

## LB&I Concept Unit

<b>Unit Name</b>	Reasonable Cause and Good Faith	
<b>Primary UIL Code</b>	6664.03-00	Reasonable Cause Exception

Library Level	Title
<b>Knowledge Base</b>	Penalties
<b>Shelf</b>	Functional Penalty Procedures
<b>Book</b>	LB&I Penalties Procedures (Domestic)
<b>Chapter</b>	Reasonable Cause and Good Faith

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# General Overview

## Reasonable Cause and Good Faith

This Practice Unit supersedes the previously published Practice Unit with the same title published on July 2, 2020. The Practice Unit was updated to provide further detailed information on factors that should be considered when determining if reasonable cause exists.

Taxpayers may assert that the Service's application of penalties is not warranted due to a variety of reasons. This unit addresses the taxpayer's assertion that the return position was based on reasonable cause and that the taxpayer acted in good faith. How the Service evaluates this taxpayer defense depends on the particular penalty that was asserted. In addition to reasonable cause and good faith, certain penalty defenses involve other concepts such as an absence of willful neglect.

The burden is on the taxpayer to provide support to substantiate reasonable cause for penalty relief. Taxpayers are required to exercise ordinary business care and prudence in reporting their proper tax liability. Whether a taxpayer has met the reasonable cause and good faith exception is a facts and circumstances determination that the examiner must make test on a case-by-case basis .

The reasonable cause exception under IRC 6664(c) applies to:

- Most accuracy related penalties under IRC 6662
- Civil fraud under IRC 6663.

The reasonable cause exception under IRC 6664(d) applies to the penalty under IRC 6662A for a reportable transaction understatement when the transaction was adequately disclosed. The penalty under IRC 6676 (erroneous claim for a refund or credit) also has a reasonable cause exception.

Reasonable cause exceptions for penalty relief also apply to other IRC penalties such as:

- IRC 6651 - *Failure to File and/or Failure to Pay*
- IRC 6676 - *Erroneous Claim for Refund or Credit*
- IRC 6721 - *Failure to File Correct Information Reporting Returns*
- IRC 6694 - *Understatement of Taxpayer's Liability by Return Preparer.*

The reasonable cause exception does not apply to a penalty for an underpayment of tax that is due to transactions lacking economic substance as described in IRC 6662(b)(6), or a gross valuation overstatement from a charitable deduction.

# Relevant Key Factors

## Reasonable Cause and Good Faith

### Key Factors

The most significant factor in determining whether a taxpayer has reasonable cause and acted in good faith is the taxpayer's effort to report the proper tax liability.

For example, if a taxpayer reports amounts from an erroneous information return, but does not know the amounts are incorrect, reasonable cause may apply. Also, an isolated computation or transposition error by the taxpayer may indicate reasonable cause and a good faith effort.

Other factors to consider are the taxpayer's experience, knowledge, education, and reliance on the advice of a tax advisor. When considering the facts and circumstances, the taxpayer's experience, education, and sophistication with respect to the tax laws are relevant in determining whether the taxpayer has reasonable cause. Reliance on advice from a tax professional must be objectively reasonable. The taxpayer must provide the advisor with all the necessary information to evaluate the tax matter. Additionally, the advisor must have knowledge and expertise related to the tax matter.

Make the determination of whether the taxpayer acted with reasonable cause and in good faith on a case-by-case basis after considering all the facts and circumstances. The taxpayer must have exercised the care that a reasonably prudent person would have used under the circumstances.

# Detailed Explanation of the Concept

## Reasonable Cause and Good Faith

Analysis	Resources
<p><u>Penalty Relief for Reasonable Cause Under Various Code Sections</u></p> <p>A taxpayer can establish reasonable cause to waive certain penalties as specified under the Internal Revenue Code.</p> <p>The meaning of “reasonable cause” depends on the particular code section. Some penalty sections also require evidence that the taxpayer acted in good faith or that the taxpayer’s failure to comply was not due to willful neglect.</p> <p>When making a showing of reasonable cause for failing to file timely (the addition to tax under section 6651) and for the information return reporting requirements (sections 6721 et seq.), the regulations require that the taxpayer file a statement showing the facts alleged to support the taxpayer’s asserted reasonable cause and that statement must be signed under penalties of perjury. See, e.g. Treas. Reg. 301.6651-1(c)(1) and 301.6724-1(m).</p> <p>Whether the elements that constitute reasonable cause, willful neglect, and good faith are present is based on all the facts and circumstances.</p>	<ul style="list-style-type: none"><li>▪ IRC 6662</li><li>▪ IRC 6662(b)(6)</li><li>▪ IRC 6664(c)</li><li>▪ IRM 20.1.1.3.2</li><li>▪ Treas. Reg. 1.6664-4</li></ul>

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p><u>Penalty Relief for Reasonable Cause Under Various Code Sections (cont'd)</u></p> <p>IRC 6664(c)(1) generally provides that the reasonable cause and good faith exception applies to certain accuracy-related penalties under IRC 6662 and to the IRC 6663 fraud penalty; however, reasonable cause and good faith does not apply to any portion of an underpayment that is (1) attributable to penalty under IRC 6662(b)(6) for a transaction lacking economic substance, or (2) attributable to a gross valuation overstatement for a charitable deduction. IRC 6664(c)(2) and (3). If the charitable deduction involves a substantial valuation overstatement, then a reasonable cause and good faith exception applies but it requires the taxpayer to have obtained a qualified appraisal made by a qualified appraiser, and the taxpayer to have made a good faith investigation of the value of the contributed property. The taxpayer must meet both parts of this test to assert a reasonable cause and good faith penalty exception. IRC 6664(c)(3).</p> <p>IRC 6664(d) provides the reasonable cause and good faith exception applicable to IRC 6662A, the accuracy-related penalty on understatements with respect to reportable transactions. This exception does not apply to transactions lacking economic substance. For the reasonable cause and good faith exception to apply to an IRC 6662A penalty, there are three requirements: (1) There must be adequate disclosure of the relevant facts affecting the tax treatment of the item, (2) substantial authority for such treatment, and (3) the taxpayer's reasonable belief that such treatment was more likely than not the proper treatment. IRC 6664(d)(3). Because adequate disclosure is an element of reasonable cause for purposes of section 6662A, it necessarily follows that if the 30% rate of the penalty in section 6662A(c) applies for an understatement resulting from a reportable transaction that was not adequately disclosed, a defense to the penalty does not apply.</p>	<ul style="list-style-type: none"><li>▪ IRM 20.1.1.3</li><li>▪ Treas. Reg. 301.6651-1(c)</li></ul>

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p><u>Penalty Relief for Reasonable Cause Under Various Code Sections (cont'd)</u></p> <p>IRC 6651(a) provides for a defense to a penalty for failures to file or pay where the failure is due to reasonable cause and not due to willful neglect. If the taxpayer exercised ordinary business care and prudence and was nevertheless unable to file the return within the prescribed time, then the delay is due to a reasonable cause. A failure to pay will be considered due to reasonable cause to the extent that the taxpayer has made a satisfactory showing that the taxpayer exercised ordinary business care and prudence in providing for payment of the tax liability and the taxpayer was nevertheless either unable to pay the tax or would suffer an undue hardship if the taxpayer paid on the due date.</p> <p>IRC 6676(a) provides for a defense to the penalty for an erroneous claim for refund or credit if the excessive claim is due to reasonable cause unless the claim is attributable to a transaction lacking economic substance. IRC 6676(c).</p> <p>IRC 6724(a) provides that information return penalties imposed under IRC 6721 – 6725 are waived with respect to any failure that is due to reasonable cause and not to willful neglect.</p> <p>IRC 6694(a)(3) provides that the IRC 6694(a) penalty for an underpayment of a taxpayer's tax liability due to an unreasonable position by a tax return preparer is not imposed if there is reasonable cause for the understatement and the tax return preparer acted in good faith.</p> <p>With managerial approval, examiners may contact Counsel for assistance with penalty development when evaluating a taxpayer's reasonable basis, reasonable cause, and substantial authority defenses.</p>	

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p><u>Penalty Relief for Reasonable Cause Under Various Code Sections (cont'd)</u></p> <p>Taxpayers have a reasonable basis when the taxpayer's position is supported by at least one authority. Reasonable basis is a relatively high standard of tax reporting, that is significantly higher than not frivolous or not patently improper.</p> <p>Reasonable cause requires that the taxpayer exercised ordinary business care and prudence. Ordinary business care and prudence is defined as taking that degree of care that a reasonably prudent person would exercise, but nevertheless being unable to comply with the law.</p>	

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p><u>Factors in Determining Reasonable Cause</u></p> <p>The extent of the taxpayer's effort to report the proper tax liability is the most important factor in determining reasonable cause. See Treas. Reg. 1.6664-4. The regulations do not offer bright-line tests for measuring taxpayer effort. In assessing the taxpayer's effort, examiners should consider all relevant facts.</p> <p>The reasonable cause regulations in section 6664-4 identify a nonexclusive list of factors to consider in determining whether a taxpayer acted with reasonable cause and in good faith. There are special rules relating to a substantial understatement penalty attributable to tax shelter items of corporations. See, Treas. Reg. 1.6664-4(f).</p> <p>Examiners should view all relevant facts through the lens of the taxpayer's experience, knowledge, education, and sophistication.</p> <p>An isolated computational or transcription error usually is not inconsistent with reasonable cause and good faith. Likewise, reliance on erroneous factual data inadvertently included in data compiled in financial books and records prepared by multiple corporate divisions generally indicates reasonable cause and good faith, provided the corporation employed internal controls and procedures, reasonable under the circumstances, that were designed to identify such factual errors. In such circumstances, internal controls and procedures designed to identify errors, help demonstrate that a taxpayer has acted in good faith. Reasonable cause and good faith is not necessarily indicated by reliance on facts that, unknown to the taxpayer, are incorrect. There must be additional facts suggesting the taxpayer has made a reasonable effort to ascertain accurate information.</p>	<ul style="list-style-type: none"> <li>▪ IRM 20.1.1.3.2</li> <li>▪ IRM 20.1.1.3.2.2</li> <li>▪ IRM 20.1.5.7.1</li> <li>▪ Treas. Reg. 1.6664-4</li> <li>▪ <i>Neonatology Assocs., P.A. v. Commissioner</i> - 115 T.C. 43, 99 (2000), aff'd, 299 F 3d 221 (3d Cir. 2002)</li> </ul>

# Detailed Explanation of the Concept (cont'd)

## Reasonable Cause and Good Faith

### Analysis

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#### Factors in Determining Reasonable Cause (cont'd)

Reliance on an information return does not necessarily demonstrate reasonable cause and good faith. Similarly, reliance on the advice of a professional tax advisor or an appraiser does not necessarily demonstrate reasonable cause and good faith. Reliance on an information return, professional advice, an appraisal, or other facts, however, constitutes reasonable cause and good faith if, under all the circumstances, such reliance was reasonable, and the taxpayer acted in good faith. Treasury regulations provide more detailed criteria related to the advice of others.

Reliance on erroneous information reported on a Form W-2, Form 1099, or other information return indicates reasonable cause and good faith, provided the taxpayer did not know or have reason to know that the information was incorrect. If such information is inconsistent with other information reported or otherwise furnished to the taxpayer, or with the taxpayer's knowledge of the transaction, the taxpayer has not acted in good faith in relying on the erroneous information return.

For appraisals, examiners should consider the methodology and assumptions underlying the appraisal, the appraised value, the relationship between appraised value and purchase price, the circumstances under which the appraisal was obtained, and the appraiser's relationship to the taxpayer or to the activity in which the property is used. Treas. Reg. 1.6664-4(h) provides specific rules relating to appraisals for charitable deductions.

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p><u>Factors in Determining Reasonable Cause (cont'd)</u></p> <p>Examiners must consider all facts and circumstances when determining whether a taxpayer has reasonably relied in good faith on the advice or opinion of another, including professional advisors. Taxpayers' education, sophistication and business experience are relevant.</p> <p>In no event will a taxpayer be considered to have reasonably relied in good faith on advice or an opinion unless certain minimal requirements are satisfied. These alone will not necessarily establish that the taxpayer reasonably relied on the advice in good faith but are a threshold standard.</p> <p>First, the person providing the advice must be competent to do so. If the taxpayer knew, or reasonably should have known, that the advisor lacked knowledge in the relevant aspects of federal tax law, the taxpayer cannot have reasonably relied on the advice.</p> <p>Next, the taxpayer must have supplied necessary and accurate information to the advisor. The advice must be based upon all pertinent facts and circumstances and the law as it relates to those facts and circumstances. The advice must consider the taxpayer's purposes (and the relative weight of such purposes) for entering into a transaction and for structuring a transaction in a particular manner.</p>	

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p><u>Factors in Determining Reasonable Cause (cont'd)</u></p> <p>The advice must not be based on unreasonable factual or legal assumptions and must not unreasonably rely on the representations, statements, findings, or agreements of the taxpayer or any other person. The advice must not be based upon a representation or assumption which the advisor or taxpayer knows, or has reason to know, is unlikely to be true, such as an inaccurate representation or assumption as to the taxpayer's purposes for entering into a transaction or for structuring a transaction in a particular manner.</p> <p>Courts generally apply a three-pronged analysis to establish whether a taxpayer acted with reasonable cause in relying on professional advice: (1) the competence of the advisor; (2) the taxpayer's supplying all necessary information to the advisor; (3) the taxpayer's actual reliance on the advice. Examiners should consult with Counsel if unsure about the application of particular case law to the taxpayer's facts and circumstances.</p> <p>If any portion of an underpayment is attributable to a reportable transaction, the taxpayer's failure to disclose the transaction in accordance with Treas. Reg. 1.6011-4 is a strong indication that the taxpayer did not act in good faith with respect to the portion of the underpayment attributable to the reportable transaction.</p> <p>In determining whether a taxpayer exercised ordinary business care and prudence, you should consider all the facts and circumstances and review all available information such as the taxpayer's stated reason, compliance history, length of time and circumstances beyond the taxpayer's control.</p>	<ul style="list-style-type: none"><li>▪ IRM 20.1.1.3.2.2</li></ul>

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p><u>Factors in Determining Reasonable Cause (cont'd)</u></p> <p>At a minimum, examiners should look at the three preceding tax years for payment patterns and compliance history. A taxpayer who is repeatedly assessed the same penalty may not be exercising ordinary business care. If the same penalty was previously assessed or abated, this is an indication that the taxpayer may not be exercising ordinary business care. However, if this error is the taxpayer's first incident of noncompliance, an examiner should consider that fact with the other reasons and circumstances the taxpayer provides.</p> <p>Examiners should consider timing of the event cited as the reason for noncompliance and when the taxpayer came back into compliance. The taxpayer's reason should coincide with the timeframe of dates and events that relate to the penalty assertion.</p> <p>While factoring in circumstances that were beyond the taxpayer's control, consider whether the taxpayer could have foreseen or anticipated the event that caused the noncompliance.</p>	<ul style="list-style-type: none"><li>▪ IRM 20.1.1.3.2.2</li></ul>

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p><u>Common Reasons Provided by Taxpayers for Penalty Relief</u></p> <p>Examples of reasons a taxpayer may offer in seeking penalty relief are:</p> <ul style="list-style-type: none"><li>▪ Death, illness, or unavoidable absence</li><li>▪ Fire, casualty or natural disaster</li><li>▪ Unable to obtain records</li><li>▪ Mistake was made</li><li>▪ Erroneous advice or reliance</li><li>▪ Ignorance of the law</li><li>▪ Forgetfulness</li></ul> <p>Reasonable cause should never be presumed. The ordinary business care and prudence standard requires that the taxpayer make reasonable efforts to determine the correct tax obligation. Regardless of the reasons, taxpayers must have exercised ordinary business care and prudence.</p> <p>A death or serious illness of a taxpayer or in their immediate family, or unavoidable absence, may establish the reasonable cause exception. If someone other than the taxpayer has authorization to meet the obligation, consider why that person did not meet the obligations.</p>	<ul style="list-style-type: none"><li>▪ IRM 20.1.1.3.2.2.1 – 20.1.1.3.2.2.7</li></ul>

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p data-bbox="84 382 1048 418"><u>Common Reasons Provided by Taxpayers for Penalty Relief (cont'd)</u></p> <p data-bbox="84 461 1404 796">If natural disaster, fire, or other casualty is given as a reason, determine whether the taxpayer is eligible for relief for a declared Official Disaster Area. This can be accomplished on the Disaster Assistance Information home page. The site contains two links, IRS.gov Around the Nation Disaster Information by State and IRS Disaster Assistance Declarations - ZIP Code Search. If the taxpayer is not covered under an Official Disaster Area, the occurrence of a natural disaster, fire, or other casualty does not automatically provide penalty relief. The taxpayer still must have exercised ordinary business care and prudence. Other factors to consider are timing, the effect on the taxpayer's business, the steps taken by the taxpayer in their attempt to comply, and whether the taxpayer did comply once it became possible.</p> <p data-bbox="84 839 1379 1061">If the taxpayer was unable to obtain records, consider all the facts and circumstances and determine if the taxpayer exercised ordinary business care and prudence. Consider why the records are necessary, why the records were unavailable, the steps the taxpayer took to secure the records, and whether the taxpayer contacted the IRS to explain the situation and ask for guidance. In addition, consider whether the taxpayer promptly complied with the tax obligation after obtaining the missing information.</p> <p data-bbox="84 1103 1404 1325">A taxpayer who tries to establish reasonable cause by claiming to have made a mistake might not satisfy reasonable cause because, generally, making a mistake is not in keeping with the ordinary business care and prudence standard. Consider all the facts and circumstances; the mistake might be a supporting factor if the taxpayer otherwise exercised ordinary business care and prudence but nevertheless was unable to comply. Determine when and how the mistake was discovered and the steps the taxpayer took to correct the mistake.</p>	<ul data-bbox="1425 382 1719 489" style="list-style-type: none"> <li>▪ IRM 20.1.1.3.2.2.2</li> <li>▪ IRM 20.1.1.3.2.2.3</li> <li>▪ IRM 20.1.1.3.2.2.4</li> </ul>

# Detailed Explanation of the Concept (cont'd)

## Reasonable Cause and Good Faith

### Analysis

### Resources

#### Common Reasons Provided by Taxpayers for Penalty Relief (cont'd)

Taxpayers may state that they relied on the advice of the IRS or a tax advisor to request penalty relief. If the relied upon advice is from the IRS and does not qualify for relief under the criteria of "Written Advice from the IRS" or "Oral Advice From the IRS", consider if the taxpayer exercised ordinary business care and prudence in relying upon the IRS's advice.

You should evaluate the information and determine if the advice was in response to a specific request and related to the facts contained in that request. Also, consider if the taxpayer actually relied upon that advice, i.e., whether the return was filed before the advice was received regarding that specific tax item. Reasonable cause for reliance on a tax adviser is limited to technical tax issues.

A taxpayer generally does not have a basis for reasonable cause if the penalty relates to the late filing of a tax return or payment of a tax obligation. Timely filing and payment is the taxpayer's responsibility and cannot be delegated. However, factors to consider should include, but are not limited to, unavailability of records or a law change of which the taxpayer could not reasonably have been expected to be aware.

Taxpayers may seek penalty relief due to a lack of knowledge of the law. In order to evaluate this as a basis for reasonable cause, consider other factors such as:

- Taxpayer's education
- Whether the taxpayer has been subject to the tax before
- Whether the taxpayer has been penalized before
- Complexity of the tax issue
- Recent changes in the tax law and/or tax forms

- IRM 20.1.1.3.2.2.5
- IRM 20.1.1.3.2.2.6
- IRM 20.1.1.3.2.2.7

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p><u>Common Reasons Provided by Taxpayers for Penalty Relief (cont'd)</u></p> <p>Generally, neither the taxpayer nor professionals upon whom the taxpayer relied may cite forgetfulness as a basis for reasonable cause. In fact, forgetfulness indicates a lack of reasonable cause. Even if the taxpayer relies on professional service providers or employees such as accountants, bookkeepers, or attorneys, the taxpayer may not delegate ultimate responsibility to timely file tax returns and timely pay tax obligations.</p> <p><u>Reasonable Cause Relief Available to Specific IRC Sections</u></p> <p>Below is a list of specific IRC sections to which reasonable cause relief may apply:</p> <ul style="list-style-type: none"> <li>▪ IRC 6039E - <i>Failure to Provide Information Concerning Resident Status</i></li> <li>▪ IRC 6651(a)(1) - <i>Failure to File Tax Return</i></li> <li>▪ IRC 6651(a)(2) - <i>Failure to Pay Tax When Due</i></li> <li>▪ IRC 6651(a)(3) - <i>Failure to Pay Within 10 Days of Notice of Additional Tax Due (notices issued prior to 1/1/1997)</i></li> <li>▪ IRC 6651(a)(3) - <i>Failure to Pay Within 21 Days of Notice of Additional Tax Due (10 business days if amount is \$100,000 or more) (notices issued after 12/31/1996)</i></li> <li>▪ IRC 6652(a)(1) - <i>Failure to File Certain Information Returns</i></li> <li>▪ IRC 6652(c)(1) - <i>Failure to File Annual Return by Exempt Organization</i></li> <li>▪ IRC 6652(c)(2) - <i>Failure to File Returns Under IRC 6034 or IRC 6043(b)</i></li> <li>▪ IRC 6652(d)(2) - <i>Notification of Change in Status of a Plan</i></li> <li>▪ IRC 6652(e) - <i>Information Required in Connection With Certain Plans of Deferred Compensation - Form 5500, Annual Return/Report of Employee Benefit Plan</i></li> <li>▪ IRC 6652(h) - <i>Failure to Give Notice to Recipients of Certain Pension, Etc., Distributions</i></li> </ul>	<ul style="list-style-type: none"> <li>▪ IRM 20.1 Exhibit 20.1.1-1</li> </ul>

# Detailed Explanation of the Concept (cont'd)

Reasonable Cause and Good Faith	
Analysis	Resources
<p data-bbox="84 382 1052 418"><u>Reasonable Cause Relief Available to Specific IRC Sections (cont'd)</u></p> <ul style="list-style-type: none"> <li data-bbox="84 458 1286 529">▪ IRC 6652(i) - <i>Failure to Give Written Explanation to Recipients of Certain Qualifying Rollover Distributions</i></li> <li data-bbox="84 534 1286 605">▪ IRC 6652(j) - <i>Failure to File Certification With Respect to Certain Residential Rental Projects</i></li> <li data-bbox="84 609 567 645">▪ IRC 6656(a) - <i>Failure to Deposit</i></li> <li data-bbox="84 649 451 685">▪ IRC 6657 - <i>Bad Checks</i></li> <li data-bbox="84 689 940 725">▪ IRC 6662 - <i>Accuracy-Related Penalty on Underpayments *</i></li> <li data-bbox="84 729 1355 801">▪ IRC 6662A - <i>Accuracy-Related Penalty on Understatements With Respect to Reportable Transactions *</i></li> <li data-bbox="84 805 824 841">▪ IRC 6676 - <i>Erroneous Claim for Refund or Credit *</i></li> <li data-bbox="84 845 706 881">▪ IRC 6692 - <i>Failure to File Actuarial Report</i></li> <li data-bbox="84 885 745 921">▪ IRC 6698 - <i>Failure to File Partnership Return</i></li> <li data-bbox="84 925 779 961">▪ IRC 6699 - <i>Failure to File S Corporation Return</i></li> <li data-bbox="84 965 1017 1001">▪ IRC 6721 - <i>Failure to File Correct Information Reporting Returns</i></li> <li data-bbox="84 1005 907 1041">▪ IRC 6722 - <i>Failure to Furnish Correct Payee Statements</i></li> <li data-bbox="84 1045 1201 1080">▪ IRC 6723 - <i>Failure to Comply With other Information Reporting Requirements</i></li> </ul> <p data-bbox="84 1108 1317 1253">*Reasonable cause does not apply to any portion of the underpayment (IRC 6662) or understatement (IRC 6662A) attributable to an IRC 6662(b)(6) transaction (transactions lacking economic substance within the meaning of IRC 7701(o), or failing to meet the requirements of any similar rule of law).</p>	<ul style="list-style-type: none"> <li data-bbox="1425 382 1810 418">▪ IRM 20.1 Exhibit 20.1.1-1</li> </ul>

# Index of Referenced Resources

## Reasonable Cause and Good Faith

IRC 6651 - *Failure to File Tax Return or to Pay Tax*

IRC 6662 - *Imposition of Accuracy-related Penalty on Underpayments*

IRC 6662A - *Imposition of Accuracy-related Penalty on Understatements with Respect to Reportable Transactions*

IRC 6663 - *Imposition of Fraud Penalty*

IRC 6664 - *Definitions and Special Rules*

IRC 6676 - *Erroneous Claim for Refund or Credit*

IRC 6694 - *Understatement of Taxpayer's Liability by Return Preparer*

IRC 6721 - *Failure to File Correct Information Returns*

IRC 6724 - *Waiver; Definitions and Special Rules*

Treas. Reg. 1.6664-4 – *Reasonable Cause and Good Faith Exception to Section 6662 Penalties*

Treas. Reg. 301-6651-1 - *Failure to File Tax Return or to Pay Tax*

Treas. Reg. 301.6724-1 - *Reasonable Cause*

IRM 20.1.1 - *Introduction and Penalty Relief*

IRM 20.1.5 - *Return Related Penalties*

*Neonatology Assocs., P.A. v. Commissioner* - 115 T.C. 43, 99 (2000), aff'd, 299 F 3d 221 (3d Cir. 2002)

# Training and Additional Resources

Reasonable Cause and Good Faith	
Type of Resource	Description(s)
Saba Meeting Sessions	<ul style="list-style-type: none"><li>▪ Penalties IPG Community Meeting - 7/29/2014</li><li>▪ Penalties IPG Community Meeting - 8/13/2015</li></ul>
Databases / Research Tools	<ul style="list-style-type: none"><li>▪ SERP - Disaster Assistance Information</li></ul>
Other Training Materials	<ul style="list-style-type: none"><li>▪ <i>Accuracy-Related Penalty Considerations for LB&amp;I Examinations</i> - 2015 CPE</li></ul>

# Glossary of Terms and Acronyms

Term/Acronym	Definition
IRC	Internal Revenue Code
IRM	Internal Revenue Manual
Reasonable Basis	Reasonable basis is a relatively high standard of tax reporting that is significantly higher than not frivolous or not patently improper. The reasonable basis standard is not satisfied by a return position that is merely arguable or that is merely a colorable claim.
SERP	Servicewide Electronic Research Program

# Index of Related Practice Units

Associated UIL(s)	Related Practice Unit
	None at this time.