



IRS STOPS SENDING BALANCE-DUE NOTICES, CORRECTS PAYROLL TAX PENALTIES

From the *Journal of Accountancy* by Paul Bonner

The IRS announced Friday, August 21, it had suspended sending certain balance-due notices to taxpayers while it continues to process its backlog of unopened mail, which may in some cases contain the sought payments. Also on Friday, the IRS said it was working to identify and correct erroneous penalties it applied to some employers who reduced their payroll tax deposits to claim COVID-19 relief-related credits.

In the first announcement, three types of taxpayer follow-up notices are suspended — CP501, CP503, and CP504 — all of which the IRS typically sends after first notifying a taxpayer via a CP14 letter of a tax account balance due and not receiving a response.

The action comes two days after U.S. Rep. Richard Neal, D-Mass., chairman of the House Ways & Means Committee, wrote IRS Commissioner Charles Rettig to request that the IRS temporarily stop sending notices to taxpayers regarding payments that taxpayers had mailed to the IRS on time but “whose correspondence and payments remain unopened” in the Service’s unopened mail, which at one point in recent months was estimated to number 12 million items.

In its announcement, the IRS acknowledged it still has a mail backlog, which accumulated during the COVID-19–related closure of most of its operations but said it was making “significant reductions” in it. The IRS said it was suspending the notices until it further reduces the backlog, “to lessen any possible confusion that might be associated with delays in processing correspondence received from taxpayers.”

Earlier last week, the IRS, in an update to its webpage on its operations during the pandemic, advised taxpayers who had mailed in payments by check that had not yet been cashed not to cancel the checks and to maintain an adequate bank balance to cover them. The IRS said that payments will be posted as of the date the Service received the check, rather than on the date it processes it. The Service further said that, due to the delays, it would waive bad-check penalties on dishonored checks that it had received between March 1 and July 15, 2020.

In the second announcement on Friday, the IRS said some employers had properly reduced their payroll tax deposits under Notice 2020-22 throughout the applicable tax period in anticipation of claiming the sick and family leave credits or employee retention credit. However, in a small number of instances, the reported liabilities on Form 941, Employer’s Quarterly Federal Tax Return, did not match the reduction in deposits for every pay date, and the employers were erroneously assessed a failure-to-deposit penalty on the difference. The Service said it had taken steps to prevent the erroneous penalty and correct those that it had identified. Some employers may still receive an erroneous notice but do not need to take any additional action, the IRS said.