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Julie Jason: Delayed processing of tax return could be costly

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If you are among 6 million taxpayers still waiting for your prior year's tax return to be processed, you may be nervous about interest and penalties accruing during the wait.

Reader C.K. described the following problem:

"My husband and I ... [filed] an amended return ... as the IRS decided we had underpaid and owed thousands. ... We sporadically receive written communications from the IRS advising us that they are continuing to add interest to the amount that they say we owe while acknowledging that indeed they have received our amended return and have not yet looked at it."

The question is, should people in C.K.'s situation pay the amount the IRS says in their letters is owed, including interest? Will that stop interest continuing to accrue? What if the amended return proves there is no further tax owed?

For some general insights, I asked attorney Leonard Calbo, a partner with Connecticut-based Smolin, Calbo, Davidson, and Associates LLC, to share his perspective.

While this is not clear from C.K.'s email, Calbo explained that if a taxpayer files a tax return without paying the taxes owed in full, they should take action. "I would recommend they calculate the interest owed on the balance due and send in a check for that amount plus the balance due," explained Calbo. "Otherwise, the interest will keep running and they are at the mercy of when the IRS gets to it." (More details on the IRS and interest can be found at tinyurl.com/ye23y5v8.)

If an amended return is filed, a taxpayer may continue to get letters from the IRS about taxes due. "The problem is the underreported unit doesn't necessarily know whether an amended tax return was filed and will continue to send out notice of the balance due," explained Calbo.

For that reason, the tax adviser for someone in C.K.'s situation might contact the agent listed on the notice to explain that an amended return was filed and received by the IRS.

An IRS spokesperson explained why notices can be sent out even if an amended return is filed: "Technically, the billing notice is valid until we process the amended return. Until the amended return is processed, the original return is all we have."

Is there anything else that can be done? A taxpayer can file Form 9243, Collection Appeal Request, according to Alexander Kotwal, a CPA and tax manager for Marcum LLP, a national accounting and advisory firm headquartered in New York City. Kotwal said it allows a taxpayer "to provide a proposed solution to settle their balance due via the amended return. Filing Form 9243 generally stops the collection process until the issue is settled between the IRS and the taxpayer."

If a taxpayer does owe money based on an amended return, Calbo pointed out that IRS Form 1040-X does not have a line for penalties or interest to be added to the balance that is due: "The IRS says not to include it and they will send you a bill later for any additional penalties or interest the taxpayer may owe."

Calbo's firm calculates "what we think [is] the interest owed and any applicable penalties with the additional tax owed to stop the running of them," and includes that amount with the return. With the IRS estimating that it is taking more than 20 weeks to process amended tax returns, "If you follow their instructions of not including the interest and penalties, you could wind up paying interest for 20 weeks or more. We don't recommend that," Calbo said.

What if you overpay? Calbo said that the taxpayer "will eventually be issued a refund." As the IRS spokesperson noted in last week's column about amended returns, "If a refund is approved, any existing balance due, plus any accumulated penalties and interest, will be wiped out."

It's often said that it pays to be patient, but with the IRS backlog being what it is, consider, together with your tax adviser, the pros and cons of sending in a check. Follow the guidance of your tax adviser; only he or she will be able to direct you, as taxes are unique to each taxpayer's situation.

Julie Jason, JD, LLM, a personal money manager (Jackson, Grant of Stamford) and author, welcomes your questions/comments (readers@juliejason.com). Her awards include the 2021 Clarion Award, symbolizing excellence in clear, concise communications. Her latest book, a curated collection of Julie's columns, is "Retire Securely: Insights on Money Management From an Award-Winning Financial Columnist." To hear Julie speak, visit juliejason.com/events.