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Tax Section

COVID-19 penalty relief

# COVID-19 IRS Penalty Abatement Template

If an affected taxpayer receives a late-filing or late-payment penalty notice from the IRS, the practitioner should gather the facts and other documentation to support a request for penalty relief due to reasonable cause. Under reasonable cause standards, “any reason that establishes a taxpayer exercised ordinary business care and prudence but nevertheless failed to comply with the tax law may be considered for penalty relief” (IRM 20.1.1.3.2.1).

In addition, each practitioner should consider whether he or she should contact their insurance carrier or an attorney before undertaking the penalty abatement process.

The following pages contain a template to request reasonable cause penalty abatement on behalf of your clients due to COVID-19 difficulties.

**Additional guidance**

The [Internal Revenue Manual (IRM)](https://www.irs.gov/irm) is essentially the IRS’s employee handbook and outlines the procedures IRS employees should follow in the course of their work. IRM 20.1.1.3.6, *Reasonable Cause Assistant (RCA),* provides that the RCA (a decision support interactive software program) will be used where available when considering penalty relief due to reasonable cause. RCA will be used after normal case research has been performed (i.e., after applying missing deposits/payments, adjusting tax, researching for missing extensions of time to file, etc.) and has also been programmed to determine if first-time penalty abatement criteria are met under most conditions. Practitioners should familiarize themselves with the IRM before undertaking the penalty abatement process.

**Related Tax Section resources**

* [IRS Penalty Abatement Templates](https://future.aicpa.org/resources/download/irs-penalty-abatement-templates)
* [IRS First-Time Penalty Abatement](https://future.aicpa.org/resources/article/irs-first-time-penalty-abatement)
* [Federal Taxpayer Penalties Guide](https://future.aicpa.org/resources/download/federal-taxpayer-penalties-guide)
* [IRS Hotlines Quick Reference Chart](https://future.aicpa.org/resources/download/irs-hotlines-quick-reference-chart)

Customize the following template for your client’s fact pattern.

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Reviewed Oct. 28, 2020

Date, Firm logo

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COVID-19 IRS Penalty Abatement Template

Internal Revenue Service

[Address 1]

[Address 2]

[City, State ZIP]

Re:

[Taxpayer(s) name(s)]

[Taxpayer(s) identification number(s) (recommended last four digits, e.g., ###-##-1234)]

[Tax form and tax period]

[Notice number and date, if applicable]

## **Request for reasonable cause penalty abatement – COVID-19 [enter type of penalty and amount]**

To Whom It May Concern:

We are writing on behalf of the above-named taxpayer in response to your notice (copy attached). We respectfully request that the [enter type of penalty] be abated based on the IRS’s reasonable cause criteria.

**COVID-19 challenges meet the IRS’s reasonable cause standard**

According to IRM 20.1.1.3.2, *Reasonable cause*, the IRS provides relief from a penalty based on reasonable cause when the taxpayer exercised ordinary business care and prudence in determining his or her tax obligations but was nevertheless unable to comply with those obligations.

The COVID-19 pandemic impacted all aspects of life and created many uncertainties and challenges. Although the taxpayer exercised ordinary business care and prudence and made a good-faith effort to meet their tax deadlines, they were unable to do so due to COVID-19 impacts.

**[If applicable]** [Explain your client’s situation and how ordinary business care and prudence was exercised. Discuss how the taxpayer handled the remainder of his or her affairs during this time and how, once the facts and circumstances changed, the taxpayer attempted to comply. Cite any other authority that supports the relief and attach documentation. Examples could include the taxpayer was sick with COVID-19, cared for a sick relative, struggled with business affairs as many businesses were required to shut down, could not access tax records needed for return preparation, etc.]

**[If applicable]** The taxpayer engaged our firm to prepare their tax returns, and reasonably relied on our firm to timely complete their returns. However, due to COVID-19 impacts, our firm was unable to file the taxpayer’s return by the due date. The delay was caused by office shutdowns, staffing issues related to health, wellbeing and family responsibilities, and the additional responsibilities put on our firm to assist clients with new tax legislation from the Families First Coronavirus Response Act and the Coronavirus Aid, Relief and Economic Security (CARES) Act. However, as soon as possible, the taxpayer’s returns were filed; therefore, satisfying the reasonable cause criteria.

**[If applicable]** In addition, the taxpayer indicated “COVID-19” on their return to proactively notify the IRS of these challenges and the need for penalty relief. Please see the attached copy of their return notating this relief request.

Based on the facts presented above, we respectfully request that the taxpayer’s penalty be removed based on reasonable cause.

If you have any questions, please call me at (###) ###-####.

Thank you for your consideration.

Sincerely,

[Name, CPA]

Attachments:

Copy of notice

[Enter any additional attachments such as a copy of a valid power of attorney (Form 2848) or any other relevant documentation that supports reasonable cause.]