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IRS Penalty Abatement

Obtaining an **IRS penalty abatement** can relieve taxpayers of penalties that may be significant portions of their total tax liability. The IRS offers penalty abatement options for qualifying taxpayers under certain circumstances. Here's a detailed guide on the process and who qualifies:

1. Types of Penalties That May Be Abated

Penalties eligible for abatement include:

- **Failure to File:** Penalties for late tax return filing.
- **Failure to Pay:** Penalties for late tax payments.
- **Failure to Deposit:** Penalties for late payroll tax deposits.

While interest on penalties generally cannot be abated, some circumstances may allow for reductions if the penalties themselves are abated.

2. Eligibility for Penalty Abatement

The IRS has three main criteria that may qualify a taxpayer for penalty abatement:

a. Reasonable Cause

Taxpayers may qualify if they can prove they missed their tax obligations due to events beyond their control. Common grounds for reasonable cause include:

- **Serious Illness or Medical Condition:** If the taxpayer or their immediate family had a debilitating illness.
- **Death in the Family:** The death of an immediate family member or another critical event during tax time.
- **Natural Disasters or Casualty Events:** Situations like hurricanes, floods, or fires that impact one's ability to file or pay taxes on time.
- **Unavoidable Absences:** Examples include being in prison or on an extended deployment abroad.
- **Lost Records:** If critical tax records were lost due to factors outside the taxpayer's control.

To qualify under reasonable cause, the taxpayer must provide detailed documentation and proof of these circumstances.

b. First-Time Penalty Abatement (FTA)

Taxpayers may qualify for **First-Time Penalty Abatement (FTA)** if:

- They have not had penalties in the three prior tax years.
- They filed all required returns or have extensions in place.
- They have paid or arranged to pay the owed taxes (e.g., through an installment agreement).

FTA can be one of the easiest ways to obtain penalty relief because it does not require proving reasonable cause—just a clean record for three years.

c. IRS Error or Incorrect Advice

If a taxpayer can prove that the IRS gave them incorrect advice, they may qualify for abatement based on an IRS error. This includes:

- **Documented Advice:** The taxpayer received written advice from the IRS that was later deemed incorrect.
- **Incorrect Calculations:** The IRS made an error in the calculation of penalties or the tax owed.

Taxpayers seeking abatement based on incorrect advice must provide written documentation of IRS guidance.

3. Steps to Request Penalty Abatement

Step 1: Identify Eligibility Criteria

- Confirm that you meet one of the eligibility criteria above, based on reasonable cause, FTA, or IRS error.

Step 2: Gather Documentation

- **Reasonable Cause:** Collect medical records, death certificates, insurance claims, police reports, or other supporting documents.
- **IRS Error:** Keep any written IRS communication, such as letters or emails, and records of any phone conversations.
- **FTA:** Ensure that you have a clean penalty history for the past three years and are current on filing.

Step 3: Contact the IRS

- You can request penalty abatement either by calling the IRS or by submitting a written request.

- **By Phone:** Contact the IRS directly (1-800-829-1040) and request a penalty abatement. This is often effective for FTA requests.
- **By Writing:** Submit a written request explaining your situation if you need to provide detailed supporting documentation.

Step 4: Submit Form 843 (if Applicable)

- For a more formal request, complete **Form 843, Claim for Refund and Request for Abatement**. This form is especially useful when seeking abatement based on reasonable cause or IRS error. In the form, explain the penalty reason, the year it applies to, and the grounds for abatement.

Step 5: Wait for IRS Decision

- The IRS will review the request and may respond within 6-12 weeks, depending on the complexity of the case. During this time, they may contact the taxpayer for additional information or documentation if needed.

Step 6: Respond to IRS Request for Additional Information (if needed)

- If the IRS requests further documentation or clarification, respond promptly and provide clear evidence to support your request.

Step 7: Appeal the Decision if Necessary

- If the IRS denies the abatement request, you can appeal by filing **Form 9423, Collection Appeals Request**. The appeal allows you to present your case again, typically with additional documentation or a more detailed explanation.
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4. Documentation Needed for Penalty Abatement

Each type of abatement requires specific documentation to support your claim:

- **Medical Documentation:** Doctor's notes, hospital records, or other proof of illness.
- **Death Certificate:** If the penalty relates to a death in the family.
- **Police Reports:** For casualty events or theft-related cases.
- **Financial Records:** Bank statements, employer letters, or expense reports to support your reasonable cause.
- **IRS Communication:** If the abatement is due to an IRS error, include copies of IRS letters or communication records that show incorrect advice.

5. Additional Tips for a Successful Penalty Abatement Request

- **Be Thorough:** Detail all relevant events and circumstances. The more precise and documented the case, the more likely it is that the IRS will grant abatement.
 - **Stay Compliant:** Ensure all tax returns are filed and that any remaining taxes are paid or arranged in an installment agreement. Compliance is essential for successful abatement requests.
 - **Hire a Professional:** In cases involving large penalties or complex circumstances, consider working with a tax professional to structure the request effectively.
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6. Examples of Successful Penalty Abatement Cases

- **Case of Serious Illness:** A taxpayer unable to work due to a sudden and prolonged illness successfully requested abatement by submitting hospital records, doctor's letters, and expense statements showing financial hardship.
- **First-Time Abatement:** A taxpayer with no prior penalties for the last three years, who was late paying taxes due to a short-term cash flow issue, was granted abatement through the FTA program without providing further documentation.
- **Casualty Event:** A taxpayer who missed deadlines due to a home fire successfully used reasonable cause by submitting insurance claims and police reports.

Conclusion

The IRS penalty abatement process can relieve taxpayers from significant penalty amounts if they meet eligibility criteria. Understanding which type of abatement is most applicable, providing comprehensive documentation, and staying compliant with all tax requirements are essential for a successful request.

At Powell United we are experienced Enrolled Agents and would be happy to represent you before the IRS in this matter.

Call today or visit our contacts page to set up your free consultation.

409-692-3882

www.powellunited.com

Sincerely,

Matthew Powell

Owner, Powell United Financial Services