



[CLICK HERE](#) to return to the home page

Treas. Reg. Section 1.6662-4(a)

Substantial understatement of income tax



(a) In general. If any portion of an underpayment, as defined in section 6664(a) and §1.6664-2, of any income tax imposed under subtitle A of the Code that is required to be shown on a return is attributable to a substantial understatement of such income tax, there is added to the tax an amount equal to 20 percent of such portion. Except in the case of any item attributable to a tax shelter (as defined in paragraph (g)(2) of this section), an understatement is reduced by the portion of the understatement that is attributable to the tax treatment of an item for which there is substantial authority, or with respect to which there is adequate disclosure. General rules for determining the amount of an understatement are set forth in paragraph (b) of this section and more specific rules in the case of carrybacks and carryovers are set forth in paragraph (c) of this section. The rules for determining when substantial authority exists are set forth in §1.6662-4(d). The rules for determining when there is adequate disclosure are set forth in §1.6662-4(e) and (f). This penalty does not apply to the extent that the reasonable cause and good faith exception to this penalty set forth in §1.6664-4 applies.

...