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Jim Buttonow • Jul. 18, 2013

On Friday, the IRS announced that it discovered an error on CP2000 notices mailed to taxpayers during the weeks of July 1 and July 8. A CP2000 notice, or underreporter inquiry, is sent to taxpayers when there is a discrepancy between the information reported on the taxpayer's return and the information provided to the IRS by third parties, such as employers, banks and other payers. The CP2000 notice reflects any proposed changes to credits, deductions or payments reported on the tax return.

Typically, CP2000 notices propose an increase in taxes, along with penalties and interest. The CP2000 notices sent in the first two weeks of July contained incorrect interest calculations on the proposed increase in taxes from underreported income.

The amount of the error varied, but according to the IRS Automated Underreporter Unit, most of the notices showed either no interest or a total of \$1 in interest. Currently, the interest rate should be 3% per year of the proposed additional tax.

With an average additional tax assessment of \$1,711 per CP2000 notice, the average additional interest assessment would be about \$70.

What to expect

Since discovery of the error, the IRS has corrected the interest calculation issue. Later this month, the IRS plans to send letters to the recipients of the incorrect notices. The letters will ask taxpayers to call a special toll-free number or write the IRS to obtain the corrected interest assessment.

If your client received one of the incorrect CP2000 notices and paid some or all of the additional proposed taxes, notify your client that he or she will still owe additional interest.

If you have a Form 2848, *Power of Attorney and Declaration of Representative*, or a Form

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The incorrect CP2000 notices demonstrate the value of keeping an authorization form on file for your clients. The IRS sends more than 201 million notices to taxpayers each year; filing an authorization form to be copied on your clients' notices is an opportunity that can lead to better client retention and efficiency when working with the IRS.

IRS

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