



# FrankelZacharia<sup>LLC</sup>

Certified Public Accountants

## IRS Provides Penalty Relief for Certain Taxpayers

The year 2020 resulted in a lot of firsts. It is likely an understatement to say that the world was unprepared for the COVID-19 pandemic. Health and safety were first on everyone's minds, which meant that some aspects of normal living came to a screeching halt—including filing income taxes on time.

Thankfully, the IRS and the federal government as a whole understood that filing 2019 and 2020 taxes on time was not at the forefront of many people's minds. As a result, the IRS recently issued a new notice that expands penalty relief for some taxpayers for failing to file timely returns in 2019 and 2020.

### The Quick Facts

<b>Who can receive penalty relief?</b>	Anyone that filed a late tax return and had to pay the penalty for tax years 2019 and 2020, as long as the return is filed on or before September 30, 2022
<b>How do taxpayers apply for a refund or credit from 2019 or 2020 penalties?</b>	The IRS intends to issue most penalty refunds or credits automatically; there are no applications required
<b>When can taxpayers expect refunds or credits?</b>	Most refunds will be processed before the end of September 2022, but processing will continue as late returns continue to be submitted; taxpayers may need to wait up to three months for the IRS to adjust tax accounts
<b>Are there any exceptions to the penalty relief?</b>	If the taxpayer had to pay a penalty for fraudulent failure to file, they might not be able to get a penalty relief; relief is also not available if a court imposed the penalties
<b>Does this relief apply to previously approved offers in compromise?</b>	No. An offer in compromise settles all obligations, even if the IRS grants this type of tax relief; offers in compromise will be unaffected by Notice 2022-36
<b>Does penalty relief only apply to individuals?</b>	No. Penalty relief applies to individuals, banks, employers and other businesses that are required to file certain returns, including those in the 1099 series
<b>Will interest be forgiven as well?</b>	If you get penalty relief, any related interest charged with the penalty will be removed or reduced
<b>Does Notice 2022-36 apply to late payment penalties as well?</b>	No. Only penalties imposed because of failure to file are affected by Notice 2022-36

## **An Overview of Notice 2022-26**

[Notice 2022-36](#) was filed on August 24, 2022. It applies to most individuals and businesses that filed certain 2019 and 2020 tax returns late. It provides penalty relief to those who may have attempted to file but did not comply with certain tax deadlines.

The Internal Revenue Code generally requires a penalty on any taxpayer who does not comply with certain annual tax filing deadlines. The penalties can be extensive and cost some taxpayers hundreds or even thousands of dollars. Notice 2022-36 provides that these penalties will not be imposed “if the taxpayer can show that the failure to timely file the return, furnish the required information, or provide the required notice, as applicable, is due to reasonable cause.”

This penalty relief is in direct response to an emergency declaration issued on March 13, 2020, under the Robert T. Stafford Disaster Relief and Emergency Act. That Emergency Declaration gave instructions to the Secretary of the Treasury to provide relief from tax deadlines to those affected by COVID-19. As a result, the IRS extended deadlines and postponed required filing dates. Tax payment deadlines were also extended.

However, some taxpayers were still not able to meet the extended deadlines. As a result, penalties were imposed, and interest accrued on the amounts due after the postponed filing dates.

Essentially, the Notice states that as long as 2019 and 2020 returns are filed on or before September 30, 2022, the IRS will not impose penalties on certain types of returns.

## **Obtaining Relief from Penalty Payments**

The IRS has set out that penalties imposed will be automatically abated, refunded or credited to taxpayers who had to pay a penalty in 2019 and 2020. Failure to file penalties can be substantial. They include a fee of 5% per month and up to 25% of the unpaid tax.

This automatic refund will affect almost 1.6 million taxpayers for a total refund of roughly \$1.2 billion. Most of these automatic refunds will be distributed by the end of September 2022.

## **How Does Penalty Relief Work?**

Penalty relief is available for other years, but it is not automatic. Instead, you would typically have to request relief and explain why you could not file your tax return on time. Penalty relief was really only granted in severe or extenuating circumstances.

In those situations, the taxpayer would not only have to apply for relief, but some taxpayers may also receive a notice requesting additional information about their unique tax situation to process their penalty relief request.

Relief unrelated to 2019 or 2020 returns must go through the normal penalty release application process. Some taxpayers can call the IRS directly to request penalty relief over the phone.

The IRS representative may be able to tell you right away whether you are approved for penalty relief.

For returns that are not 2019 or 2020, a taxpayer may receive a notice stating that their request for penalty relief was denied. In those situations, the IRS has provided an appeal method that you might be able to use.

If you have questions about penalty relief, talk to an experienced tax professional. They will be able to explain your rights and obligations related to any penalties that you may have incurred.

Contact **Frankel Zacharia LLC** on our website at [www.fzacpa.com](http://www.fzacpa.com) or by phone (402) 496-9100 today to learn more about how we can support your business.