



The CP 2000 Season

Now that April 15th (which was April 17th this year) has come and gone, we can all step back and take a sigh of relief, right?

Almost, but not quite. A few of us will receive CP2000 notices from IRS, which can mean we get to pay more taxes, and in some cases, we get money back.

IRS has an extensive computer matching program for all the ways we receive income, and in several cases, expenses, from someone else.

Here's what happens. Every year we all receive W-2's, 1099's (and there are 17 kinds of 1099's!), 1098's (5 kinds of those), SSA-1099's, and some other forms. These forms, taken together, make up the heart of our tax returns.

Unbeknownst to many of us, the data on these forms are also reported to IRS, which promptly sets them up in a computer program called the 1099 Match.

And there they sit for a year or more. IRS electronically puts them in our individual files, and then sits on them for a year. IRS has to do it that way, because these forms come in at different times during the year, and sometimes they come in late or come as corrected copies.

But IRS—or really, its computers—hasn't forgotten all these numbers.

After about a year, when they think they've gotten all the forms they're going to get, they start matching the data in the forms to the data reported on the individual returns.

Guess what happens when you forget to report something? The IRS computers spit out this CP2000 notice, which says, in effect, "You forgot to tell us about that \$9,000 stock sale two years ago. We've recalculated your tax, because you've got more income now, and you now owe another \$2,000. You forgot to tell us, but we know about it, anyway."

They will also tack on some interest and penalties, and ask them to tell you if you agree with what they've done or if you disagree, to tell them why they're wrong.

Finally, they will give you 30 days to respond, after which they will assume that you agree with them, assess the tax, and start the meter running on the interest and penalty.

If you do get such a letter (and remember, most people never will), the first thing you must do is to open the letter! Many, many people are so afraid of IRS communications that they don't open the letter for weeks or months.

But in most cases, this is really not the time to push the panic button. The Service is just asking for a

response, because after all, they could be wrong, too.

They could have received some erroneous information. Or they could have placed it in the wrong account.

Think about it. They've been told that you have a W-2 reporting \$108,000 of income from an employer you have never heard of.

And that employer somehow mixed your name and Social Security Number up with someone else, and you're about to get taxed on money you never saw.

These things can be fixed, but it's not going to happen until you open the letter and take action.

I just got my first CP 2000 notice of the year this week. One of my clients received a notice for the 2005 tax year back in February, 2007. He finally opened it April 18, and called me the next day.

And yes, it's that \$9,000 stock sale that he—and I—never told them about. His response deadline ended about a month ago, and the interest and penalty clock has been ticking away ever since.

Several plausible things could have happened. The wayward 1099 may have never reached him, which often happens when someone moves. Or he might have failed to give it to me.

Or he might have given it to me, but I failed to include it in the return. (Unlikely in this case, but could have happened.) And who knows—it might not have been his 1099 in the first place!

Some unusual things can happen when these returns are recalculated. In this case, since his income has increased (supposedly), his Schedule A deductions for out-of-pocket health expense was reduced.

Not only does it look like he has more taxable income, it also looks like his itemized deductions have been reduced. A double whammy!

The main point is this—open the letter! They are only asking for information at this point, and the ultimate action just might be in your favor.