

For more information see <http://kaufmann-cpa.com/newsletters/underreported-income.html> (David Kaufmann, CPA, not the IRS!)

The IRS Automated Underreporter Program: Responding to CP 2000 Notices

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Every year taxpayers and tax professionals have questions about responding to CP 2000, Notice of Underreported Income. In FY 2005, the IRS sent almost four million notices about potential unreported income to taxpayers resulting in assessments of \$3.9 billion servicewide.

Both the Wage & Investment (W&I) and Small Business/Self Employed (SB/SE) Campus Compliance Services Operations are responsible for the document matching or the Automated Underreporter Program (AUR) at the 10 IRS campus locations nationwide.

Here are some frequently asked questions and responses. This list is not all inclusive and taxpayers and tax professionals should read the instructions on each notice to ensure the matter is handled properly.

What is a CP 2000 Notice?

The CP 2000 Notice shows proposed changes to a taxpayer's income tax return. It provides a brief summary of the notice and instructions on what the taxpayer should do to determine if he agrees or disagrees with the proposed changes. This proposal is based on a comparison of the income, payments, credits, and deductions reported on the tax return with information on these items reported to the IRS by employers, banks, businesses, and other payers. The CP 2000 also reflects any corrections the IRS made to the original return when the IRS processed the return. The CP2000 indicates additional tax the taxpayer owes to the IRS, or it may show a refund due to the taxpayer.

Is the CP 2000 Notice a bill?

No, the CP 2000 Notice is not a bill. The IRS is asking the taxpayer to verify the income, credits, and deductions reported on his tax return because it is different from the information received from other sources. The IRS may even be proposing a decrease to the tax. The CP 2000 is only a proposal that offers the taxpayer an opportunity to disagree, partially agree, or agree with the proposed changes. The IRS has not charged any additional tax at this time.

Does this document matching happen in the same tax year that the taxpayer filed the tax return?

No, document matching does not occur in the same tax year the return was filed. Tax years generally end on Dec. 31, but the IRS does not receive information from employers, banks, businesses, and other payers until much later. Once the IRS receives all the tax returns and payer information, the computer system compares the information the taxpayer reported with the information the payers provided. The IRS is working hard to shorten the time it takes to contact taxpayers. Taxpayers may be contacted as early as 12 months from the date the taxpayer filed the tax return.

Can CP 2000 issues be resolved by tax professionals through Practitioner Priority Services or e-Services Electronic Account Resolution?

No. CP 2000 issues can only be handled by the AUR unit referenced on the CP 2000 Notice. At this time, only AUR units can respond to CP 2000 Notices. Fax numbers are located on the front of each CP 2000 Notice and are site specific. Taxpayers should verify that they received

Note about penalties: Many penalties can be reduced or eliminated if there is reasonable cause. For more information call 1-720-493-4804. (David Kaufmann, CPA, not the IRS!)

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the income and reported the income correctly. Taxpayers or tax professionals should fax information directly to the AUR site referenced on the first page of the CP 2000 Notice for resolution.

If the taxpayer agrees with the proposed changes on the CP 2000 Notice, what happens next?

The taxpayer should not file an amended return. He should check box "A" on the CP 2000 response page, sign and return it with a check or money order made payable to the United States Treasury to the address listed on the CP 2000 Notice.

If the taxpayer disagrees with the proposed changes on the CP 2000 Notice, what happens next?

The taxpayer should respond in writing to the address on the CP 2000 Notice by the due date on the CP 2000 Notice. The taxpayer should not sign the notice. He should check Option 2 or 3, on the response page, explain why he does not agree in a signed statement, attach the statement and any supporting documents send it to the IRS to the address listed on the notice. Relevant documents may include copies of Form 1099, Miscellaneous Income, Form W-2c, Corrected Wage and Tax Statement, letters received from payers explaining any changes or corrections, or any other items that support your position. If a taxpayer has an unusual tax situation, he should attach a written statement explaining the reasons he is reporting specific income items in a certain manner or why he is not reporting the income at all.

What happens if the taxpayer does not respond by the due date?

Taxpayers must respond to the CP 2000 by the due date shown on the notice. If not, the IRS will assume the proposed changes are correct and continue processing the proposal ultimately to an assessment.

Will the IRS allow grant additional time to respond to the CP 2000 Notice?

If the taxpayer cannot respond by the due date on the notice because more time is needed to research tax records, he should call the toll-free number shown at the top of the CP 2000 notice. The IRS will update the records to show the taxpayer requested an extension. Generally, the IRS will allow an extension 30 days beyond the response date shown on the notice. The IRS may also provide additional time to respond if there are unusual circumstances. Additional interest and any applicable penalties will accrue on the account during the period of the extension if the tax increase is correct.

What should taxpayers do to avoid problems like this in the future?

Taxpayers should keep good records of the income throughout the year. By keeping records, the taxpayer will know if they have received all payment information from employers, banks, and other payers.

Additional Resources

- [Prevent Delays in the Processing of Your CP 2000 Response](#)
- [Topic 652 - Notice of Underreported Income – CP-2000](#)
- [CP 2000 Frequently Asked Questions \(FAQs\)](#)
- [Understanding Your IRS Notice](#)