



## URGENT NEED FOR COVID-19 TAX PENALTY RELIEF

**In the House:** *To cosponsor H.R.5155, contact Caitlin Kovalkoski in Rep. Chu's office at [Caitlin.Kovalkoski@mail.house.gov](mailto:Caitlin.Kovalkoski@mail.house.gov).*

**In the Senate:** *Encourage Senators to introduce similar legislation or to cosponsor and support similar legislation when introduced.*

### **Background**

For more than a year, the AICPA has been requesting that the IRS offer fair, reasonable, and practical penalty relief measures for taxpayers as they deal with ongoing challenges brought on by the COVID-19 pandemic. These difficulties have prevented many taxpayers from voluntarily complying with their tax obligations or inadvertently under-withholding taxes, resulting in potential penalties. The IRS has the authority to administratively offer relief measures in a way that minimizes contact with the IRS and thus reduces strain on the Service. As an example, in 2019 the IRS responded to withholding confusion caused by the Tax Cuts and Jobs Act (TCJA) by lowering certain underpayment penalty thresholds and automatically waiving penalties for any taxpayer who paid at least 80% of their total tax liability during the year. 461,702 taxpayers qualified for this penalty relief at a total cost of \$41.7 million.

### **Issue**

During the height of the pandemic, many taxpayers and their advisers were struggling with health issues, new childcare arrangements, secure remote work arrangements, and many other financial problems. Practitioners from all over the country have shared stories of multiple CPAs in an office being sick with COVID-19 and of clients being too ill to provide necessary tax documents. Concurrently, the IRS was, and still is, struggling with its own challenges exacerbated by the pandemic, which has resulted in a historically high volume of unanswered telephone calls to its phone assistants and a historically low level of service. Regardless, the IRS continues to send penalty assessments, oftentimes erroneous assessments, that not only create a sense of despair as taxpayers are unable to communicate with the IRS but also do not encourage voluntary compliance.

The IRS has yet to offer sensible relief measures, which include:

- Providing taxpayers with targeted relief from both the underpayment of estimated tax penalty and the late payment penalty for the 2020 tax year.
- Offering a reasonable cause penalty waiver, similar to the procedures of first time abate (FTA) administrative waiver, without affecting the taxpayer's eligibility for FTA in future tax years.
- Discontinuing compliance actions until the IRS is prepared to devote the necessary resources for a proper and timely resolution of the matter.
- Aligning requests for account holds with the time it takes the IRS to process any penalty abatement requests.

### **How Does This Bill Work?**

H.R. 5155, *the Taxpayer Protection and Penalty Act of 2021*, would require the IRS to provide taxpayers with targeted relief from both the underpayment of estimated tax penalty and the late payment penalty for the 2020 tax year if:

- Taxpayers paid at least 70 percent of the tax due for the current year, or
- Taxpayers paid 70 percent (90 percent if adjusted gross income exceeds \$150,000) of the amount of tax shown on their U.S. income tax return for the prior year.

### **The Profession's Position**

The Profession strongly supports this legislation.

### **AICPA Staff Contacts**

For more information, please contact:

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