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Internal Revenue Manual Section 20.1.1.1.1 (11-25-2011)

Background

1. In 1955, there were approximately 14 penalty provisions in the Internal Revenue Code. There are now more than ten times that number. With the increasing number of penalty provisions, the IRS recognized the need to develop a fair, consistent, and comprehensive approach to penalty administration.
2. In November 1987, the Commissioner of IRS established a task force to study civil penalties and develop a fair, consistent, and comprehensive approach to penalty administration. In February 1989, the Commissioner's Executive Task Force issued a Report on Civil Tax Penalties. The report established a philosophy concerning penalties, provided a statutory analysis of the three broad categories of penalties (filing of returns, payment of tax, and accuracy of information), and made recommendations where warranted to resolve the inconsistencies. Those recommendations were, in part, that the IRS should take the following actions:
 - A. Develop and adopt a single penalty policy statement emphasizing that civil tax penalties exist for the purpose of encouraging voluntary compliance.
 - B. Develop a single consolidated handbook on penalties for all employees (the handbook should be sufficiently detailed to serve as a practical everyday guide for most issues of penalty administration and provide clear guidance on computing penalties).
 - C. Revise existing training programs to ensure consistent administration of penalties in all functions for the purpose of encouraging voluntary compliance.
 - D. Examine its communications with taxpayers (including penalty notices and publications) to determine whether these communications do the best possible job of explaining why the penalty was imposed and how to avoid the penalty in the future.
 - E. Finalize its review and analysis of the quality and clarity of machine-generated letters and notices used in various areas within the IRS.
 - F. Consider ways to develop better information concerning the administration and effects of penalties.
 - G. Develop a Master File database to provide statistical information regarding penalty administration. The information in this database should be continuously reviewed for the purpose of suggesting changes in compliance programs, educational programs, penalty design, and penalty administration.

3. In keeping with the Commissioner's Executive Task Force Report and Congressional recommendations, the consolidated penalty IRM was developed.