

Tax Tips You Can Use



Why am I getting a letter from the IRS?
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From June through October, many people will get letters from the IRS. Taxpayers who have not paid back taxes or who are being audited will get letters any time of year. Most of the letters this summer will concern the annual tax returns just filed. The letters will typically be one of three types. The first type will concern errors in the tax paid. The next type will be a correction of the income reported and the last type will be perceived problems with the deductions. Taxpayers getting letters from the IRS should not panic or immediately pay whatever the letter says. Many of the letters will be asking for information or contain errors.

The IRS computers keep an account of the tax paid by direct estimated payment or by withholding reported for each social security number. As a tax return is processed and compared to this account, errors are found. Last year, a client forgot about the extra \$10000 estimated payment he had made. Imagine his surprise to get a \$10000 check from the IRS. Or pity the client who thought his withholding was \$6336 instead the actual amount of \$3663. He got a big bill instead of a check. These errors are caught by the computer and letters are normally automatic. However, don't be too quick to write or cash the check. Sometimes there are errors in the IRS computer. One client got a bill for \$300 because the computer said his form said the tax was \$2557 and he had only paid \$2257. In fact, his tax form clearly said the tax was \$2257, so instead of a check, the IRS got a letter asking them to fix their typo.

The next type of letter is the one stating that the taxpayer missed reporting some income that the IRS knows should have been on the return. These letters generally "help" the taxpayer by recalculating the tax, adding the interest and penalties, and including a convenient voucher to send with the check. Although in many cases the computer is correct, the taxpayer should still do some research before

just writing a check. One client got a bill for thousands of dollars for an unreported stock sale. When the tax return was corrected, she actually got a refund because she lost money on the sale. In another case, an IRA firm miscoded a distribution. The IRS thought more tax was owed, but the taxpayer showed that was incorrect.

The last type of letter is the most distressing. At times the IRS will not process a return or will hold it because the deductions seem wrong. The letters sometimes calculate additional tax as if the return IS wrong. Many people who get these letters assume that the IRS knows best and just write a check. This is not right. These letters are asking for more information and substantiation. Unless a taxpayer knowingly fudged the numbers, the correct response is show where the numbers came from by showing receipts or calculations. One client had over \$50000 of medical deductions after a lifetime of no medical expenses. The IRS questioned the deductions and sent a bill for many thousands of dollars of additional tax. An explanation that the client had suffered a ruptured spleen and then additional dental and medical bills from a serious bicycle accident within that year, together with the receipts, yielded a sympathetic letter from the reviewer and the return was processed as submitted.

Although the IRS is getting better reporting and catches more taxpayer mistakes, they are not infallible. When a letter comes this summer, check that it is correct before writing a check.

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