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Internal Revenue Manual 20.1.1.3.2 (11-21-2017)

Reasonable Cause

1. Reasonable cause is based on all the facts and circumstances in each situation and allows the IRS to provide relief from a penalty that would otherwise apply. Reasonable cause relief is generally granted when the taxpayer exercised ordinary business care and prudence in determining his or her tax obligations but was nevertheless unable to comply with those obligations.
2. In the interest of equitable treatment of the taxpayer and effective tax administration, the non-assertion or abatement of certain civil penalties based on reasonable cause or other relief provisions provided in this IRM must be made in a **consistent** manner and should conform with the considerations specified in the IRC, Treasury Regulations (Treas. Regs.), policy statements, and IRM Part 20.1, Penalty Handbook.
3. Reasonable cause relief is not available for all penalties; however, other exceptions may apply.
 - A. For those penalties where reasonable cause can be considered, any reason which establishes that the taxpayer exercised ordinary business care and prudence, but nevertheless was unable to comply with a prescribed duty within the prescribed time, will be considered.
 - B. If a reasonable cause provision applies only to a specific IRC section, that reasonable cause provision will be discussed in the IRM 20.1, Penalty Handbook, section relating to that specific IRC section. See *IRM 20.1.1.1.2*, Authority, and *Exhibit 20.1.1-1*, Penalty Relief Application Chart.
 - C. When considering the information provided in the following subsections, remember that an acceptable explanation is **not** limited to those given in IRM 20.1. Penalty relief may be warranted based on an "other acceptable explanation," provided the taxpayer exercised ordinary business care and prudence but was nevertheless unable to comply within the prescribed time. See *IRM 20.1.1.3.2.2*, Ordinary Business Care and Prudence.
4. The wording used to describe reasonable cause provisions varies. Some IRC penalty sections also require evidence that the taxpayer acted in good faith or that the taxpayer's failure to comply with the law was not due to willful neglect. See specific IRM 20.1, Penalty Handbook, sections for the rules that apply to a specific IRC penalty section. See *IRM 20.1.1.1.2*, Authority.

5. Taxpayers have reasonable cause when their conduct justifies the non-assertion or abatement of a penalty. Each case must be judged individually based on the facts and circumstances at hand. Consider the following in conjunction with specific criteria identified in the remainder of this subsection:

- A. What happened and when did it happen?
- B. During the period of time the taxpayer was non-compliant, what facts and circumstances prevented the taxpayer from filing a return, paying a tax, and/or otherwise complying with the law?
- C. How did the facts and circumstances result in the taxpayer not complying?
- D. How did the taxpayer handle the remainder of his or her affairs during this time?
- E. Once the facts and circumstances changed, what attempt did the taxpayer make to comply?

6. Reasonable cause **does not exist** if, after the facts and circumstances that explain the taxpayer's noncompliant behavior cease to exist, the taxpayer fails to comply with the tax obligation within a reasonable period of time.