

## IRS Operations Update and Looming Collection Action



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December 7, 2023 | **CLIENT ALERTS**

The COVID-19 pandemic caused substantial backlog and other issues for the Internal Revenue Service. Although it has been several years, they have not yet recovered, and the issues appear to be compounding. The IRS has reported a backlog of unprocessed and misplaced returns and has struggled to process filings from 2019 to 2022. Meanwhile, taxpayers that filed individual returns in a timely manner with paid preparers who received e-file submission confirmations have been advised that their returns are not on account.

Typically, IRS e-filing is only eligible for the current tax year and two years prior barring any IRS system closures. Taxpayers who opt to paper file returns are experiencing significant delays due to IRS processing time and data entry. The general rule of thumb on processing paper returns and amended returns had been four to six weeks, but now exceeds four months. The IRS stated that they would temporarily halt collection notices, but this band aid approach was never intended to last very long—especially considering the service’s goals of raising revenues through increased enforcement action.

Last week we saw a shift in IRS collection attempts. It began with the service issuing the following IRS Newsroom update:

[We have] processed all paper and electronic individual returns received prior to October 2023, and we're opening mail within normal time frames. This means we've processed all returns we've received for tax year 2021 or earlier if those returns had no errors or didn't require further review. As of November 25, 2023, we had 859,000 unprocessed individual returns. These include tax years 2022 and 2021 returns that need review or correction and late filed prior year returns. Of these, 700,000 returns require error correction or other special handling, and 159,000 are paper returns waiting to be reviewed and processed. This work doesn't typically require us to correspond with taxpayers, but it does require special handling by an IRS employee, so in these instances it's taking the IRS more than 21 days to issue any related refund.

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Since this announcement by IRS, our office has begun receiving collection notices once again—particularly CP500 series notices for the 2022 tax year. Typically, CP500 series notices are issued in succession and generally as follows; CP501, CP503 and CP504. Perhaps due to prior year balances or system issues, we are seeing the IRS skip the initial notices and jump right to issuing the CP504- Final Notice; Notice of Intent to Levy. If this practice continues, taxpayers will receive substantially less notice than historically provided before the IRS pursues enforced collection actions.

Essentially, the IRS claims to have substantially recovered from the return processing backlog induced by the pandemic and plans to pursue collection against delinquent taxpayers with a renewed vigor. Taxpayers will need to pay close attention to collection notices and consult with their tax professional to ensure that their due process rights are being protected and their liabilities are resolved in the best manner available to them.

The attorneys at Lippes Mathias can help strategize the best collection alternative available based on your individual circumstances and ensure your collection due process rights are utilized and protected. For more information, please contact the firm's tax collection defense team leader, Justin J. Andreozzi, via email at [jandreozzi@lippes.com](mailto:jandreozzi@lippes.com), or via telephone at 716-565-1100 x1837.