

**TITLE 4: ECONOMIC RESOURCES**  
**DIVISION 1: REVENUE AND TAXATION**

**§ 18127. Imposition of Accuracy-Related Penalty.**

(a) *Imposition of Penalty.* If this section applies to any portion of an underpayment of tax required to be shown on a return there shall be added to the tax an amount equal to 20 percent of the portion of the underpayment to which this section applies.

(b) *Portion of Underpayment to Which Section Applies.* This section shall apply to the portion of any underpayment which is attributable to 1 or more of the following:

- (1) Negligence or disregard of rules or regulations.
- (2) Any substantial understatement of tax.
- (3) Any substantial understatement of taxes estimated as correct when filing for an automatic extension to file a return.

This section shall not apply to any portion of an underpayment on which a penalty is imposed under section 18128 of this Division.

(c) *Negligence.* For purposes of this section, the term “negligence” includes any failure to make a reasonable attempt to comply with the provisions of this Division, and the term “disregard” includes any careless, reckless, or intentional disregard.

(d) *Substantial Understatement of Tax.*

(1) Substantial Understatement. For purposes of this section, there is a substantial understatement of tax for any taxable year if the amount of the understatement for the taxable year exceeds the greater of:

- (A) 10 percent of the tax required to be shown on the return for the taxable year or paid as an estimate of tax due, or
- (B) \$5,000.

(2) Understatement.

(A) In General. For purposes of paragraph (1), the term “understatement” means the excess of:

- (i) The amount of the tax required to be shown on the return for the taxable year, over
- (ii) The amount of the tax imposed which is shown on the return reduced by any rebate.

(B) Reduction for the Understatement Due to Position of Taxpayer or Disclosed Item. The amount of the understatement under subparagraph (A) shall be reduced by that portion of the understatement which is attributable to:

- (i) The tax treatment of any item by the taxpayer if there is or was substantial authority, as determined by regulations prescribed by the Secretary, for such treatment, or
- (ii) Any item with respect to which relevant facts affecting the item’s tax treatment are adequately disclosed in the return or in a statement attached to the return and there is reasonable basis for the tax treatment of such item by the taxpayer.

**Source:** PL 14-35, § 4 (1917), modified.

**Commission Comment:** In subsection (b) above, the Commission changed the section number originally referenced in PL 14-35 to the proper renumbered section number pursuant to its authority by 1 CMC § 3806(c).