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KPMG report: Taxpayer options for fixing federal tax return mistakes

One of the first questions that government attorneys ask testifying taxpayers at trial is whether they closely reviewed their tax returns before signing them. Taxpayers often squirm at this question on the stand, especially when the tax return contains mistakes. The question, inevitable as it may be, seems unfair in certain contexts. Tax positions and tax returns can be so complicated that they require teams of professionals to prepare and file them. The data and analysis summarized and presented on returns are sometimes beyond any one individual's ability to comprehend, given tiered partnerships and corporate consolidated groups. This is not necessarily anyone's fault; this is the reality of modern life and business combined with the complexity of the tax rules and standards.

Mistakes happen. Some errors are only identified as a taxpayer prepares a subsequent year's return or prepares for an examination by the IRS. Upon discovering errors, taxpayers often want to be forthcoming and transparent—they want to correct and disclose the error quickly. Self-correction is encouraged under our system of tax administration, which depends on voluntary compliance. Adjustments made by taxpayers save the IRS enforcement resources.

For all those reasons, when material mistakes are found, tax professionals generally counsel their clients to fix them.

Read a February 2024 report* [PDF 1 MB] prepared by KPMG LLP that discusses how to handle tax mistakes in a variety of contexts.

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