



GMS Flash Alert



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United States - IRS Announces Penalty Relief for 2020 and 2021 Tax Returns

On December 19, 2023, the U.S. Internal Revenue Service (IRS) issued Notice 2024-7 (“the Notice”), which provides automatic relief to eligible taxpayers from penalties for failure to pay relating to 2020 and 2021 income tax returns.¹

WHY THIS MATTERS

The penalty relief will amount to about \$1 billion, benefiting 4.7 million individuals, businesses, and tax-exempt organizations that were not sent automated collection reminder notices during the temporary suspension of automated notices caused by the COVID-19 pandemic but do have unpaid tax liabilities.² Additional letters and notices are expected to go out in the coming weeks to advise those taxpayers of the penalty relief.

Background

The Emergency Declaration issued in March 2020 in response to the COVID-19 emergency required the U.S. Treasury (“Treasury”) to provide relief from tax deadlines to Americans adversely affected by the emergency. In response, Treasury and the IRS issued a series of notices and other guidance intended to provide relief to affected taxpayers. This guidance included the February 2022 news release announcing the temporary suspension of the mailing of certain automated reminder notices.³ However, the IRS did not suspend the mailing of initial balance due notices and the additions to tax for failure to pay taxes owed continued to accrue for taxpayers who did not fully pay their balance due.

Relief Granted by Notice 2024-7

Pursuant to the relief granted by the Notice, eligible taxpayers will have penalties for failure to pay taxes owed for tax

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years 2020 and 2021 waived or, to the extent previously paid or assessed, will have penalties abated, refunded, or credited to other outstanding tax liabilities.

Eligible taxpayers are defined as any taxpayer:

- whose assessed income tax for taxable year 2020 or 2021, as of December 7, 2023, is less than \$100,000, excluding any applicable additions to tax, penalties, or interest;
- who was issued an initial balance due notice (including, but not limited to Notice CP14 or Notice CP161) on or before December 7, 2023, for taxable year 2020 or 2021; and
- who is otherwise liable during the relief period for accruals of additions to tax for the failure to pay under Internal Revenue Code sections 6651(a)(2) or 6651(a)(3) with respect to an eligible return for taxable year 2020 or 2021.

The tax returns for individuals to which the relief applies are:

- 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 (to report self-employment income for residents of Puerto Rico);
- Form 1040-SR, *U.S. Tax Return for Seniors*;
- Form 1040-SS, *U.S. Self-Employment Tax Return*.

The automatic penalty relief only applies to eligible taxpayers who were in the IRS collection notice process or were issued an initial balance due notice (CP14 or CP161) between February 5, 2022, and December 7, 2023. Taxpayers with assessed taxes of \$100,000 or more are not eligible for automatic relief but can apply for penalty relief under the existing reasonable cause criteria or the “First-Time Abate” program.

The relief applies for the period beginning on the date the IRS issued an initial balance due notice to an eligible taxpayer, or February 5, 2022, whichever is later, and ends on March 31, 2024.

The penalty relief is automatic; hence, taxpayers are not required to take action to obtain the benefit of the relief announced in the Notice.

The IRS will resume issuing automated reminder notices in 2024 for balances due for tax years 2021 and earlier years, thereby resuming the normal notice process.

KPMG INSIGHTS

While the penalty relief will be automatic, letters and notices regarding the relief and any additional tax balances will be sent to taxpayers in early 2024. For most affected taxpayers there should be no action required, but questions may arise as to the reason why the letters are being received and potentially taxpayers may ask about eligibility if they do not receive the automatic relief.

FOOTNOTES:

- 1 See IRS Notice 2024-7 at [N-2024-07 \(irs.gov\)](#). See also the related guidance issued by the IRS: IR-2023-244, Dec. 19, 2023, "[IRS helps taxpayers by providing penalty relief on nearly 5 million 2020 and 2021 tax returns; restart of collection notices in 2024 marks end of pandemic-related pause.](#)"
- 2 Ibid.
- 3 See IR-2022-31, February 9, 2022, "[IRS continues work to help taxpayers; suspends mailing of additional letters.](#)"

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2024 Personal Tax Planning Guide Now Available!

Prepared by professionals from the Washington National Tax office, the [KPMG 2024 Personal Tax Planning Guide](#) provides information and planning tips to help you make sense of the complex and ever-evolving array of U.S. federal tax rules affecting individuals and their closely held businesses. Each chapter in this guide includes a brief overview of tax rules and planning tips that might be relevant to you.

The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230 as the content of this document is issued for general informational purposes only.

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