IRM PROCEDURAL UPDATE

DATE: 07/05/2024

NUMBER: sbse-20-0724-0827

SUBJECT: Compliance and First Time Abate (FTA) Action Codes

AFFECTED IRM(s)/SUBSECTION(s): 20.1.1.3.3.2.4

CHANGE(s):

IRM 20.1.1.3.3.2.4, Compliance and First Time Abate (FTA) Action Codes-Added new subsection with transaction codes and applicable action codes for modules in status of compliance or if the FTA waiver was granted.

Compliance and First Time Abate (FTA) Action Codes

(1) Beginning July 1, 2024, modules for certain forms for tax years 2022 and subsequent will show a transaction code (TC) 97X with an applicable action code (AC) to reflect the status of compliance for that module or if the First Time Abate (FTA) waiver was granted. These codes were established for programming purposes in Masterfile.

(2) Forms impacted:

- Form 1040- MFT 30/31
- Form 941- MFT 01
- Form 940- MFT 10
- Form 943- MFT 11
- Form 944- MFT 14
- Form 945- MFT 16

(3) **Compliant modules** have an unreversed TC 971 AC 995. A module is considered compliant if it shows:

- Either a posted return that is not a substitute for return (SFR)/6020b, or a TC 590/591 (not liable for return) with no TC 592 reversal, and
- No net penalty assessments or accruals (other than the estimated tax penalty) are present.

(4) **Noncompliant modules** have NO TC 971 AC 995. A module is considered noncompliant if it shows:

- No posted return, a posted SFR/6020b, or has no unreversed TC 590/591 (not liable for return), and/or

- Any type of net penalty assessment or accruals (other than the estimated tax penalty) is present.

Note: A TC 972 AC 995 (reversal of TC 971 AC 995) may show if the module was originally compliant prior to the noncompliance status.

(5) Modules with penalty relief granted under the FTA waiver will reflect a TC 971 AC 996. If the relief was changed from FTA to another type of relief, a TC 972 AC 996 will show.

Note: The TC 972 A/C 996 is NOT systemically generated. Manual input of TC 972 AC 996 is required via command code (CC) FRM 77 to show a reversal of the FTA waiver for the module.

(6) Masterfile will generate two TCs 97X AC 995/996 for joint filed returns. One for the primary TIN and an identical one for the module on the spouse TIN.

(7) The applicable TC 97X AC 995/996 information is shown below:

TC	AC	Explanation of Status
971	995	Module compliant.
972	995	Reversal of TC 971 AC 995. Module not compliant.
971	996	FTA granted. Penalty relief was granted per the FTA waiver on the module.
972	996	FTA NOT granted. Manual reversal of the TC 971 AC 996. The penalty relief is no longer considered FTA.
None	None	Module not compliant.

(8) The following examples demonstrate how the TC 971X AC 995/996 will appear:

Example: 1) A Form 1040 module for the 2022 tax year shows an FTP penalty assessed for $200. The penalty was paid, and the module balance is zero. Since the module shows an unreversed penalty assessment, no TC 971 AC 995 is shown on the module. However, the FTP penalty is later removed due to reasonable cause. Once the penalty reversal posts to the module, the weekly systemic analysis identifies the penalty reversal and Masterfile then posts a TC 971 AC 995 to the module to show there are no positive net penalty assessments or accruals on the module.

Example: 2) A Form 941 module for the 4th quarter 2022 shows the return was filed timely and all deposits timely made. No penalties were assessed and a TC 971 AC 995 posts to the module. An amended return was later filed showing additional tax due. The tax was assessed, but not paid; therefore, applicable FTP and FTD penalties were assessed. The weekly systemic analysis identified the positive net penalty assessments and Masterfile posts a TC 972 AC 995 to reverse the previous TC 971 AC 995 compliance status.

Example: 3) A Form 1040 module for the 2022 tax year shows unpaid tax and an FTP penalty assessment for $1,125. The FTA waiver was granted, and the assessment was reversed. A TC 971 AC 996 shows on the module. Later, a missing payment received on 04/10/2023 was applied to the module to fully pay the tax due. This means the FTP penalty is not applicable since the tax was fully paid by the due date. If the penalty had not been abated under the FTA waiver, the FTP penalty would have systemically reversed with the posting of the payment. Therefore, input TC 972 AC 996 manually via CC FRM 77 to reverse the TC 971 AC 996 FTA. The original penalty relief adjustment for FTA stays on the module. However, the TC 972 AC 996 tells Masterfile the reason for the penalty relief is no longer considered FTA on that module. This allows FTA waiver eligibility the next year. After the manual input of TC 972 AC 996 posts, the weekly systemic analysis will complete, and the appropriate TC 971 AC 995 will post because the module has no positive net penalty assessments or accruals and is considered compliant.