

AcQuest Programming Solutions 

Penalty & Interest Evaluator  
User Manual

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This manual is intended for use with the licensed Penalty & Interest Evaluator software. Any other use, in whole or part, must be approved in writing by AcQuest Programming Solutions.

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## **Introduction**

### **What this program is intended to do:**

The Acquest Tax Penalty & Interest Evaluator has two principal uses, verifying IRS notices and planning. Verifying IRS penalty and interest notices for accuracy before payment is probably the most common use of the software. The software can also be used as a planning tool to evaluate different scenarios, make tradeoffs, and allocate payments to minimize the total cash outflow. As a planning tool, the software is particularly useful for forecasting deductible interest expense for tax planning purposes. In situations where the taxpayer is negotiating with the IRS, the software can be used to evaluate different proposals.

### **System Requirements:**

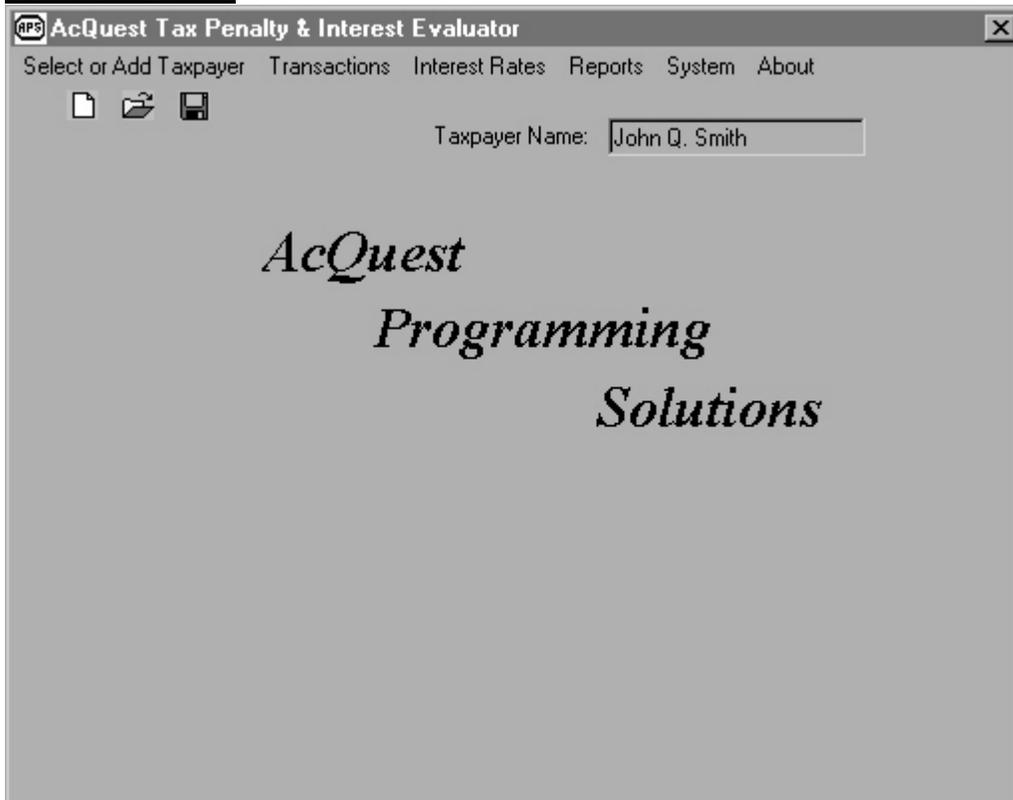
The AcQuest Tax Penalty & Interest Evaluator is written to operate on Windows 95 and Windows 98 operating systems. The software requires 2 MB of hard disk space.

### **Installation and removal:**

To install the software, first unzip the intandpe.zip file with a decompression program such as WinZip. In the directory where the intandpe.zip file is unzipped, there will be a file named setup.exe. Run the setup.exe file and it will lead the installer through the installation process.

To remove the software, click on the "My Computer" icon on the desktop. Then select the "Control Panel" icon followed by the "Add/Remove Programs" icon. From the text box on the "Install/Uninstall" display, select AcQuest Tax Penalty & Interest Evaluator. Then click on the "Add/Remove" button. From that point, the uninstall program will remove the software.

## Main Screen



This screen should appear each time the Tax Penalty & Interest Evaluator is started. Note that the taxpayer name will not appear until a taxpayer is selected.

The "Main Screen" has five commands:

- 1) Select or Add Taxpayer
  - a) Select Existing Taxpayer
  - b) Add or Update Taxpayer
  - c) Save Taxpayer To Disk
  - d) Retrieve Taxpayer From Disk
- 2) Transactions
  - a) Payments & Deposits
  - b) Payroll Tax Liability Data
  - c) Additional Charges
- 3) Interest Rates
  - a) Underpayment Rates
  - b) Overpayment Rates
- 4) Reports
  - a) Interest Report
  - b) Penalty Report
  - c) Summary Report
  - d) Payment Report
  - e) Payroll Tax Penalty Report
  - f) Payroll Tax Interest Report
- 5) System (set default directory)
- 6) About

## Basic Taxpayer Data & Situation Profile

**Basic Taxpayer Data Relevant To All Types Of Taxes**

Taxpayer Name:

Original Due Date Of Return:

Extended Due Date Of Return:

End Date:

Initial Balance:

Corporate Taxpayer

**Penalties That Apply To Both Income & Payroll Tax**

Calculate Failure To File Penalty:

Date Return Filed:

Calculate Failure To Pay Penalty:

Assessment Date For Failure To Pay Penalty:

Calculate Increased Failure To Pay Penalty:

Date To Begin Increased Failure To Pay Penalty:

Calculate Accuracy Related Penalty:

Accuracy Related Underpayment:

**Payroll Tax Deposit Penalty**

Calculate Failure To Deposit Penalty

Quarter Start Date:

Buttons: Add, Edit, Delete, Close

Record: 2

To access the screen above, first click on "Select or Add Taxpayer" from the menu of the main screen. After clicking on "Select or Add Taxpayer", click on "Add or Update Taxpayer", at that point the "Basic Taxpayer Data & Situation Profile" should appear.

The "Basic Taxpayer Data & Situation Profile" screen has three sections:

- 1) Basic Taxpayer Data Relevant To All Of Taxes
- 2) Penalty That Applies To Both Income & Payroll Tax
- 3) Payroll Tax Penalty

This screen should be completed for each penalty and interest situation. To add a new taxpayer select the Add button. After the data has been entered, click on the Update button to save the taxpayer.

To make changes to an existing taxpayer, press the edit button, then make changes, and lastly press the update button. When adding a new taxpayer, if changes will not save, check to see if the record count at the bottom reads "-1", if so, no records exist and the Add button should be pressed.

## Description Of Fields

### Basic Taxpayer Data Relevant To All Taxes

#### **Taxpayer Name:**

Enter any unique name or description you desire. The program uses this field for various sorting routines, therefore something unique must be entered in this field for the program to operate properly. Once the name has been input and saved, it is best to not change the name entered because payments and charges entered in other screens are matched with this name.

#### **Original Due Date Of Return:**

For personal income tax returns, this will usually be 4/15/\*\*. For payroll tax returns, this will usually be the last day of the month following the quarter end, e.g. 4/30\*\*, 7/31\*\*, 10/31\*\*, and 1/31\*\*.

#### **Extended Due Date Of Return:**

In all cases, there should be an entry in this field, including payroll tax cases. If the return is not extended, enter the original due date. For extended personal income tax returns, this field may be 8/15/\*\* or 10/15/\*\*, depending on how far out the return is extended.

#### **End Date:**

This date is used as the stopping point of calculation and printing. There must be an entry in this field. Any date after the Original Due Date Of Return is acceptable for this field.

#### **Initial Balance:**

This entry is for income tax cases. For payroll tax situations it should be left at zero. For income tax cases, the amount entered here is the unpaid tax as of the original due date of the return.

#### **Corporate Taxpayer**

Checking this box will cause the overpayment interest rate to be one percent less than the underpayment rate for periods starting on or after 1/1/1999.

### Penalties That Apply To Both Income & Payroll Taxes

#### **Calculate Failure To File Penalty:**

Check this box to compute the failure to file penalty (Code Sec. 6651(a)(1)). This penalty is computed as 5% of the unpaid tax per month for a cumulative maximum total of 25%. The first computation date for the penalty is the date the final extension expires. When the failure to pay penalty is also computed, the rate for failure to file penalty drops 1/2% to 4 1/2%.

The starting date of the penalty is the due date of the return, including extensions of that due date if any. This is also the date the IRS begins calculating interest on the final total of penalty for all months.

**Date Return Filed:**

The program uses this date as the last possible date for failure to file penalty computation. Since the maximum number of months for imposing the failure to file penalty is only five months, the penalty may have reached its maximum well before the return is filed.

**Date Return Filed:**

The program uses this date as the last possible date for failure to file penalty computation. Since the maximum number of months for imposing the failure to file penalty is only five months, the penalty may have reached its maximum well before the return is filed.

**Calculate Failure To Pay Penalty:**

Check this box to calculate the failure to file penalty (Code Sec. 6651(a)(2) & (3)). This penalty is usually 1/2% of the unpaid tax per month and is computed until the tax is completely paid.

**Assessment Date For Failure To Pay Penalty:**

This is not the first date the penalty is calculated on, that date is based on the original due date of the return. Instead, the assessment date is the date that the penalty becomes collectable and the date the IRS begins calculating interest on the cumulative penalty. The IRS usually sends a notice stating that the penalty is being assessed. Use the date printed on that notice as the assessment date.

**Calculate Increased Failure To Pay Penalty:**

Under Code Section 6651(d)(1), the IRS may calculate the failure to pay penalty at an increased rate of 1% of the unpaid tax per month. Checking this box will cause the penalty rate to increase from 1/2% to 1% on the computation date following the date entered in the Date To Begin Increased Failure To Pay Penalty field.

**Date To Begin Increased Failure To Pay Penalty:**

In this field, enter the date to increase the failure to pay penalty to 1% per month.

**Calculate Accuracy Related Penalty:**

The IRS may impose a penalty for accuracy related errors (Code Sec. 6662). The penalty is a one time flat 20% of the tax underpayment subject to the penalty. Check this box to have the software calculate the penalty and include it in the Interest Report.

**Accuracy Related Underpayment:**

In this field, enter the amount of tax that the IRS has determined to be subject to the Accuracy Related Penalty.

**Payroll Tax Penalty****Payroll Tax Penalty Situation:**

Check this box to compute the payroll tax deposit penalty, and the interest thereon. Checking this box has no impact the availability of the other penalties, e.g. failure to file, failure to pay, and the accuracy related penalty. Those penalties will still be selectable.

**Quarter Start Date:**

This date will be the first date of the quarter, e.g. 1/1/\*\*, 4/1/\*\*, 7/1/\*\*, and 10/1/\*\*.

# Payments & Deposits

## Income Tax Case

APS
X
Payments & Deposits

Taxpayer Name:	John Q. Smith
Date Of Payment:	6/1/98
Amount Of Payment:	20,000.00
Allocation To Tax:	15,000.00
Allocation To Penalties:	5,000.00
Allocation To Interest:	0.00

Tax Due:	85,000.00
Interest Due:	1,270.63
Penalties Due:	17,725.00

Calculate Balances To Payment Date

Add
Edit
Delete
Close

Record: 1

## Payroll Tax Case

APS
X
Payments & Deposits

Taxpayer Name:	Example Co.	
Date Of Payment:	11/15/99	Payroll Tax Liability Due Dates
Amount Of Payment:	1,000.00	4/21/99 5/5/99 5/21/99 6/4/99 6/18/99 7/7/99
Allocation To Tax:	1,000.00	
Allocation To Penalties:	0.00	
Allocation To Interest:	0.00	

Tax Due:	.00			Payment Applied To Payroll Tax Liability With Original Due Date Of:
Interest Due:	35.16			7/7/99
Penalties Due:	525.00			

Calculate Balances To Payment Date

Add
Edit
Delete
Close

Record: 7

To access one of the "Payments & Deposits" screens above, first make an existing taxpayer active by clicking on "Select or Add Taxpayer" and "Select Existing Taxpayer". Once the active taxpayer's name is displayed on the main screen, click on "Transactions" from the menu of the main screen. After clicking on "Transactions", click on "Payments & Deposits", at that point the "Payments & Deposits" screen should appear.

The "Payments & Deposits" screen has two configurations:

- 1) Income Tax Case
- 2) Payroll Tax Case

This screen should be completed when payments (or deposits) to pay tax, penalties or interest have been made. To add a new payment select the Add button. After the data has been entered, click on the Update button to save the entry.

To make changes to an existing payment, press the edit button, then make changes, and lastly press the update button. When adding a new payments, if changes will not save, check to see if the record count at the bottom reads "-1", if so, no records exist and the Add button should be pressed.

## **Description Of Fields**

### **Data Relevant To All Payments & Deposits**

#### **Taxpayer Name:**

When the Add button is clicked, the taxpayer name is entered in the field automatically based on the taxpayer name shown on the main screen when the Payment & Deposit screen is opened. The program uses this field for various sorting routines, therefore it is not editable through this program.

#### **Date of Payment:**

Enter the date that the payment or deposit is actually made, which may be different from date of the liability was required to be paid in.

#### **Amount of Payment:**

Enter the total amount of the payment here, including the tax, penalty and interest parts.

#### **Allocation To Tax:**

Enter the portion of the payment to be allocated to tax. Since penalties and interest are generally based on the net tax due, in most cases it is advantageous to allocate the payment to pay off the tax portion of the liability first.

**Allocation To Penalties:**

Enter the portion of the payment to be allocated to penalties. Since interest computations generally do not differentiate between the types of penalties owed, this payment allocation is applied to the net total of assessed penalties and not to any particular type of penalty.

**Allocation To Interest:**

Enter the portion of the payment to be allocated to interest. In business situations, interest on tax and penalties may be deductible. Whether or not to allocate the payment to interest will depend on the marginal tax rate and the opportunity cost of forgoing other expenditures.

**Calculate Balances To Payment Date:**

Use this button for determining how to allocate the payment. Clicking on the command will give the user the amounts of the parts of the total liability on the date just before the payment being entered. These figures are net of payments made on prior dates.

**Payment Data Relevant To Payroll Tax Cases****Payroll Tax Liability Due Dates:**

In order to calculate payroll tax deposit penalties correctly, it is necessary to match actual deposits dates to the dates that deposit liabilities were incurred. This list box is intended to present a list of liability dates, one of which is to be chosen to associate the payment with a deposit liability. Click on the appropriate date to copy the date to the field below.

The dates in the list box come from the dates entered in the Required Payroll Tax Deposits screen.

**Payment Applied To Payroll Tax Liability With Original Due Date Of:**

This field holds the due date of the payroll tax deposit liability. To enter a date in this field, click on one of the dates in the Payroll Tax Liability Due Dates list box.

## Required Payroll Tax Deposits

Required Payroll Tax Deposits

Taxpayer Name: Example Co.

Deposit Due Date: 4/21/99

Assessment Date: 10/15/99

Required Deposit: 7,000.00

Apply Sec. 6656(b)(1)(B) 15% penalty rule

Add Edit Delete Close

Record: 1

To access the "Required Payroll Tax Deposits" screens above, first make an existing taxpayer active by clicking on "Select or Add Taxpayer" and "Select Existing Taxpayer". Once the active taxpayer's name is displayed on the main screen, click on "Transactions" from the menu of the main screen. After clicking on "Transactions", click on "Payroll Tax Liability Data", at that point the "Required Payroll Tax Deposits" screen should appear.

This screen should be completed to establish the dates and amounts of payroll tax deposit liabilities required by the Internal Revenue Code. To add a new required deposit liability, select the Add button. After the data has been entered, click on the Update button to save the entry.

To make changes to an existing required deposits, press the edit button, then make changes, and lastly press the update button. When adding a new required deposits, if changes will not save, check to see if the record count at the bottom reads "-1", if so, no records exist and the Add button should be pressed.

## Description Of Fields

### Taxpayer Name:

When the Add button is clicked, the taxpayer name is entered in the field automatically based on the taxpayer name shown on the main screen when the Required Payroll Tax Deposit screen is opened. The program uses this field for various sorting routines, therefore it is not editable through this program.

### Deposit Due Date:

Enter the date that the deposit was originally due as determined by the Internal Revenue Code, which may be different from the date the deposit was actually paid in.

### Assessment Date:

The assessment date is used for determining the date that a deposit penalty associated with the deposit becomes collectable and the date the IRS begins calculating interest on that penalty. The IRS usually sends a notice stating that the penalty is being assessed. The date printed on that notice is the assessment date.

### Amount of Payment:

Enter the total amount of the payment here, including the tax, penalty and interest parts.

## Additional Charges

The screenshot shows a window titled "Additional Charges" with the following fields and values:

Taxpayer Name:	John Q. Smith
Description:	Charge
Date Liability Incurred:	7/15/99
Date Interest Starts:	10/15/99
Total Amount of Charge:	55,000.00
Amount Classified As Tax:	30,000.00
Amount Classified As Penalty:	15,000.00
Amount Unclassified:	0.00

Buttons: Add, Edit, Delete, Close

Record: 1

To access the "Additional Charges" screen above, first make an existing taxpayer active by clicking on "Select or Add Taxpayer" and "Select Existing Taxpayer". Once the active taxpayer's name is displayed on the main screen, click on "Transactions" from the menu of the main screen. After clicking on "Transactions", click on "Additional Charges", at that point the "Additional Charges" screen should appear.

This screen should be completed to establish the dates and amounts of additional charges. Examples of manual charges are penalties calculated manually and taxes additions added at non-standard dates. To add a new charge, select the Add button. After the data has been entered, click on the Update button to save the entry.

To make changes to an existing charges, press the edit button, then make changes, and lastly press the update button. When adding a new charges, if changes will not save, check to see if the record count at the bottom reads "-1", if so, no records exist and the Add button should be pressed.

## **Description Of Fields**

### **Taxpayer Name:**

When the Add button is clicked, the taxpayer name is entered in the field automatically based on the taxpayer name shown on the main screen when the Required Payroll Tax Deposit screen is opened. The program uses this field for various sorting routines, therefore it is not editable through this program.

**Description:**

Use this field as a memo regarding the nature of the charge. This entry serves no computational function to the program, therefore the user is free to enter whatever is useful as a description.

**Date Liability Incurred:**

Enter the date that the charge becomes due, which may be different from date interest begins to be calculated on the charge.

**Date Interest Starts:**

Enter the date that interest begins to be calculated on the charge. This date is also used as the date penalties being to be calculated on the amount of the charge classified as tax.

**Total Amount of Charge:**

Enter the total amount of the charge here, including the tax, penalty and other parts.

**Amount Classified As Tax:**

Enter the portion of the payment to be allocated to tax. Amounts classified as tax will be subject to interest calculations. If the options to calculate the failure to pay penalty or the failure to file penalty have been selected, the charge classified as tax will be subject to those penalties.

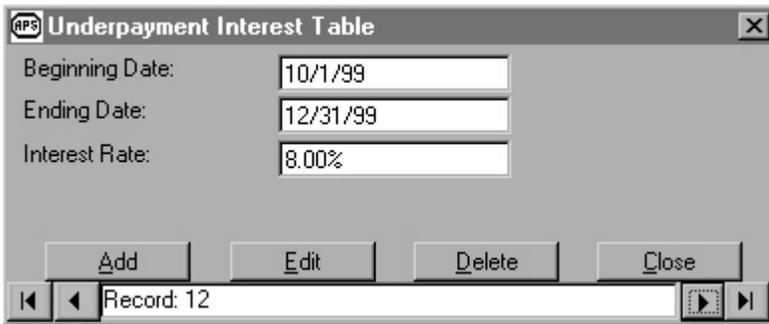
**Amount Classified As Penalties:**

Enter the portion of the charge to be allocated to penalties. Since interest computations generally do not differentiate between the types of penalties owed, this charge allocation is not added to any particular type of penalty, but is added to the net total of assessed penalties.

**Amount Unclassified:**

Enter the portion of the charge that is not allocated. The unclassified amount is not used in calculations and is in effect a memo entry.

## Underpayment Interest Table



AF3 Underpayment Interest Table

Beginning Date: 10/1/99

Ending Date: 12/31/99

Interest Rate: 8.00%

Add Edit Delete Close

Record: 12

To access the "Underpayment Interest Table" above, first select "Interest Rates" from the main screen. At that point select "Underpayment Rates" and the screen should appear.

This screen should be completed to establish the dates and amounts of interest rates used for calculating interest on underpayments. To add a new rate, select the Add button. After the data has been entered, click on the Update button to save the entry.

To make changes to an existing rate, press the edit button, then make changes, and lastly press the update button. When adding rates, if the rate will not save, check to see if the record count at the bottom reads "-1", if so, no records exist and the Add button should be pressed.

## Description Of Fields

### **Beginning Date:**

Enter the first date that the interest rate is effective.

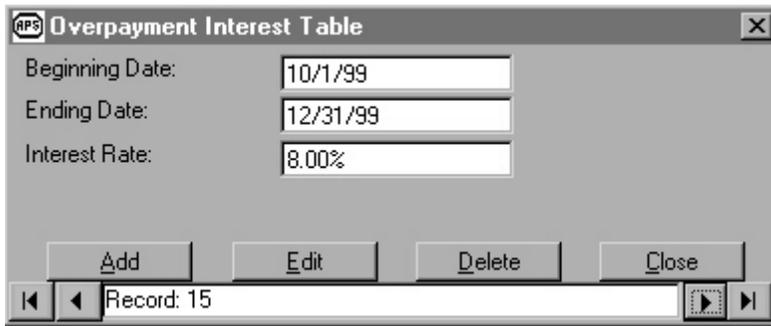
### **Ending Date:**

Enter the last date the interest rate is effective.

### **Interest Rate:**

Enter the interest rate to be used during the period for calculating interest on underpayments. Enter the rate in decimal form, e.g. ".08" for 8%; the program convert the decimal entry and will display the rate in percentage form, e.g. "8.00%".

## Overpayment Interest Table



Beginning Date:	10/1/99
Ending Date:	12/31/99
Interest Rate:	8.00%

Buttons: Add, Edit, Delete, Close

Record: 15

To access the "Overpayment Interest Table" above, first select "Interest Rates" from the main screen. At that point select "Overpayment Rates" and the screen should appear.

This screen should be completed to establish the dates and amounts of interest rates used for calculating interest on overpayments. To add a new rate, select the Add button. After the data has been entered, click on the Update button to save the entry.

To make changes to an existing rate, press the edit button, then make changes, and lastly press the update button. When adding rates, if the rate will not save, check to see if the record count at the bottom reads "- 1", if so, no records exist and the Add button should be pressed.

## **Description Of Fields**

### **Beginning Date:**

Enter the first date that the interest rate is effective.

### **Ending Date:**

Enter the last date the interest rate is effective.

### **Interest Rate:**

Enter the interest rate to be used during the period for calculating interest on overpayments. Enter the rate in decimal form, e.g. ".08" for 8%; the program convert the decimal entry and will display the rate in percentage form, e.g. "8.00%".

# Penalty & Interest Report

John Q. Smith      Penalty & Interest Report  
As of 11/9/00

Beginning Date	Ending Date	Event	Tax & Penalty Balance	Accrued Interest	Interest Rate	Days	Interest Factor	Interest
4/15/98	4/15/98	Initial Balance	100,000.00	0.00	0.00%	0	0.00000000	0.00
4/15/98	4/15/98	Penalty - Failure To File	122,725.00	0.00	0.00%	0	0.00000000	0.00
4/16/98	6/1/98	Interest	122,725.00	0.00	8.00%	47	0.01035347	1,270.63
6/1/98	6/1/98	Payment	102,725.00	1,270.63	0.00%	0	0.00000000	0.00
6/2/98	6/30/98	Interest	102,725.00	1,270.63	8.00%	29	0.00637571	663.05
7/1/98	9/15/98	Interest	102,725.00	1,933.68	8.00%	77	0.01701805	1,781.09
9/15/98	9/15/98	Penalty - Failure To Pay	105,000.00	3,714.77	0.00%	0	0.00000000	0.00
9/16/98	9/16/98	Interest	105,000.00	3,714.77	8.00%	1	0.00021918	23.83
9/16/98	9/16/98	Penalty - Failure To Pay	105,425.00	3,738.60	0.00%	0	0.00000000	0.00
9/17/98	9/30/98	Interest	105,425.00	3,738.60	8.00%	14	0.00307287	335.45
10/1/98	10/15/98	Interest	105,425.00	4,074.05	8.00%	15	0.00329272	360.55
10/15/98	10/15/98	Other Charge	150,425.00	4,434.60	0.00%	0	0.00000000	0.00
10/16/98	10/16/98	Interest	150,425.00	4,434.60	8.00%	1	0.00021918	33.94
10/16/98	10/16/98	Penalty - Failure To Pay	151,000.00	4,468.54	0.00%	0	0.00000000	0.00
10/17/98	11/16/98	Interest	151,000.00	4,468.54	8.00%	31	0.00681691	1,059.81
11/16/98	11/16/98	Penalty - Failure To Pay	151,575.00	5,528.35	0.00%	0	0.00000000	0.00
11/17/98	12/16/98	Interest	152,725.00	5,528.35	8.00%	30	0.00659628	1,043.88
								<u>6,572.23</u>

Pages: 1

To access the "Penalty & Interest Report" above, first select "Reports" from the main screen. At that point select "Penalty & Interest Report" and the report should appear.

This report is the principal report of the program. It combines all elements of the IRS bill: tax, payments, charges, penalties, and interest. Use the report to determine the element of an IRS bill or simply verify the total.

# Failure To Pay & File Penalty Calculation Report

Calculation Date	Tax Liability	Failure To Pay Penalty	Failure To File Penalty
4/15/98	100,000.00	0.00	0.00
4/16/98	100,000.00	500.00	0.00
4/16/98	100,000.00	0.00	4,500.00
5/16/98	100,000.00	500.00	0.00
5/16/98	100,000.00	0.00	4,500.00
6/1/98	85,000.00	0.00	0.00
6/16/98	85,000.00	425.00	0.00
6/16/98	85,000.00	0.00	4,575.00
7/16/98	85,000.00	425.00	0.00
7/16/98	85,000.00	0.00	4,575.00
8/16/98	85,000.00	425.00	0.00
8/16/98	85,000.00	0.00	4,575.00
9/16/98	85,000.00	425.00	0.00
10/15/98	115,000.00	0.00	0.00
10/16/98	115,000.00	575.00	0.00
11/16/98	115,000.00	575.00	0.00
12/16/98	115,000.00	1,150.00	0.00
		<u>5,000.00</u>	<u>22,725.00</u>

To access the "Failure To Pay & File Penalty Calculation Report" above, first select "Reports" from the main screen. At that point select "Failure To Pay & File Penalty Calculation Report" and the report should appear.

This report displays the detailed calculations of the failure to pay penalty and the failure to file penalty in income tax cases. This report can be used to verify how the penalties referred to in the Penalty & Interest Report are arrived at. The report also provides a method of verifying that payments and additional charges are applied properly.

# Summary Report

Taxpayer: John Q. Smith	
Interest	10,877.50
Failure To Pay Penalty	7,180.00
Failure To File Penalty	23,800.00
Tax Less Payments	78,000.00
Accuracy Penalty	3,000.00
Other Penalties	15,000.00
Less Payments Applied To Interest	0.00
Less Payments Applied To Penalties	2,000.00
Total	<u>135,857.50</u>

To access the "Summary Report" above, first select "Reports" from the main screen. At that point select "Summary Report" and the report should appear.

This report displays the totals of the various transaction types used to calculate the total bill. This report can be used as a guide to understanding the components of the bill or to memorialize the components in tax planning and tax preparation situations. The report spans the period from the original return due date to the end date as set on the Basic Taxpayer Data & Situation Profile screen.

# Payment Report

Payment Report

Zoom 100%

Taxpayer: John Q. Smith

Date Of Payment:	Amount Of Payment	Payment Allocated To Tax	Payment Allocated To Penalties	Payment Allocated To Interest
5/25/98	34,000.00	32,000.00	2,000.00	0.00
	34,000.00	32,000.00	2,000.00	0.00

Pages: 1

To access the "Payment Report" above, first select "Reports" from the main screen. At that point select "Payment Report" and the report should appear.

This report is designed to provide a convenient method of reviewing payments and payment allocations. The report is available for both income and payroll tax cases.

# Payroll Tax Deposit Penalty Report

Example Co.

Zoom 100%

Taxpayer: Example Co.

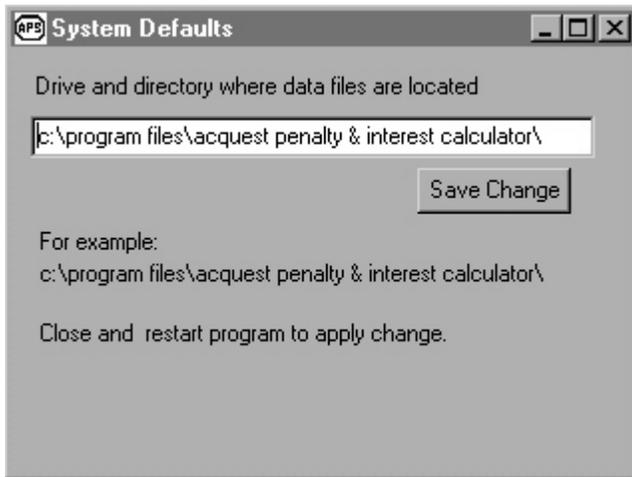
Deposit Number	Date	Event	Amount Of Liability	Amount Of Payment	Unpaid Balance	Days Overdue	Penalty Percentage	Penalty
1	4/21/99	Liability	7,000.00	0.00	0.00	0	0.00%	0.00
	4/21/99	Payment	0.00	7,000.00	0.00	0	0.00%	0.00
2	5/5/99	Liability	5,000.00	0.00	0.00	0	0.00%	0.00
	5/5/99	Payment	0.00	5,000.00	0.00	0	0.00%	0.00
3	5/21/99	Liability	5,000.00	0.00	0.00	0	0.00%	0.00
	5/21/99	Payment	0.00	5,000.00	0.00	0	0.00%	0.00
4	6/4/99	Liability	8,000.00	0.00	0.00	0	0.00%	0.00
	6/4/99	Payment	0.00	8,000.00	0.00	0	0.00%	0.00
5	6/18/99	Liability	6,000.00	0.00	0.00	0	0.00%	0.00
	6/18/99	Payment	0.00	6,000.00	0.00	0	0.00%	0.00
6	7/7/99	Liability	5,000.00	0.00	0.00	0	0.00%	0.00
	7/7/99	Payment	0.00	4,000.00	1,000.00	0	0.00%	0.00
	9/30/00	Unpaid Balance	0.00	0.00	1,000.00	451	10.00%	100.00
								100.00

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To access the "Payroll Tax Deposit Penalty Report" above, first select "Reports" from the main screen. At that point select "Payroll Tax Deposit Penalty Report" and the report should appear.

This report displays the detailed calculations of the failure to deposit penalty in payroll tax cases. This report can be used to verify how the penalties referred to in the Penalty & Interest Report are arrived at. The report also provides a method of verifying that payments are applied properly.

## System Defaults



To access the "System Defaults" screen above, first select "System" from the main screen. At that point, the screen above should appear.

This screen gives the user an opportunity to change the drive and directory where the database file that holds the taxpayer data and transactions, intandpe.mdb, will reside. The program will not actually move the file, that must be done by the user with a utility program such as Winfile or DOS commands. In most cases it will not be necessary to change this setting from the default established when the program is installed. In cases where disk space is being marshaled or automatic backups are being made, the option to change the data drive is available.

## **Tax Law Regarding Penalties & Interest**

### **Failure To File Penalty**

The penalty for late filing is 5% of the tax due on the return filed late for each month or part of a month you filed late, up to 25% of the tax due. If the tax return is filed within 60 days of the due date, the penalty is \$100 or 100% of the tax due on the return, whichever is less. The combined late filing and the late payment penalties are limited to 5% of the unpaid tax for that month.

### **Failure To Pay Penalty**

The penalty for late payment is 1/2% of the tax due for each month or part of a month the payment is late, up to 25% of the tax due. The combined late filing and the late payment penalties are limited to 5% of the unpaid tax for that month.

### **Increased Failure To Pay Penalty**

The penalty increases to 1% per month if the IRS sends a notice of intent to levy, and it is not paid within 10 days from the date of the notice.

### **Accuracy-Related Penalty**

The accuracy-related penalty may be imposed if:

- 1) There is a underpayment of tax because of either negligence" or "disregard of rules or regulations, or
- 2) There is a substantially understatement of income tax.

The penalty is equal to 20% of the underpayment. The penalty will not be figured on any part of an underpayment on which a fraud penalty is charged.

Negligence or disregard: The term negligence" includes a failure to make a reasonable attempt to comply with the tax law or to exercise ordinary and reasonable care in preparing a return Negligence also includes failure to keep adequate books and records. There will not be a liability to pay a negligence penalty if there is a reasonable basis for the position took.

The term "disregard" includes any careless, reckless, or intentional disregard.

Adequate disclosure: The penalty can be avoided if there is adequately disclose on the return of a position that has at least a reasonable basis.

Substantial understatement of income tax: An understatement of tax occurs if the tax shown on the return is less than the correct tax. The understatement is substantial if it is more than the larger of 10% of the correct tax or \$5,000. However, the amount of the understatement is reduced to the extent the understatement is due to:

- 1) Substantial authority, or
- 2) Adequate disclosure and a reasonable basis

### **Payroll Tax Deposit Penalties**

Penalties apply if required deposits are not made on time in the correct amount. For amounts not properly or timely deposited, the penalty rates are:

2% - Deposits made 1 to 5 days late.

5% - Deposits made 6 to 15 days late.

10% - Deposits made 16 or more days late. Also applies to amounts paid within 10 days of the date of the first notice the IRS sent asking for the tax due.

10% - Deposits made at an unauthorized financial institution, paid directly to the IRS, or paid with the tax return.

10%-Amounts subject to electronic deposit requirements but not deposited using the Electronic Federal Tax Payment System.

#### **Sec. 6656(b)(1)(B) 15% Rule**

15%-Amounts still unpaid more than 10 days after the date of the first notice the IRS sent asking for the tax due or the day of receipt of notice and demand for immediate payment, whichever is earlier.

Order in which deposits are applied. Generally, tax deposits are applied first to any past due undeposited amount within the same return period, with the oldest liability satisfied first. However, it is acceptable to designate the period to which a deposit applies if a penalty notice is received. A response designating how the deposit is to be applied must be made within 90 days of the date of the notice. For more information, see Revenue Procedure 9-10.

### **Interest on Tax**

The IRS charges interest on unpaid tax from the original due date of the return. Interest is compounded daily. Rates are tied to the federal funds rate and are revised and published quarterly by the IRS. There is a separate rate for tax overpayments which is generally one percent less than the underpayment rate.

### **Interest on Certain Penalties**

The IRS charges interest on penalties. For the late filing penalty the penalty starts at the extended return due date. For the failure to pay penalty, accuracy related penalty, and failure to deposit payroll tax penalty, interest starts on the assessment date determined by the IRS administrative action. The interest rate on penalties is the same as the underpayment interest rate.

## Examples

### Income Tax Situation

Mr. John Q. Smith did not file his 1997 1040 at the extended due date of 10/15/98. Instead he filed the return late on 12/31/98. The return was audited in the summer of 1999. The examination resulted in several adjustments being made to the return. In total, \$100,000 in tax was added by the audit to the original tax paid in with the return. Of the \$100,000 tax increase, \$15,000 of the adjustment was determined to be subject to the accuracy related penalty. In addition to the accuracy related penalty, the auditor imposed the late filing penalty and the late payment penalty. The audit report was confirmed by IRS management on 6/15/99. On 9/20/99 a notice to levy was given which resulted in an increase in the failure to pay penalty to 1% per month on 9/30/99.

After entering the details above into the programs, the Basic Taxpayer Data & Situation Profile screen will appear as follows.

**Basic Taxpayer Data & Situation Profile**

Basic Taxpayer Data Relevant To All Types Of Taxes

Taxpayer Name:

Original Due Date Of Return:

Extended Due Date Of Return:

End Date:

Initial Balance:

Corporate Taxpayer

Penalties That Apply To Both Income & Payroll Tax

Calculate Failure To File Penalty:

Date Return Filed:

Calculate Failure To Pay Penalty:

Assessment Date For Failure To Pay Penalty:

Calculate Increased Failure To Pay Penalty:

Date To Begin Increased Failure To Pay Penalty:

Calculate Accuracy Related Penalty:

Accuracy Related Underpayment:

Add Edit Delete Close

Record: 2

After entering the details above, a printing of the Summary Penalty & Interest Report would appear as follows.

John Q. Smith      Summary Penalty & Interest Report  
As of 11/9/00

Interest	16,440.60
Failure To Pay Penalty	12,000.00
Failure To File Penalty	13,500.00
Tax (net of payments)	100,000.00
Accuracy Penalty	3,000.00
Failure To Deposit Penalty	0.00
Other Penalties	0.00
Less Payments Applied To Interest	0.00
Less Payments Applied To Penalties	0.00
Total	<u>144,940.60</u>

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## Payroll Tax Situation

The Example Co. is an employer who makes payroll tax deposits and files form 941 quarterly. For the second quarter of 1999, Example Co. failed to deposit the correct amount for the last deposit which should have been \$5,000. \$4,000 was actually deposited. The company also failed to file the 941 for the second quarter.

After entering the details above into the programs, the Basic Taxpayer Date & Situation Profile screen will appear as follows.

**Basic Taxpayer Data & Situation Profile**

Basic Taxpayer Data Relevant To All Types Of Taxes

Taxpayer Name:

Original Due Date Of Return:

Extended Due Date Of Return:

End Date:

Initial Balance:

Corporate Taxpayer

Payroll Tax Deposit Penalty

Calculate Failure To Deposit Penalty

Quarter Start Date:

Penalties That Apply To Both Income & Payroll Tax

Calculate Failure To File Penalty:

Date Return Filed:

Calculate Failure To Pay Penalty:

Assessment Date For Failure To Pay Penalty:

Calculate Increased Failure To Pay Penalty

Date To Begin Increased Failure To Pay Penalty:

Calculate Accuracy Related Penalty:

Accuracy Related Underpayment:

After entering the details above, a printing of the Summary Penalty & Interest Report would appear as follows

Example Co. Summary Penalty & Interest Report for the return originally due 7/31/99  
As of 2/24/01

Interest	29.71
Failure To Pay Penalty	20.00
Failure To File Penalty	90.00
Tax (net of payments)	0.00
Accuracy Penalty	0.00
Failure To Deposit Penalty	100.00
Other Penalties	0.00
Less Payments Applied To Interest	0.00
Less Payments Applied To Penalties	0.00
Total	<u>239.71</u>

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