

## U.S. IRS Penalty Letters Handling Introduction

When taxpayers fail to pay taxes owed or file tax returns on time, the IRS may impose penalties on them. In addition, when the tax returns fail to provide accurate information, the IRS may also impose penalties on taxpayers.

When deciding to impose a penalty on the taxpayer, the IRS will mail a letter to the taxpayer to notify the penalty. The content of the letter includes the amount of the penalty, the reason for the penalty, the processing time limit, and the handling instructions for the problem involved in the letter. Each letter also includes a specific identification number.

Taxpayers generally use the following three steps to process letters from the IRS:

1. The taxpayer must read the letter carefully. Each letter contains a lot of valuable information. If the IRS changes the information on the tax return, the taxpayer should compare the information provided in the letter with the information in the original tax return.
2. If the letter requires a response within a specific time, the taxpayer should respond in a timely manner. When the taxpayer disagrees with the content of the letter, a timely response can preserve the taxpayer's appeal right. A timely response can also minimize additional penalties and interest charges.
3. If the tax owed cannot be paid in full, the taxpayer should also pay as much tax as possible. Taxpayers can pay tax through three methods: online payment, online application for the payment plan, and online application for an offer in compromise. In addition, taxpayers should also keep all letters received and corresponding tax records. Taxpayers may need these documents later.

If the taxpayer acts in good faith and can provide a reasonable cause for failing to meet its tax obligations, the IRS may reduce or remove the penalties imposed on the taxpayer. The IRS stipulates that the following four situations are acceptable reasonable causes:

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1. Taxpayers cannot obtain records.
2. The taxpayer or immediate family member of the taxpayer has a serious illness, death, incapacitation, or unavoidable absence.
3. Natural disasters, casualties, fires, or other disturbing factors.
4. When the taxpayer proves that it is still unable to fulfill its federal tax obligations after using all ordinary business care and prudence.

It should be noted that insufficient funds cannot be a reasonable cause for failing to file tax returns or pay taxes on time. However, insufficient funds can be a reasonable cause for failing to pay the penalties on time.

Taxpayers need to provide documents to explain the reasonable causes for failing to fulfill their tax obligations. Such as the following two types of documents:

1. Records of natural disasters or other events that hinder the timely fulfillment of tax obligations.
2. A letter proving illness or incapacitation issued by a court, hospital, or doctor. The letter should include the start and end dates.

If disagreeing with the penalty owed, the taxpayer can dispute the penalty. When filing a dispute, the taxpayer must prepare the following information:

1. For each penalty, explain to the IRS why the taxpayer believes it should be canceled.
2. The amount of the penalty that taxpayers want the IRS to reconsider.
3. A letter mailed to taxpayers by the IRS.

Taxpayers usually have two ways to discuss penalties with the IRS. Taxpayers can call the toll-free number in the upper right corner of the letter or write a letter directly to the IRS. This letter needs to explain why the IRS needs to reconsider penalties. The taxpayer also signs this letter. The taxpayer should then mail this letter and any supporting documents to the address indicated on the IRS letter. In addition, when the request to reduce or cancel the penalty is rejected, the taxpayer may request a hearing or appeals conference. Within 30 days of receiving the rejection letter, the taxpayer needs to file an appeal request.

### Reference:

<https://www.irs.gov/payments/penalties>

<https://www.irs.gov/individuals/understanding-your-irs-notice-or-letter>

<https://www.irs.gov/businesses/small-businesses-self-employed/penalty-relief-due-to-reasonable-cause>

<https://www.irs.gov/appeals/penalty-appeal#collapseCollapsible1614275335530>

*If you wish to obtain more information or assistance, please visit our official website at [www.kaizencpa.com](http://www.kaizencpa.com) or contact us through the following methods:*

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