

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Nearly Five Million Eligible Taxpayers Received Failure to Pay Penalty Relief Due to the Effects of the Pandemic

January 21, 2026

Report Number: 2026-400-001

HIGHLIGHTS: Nearly Five Million Eligible Taxpayers Received Failure to Pay Penalty Relief Due to the Effects of the Pandemic

Final Audit Report issued on January 21, 2026

Report Number 2026-400-001

Why TIGTA Did This Audit

In February 2022, the IRS temporarily suspended the mailing of certain automated collection notices to help provide taxpayers with relief due to the pandemic. Although the notice mailings were suspended, the Failure to Pay (FTP) penalty associated with the unpaid taxes continued to accrue on tax accounts.

In December 2023, the IRS announced that it would waive the FTP penalty for eligible taxpayers.

We evaluated the accuracy of the administrative waiver for the FTP penalty for Tax Years 2020 and 2021 to determine whether only eligible taxpayers received the automatic FTP penalty relief.

Impact on Tax Administration

The IRS identified about 4.9 million individuals, businesses, trusts, estates, and tax-exempt organizations that were eligible for approximately \$1 billion in FTP penalty relief for Tax Years 2020 and 2021.

The FTP penalty relief period began on the date the IRS issued an initial balance due notice to the eligible taxpayer, or February 5, 2022, whichever was later. It ended on March 31, 2024.

Generally, the FTP penalty is 0.5 percent of the unpaid taxes for each month or part of a month and can reach a maximum of 25 percent.

What TIGTA Found

Our review of the nearly 5 million taxpayers determined that the IRS accurately identified and issued penalty relief to more than 99 percent of eligible taxpayers.

The IRS took several steps to administer the FTP penalty relief and help taxpayers pay the remaining penalty. The IRS:

- Published information about the FTP penalty relief and updated internal guidance to reflect the relief available to taxpayers.
- Developed and implemented programming to identify eligible taxpayers and provided appropriate relief.
- Created and issued Letters 38, *Reminder, Notice Resumption*, that informed taxpayers that the IRS is resuming normal operations.

Of the 4.9 million eligible taxpayers who received penalty relief, 3.6 million have taken steps to resolve their outstanding balance. The IRS issued letters from January 2024 through March 2024 that notified the remaining 1.3 million taxpayers that normal collection operations would resume beginning April 2024. The letter provided the taxpayer with the amount owed, including penalties and interest, and options for paying the outstanding balance.

However, we identified approximately 2,100 taxpayers who were potentially eligible for the FTP penalty relief, but their tax accounts were not marked as eligible as of April 2024. Collectively, we estimate these taxpayers are potentially entitled to more than \$463,000 in FTP penalty relief.

Since this is a one-time relief, which ended in March 2024, the IRS does not need to make programming changes to identify other potentially affected taxpayers. Therefore, we are not making a recommendation related to programming changes. However, our findings could be useful to the IRS if similar programs are implemented in the future.

What TIGTA Recommended

We recommended that the IRS take the necessary steps to provide FTP penalty relief to the 2,138 taxpayers we identified, including but not limited to abating FTP penalties.

The IRS agreed with the recommendation and adjusted the taxpayers' accounts to provide them with the benefit of the penalty relief. However, we did not evaluate the IRS's corrective action.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

January 21, 2026

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Diana M. Tengesdal
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Nearly Five Million Eligible Taxpayers Received
Failure to Pay Penalty Relief Due to the Effects of the Pandemic
(Audit No.: 2024400032)

This report presents the results of our review to evaluate the accuracy of the administrative waiver for the Failure to Pay penalty for Tax Years 2020 and 2021. This review was part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenge of *Improving Taxpayer Service and Protecting Taxpayer Rights*.

Management's complete response to the draft report is included as Appendix V. If you have any questions, please contact me or Deann L. Baiza, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

Table of Contents

Background	Page 1
Results of Review	Page 2
Eligible Taxpayers Were Accurately Identified and Penalty Relief Was Provided	Page 2
Recommendation 1:	Page 3
 Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 4
Appendix II – Outcome Measure	Page 5
Appendix III – Eligible Returns Described in Notice 2024-7	Page 6
Appendix IV – Letter 38, <i>Reminder, Notice Resumption</i>	Page 7
Appendix V – Management’s Response to the Draft Report	Page 12
Appendix VI – Glossary of Terms	Page 15
Appendix VII – Abbreviations	Page 16

Background

In February 2022, the Internal Revenue Service (IRS) temporarily suspended the mailing of certain automated collection notices to help provide taxpayers relief due to the pandemic. These automated collection notices are normally issued to taxpayers after an initial balance due notice. The initial balance due notice informs the taxpayer of the amount of tax owed, including penalties and interest, and how to pay the tax owed. Although the automated collection notices were suspended, the Failure to Pay (FTP) penalty associated with the unpaid taxes continued to accrue on tax accounts. Generally, the FTP penalty is 0.5 percent of the unpaid taxes for each month or part of a month that the tax remains unpaid until the penalty reaches a maximum of 25 percent. For example:

Taxpayer A filed a Form 1040, *U.S. Individual Income Tax Return*, for Tax Year 2021, on April 15, 2022, showing \$10,000 in taxes owed. Assuming that Taxpayer A does not pay any of the taxes owed, Taxpayer A will accrue a \$50 FTP penalty per month ($\$10,000 \times 0.5$ percent) up to the maximum FTP penalty of \$2,500 ($\$10,000 \times 25$ percent = \$2,500).

In advance of resuming normal collection activities, the IRS announced in December 2023 that it would waive the FTP penalty for eligible taxpayers. The FTP penalty relief period began on the date the IRS issued an initial balance due notice to the eligible taxpayer, or February 5, 2022, whichever was later, and ended on March 31, 2024. Figure 1 presents the eligibility requirements for the FTP penalty relief.

Figure 1: Summary of the Eligibility Requirements for FTP Penalty Relief

Eligibility Requirements	
Tax Year¹	2020 and 2021
Eligible Tax Returns²	Form 1040 series Form 1041 series Form 1120 series Form 990-T, <i>Exempt Organization Business Income Tax Return</i>
Assessed Tax	Tax accounts must have an assessed tax below \$100,000 as of December 7, 2023.
Collection Status	An initial balance due notice sent to taxpayers on or before December 7, 2023.
Excluded from Relief	Tax accounts that have: <ul style="list-style-type: none">• Fraudulent Failure to File penalty or fraud penalty.• Offer in Compromise.• FTP penalty assessments settled in a closing agreement or in a judicial proceeding.

Source: Summary of Notice 2024-7, *Relief from Additions to Tax for Certain Taxpayer's Failure to Timely Pay Income Tax for Taxable Years 2020 and 2021*, and the Internal Revenue Manual.

¹ See glossary of terms in Appendix VI.

² See all eligible tax returns in Appendix III.

The IRS identified taxpayers eligible for the FTP penalty relief, placed an indicator on the taxpayer's tax account, and automatically provided relief. Below is a hypothetical example of how the IRS calculates the FTP penalty relief:

Taxpayer B filed a Form 1040 for Tax Year 2021, on April 15, 2022, showing \$10,000 in taxes owed. Taxpayer B did not pay and was issued the initial balance due notice on June 15, 2022. The taxpayer fully paid the tax on October 15, 2022. The IRS would have assessed Taxpayer B a \$300 FTP penalty ($\$10,000 \times (6 \text{ months} \times 0.5 \text{ percent}) = \300) on October 15, 2022.

However, due to the penalty relief, the IRS waived \$200 from June 15, 2022, through October 15, 2022, ($\$10,000 \times (4 \text{ months} \times 0.5 \text{ percent}) = \200) and Taxpayer B now has a \$100 FTP penalty.

Results of Review

The IRS accurately identified more than 99 percent of the nearly 5 million individuals, businesses, trusts, estates, and tax-exempt organizations that were eligible for the FTP penalty relief for Tax Years 2020 and 2021. The IRS took several steps to administer the FTP penalty relief and help taxpayers pay the remaining penalty. The IRS:

- Published information about the FTP penalty relief and updated internal guidance to reflect the relief available to taxpayers.
- Developed and implemented programming to identify eligible taxpayers and provided appropriate relief.
- Created and issued Letters 38, *Reminder*, *Notice Resumption*, that informed taxpayers that the IRS is resuming normal operations.³

However, we identified approximately 2,100 taxpayers who were potentially eligible for the FTP penalty relief, but their tax accounts were not marked as eligible as of April 2024. Collectively, we estimate these taxpayers are potentially entitled to more than \$463,000 in FTP penalty relief.

Eligible Taxpayers Were Accurately Identified and Penalty Relief Was Provided

We confirmed that the IRS accurately identified and issued penalty relief to more than 99 percent of eligible taxpayers (as of July 2024). The IRS deployed the FTP penalty relief programming in phases to identify taxpayers eligible for the relief based upon their tax accounts.

Of the 4.9 million eligible taxpayers who received penalty relief, 3.6 million have taken steps to resolve their outstanding balance. The IRS issued letters from January 2024 through March 2024 that notified the remaining 1.3 million taxpayers that normal collection operations would resume beginning in April 2024. The letter provided the taxpayer with the amount owed, including penalties and interest, and options for paying the outstanding balance. The balance reflected on the letter included FTP penalty relief.

³ See Appendix IV for an example of Letter 38.

IRS management is taking actions to grant relief to 2,138 potentially eligible taxpayers

We identified 2,138 taxpayers who were potentially eligible for the FTP penalty relief, but their tax accounts were not marked as eligible (as of April 2024). IRS management agreed that these tax accounts should be marked as eligible.

Management stated that 205 taxpayers that were originally scheduled to get relief did not get the necessary indicator posted to their tax accounts. IRS management is working with the Information Technology organization to understand why these accounts did not receive relief. For the remaining 1,933 taxpayers, the IRS did not provide an explanation of why these accounts did not receive the relief. IRS management agreed to abate FTP penalties for the applicable relief period. However, there was no date provided for correcting these tax accounts. Since this is a one-time relief, which ended in March 2024, the IRS does not need to make programming changes to identify other potentially affected taxpayers. Therefore, we are not making a recommendation related to programming changes. However, our findings could be useful to the IRS if similar programs are implemented in the future.

The IRS estimates the total FTP penalty relief to be approximately \$1 billion for 5 million tax returns, or about \$206 per tax return. Using the IRS's estimate, these 2,248 tax accounts associated with the 2,138 taxpayers were potentially entitled to \$463,088 in FTP penalty relief. The actual amount of the FTP penalty relief is dependent on each taxpayer's circumstances. Therefore, this is an estimate of the potential relief.

Recommendation 1: The Commissioner, Small Business/Self-Employed Division, should take the necessary steps to provide FTP penalty relief to the 2,138 eligible taxpayers we identified, including but not limited to abating FTP penalties.

Management's Response: Small Business/Self-Employed Division management agreed with the recommendation and adjusted the accounts for these 2,138 taxpayers to provide them with the benefit of the penalty relief.

Office of Audit Comment: While the IRS's corrective action satisfies the intent of our recommendation, we did not evaluate that these taxpayers received the penalty relief.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to evaluate the accuracy of the administrative waiver for the FTP penalty for Tax Years 2020 and 2021. To accomplish our objective, we:

- Evaluated the IRS's processes for identifying and ensuring that only eligible taxpayers received the automatic FTP penalty relief.
- Ensured that the IRS sent Letter 38 to eligible taxpayers notifying them of their outstanding tax liability and the resumption of normal collection activities.

Performance of This Review

This review was performed with information obtained from the Small Business/Self-Employed Division Headquarters and the Business Support Office, Office of Servicewide Penalties, located in Washington, D.C., during the period July 2024 through July 2025. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Data Validation Methodology

During this review, we obtained extracts from the Individual and Business Master Files for Tax Years 2020 and 2021 that were available on TIGTA's Data Center Warehouse. Additionally, we obtained a file containing the Letters 38 from the IRS and the listing of tax accounts from the IRS's Master File provided to the IRS's Information Technology organization for systemic FTP penalty relief. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples of each extract and verified that the data in the extracts were the same as the data captured in the Integrated Data Retrieval System. We also performed analysis to ensure the validity and reasonableness of our data, such as ranges of dollar values and obvious invalid values. Based on the results of our tests, we believe that the data used in our review were reliable.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the process for planning, organizing, directing, and controlling program operations for the issuance of the FTP penalty relief. We evaluated these controls by verifying the eligibility of the FTP penalty relief, meeting with IRS management, and reviewing IRS procedures to establish relief on taxpayers' tax accounts.

Appendix II

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. The benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Taxpayers Impacted: Potential; 2,138 eligible taxpayers with 2,248 tax accounts that did not receive the FTP penalty relief (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File and Business Master File for Tax Years 2020 and 2021 for tax accounts that contain an FTP penalty relief indicator as of April 4, 2024. We also obtained the listing of tax accounts provided to the IRS Information Technology organization for systemic FTP penalty relief. We compared the listings to identify 2,248 tax accounts for 2,138 taxpayers that are eligible for the FTP penalty relief but did not receive relief as of April 4, 2024.

The IRS estimates 5 million tax returns are eligible for the penalty relief. This represents \$1 billion in savings to taxpayers, or about \$206 per tax return. Using the IRS's estimated savings to taxpayers, we estimate that these 2,248 tax accounts were potentially entitled to \$463,088 ($2,248 \times \$206 = \$463,088$) in FTP penalty relief.

Appendix III

Eligible Returns Described in Notice 2024-7

The FTP penalty relief granted only to eligible taxpayers who have filed an eligible return. An eligible return is one of the following income tax returns:

Form 1040 series:

- Form 1040, *U.S. Individual Income Tax Return*
- Form 1040-C, *U.S. Departing Alien Income Tax Return*
- Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*
- Form 1040-PR, *Declaración de la Contribución Federal sobre el Trabajo por Cuenta Propia*
- Form 1040-SR, *U.S. Tax Return for Seniors*
- Form 1040-SS, *U.S. Self-Employment Tax Return*

Form 1120 series:

- Form 1120, *U.S. Corporation Income Tax Return*
- Form 1120-C, *U.S. Income Tax Return for Cooperative Associations*
- Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*
- Form 1120-FSC, *U.S. Income Tax Return of Foreign Sales Corporation*
- Form 1120-H, *U.S. Income Tax Return for Homeowners Associations*
- Form 1120-L, *U.S. Life Insurance Company Income Tax Return*
- Form 1120-ND, *Return for Nuclear Decommissioning Funds and Certain Related Persons*
- Form 1120-PC, *U.S. Property and Casualty Insurance Company Income Tax Return*
- Form 1120-POL, *U.S. Income Tax Return for Certain Political Organizations*
- Form 1120-REIT, *U.S. Income Tax Return for Real Estate Investment Trusts*
- Form 1120-RIC, *U.S. Income Tax Return for Regulated Investment Companies*
- Form 1120-S, *U.S. Income Tax Return for an S Corporation*
- Form 1120-SF, *U.S. Income Tax Return for Settlement Funds (Under Section 468B)*

Form 1041 series:

- Form 1041, *U.S. Income Tax Return for Estates and Trusts*
- Form 1041-N, *U.S. Income Tax Return for Electing Alaska Native Settlement Trusts*
- Form 1041-QFT, *U.S. Income Tax Return for Qualified Funeral Trusts*

Form 990-T, *Exempt Organization Business Income Tax Return*

Appendix IV

Letter 38, *Reminder, Notice Resumption*¹



Department of the Treasury
Internal Revenue Service
ACS Support
P.O. Box 24017
Fresno, CA 93779-4017

Taxpayer
Address
City, State Zip Code

For your reference

Notice name	LT38
Notice date	January 29, 2024
Case reference number	012345678
Taxpayer ID number	XXX-XX-0000

New quick, easy, and secure online payments
Visit [IRS.gov/lt38](https://www.irs.gov/lt38) to avoid additional interest and applicable penalties.

Page 1 of 5



Reminder: You have a balance due; IRS has ways to help you

During the pandemic, the IRS suspended mailing some collection notices while we continued to process tax returns and correspondence. We are resuming normal operations and providing this update on your outstanding balance to help you stay informed. This notice shows the amount you owe, including interest and penalties, and offers options to help you pay your balance. The amount below reflects any penalty relief you may have automatically received related to the suspension of notices.

Amount Due	Interest and Penalties Calculated to:
\$5,875.05	February 19, 2024

It's always in your best interest to pay in full as soon as you can to minimize interest and penalties. The IRS has information and options available to help you meet and understand your tax responsibilities.

How to access your account: pay quickly, easily to avoid added interest, penalties

Pay your balance online. Visit [IRS.gov/payments](https://www.irs.gov/payments) on a computer or mobile device. It's fast, secure, and you'll receive instant confirmation of your payment. You can:

- Pay online directly from your bank account
- Pay with your credit card, debit card, or digital wallet
- Apply for a payment plan

If you can't make a payment online, you can mail us a check or money order using the payment stub at the end of this notice.



Scan here to access
[IRS.gov/payments](https://www.irs.gov/payments)

¹ The example Letter 38 is for a fictional taxpayer.

**Nearly Five Million Eligible Taxpayers Received Failure to
Pay Penalty Relief Due to the Effects of the Pandemic**

Notice: LT38

Notice date: January 29, 2024

TIN: XXX-XX-0000

Page 2 of 5

Did you know you can access your IRS account information online?

Do you have an online account? If not, it is easy to create one. With your IRS Online Account you can:

- View the amount you owe and a breakdown by tax year
- Review your payment history, including pending and scheduled payments
- Access your tax records
- Go paperless for certain notices



Scan here to access
[IRS.gov/account](https://www.irs.gov/account)

The IRS has options to help if you can't pay in full

The IRS understands you may not be able to pay the full amount right now and has the following options available:

Pay over time

If you owe less than \$100,000, you can visit [IRS.gov/paymentplans](https://www.irs.gov/paymentplans) for self-service options to apply for a payment plan online. You can choose from a variety of plan options and get instant confirmation if you qualify.

Offer in Compromise (OIC)

An offer in compromise lets you settle your tax debt for less than the full amount you owe. Use the OIC Pre-Qualifier tool at [IRS.gov/offers](https://www.irs.gov/offers) to see if you qualify, to calculate a preliminary offer amount, or to learn more about the program. Use of this tool does not guarantee offer acceptance.

Temporarily delay collection

If you're experiencing financial hardship, we may be able to temporarily delay collection until your situation improves. Visit [IRS.gov/delay](https://www.irs.gov/delay) to learn more.



Scan for quick access to
[IRS.gov/paymentplans](https://www.irs.gov/paymentplans)

**Nearly Five Million Eligible Taxpayers Received Failure to
Pay Penalty Relief Due to the Effects of the Pandemic**

Notice: LT38

Notice date: January 29, 2024

TIN: XXX-XX-0000

Page 3 of 5

Your billing summary

Tax period ending	Form number	Amount you owed	Interest ¹	Failure to pay penalty ²	Total
12/31/1995	1040	\$5,307.27	\$567.78	\$0.00	\$5,875.05

Due to the temporary suspension on issuing some collection notices, the Internal Revenue Service automatically granted penalty relief of certain failure to pay penalties for tax periods ending 12/31/2020 and 12/31/2021. If you qualified for a reduction in penalties, it's already reflected in your amount due. To determine if you qualified for this penalty relief and to learn more, visit [IRS.gov/lt38](https://www.irs.gov/lt38).

For more information on penalties and interest, visit [IRS.gov/penalties](https://www.irs.gov/penalties) or [IRS.gov/interest](https://www.irs.gov/interest). Visit [IRS.gov/account](https://www.irs.gov/account) to view online billing details.

1. Internal Revenue Code Section 6601
2. Internal Revenue Code Section 6651

Where to find more information

- Find answers to commonly asked questions about this notice and your rights and responsibilities by visiting [IRS.gov/lt38](https://www.irs.gov/lt38).
- Find tax forms or publications by visiting [IRS.gov/forms](https://www.irs.gov/forms) or calling 800-TAX-FORM (800-829-3676).
- If you can't find the information you need online, or if you have a question about the balance owed, call 800-829-7650.
- Send us your documents using the Documentation Upload Tool by visiting [IRS.gov](https://www.irs.gov). You can contact us by mail at the following address. Be sure to include your taxpayer identification number, the tax year and the form number you are writing about.

ACS Support
P.O. Box 24017
Fresno, CA 93779-4017

Taxpayer rights and sources for assistance

- By law, all taxpayers have fundamental rights when they are interacting with the IRS. Learn more about your rights at [IRS.gov/taxpayer-bill-of-rights](https://www.irs.gov/taxpayer-bill-of-rights) or see IRS Publication 1, Your Rights As A Taxpayer.
- Tax professionals who are independent from the Internal Revenue Service (IRS) may be able to help you. Low Income Taxpayer Clinics (LITC) assist low-income individuals who have a tax dispute with the IRS and can assist persons who speak English as a second language. Services are offered for free or a small fee. For more information or to find an LITC near you, visit [TaxpayerAdvocate.irs.gov/litc](https://www.irs.gov/litc) or see IRS Publication 4134, Low Income Taxpayer Clinic List.
- The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that helps taxpayers and protects taxpayers' rights. TAS can offer you help if your tax problem is causing a financial difficulty, you've tried and been unable to resolve your issue with the IRS, or you believe an IRS system, process, or procedure just isn't working as it should. If you qualify for our assistance, which is always free, TAS will do everything possible to help you. Visit [TaxpayerAdvocate.IRS.gov](https://www.irs.gov) or call 877-777-4778.

Page Intentionally Left Blank

Nearly Five Million Eligible Taxpayers Received Failure to
Pay Penalty Relief Due to the Effects of the Pandemic

Notice: LT38

Notice date: January 29, 2024

TIN: XXX-XX-0000

Page 5 of 5



Payment

INTERNAL REVENUE SERVICE - ACS
P.O. BOX 219980
KANSAS CITY, MO 64121-9980

Taxpayer
Address
City, State Zip Code

Notice	LT38
Notice Date	January 29, 2024
Taxpayer ID number	XXX-XX-0000

- Make your check or money order payable to the "United States Treasury".
- Write your taxpayer ID number (XXX-XX-0000) on your payment and any correspondence.

Select your payment amount:

- ☐ Pay the full amount due of **\$5,875.05 on or before February 19, 2024** to avoid future interest and applicable penalties.
- ☐ Make a partial payment of \$_____ (enter amount)

Appendix V

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

December 16, 2025

MEMORANDUM FOR DIANA M. TENGESDAL
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Lia Colbert **Amalia C. Colbert** Digitally signed by Amalia C. Colbert
Commissioner, Small Business/Self-Employed Division Date: 2025.12.17 10:49:15 -05'00'

SUBJECT: Draft Audit Report – Nearly Five Million Eligible Taxpayers
Received Failure to Pay Penalty Relief Due to the Effects of the
Pandemic (Audit No.: 2024400032)

Thank you for the opportunity to review and comment on the draft audit report. Due to the unprecedented effects of the COVID-19 pandemic, the IRS temporarily suspended the mailing of automated reminders to pay overdue tax bills starting in February 2022. These reminders would have normally been issued as a follow up after the initial notice. While these reminder notices were suspended, the failure-to-pay penalty continued to accrue for taxpayers who did not fully pay their bills in response to the initial balance due notice. To help taxpayers as normal collection notices resumed in early 2024, we proactively waived failure-to-pay penalties for eligible taxpayers affected by this situation for tax years 2020 and 2021. We appreciate TIGTA's acknowledgment that we accurately administered this penalty relief.

This penalty relief benefitted approximately 4.9 million taxpayers, totaling \$1 billion in savings to taxpayers. TIGTA identified 2,248 tax accounts associated with 2,138 taxpayers who were potentially eligible, but their accounts were not marked as eligible as of April 2024. We have already adjusted these taxpayer accounts so that these taxpayers also benefit from the penalty relief.

**Nearly Five Million Eligible Taxpayers Received Failure to
Pay Penalty Relief Due to the Effects of the Pandemic**

2

Our response to your recommendation is attached. If you have any questions, please contact me, or Kareem Williams, Director, Operations Support, Small Business/Self-Employed Division.

Attachment

Attachment

Recommendations

RECOMMENDATION 1 (Draft Report):

The Commissioner, Small Business/Self-Employed Division, should take the necessary steps to provide FTP penalty relief to the 2,138 eligible taxpayers we identified, including but not limited to abating FTP penalties.

MANAGEMENT'S RESPONSE TO DRAFT REPORT:

IRS agrees with the recommendation and has already adjusted the accounts for these 2,138 taxpayers to provide them the benefit of the penalty relief.

CORRECTIVE ACTION:

IRS adjusted the applicable modules identified by TIGTA to provide appropriate penalty relief.

IMPLEMENTATION DATE:

Implemented

RESPONSIBLE OFFICIAL:

Director, Business Support Office, Small Business/Self-Employed Division

Appendix VI

Glossary of Terms

Term	Definition
Business Master File	The IRS database that consists of federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.
Closing Agreement	Closing agreements are used when it is advantageous to have a tax matter permanently and conclusively resolved under Internal Revenue Code Section 7121.
Data Center Warehouse	A collection of IRS databases containing various types of taxpayer accounts and IRS and TIGTA employee information that is maintained by TIGTA for the purposes of analyzing data for ongoing audits.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Integrated Data Retrieval System	An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Manual	The primary source of instructions to employees relating to the administration and operation of the IRS. The Manual contains the directions employees need to carry out their operational responsibilities.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Offer in Compromise	An agreement between a taxpayer and the IRS that settles a taxpayer's tax liabilities for less than the full amount owed.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

Appendix VII

Abbreviations

FTP	Failure to Pay
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,
contact our hotline on the web at
<https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**

Information you provide is confidential, and you may remain anonymous.