

Nagel on Finances: Letters from taxing authorities

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After each pressure-packed tax deadline, most CPAs find themselves faced with a select number of very specific client technical matters that need special attention.

Generally, this is caused by new law and regulation, but not always.

As I was deep into one such project this week, I began to reflect on what a relief it has been to be able to focus on tax preparation and advice for clients this year without the distraction of the random IRS letters so many of us have come to expect.



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Digital technology has enabled the IRS and each respective state department of taxation to confirm and corroborate certain data. Known as the “matching program,” at some point in the past 10 or 15 years most of us have been called to answer IRS inquiries into a given year’s tax return simply because the filing does not match what the IRS expected.

In February, after much lobbying and congressional pressure, the IRS agreed to limit and defer such correspondence with taxpayers, for a limited time.

The purpose was twofold: first, the abundance of unresolved issues from the past compounded current future tax liabilities and payments, neither of which the IRS had sufficient manpower and tools to address. At one point in March, it was reported that more than 5 million pieces of mail remained unopened.

Secondly, new funding from Washington was expected to enhance IRS capacity to better handle such differences and volumes.

In the best of times, resolving problems with the IRS has been difficult. During the pandemic, with offices closed and many fewer employees available to assist, our entire industry experienced woeful communication limitations that rendered “problems resolution” next to impossible.

Maybe you were left on hold for hours, only to have the call dropped. Or perhaps you expected to wait patiently but received a recorded message that due to high

call volume, the IRS could not take your call and you would have to call back later.

To defer such actions was helpful, but not permanent. As staffing and retooling allows the IRS and states to catch up with their backlog, they will begin again asking taxpayers to make corrections or pay assessments that may be unclear and confusing.

Often these letters can be quickly resolved by simply reading them to understand the issues and comparing their facts to yours. If they got it wrong, a brief letter of explanation or call has often helped clear things up quickly and efficiently.

It takes time, but an office visit can go a long way to help resolve issues without the cost of professional assistance. If they are correct, simply make the payment according to the instructions and do it timely.

An ounce of prevention is often worth a pound of cure in this area. It pays to be organized and timely.

If your situation is complicated by new issues, do the research yourself or get good counsel early.

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