

26 CFR 601.104: Collection functions.
(Also Part 1, Sections 6621, 6622; 301.6621-1.)

Rev. Proc. 83-7¹

SECTION 1. PURPOSE

.01 The purpose of this revenue procedure is to establish uniform tables and procedures for computing interest using the daily compounding rules established under section 6622 of the Internal Revenue Code, effective for interest accruing after December 31, 1982.

.02 Charts are also provided for computing interest under simple interest rates in effect for interest accruing before January 1, 1983.

SEC. 2. BACKGROUND

.01 Section 6601(a) of the Code provides the general rule that interest will be charged at the annual rate established under section 6621 on any amount of tax not paid on or before the last date prescribed for payment.

.02 Section 6601(j) of the Code provides for a 4 percent interest rate on certain estate tax payable in installments, in lieu of the rate set under section 6621. Additionally, the 4 percent rate applies to extensions of time for payment, as provided in sections 6601(b) and (j), and on certain overpayments, as provided in section 514(b)(3)(D), prior to amendment by Pub. L. No. 93-625, section 7(b), 1975-1 C.B. 510, 514.

.03 Section 6601(e)(2) of the Code (section 6601(e)(3) before the Tax Equity and Fiscal Responsibility Act of 1982, section 344 (b)(1), 1982-2 C.B. 462, 579) provides that interest is imposed on assessable penalties, additional amounts, or additions to tax only if those amounts are not paid within 10 days of notice and demand.

.04 Section 6601(e)(3) of the Code (section 6601(e)(4) before the Tax Equity and Fiscal Responsibility Act of 1982, section 344(b)(1), 1982-2 C.B. 462, 579) provides that interest is imposed on assessable penalties, additional amounts, or additions to tax only if those amounts are not paid within 10 days of notice and demand.

.05 Section 6611(a) of the Code provides that interest will be allowed

and paid on any overpayment at the rate established under section 6621.

.06 Section 6621 of the Code provides that an adjusted rate of interest will be established semi-annually (annually before 1983 and biennially before 1982) based on the adjusted prime rate charged by banks. The following rates have been in effect:

Before July 1, 1975	6%
July 1, 1975—January 31, 1976	9%
February 1, 1976—January 31, 1978	7%
February 1, 1978—January 31, 1980	6%
February 1, 1980—January 31, 1982	12%
February 1, 1982—Decem- ber 31, 1982	20%
After December 31, 1982 ...	16%

.07 Section 344 of the Tax Equity and Fiscal Responsibility Act of 1982 enacted section 6622 of the Code to require the daily compounding of interest on all amounts accruing after December 31, 1982. The compounding rules do not apply to additions to tax for underpayment of estimated tax. Additionally, the rule previously provided by section 6601(e)(2) prohibiting the charging of interest on interest was repealed.

SEC. 3. PROCEDURE

.01 Interest on underpayments and overpayments accruing before January 1, 1983, will be computed in accordance with Tables 1-6. As shown by the tables, the Internal Revenue Service used the month-day method of calculating interest before February 1, 1980. Thereafter, the Service used a daily rate.

.02 Interest on underpayments and overpayments accruing after December 31, 1982, will be computed in the following manner:

1 Interest on amounts arising after December 31, 1982, will be computed in accordance with Tables 7-30 for non-leap years and Tables 31-54 for leap years. The Service will publish the appropriate tables if the interest rate ever exceeds 24%. Because section 6621 of the Code requires re-determination of the interest rate semi-annually, only the effective daily rates for 184 days are published.

2 Interest on tax and penalty outstanding as of December 31, 1982, will be computed in accordance with section 3.01. At that time, all tax, assessed penalty or addition to tax, and interest (whether or not assessed) will be added together to determine the amount to be carried over on which daily interest will be charged under the compounding rules.

SEC. 4. EXAMPLES

.01 Taxpayer A, who files returns on a calendar year basis, files Form 1040, U.S. Individual Income Tax Return, for 1982, showing tax due of \$1,000.00. The return is filed on May 15, 1983, pursuant to an extension of time to file, and the tax due is paid in full with the return. No interest is paid at that time. There are 30 days between April 15 and May 15. Using the 16% compound interest rate in Table 22, an interest factor of .013234597 is used to compute the interest. Multiplied by \$1,000.00, this results in compound interest up to May 15, 1983, of \$13.23. Additionally, because interest is now subject to interest, the \$13.23 will continue to bear interest at the compound rate until paid. Thus, if the Service were to send notice and demand to A on June 15, 1983, for the unpaid interest, the notice would show total interest due of \$13.41 (\$13.23 plus compound interest for an additional 31 days on \$13.23, or \$0.18 (\$13.23 × .013678754)). If A pays the amount billed within 10 days of notice and demand, no further interest would be due. Otherwise, interest would continue to accrue on the \$13.41 at the appropriate compound rate until paid in full.

.02 Taxpayer B, who files returns on a calendar year basis, filed Form 1040 for 1981 on April 29, 1982, showing tax due of \$2,000.00. B did not pay the tax at that time. On May 14, 1982, the Service assessed the tax due of \$2,000.00, together with late filing and payment penalties under sections 6651(a)(1) and 6651(a)(2) of the Code totalling \$100.00 and interest of \$31.78 (\$2,000.00 × .000547945 × 29 days) (Table 6). B makes full payment of the liability on February 7, 1983. The amount due on that date is calculated as follows: As of December 31, 1982, B owes \$2,131.78 in as-

¹ Also released as News Release IR-83-5, dated January 7, 1983.

sessed tax, penalty, and interest. *B* also owes \$265.81 in accrued interest from May 14, 1982 to December 31, 1982, $(\$2,100.00 \times .000547945 \times 231 \text{ days})$ (Table 6) and \$80.00 in accrued late payment penalty under section 6651(a)(2) $(\$2,000.00 \times \frac{1}{2} \text{ percent} \times 8 \text{ months})$. As a result, compound interest will begin running on the \$2,131.78 assessed plus the \$265.81 in accrued interest, resulting in an additional 38 days interest due on February 7, 1983, or \$40.26 $(\$2,397.59 \times .016793308)$ (Table 22). *B* also owes an additional one month late payment penalty of \$10.00. Thus, on February 7, 1983, *B* would owe a total of \$2,527.85—\$2,000.00 in tax, \$190.00 in penalties, and \$337.85 in interest. Note that no compound interest is due on the unassessed but accrued penalty because of section 6601(e)(2). However, if the Service were to assess the accrued penalty on December 31, 1982, or thereafter, the amount assessed would bear interest at the compound rate from the date of assessment.

.03 Corporation *X*, which files on a calendar year basis, filed Form 1120, U.S. Corporation Income Tax Return, for 1980 on March 15, 1981, showing tax of \$100,000.00, paying all tax due. On June 1, 1982, *X* filed Form 1120X, Amended U.S. Corporation Income Tax Return, for 1980 claiming a refund of \$10,000.00. Following an examination, the Service allows the claim in full on March 9, 1983. To determine the amount of interest due on that date, the following computation is made: *X* is due interest on \$10,000.00 from March 15, 1981, to January 31, 1982, at 12%, or \$1,058.63 $(\$10,000.00 \times .000328767 \times 322 \text{ days})$

(Table 5) and from February 1, 1982, to December 31, 1982, at 20%, or \$1,830.14 $(\$10,000.00 \times .000547945 \times 334 \text{ days})$ (Table 6) for a total due as of December 31, 1982, of \$12,888.77. That amount is then subject to the 16% compound rate for 68 days to determine the amount of interest accruing between January 1, 1983, and March 9, 1983, of \$389.89 $(\$12,888.77 \times .030250155)$ (Table 22). Thus, *X* is entitled to total interest as of March 9, 1983 of \$3,278.66.

.04 Corporation *Y* timely filed Form 1120 for calendar year 1981, paying all tax due. The Service examined the return, and, on September 15, 1982, *Y* made a deposit in the nature of a cash bond under Rev. Proc. 82-51, 1982-2 C.B. 839, in the amount of \$10,000.00. On May 2, 1983, *Y* agrees to a total deficiency of \$12,000.00 and pays the additional amount due. As of May 2, 1983, *Y* would owe interest on \$12,000.00 from March 15, 1982, to September 15, 1982, at 20%, or \$1,209.86 $(\$12,000.00 \times .000547945 \times 184 \text{ days})$ (Table 6) and on \$2,000.00 from September 15, 1982, to December 31, 1982, at 20%, or \$117.26 $(\$2,000.00 \times .000547945 \times 107 \text{ days})$ (Table 6). Thus, as of December 31, 1982, *Y* owes a total of \$3,327.12 subject to 16% compound interest $(\$2,000.00 \text{ in tax and } \$1,327.12 \text{ in interest})$. Accordingly, on May 2, 1983, *Y* would owe an additional 122 days of interest, or \$182.73 $(\$3,327.12 \times .054922868)$ (Table 22), for a total due of \$3,509.85.

.05 Corporation *Z* files Form 941, Employer's Quarterly Federal Tax Return, for the quarter ended March 31, 1983, on August 1, 1983, showing unpaid tax of \$5,000.00. To compute

the amount of interest due, the following computation would be made, assuming that the interest rate under section 6621 of the Code were to become 11% on July 1, 1983: As of June 30, 1983, *Z* would owe 61 days interest on \$5,000.00 at the 16% compound rate, or \$135.47 $(\$5,000.00 \times .027094381)$ (Table 22). The \$135.47 would be added to the \$5,000.00 to determine the amount on which interest would be charged at the 11% compound rate. Thus, *Z* would owe 32 days interest at 11% on \$5,135.47, or \$49.76 $(\$5,135.47 \times .009688978)$ (Table 17). As of August 1, 1983, *Z* would owe a total of \$185.23 in interest. *Z* might also be subject to penalties for late filing and payment, but these amounts would not affect the interest computation until assessed.

SEC. 5. SCOPE AND EFFECT

In addition to underpayments and overpayments of tax under sections 6601 and 6611 of the Code, this revenue procedure will also apply to any other amount of interest required to be paid under the Code, including sections 6332(c) (failure to honor levy), 6343(c) and 7426(g) (wrongful levy), 6335(e) (payment of amount bid on seized property), 6602 (erroneous refund), 7506(d) (release of real estate to debtor), and 9501(c) (repayment by Black Lung Disability Trust Fund). The revenue procedure will also apply to interest on judgments in tax cases under 28 U.S.C. 1961(c) and 28 U.S.C. 2411.

SEC. 6. EFFECTIVE DATE

This revenue procedure is effective for all interest accruing after December 31, 1982.