attach to your Form 843: (1) a copy of your original request for advice; (2) a copy of the written advice we gave you; and (3) the notice (if any) showing the penalty we charged.

Send Form 843 to the IRS Service Center where you filed your return for the year you relied on erroneous advice from us.

Interest on Erroneous Refunds

The law requires us to remove interest up to the date we request you to repay the erroneous refund when: (1) you did not cause the erroneous refund in any way; and (2) the refund doesn't exceed \$50,000.

IRS may remove or reduce interest on other erroneous refunds or on errors due to an IRS ministerial act, based on the facts and circumstances of each case.

If we reduce interest that you previously reported as a deduction on your tax return, you must report this reduction of interest as income on your tax return for the year we reduce it.