

The Tax Information Reporter

Identifying the Form 972-CG Why it is more tricky than you may think

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IRS Form 972-CG (also known as “The Proposed Penalty Notice”) is one of the more serious communications you can receive from the IRS. It demands a response. What is more, a response indicating an ignorance of the law can cost you big time. That said, arguing your way out of a proposed penalty is entirely possible; provided you know what you are doing and can back up your words with significant documentation. Although the summer months are often regarded as a down time in the information-reporting world the reality is that the Proposed Penalty Notice is out there lurking in the dog days of August. If you do not know how to handle the Form 972-CG when you receive one it can bite your organization for years to come.

In this inaugural issue of the Tax Information Reporter we will focus on the Proposed Penalty Notice – what it is, how to recognize one when you receive it and how you should respond. First, let’s clarify what the Form 972-CG is not.

The Proposed Penalty Notice is NOT a B-Notice. Although many tend to lump together the B-Notice and Proposed Penalty Notice as similar documents requiring a similar response - we do not want you to make this same mistake. There are significant differences between the Proposed Penalty Notice and B-Notice (IRS Form CP2100 or CP2100A). Perhaps most importantly is that the B-Notice is not a stepping-stone to receipt of a Proposed Penalty Notice. In fact, you may receive a Proposed Penalty Notice for a payee without ever having received a B-Notice for that particular payee. In addition, the Proposed Penalty Notice covers a much broader scope than the B-Notice, which is limited to six Forms 1099 – one

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Proposed Penalty Notice Tax Tip

A note on IRC §6721 and IRS Form 972-CG “Proposed Penalty Notice”

Mistakes sometimes happen during the 1099 filing process. Many times you catch the mistake prior to filing and make your correction. However, under IRC §6721 does correcting an incorrect payment amount to a payee prior to filing leave you susceptible to an IRS Form 972-CG “Proposed Penalty Notice”?

Oftentimes we have been asked questions exactly such as this one. Our answer is simple, relax but still perform your due diligence. Although receiving a proposed penalty notice is definitely an unpleasant experience; since you have not yet filed with the IRS there is no reason for you to receive a proposed penalty notice under §6721 on the returns in question. Instead, be thankful you caught your mistake

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