

# Bookkeeping Tips

## How to Handle the IRS Before the IRS Handles You

*After Gryco's bookkeeper Lee sends in a W-2c for calendar year 2005 and remits an added tax liability of \$2,573.63 for a handwritten paycheck left off an employee's W-2, she receives an IRS notice claiming that GryCo's W-2 totals do not match its 941 totals for 2005. Lee decides that the IRS has either not processed the W-2c or has simply made a mistake, so she ignores the notice.*

*By the time GryCo's president learns of the problem, the IRS has added to the \$2,573.63 discrepancy a \$357.36 penalty and \$462.17 interest, for a total due of \$3,393.16. The notice warns that if payment in full is not received by a certain date, interest will continue to accrue. If the IRS does not receive payment, it may seize company assets.*

### General rules of thumb:

1. Read the entire IRS notice *immediately* and respond by the stipulated date—even if you *know* the IRS is wrong. The IRS always assumes it is *right* until proven wrong, so IRS staff will not look into the problem. You must investigate, find the solution and tell the IRS what to do.
2. If you cannot meet the date because you need time to investigate, ask the IRS—in writing—to put a freeze (hold) on the problem company account until you find the problem. State that you are looking into the problem cited in the notice by repeating the problem by name: "We are looking into the [missing deposit, tax underpayment, etc.]." Request a current transcript of the problem account. If you are unsure of the period in which the error occurred, ask for transcripts of the periods that you need to see.
3. Review the transcript(s) upon receipt (which may take many weeks). Look in the accompanying IRS letter for the name of the IRS staffer who prepared it and for your new deadline. Write to the IRS that you received the transcripts and state when you expect to resolve the problem.
4. If you cannot meet the new deadline, call the agent named in the cover letter or original notice. Keep all IRS papers or e-mails so that you have the names, phone numbers and other data handy. If the IRS correspondence does not have a phone number, visit [www.irs.gov](http://www.irs.gov) or call 800-829-1040 to find your district office Taxpayer Services (TPS) number. The TPS can tell you whom to call and can even solve some simpler problems.

Understanding what the mistake that you—or the IRS—made is useless. *You must explain in writing exactly how to correct it.*

Examples: "We overpaid Account X by \$1,234.32 and underpaid Account Y by the same amount. Please transfer \$1,234.32 from Account X to Account Y." Or, "We remitted our first-quarter 2000 FUTA deposit as a first-quarter 2000 FICA deposit. Please transfer \$872 from our FICA Account A to our FUTA Account B."

*Always include with your letter copies of all prior communications. Enclose everything in the bar-coded IRS tear-off envelope at the bottom of your notice.*

(continued)

## Tips on working with the IRS

- ✓ Send any correspondence to the IRS certified mail, return receipt requested.
- ✓ Maintain a good audit trail: all correspondence relating to the notice, such as copies of canceled checks, receipts, tax returns, and letters.
- ✓ If the IRS does not respond to your letter within 8 weeks, send a copy with the date of your first response and write "second response" on top.
- ✓ If you do not resolve the problem in three attempts, use your local IRS Taxpayer Advocate. To find the Taxpayer Advocates in your state, visit [www.irs.gov/advocate/content/0,,id=150972,00.html](http://www.irs.gov/advocate/content/0,,id=150972,00.html)
- ✓ If you made an honest mistake and owe money, ask for an abatement of penalties. Demonstration of your intent and/or your prior "good faith efforts" to make timely deposits can result in getting an abatement.
- ✓ Set up controls—e.g., one employee enters data and another reviews it.

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AIPB was founded in 1987 for the following purposes:

- To recognize bookkeepers as accounting professionals
- To make sure that each member has the latest bookkeeping, accounting and tax information
- To answer members' everyday bookkeeping and accounting questions on the telephone at no charge.
- To provide bookkeepers with low-cost continuing professional education.
- To return the membership fees of any bookkeeper who is dissatisfied with the benefits of membership