



***Navigating Through the Restart
of Automated Collection Notices
and Penalty Relief***

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Objectives

We will:

- Discuss the restart of collection notices and letters, as well as:
 - Special reminder letter, LT38 - Reminder, Notice Resumption
 - Changes to typical sequence of automated notices
 - Gradual approach to sending notices during filing season
- Explain penalty relief for tax years 2020 and 2021
- Share helpful IRS resources to resolve tax debt





**Background –
COVID-19 Pandemic Impact**

- The IRS temporarily suspended the mailing of automated reminders to pay overdue tax bills starting in February 2022.
- The IRS did not suspend the mailing of the first, or initial, balance due notices for taxpayers such as the CP14 and CP161 notices.





Resumption of Automated Collection Notices

Return to business as usual

- Current tax year 2022 individual and third quarter 2023 business taxpayers began receiving automated collection notices in Fall 2023
- Special reminder notice issued starting January 2024
- Automated collection reminder notices for older tax years will resume in February 2024





**Changes to typical sequence
of automated notices**

- LT38 notices for taxpayers in Automated Collection System (ACS) status
- 500 series notices (CP 501, 503 and 504)
- Taxpayers with existing balances



Gradual approach to sending notices

- Newly created LT38 reminder notice will be sent gradually, and volume can be adjusted based on operational needs
- Effective January 2024, CP series automated notices mailing schedule changed from 5 weeks to 8 weeks
 - Improves taxpayer experience
 - Allows additional time to resolve balances





Penalty Relief for Tax Years 2020 and 2021

Failure to Pay Penalty Relief provided for tax years 2020 and 2021

Who is eligible for penalty relief?

- Assessed income tax less than \$100,000
- Includes individuals, businesses, trusts estates and tax-exempt organizations
- Filed certain Forms 1040, 1120, 1041 and 990-T income tax returns for tax years 2020 or 2021
- In the IRS collection notice process between Feb. 5, 2022 and Dec. 7, 2023.
- \$100,000 limit applies separately to each return and entity





Penalty Relief for Tax Years 2020 and 2021 (cont.)

Penalty Relief Explained

- Penalty Relief is Automatic – no action necessary
- If relief results in refund or credit, IRS will issue a credit or refund.
- Taxpayers not eligible also have options
 - Existing penalty relief procedures available
 - Reasonable cause criteria or the First-Time Abate program





What you should know about penalties and interest

Failure to Pay Penalty

- Applies if a taxpayer doesn't pay the taxes they report on their tax return by the due date
- Applies if the taxpayer doesn't pay the amount required to be shown on their return within 21 calendar days of receiving a notice demanding payment (or 10 business days if the amount is greater than \$100,000).





What you should know about penalties and interest (cont.)

Failure to File Penalty

- Taxpayers who owe tax and don't file on time may be charged a failure-to-file penalty.
- This penalty is usually 5 percent of the tax owed for each month or part of a month that the tax return is late, up to 25 percent

Interest

- Required by law when tax balance not paid on time





Helpful Resources to Resolve Tax Debt

The screenshot shows the IRS website's 'Get help with tax debt' page. The header includes the IRS logo, navigation links (File, Pay, Refunds, Credits & Deductions, Forms & Instructions), and a search bar. The main content area is titled 'Get help with tax debt' and features a sidebar with various categories: Bank Account (Direct Pay), Debt or Credit Card, Your Online Account, Business Tax Payment (EFTPS), Payment Plan, Tax Debt Help (highlighted), Penalties, Interest, Tax Withholding, Foreign Electronic Payments, and User Fees. The main content area provides detailed information and links for each category, including 'Pay over time', 'Offer in compromise', 'If you can't pay anything now', 'Ask us to delay collection', and 'If you disagree with the information on your tax bill'. A 'Related' section and a 'Videos' section are also present on the right side of the page.

- Get help with tax debt webpage

<https://www.irs.gov/payments/get-help-with-tax-debt>





Get Help with Tax Debt

- Pay tax bill in full
- Pay part of your balance
- If you can't pay anything now





Resolve Tax Debt

Pay tax bill in full

- Visit www.irs.gov/payments to pay your tax bill





Resolve Tax Debt (cont.)

Pay electronically

- Direct Pay
- Electronic Federal Tax Payment System (EFTPS)
- Electronic Funds Withdrawal
- Payment processor
- IRS Online Account





Communications & Liaison STAKEHOLDER LIAISON

Resolve Tax Debt - www.irs.gov/Payments

Sign in to make a Tax Deposit Payment or Schedule Estimated Payments with the Electronic Federal Tax Payment System (EFTPS)

- Enrollment required to use this option.
- Make payments from your bank account.
- Make a same day Tax Deposits, estimated taxes, Offer in Compromise (OIC) or other types of payments.

[Go to EFTPS](#)

Need More Time to Pay?

Avoid a [penalty](#) by filing and paying your tax by the [due date](#), even if you [can't pay what you owe](#).

For individuals and businesses: Apply online for a payment plan (including installment agreement) to pay off your balance over time. Fees apply.

For more information on payment plans including streamlined, in-business trust fund express, guaranteed, and partial payment installment agreements refer to [Tax Topic No. 202-Tax Payment Options](#).

[Apply for a Payment Plan](#)

See if you qualify for an [Offer in Compromise](#) to settle your debt for less than you owe.

If you're facing financial hardship, you may be eligible to ask for a [temporary collection delay](#) until your finances improve.

Other Ways You Can Pay

- [Same-Day Wire](#) — Bank fees may apply
- [Check or Money Order](#) — Through U.S. mail
- [Cash](#) — Through a retail partner and other methods
- [Electronic Funds Withdrawal](#) — During e-filing



Resolve Tax Debt – Pay part of your balance

Pay over time

- Apply online for a payment plan
- Visit <https://www.irs.gov/payments/online-payment-agreement-application>

Offer in Compromise

- Visit <https://www.irs.gov/payments/offer-in-compromise> to check eligibility





**Resolve Tax Debt – Can't Pay
Anything Now**

Ask for a delay in collection

- If you can't afford to pay because of your financial condition, you can ask us to temporarily delay collection.





Reminder

Remember to open your mail from the IRS!

Make arrangements to voluntarily resolve your tax bill.



Summary

- The IRS is waiving \$1 billion in failure to pay penalties to nearly 5 million eligible taxpayers for tax years 2020 and 2021.
- Taxpayers who have not heard from the IRS in a while may gradually start receiving the newly created reminder notice LT38, Reminder, Notice Resumption beginning January 2024
- Automated collection notices will gradually resume in February 2024
- Several options to resolve debt can be found on www.IRS.gov.





Advocating for Taxpayers Who Receive Collection Notices



Statutes Requiring Notices

IRC § 6303 Notice and Demand for Tax (CP14)

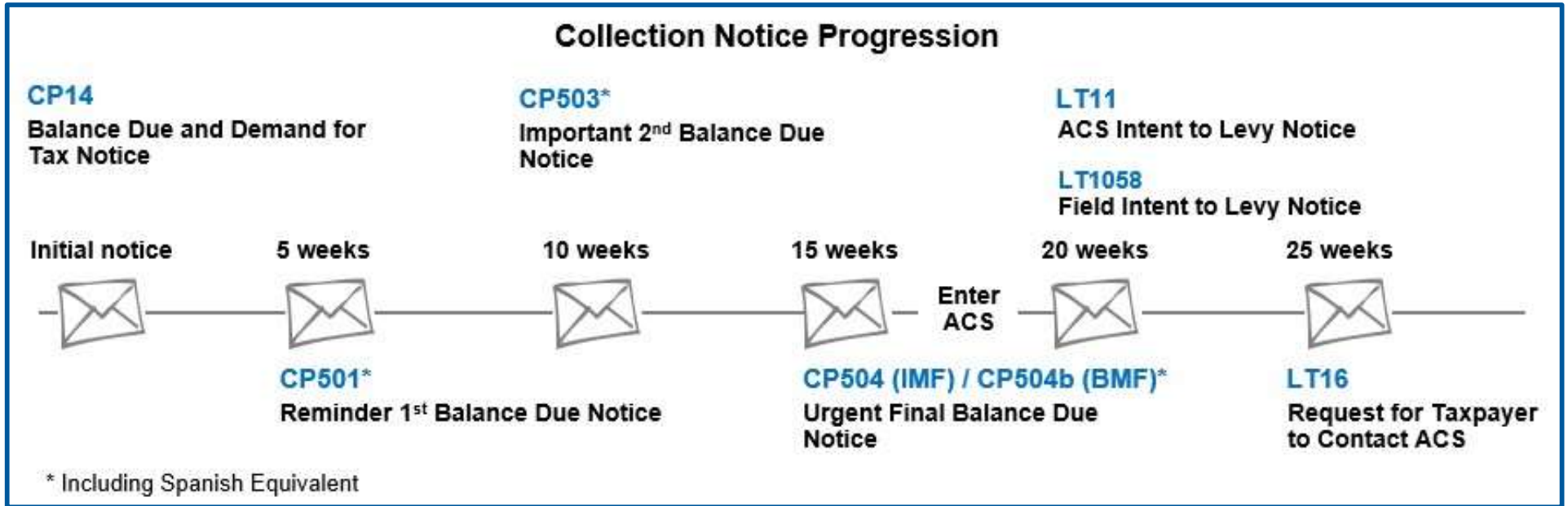
IRC § 6331(d), Requirement of Notice Before Levy (CP504)

IRC §§ 6320 and 6330, Final Notice of Intent to Levy (or that a Notice of Federal Tax Lien was filed) and the Right to a Hearing (LT11, Letter 1058, aka CDP notices)

IRC § 7524 Annual Notice of Tax Delinquency (CP71, CP89)



Collection Notice Stream





Notices Suspended

The IRS suspended some collection notices in Feb. 2022, including CP-501, CP-503, and CP-504.

(See IR-2022-31)

Effect of suspension:

- Automated CDP notices under IRC §§ 6320 and 6330 not issued;
- Penalty and interest continued to accrue;
- Refund offsets continued;
- Case-specific enforcement continued.



IRC § 6303 Notice and Demand for Tax

Requires the IRS send a notice and demand letter after it makes an assessment when insufficient funds exist on the account to satisfy the liability (generally Notice CP14).

The IRS must send this letter within 60 days of assessment.



IRC § 6303

Notice and Demand for Tax (cont.)

Under IRC § 6321, if the taxpayer fails to pay after this notice and demand, a lien in favor of the United States attaches to the taxpayer's property or rights to property.

Failure to send the letter within 60 days of assessment prevents the federal tax lien from automatically coming into existence but does not affect the validity of the assessment or the IRS's authority to collect the tax. See Treas. Reg. § 301.6303-1(a).



Responding to CP14

Pay, if the taxpayer agrees the tax is owed and is able to pay the liability;

Contact the IRS to explain why the tax is not owed; or

Request a collection alternative



IRC § 6331(d) Requirement of Notice Before Levy

- 1. In general. Levy may be made under subsection (a) upon the salary or wages or other property of any person with respect to any unpaid tax only after the Secretary has notified such person in writing of his intention to make such levy.**

- 2. Generally satisfied by Notice CP504.**



IRC § 6331(d) Requirement of Notice Before Levy (cont.)

IRC § 6331(d)(2)

30 day requirement - The notice required under paragraph (1) shall be:

- A.** Given in person,
- B.** Left at the dwelling or usual place of business of such person, or
- C.** Sent by certified or registered mail to such person's last known address,
- D.** No less than 30 days before the day of the levy.



CP504, Page 1

OTC Sample image 1/2022



Department of the Treasury
Internal Revenue Service

Name
Address
City, State and Zip

For your reference

Notice name	CP504	Tax year	
Notice date			
Your caller ID		XXXXXXXX	
Taxpayer ID number			
New quick, easy, and secure online payments			
Visit irs.gov/directpay to avoid additional interest and penalties or time lost on the phone			

⚠️ Final Balance Due Reminder – Notice of Intent to Seize (Levy) Your Property or Rights to Property

To: Name

As of XX/XX/XXXX, we have not received your overdue tax after sending several notices to you. You must pay your balance immediately or we may levy (seize) your property. If you do not make your payment now, we will consider your noncompliance an active choice and you could face a levy.

Amount Due Immediately: \$



Consequences If You Don't Pay Immediately

- We may **levy your income and bank accounts**, as well as **seize your property or your rights to property** if you fail to comply. Property includes wages and other income, bank accounts, business assets, personal assets (including your car and home), Social Security benefits, Alaska Permanent Fund dividends, or state tax refunds.
- We can **file a Notice of Federal Tax Lien**, notifying your creditors we have a claim (lien) against all your property.
- The U.S. Department of State may **revoke your passport or decline to issue or renew a passport** if you have seriously delinquent tax debt totaling more than \$55,000. For more information, visit www.irs.gov/passports.





Additional Requirements for Levy

CP504 does NOT satisfy the requirements of IRC § 6330.

Per IRS Collection Due Process (CDP) FAQs: “The IRS cannot levy with just this notice [CP504]. The IRS must first issue a formal Notice of Intent to Levy and Your Right to a Hearing, which is the next step after this notice.”

<https://www.irs.gov/appeals/collection-due-process-cdp-faqs>

With CP504, however, the IRS can proceed with certain levies, such as on state income tax refunds, a disqualified employment tax levy, and federal contractor levies (IRC § § 6330(f), 6331(h)).



Responding to CP504

Pay, if the taxpayer agrees the tax is owed and is able to pay;

Contact the IRS to explain why the tax is not owed;

Request a collection alternative, discussed below; or

File a Form 9423, Collection Appeals Request, typically to try to avert the filing of a Notice of Federal Tax Lien (it will not avert the issuance of a CDP notice).



Informs taxpayers of the right to request a collection due process hearing with the Independent Office of Appeals if they do so within 30 days of the date shown on the letter.

Sent certified mail.

Examples include:

- LT11, LT75, Letter 1058, Letter 3172
- CP90, CP91, CP92, CP297, CP77, CP177, CP242



IRC §§ 6320 and 6330 – CDP Notices (cont.)

Must be sent 30 days before most levies (but not required prior to a levy on a state income tax refund)

Must be sent not more than 5 business days after the filing of a Notice of Federal Tax Lien



LT11, Page 1

DTC Sample image 12/2021



Department of the Treasury
Internal Revenue Service

Name
Address
City, State and Zip

For your reference	
Notice name	LT11
Notice date	XX/XX/XXXX
Case Reference number	XXXXXXXXXXXX
Taxpayer ID number	
New quick, easy, and secure online payments	
Visit irs.gov/lt11 to avoid interest and applicable penalties or time lost on the phone.	

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Notice of Intent to Levy and Your Collection Due Process Right to a Hearing

To: Name

As of XX/XX/XXXX, we haven't received your overdue tax after sending several notices to you. You must pay your balance before XX/XX/XXXX or we will levy (seize) your property. If you do not make your payment now, we'll consider your noncompliance an active choice and you could face a levy.

Amount Due Immediately: \$

Payment must be received before XX/XX/XXXX to avoid a levy on your property. For options, see page 2.

DEFERRED ONLY



LT11, Page 2

processor's website

the payment stub on the last page, make sure to allow time for mailing and processing

complete and temporary delay of collection, visit irs.gov/payments.

- Visit irs.gov/lt11 for more information about this notice.
- If you can't find what you need online or need assistance, you can call the **IRS at 123-456-6789**. Find tax forms or publications by visiting irs.gov/forms or calling 123-456-6789.

How to Request an Appeals Hearing

If you want to appeal this levy action, complete the enclosed Form 12153, Request for a Collection Due Process or Equivalent Hearing, and send it to us by XX/XX/XXXX. **You must complete, sign, and return this form to the above address by XX/XX/XXXX to preserve your right to contest an Appeals decision in the U.S. Tax Court.** A request received by the Service will generally be considered timely if the request is deposited with the United States mail within the 30-day period referred to, has a postmark date within the 30-day period, and the envelope containing the request is properly addressed with the correct postage prepaid. **If you send the letter after XX/XX/XXXX, you may still be entitled to a hearing; however, you'll forfeit your right to contest an Appeals decision in Tax Court.** Refer to the enclosed Publication 1660, Collection Appeals Rights, for more information and information on Collection Appeals Program (CAP).



Responding to CDP Notices

Pay, or prepare Collection Information Statement to determine what your client can pay

Request Collection Due Process (CDP) hearing, or, if 30-day period has expired, an equivalent hearing (request within one year, no Tax Court rights)



At CDP hearing, most common issues:

- Collection alternatives (installment agreement, offer in compromise, partial pay installment agreement, currently not collectible)
- Spousal defenses (innocent spouse)
- Generally, cannot dispute the underlying liability

After hearing

- Petition Tax Court



Collection Information Statements

Form 433A (for individuals)

Form 433B (for businesses)

Form 433F (simplified form for individuals)

Form 433H (also installment agreement request)



Parts of Form 433-F

Part A: Accounts/Lines of Credit (includes investments and virtual currency)

Part B: Real Estate

Part C: Other Assets (includes vehicles, whole life policies)

Part D: Credit Cards



Parts of Form 433-F (cont.)

Part E: Business Information (includes accounts receivable, virtual currency)

Part F: Employment Information (for taxpayer and spouse)

Part G: Non-Wage Household Information (includes child support, alimony, self-employment, rental income)

Part H: Monthly Necessary Living Expenses



Reasonable Collection Potential

Collection Information Statements are used to calculate reasonable collection potential (RCP).

RCP = equity in assets + future income ability to pay.

Used to determine appropriate collection alternative.



Allowable Living Expenses

National standards (food, clothing)

National standards (out of pocket health care)

Local standards (transportation)

Local standards (housing)

See Collection Financial Standards on [irs.gov](https://www.irs.gov), updated annually:

- <https://www.irs.gov/businesses/small-businesses-self-employed/collection-financial-standards>

***Deviations allowed (IRM 5.15.1.8).**



Installment Agreements, Types

Short-Term Payment Plan (pay in 180 days, no user fee)

Long-Term Payment Plans or Installment Agreements (IAs)

- Guaranteed IA (\leq \$10k, pay in the lesser of 3 years or CSED, no CIS required)
- Streamlined IA (\leq \$50,000, pay in the lesser of 6 years or CSED, no CIS required)



Installment Agreements, Types (cont.)

- Partial Pay IA (CIS required, pay to CSED, reviewed every 2 years)
- In-Business Trust Fund Express IA (\leq \$25,000, pay in lesser of 24 months or CSED)
- Routine IAs (all other IAs)



Installment Agreement User Fees

- Depends on how IA payments will be made (direct debit – DDIA - or not) and how IA is set up (online or not).
- User fees waived for low-income taxpayers with DDIA's.
- IRS is required to reimburse IA user fees to low-income taxpayers unable to enter into DDIA upon completion of the IA.



Installment Agreements Restrictions

- Taxpayer must be in filing compliance
- Per IRC § 6331(k), the IRS is restricted from levying:
 - During a pending or accepted IA;
 - 30 days after rejected or terminated IA;
- During a pending appeal of a rejected or terminated IA, IRS may file a Notice of Federal Tax Lien and offset refunds.
- Collection statute expiration date (CSED) is suspended for the same periods in which the IRS is prohibited from levying.



Offer In Compromise

- Authority: IRC § 7122.
- IRS Guidance: IRM 5.8.
- Form 656-B, Offer in Compromise Booklet.
- Generally, client must provide CIS to determine RCP.
- For OICs accepted on or after Nov. 1, 2021, IRS does not offset refunds/overpayments after date of acceptance against tax liabilities listed in offer.

- Caution: Payments are non-refundable and submission of an offer extends the CSED! Low-income waiver available.



Offer in Compromise (cont.)

- Offer Types
 - Doubt as to Liability (DATL - Use Form 656-L)
 - Doubt as to Collectability (DATC, RCP < debt)
 - Doubt as to Collectability with Special Circumstances (DCSC, RCP < debt, offer is < RCP)
 - Effective Tax Administration (ETA - due to economic hardship or public policy, RCP > debt)
- Payment options can be for up to 24 months
- Taxpayer must be in filing compliance and remain in filing and payment compliance for five years.



Currently Not Collectible (CNC)

- Authority: IRS Policy Statement 5-71 (see IRM 1.2.1.6.14).
- IRS Guidance: IRM 5.16.
- For CNC Hardship designation:
 - CIS generally required.
 - No assets or income available for levy (no RCP) or levy would create hardship.



Currently Not Collectible (cont.)

- For clients designated as CNC hardship:
 - Levy is prohibited;
 - Will not assign to Private Collection Agency;
 - Notice of Federal Tax Lien may be filed;
 - Refunds will be offset;
 - Penalty and interest will accrue; and
 - Exempt from Passport Certification.



Offset Bypass Refunds (OBR)

- Generally, only available before the IRS applies a current overpayment to a prior tax liability and where the taxpayer establishes economic hardship (timeframe is very short; generally, OBR should be requested with the filing of a return in which a refund is being claimed).
- Once the taxpayer establishes the amount of the hardship, the IRS will only bypass enough of the overpayment to alleviate the hardship.



Offset Bypass Refunds (cont.)

- There is no specific form to request an OBR. Taxpayers can call the IRS to request an OBR, but the IRS may not answer their call. Assistance may be available from TAS, however.
- The IRS is drawing attention to this tool.
- See <https://www.irs.gov/about-irs/how-irs-collection-is-helping-taxpayers-during-the-pandemic>



Private Debt Collection

- IRC § 6306 mandated the IRS use private collection agencies (PCA) for the collection of outstanding inactive taxes receivable.
- Current PCA contracts:
 1. CBE Group Inc.
 2. ConServe
 3. Coast Professional Inc.



Private Debt Collection (cont. 1)

- However, taxpayers can opt to work with the IRS rather than with a PCA by sending the PCA a “no-contact” letter.
- See example at: https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/10/R3_Do_Not_Contact_Sample_Letter.pdf



Private Debt Collection (cont. 2)

- PCAs are authorized to:
 - Contact taxpayers and request payment (IRS will also notify clients of assignment to PCA).
 - Offer “payment arrangements” which are not installment agreements entered into with the IRS.
- Note: PCA payment arrangements do not require a fee.



Private Debt Collection (cont. 3)

- PCAs are NOT authorized to:
 - Take any enforcement action (lien, levy).
 - Offer other collection alternatives (CNC Hardship status, OICs, partial payment IAs).



Federal Tax Liens



Federal Tax Liens

FEDERAL TAX LIENS

- **Statutory Lien**
- **Notice of Federal Tax Lien (NFTL)**
- **NFTL filing**
- **Lien priority**



Federal Tax Lien cont.

- **NFTL Duration (Collection Statute – CSED)**
- **Lien release**
- **NFTL refile**



Appeal Rights

- **Appeal Rights**
- **Collection Due Process (CDP)**
- **Collection Appeal Program (CAP)**



Complex Lien Issues

Complex Lien Issues

- **Discharge (Publication 783)**
- **Subordination (Publication 784)**
- **Withdrawal**



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