

What to do if you receive a payroll tax penalty notice from the IRS?

01. Don't Panic!

There are plenty of things to worry about when dealing with the IRS, but you have rights. One of the “benefits” is that the IRS has set of rules it has to use. Knowing these rules and using them to your advantage will make your life MUCH easier.

02. Confirm the facts.

The IRS makes plenty of mistakes! Start with obtaining a transcript or record of account from the IRS. Your payroll processing company or CPA can access the record online (for security reasons, they don't allow businesses to access directly). The slower way is to go to the local IRS office and request. The slowest way is to request with Form 4506-T. Confirm ALL of the data matches your records, including all payments and assessments of taxes. Make sure that all of the assessments match your form 941's and form 940. Double check payments to make sure that the dates of payment match your records. If payments are missing, check other periods in the same year. It is very common for payments to be posted to the wrong periods. Additionally, if you owe payroll taxes from a different period, check those periods for missing payments. If you make a payment, and the IRS doesn't know where to put it, they'll generally apply it to outstanding balances first.

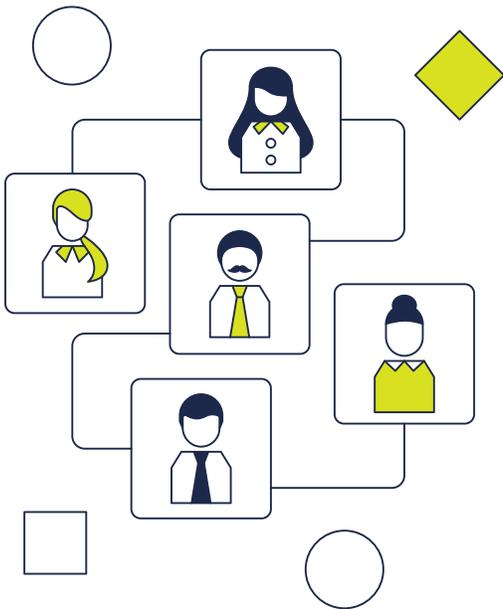
03. Make Corrections:

If there are errors, you have a couple of options to correct. The first is by mail. The major problem here is the time involved. It literally can take months for a response, and the IRS doesn't always stop collection while they work on it (although they're supposed to!). You can also go to the local IRS office in person. Here you will only wait hours, not months. The problem is that the people at the local office can't do anything about the corrections. They forward the information on to a service center that actually processes the correction. You have a better chance of getting a collection hold during the wait when you go in person, however. Lastly, you can use the phone, although the IRS's own survey shows that they only answer half of their calls (at all!)

05. Beg Forgiveness:

If you did pay your taxes late, you might get the penalty and related interest removed. Generally, if it is your first time to have late payment, the IRS will remove the penalties. Additionally, if your payment frequency changed (e.g. monthly to semi-weekly), there is an additional first time grace for not paying correctly.

Beyond that, the IRS is stingy with abating penalties. From the Internal Revenue Manual: A penalty will be abated where “the taxpayer exercised ordinary business care and prudence.” It further provides, “A cause for delinquency which appears to a person of ordinary prudence and intelligence has a reasonable cause for delay in filing a return and which clearly negates a willful intent to disobey the taxing status, or gross negligence, will be accepted as reasonable.” Many times you will have to appeal the original decision that the penalty be abated. It’s like the Service Center just has a big NO stamp. Keep at it. I heard a story of the IRS abating a penalty just because the taxpayer kept asking, and someone had pity on her!



About Us:

Core Payroll offers payroll and HR services to business of all types and sizes, throughout Oklahoma and the United States. If you would like additional information about this topic or have other related questions, email us at information@corepayroll.com. We will do everything we can to help you!