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IDRS
CORRESPONDEX
Internal
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Service

Title: Automated Underreporter (AUR) - Underreported Income/Penalty
and Interest/Additional and Final Correspondence

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- | | IMF/BMF

Letters Considered in Revision:

Taxpayer identification number: []
Tax period: []
Tax form: []
[]

Dear []

A Thank you for your reply dated [], to our notice about
A proposed changes to some items on your tax return.

A
B Thank you for your letter of [], and your payment of
B \$[].

B
C We are responding to an inquiry of [], from
C []. We have no record that you authorized []
C to act for you. Please notify [] that we have replied directly to
C you. If you want to authorize a third party to represent you, complete
C Form 2848, Power of Attorney and Declaration of Representative. If you
C want to give us permission to release your confidential tax
C information, complete Form 8821, Tax Information Authorization. For
C more information about these forms, visit our website at www.irs.gov
C or call the telephone number at the end of this letter.

C
D The Notice [] we sent you was a proposed increase to your tax
D account. We based this increase on information reported to IRS by
D employers, banks, or other payers under your name and taxpayer
D identification number. If you believe this information isn't correct,
D write to us and explain why in a signed statement.

D
E Based on your request, we extended the time for you to send your
E information and explanation to us.

E
F When you file a joint return, both taxpayers are jointly and
F separately responsible for the full amount of tax owed on the return,

F even if you separate or divorce after you file. Use the space below
F to give us the current address of the person who filed a joint return
F with you for the tax period shown above. We'll send him or her a copy
F of our proposed changes.

F
F Street address _____

F
F City, state, and ZIP code _____

F
G We sent a copy of our proposed changes to the other taxpayer on your
G joint return for the tax year shown above. When you file a joint
G return, both taxpayers are jointly and separately responsible for the
G full amount of tax owed on the return, even if you separate or divorce
G after you file.

G
H Frequently, tax isn't paid due to litigation over financial affairs
H between separated or divorced couples. The IRS doesn't settle these
H issues. This is a civil matter that you must resolve. We'll continue
H to charge interest until the amount due is paid in full.

H
I [_____]

I
J We're sorry we couldn't contact you sooner. We must process and review
J the information we receive from all employers, businesses, and
J financial institutions and then compare it with the information shown
J on your tax return.

J
K The law requires you to accurately report on your tax return all
K income you receive. If the payer(s) don't send you proper information
K forms (for example, Form W-2 for wages or Form 1099 for interest or
K dividends), you must estimate your income based on your paycheck
K stubs, deposit slips, or other records and report this estimate on
K your tax return.

K
L We're sorry, but we can't send you a copy of the information you
L requested because we received the information electronically. To get
L a copy of the actual document with the amount reported to us, you need
L to contact the payer(s) shown below.

L
M If you don't agree with the income reported to us by the payer(s)
M listed below, ask the payer(s) for a corrected income statement or
M written verification of the correct amount of income paid to you for
M the tax period shown above. Once we receive a corrected statement or
M written verification from the payer, we'll correct our proposed
M change.

M
N We're in the process of contacting the payer(s) listed below about the
N income reported in your name and social security number. We suggest
N you also contact them and send us any information you receive.

N
O We contacted the payer(s) shown below and they verified that they
O paid this income to you. If you feel this information isn't correct,
O contact the payer(s) for a corrected statement and forward it to us.
O We're unable to change our proposal without this information.

O
P Payer's name: [_____]
P : [_____]

P address: []
P []
P
Q Payer's name: []
Q : []
Q address: []
Q []
Q
R Payer's name: []
R : []
R address: []
R []
R
S Payer's name: []
S : []
S address: []
S []
S

T If you didn't receive all of the income reported to us, we asked you
T in the Notice [], to give us the name, address, and taxpayer
T identification number of the person who did receive the income.
T According to our records, we haven't received this information. Once
T we do, we can correct our proposed changes to your tax account.

T Write the information in the spaces below. Notify your payers to
T change their records so we'll receive correct reports from them in
T the future.

T
U Payer's name: []
U : []
U Amount: \$[]
U Taxpayer's name who received the income: _____
U
U Taxpayer's address: _____
U
U Taxpayer's identification number: _____.

V Payer's name: []
V : []
V Amount: \$[]
V Taxpayer's name who received the income: _____
V
V Taxpayer's address: _____
V
V Taxpayer's identification number: _____.

W Payer's name: []
W : []
W Amount: \$[]
W Taxpayer's name who received the income: _____
W
W Taxpayer's address: _____
W
W Taxpayer's identification number: _____.

X We proposed an increase to your tax because it appears you didn't
X include sick pay in your income. By law, any sick pay received

X directly from your employer, from a benefit fund, or from an insurance
X policy paid by your employer is taxable income. Send us documentation
X that verifies who paid the premiums on your sick pay insurance.

X

Y The amount shown as wages on your Form W-2 has already been reduced
Y by the amount listed on your Form W-2 as deferred compensation or
Y retirement plan contributions. The law doesn't allow you to reduce
Y your wages again. Report the amount of wages on your tax return as
Y they are shown on your Form W-2.

Y

Z The amount of \$[] was reported to the IRS as a pension plan
Z distribution, of which \$[] is taxable. When the distribution
Z was made, you also received stock certificates.

Z

Z The sale of stock is a separate transaction that must be reported when
Z the stock is actually sold. Your basis in the stock is the ordinary
Z income, plus your contributions, included on your tax return for the
Z year it was distributed.

Z

Z Your payer may advise you about the value of your stock and any
Z projected losses and gains for financial planning purposes. However,
Z any increases in value that would result in a capital gain aren't
Z reportable or taxable until you actually sell your stock.

Z

0 The amount you reported on your Form [], line [] as total
0 social security benefits received, didn't agree with the amount
0 reported to the IRS by the Social Security Administration (SSA). When
0 we processed your original return, we changed the total amount of your
0 benefits to the amount reported to us from SSA. We recomputed the
0 taxable amount of your benefits and the amount of your tax.

0

1 We reduced your deduction for Individual Retirement Account (IRA)
1 contributions because you (or your spouse) were covered by a
1 retirement plan at work or through self-employment. Your "modified
1 adjusted gross income" exceeded the limit for a full IRA deduction
1 for your filing status.

1

2 We didn't allow your deduction for Individual Retirement Account
2 (IRA) contributions because you (or your spouse) were covered by a
2 retirement plan at work or through self-employment. Your "modified
2 adjusted gross income" exceeded the limit for any IRA deduction for
2 your filing status.

2

3 We accepted your statement explaining that you're an employee and
3 not self-employed. This means you don't have to pay self-employment
3 tax. However, as an employee, you must pay your share of social
3 security tax under the Federal Insurance Contribution Act (FICA).
3 This tax is computed at the rate of 7.65%.

3

4 Non-employee compensation is considered to be self-employment income
4 because no social security tax is withheld. Taxpayer(s) who receive
4 non-employee compensation must pay self-employment tax for social
4 security benefits.

4

5 The information you provided didn't establish the reasonable cause
5 necessary to waive the accuracy-related penalty due to negligence.
5 Pay the full amount you owe as soon as possible to avoid additional

5 interest charges.

5

6 The information you provided didn't establish the reasonable cause
6 necessary to waive the accuracy-related penalty due to substantial
6 understatement of tax. Pay the full amount you owe as soon as possible
6 to avoid additional interest charges.

6

7 We added your tip income to your social security wages and increased
7 your social security tax. The law requires us to charge a penalty
7 when you don't report tips to your employer. The penalty is 50% of
7 the social security tax on tips not reported. If you have reasonable
7 cause why we shouldn't charge you this penalty, write to us and
7 explain why in a signed statement.

7

8 [

]

8

9 Unemployment compensation benefits received are fully taxable and
9 should be included in your gross income. We added the unemployment
9 compensation reported to us by the payer(s) shown in this notice to
9 your adjusted gross income and computed the additional tax.

9

9 If you have repaid any of these benefits, provide us with the amount
9 and the date(s) the repayment was made so we can correct our proposal.

9

a When you collect Workman's Compensation for a disabling injury and
a have subsequently been awarded retroactive social security disability
a benefits, all income received is considered social security benefits
a and may be taxable.

a

a Workman's Compensation benefits generally aren't taxable if paid
a in place of wages lost as a result of a work-related accident or
a injury. However, Workman's Compensation benefits may be taxable if
a paid in place of retirement benefits such as social security or
a railroad retirement benefits. In this situation, the taxable portion
a of your benefits would be computed using the same method used for
a social security and railroad retirement.

a

a Refer to IRS Publication 915, Social Security and Equivalent
a Railroad Retirement Benefits, for further information. This
a publication can also be used to determine amounts of these benefits
a that may be taxable.

a

b When you take a loan from your retirement plan and don't repay the
b money in accordance with the repayment agreement, the outstanding
b balance of the loan is treated as a taxable distribution from the
b plan. This distribution isn't eligible to be rolled over to any other
b plan and doesn't qualify for the 10-year tax option. In addition, it
b may be subject to an additional 10% tax for early distribution from
b the plan.

b

c Please provide a breakdown as to the cause and nature of your award
c for damages. Include supporting documents, such as court papers.

c

d The law requires us to charge interest on unpaid tax from the due
d date of the return to the date the tax is paid in full. The law
d doesn't allow us to reduce or eliminate interest based on reasonable
d cause. We've enclosed Notice 746, Information About Your Notice,

d

d Penalty and Interest, which gives more detailed information on our
d interest charges.

d
e The law allows us to charge a penalty on the unpaid amount of your
e tax from the due date of the return, but not for more than 25% of
e your unpaid tax. We've enclosed Notice 746, Information About Your
e Notice, Penalty and Interest, which gives more detailed information
e on the penalties we charge.

e
f The current amount you owe for the tax year shown above is
f \$[], which includes penalties of \$[] and interest
f of \$[] figured to []. We'll continue to charge
f interest until the amount you owe is paid in full.

f
f We've provided a general explanation of the possible penalties and/or
f interest included in the current balance due on your account. If you
f would like a specific explanation of how the amounts were computed on
f your account, please contact us at the toll-free number shown in this
f letter and we will send you a detailed computation.

f
f **** Filing and/or Paying Late -- IRC Section 6651 ****

f
f We charge a 5% penalty for filing late and 1/2% penalty for paying
f late when a return is filed late and the tax is not paid by the due
f date of the return. When both penalties apply for the same month,
f the penalty for filing late is reduced by the amount of the penalty
f for paying late for that month.

f
f The penalty for filing late is based on the tax ultimately due,
f which was not paid by the original return due date without regard
f to extensions.

f
f The penalty for paying late is based on the net unpaid tax at the
f beginning of each penalty month following the payment due date
f for that tax.

f
f The penalties are charged for each month or part of a month the
f return or payment is late; however, neither penalty can be more
f than 25% in total.

f
f Income tax returns are subject to a minimum penalty if filed
f late and received more than 60 days after the due date. The
f minimum penalty is \$135 (\$100 for returns due before 1/1/2009)
f or 100% of the tax paid late, whichever is less.

f
f The penalty for paying late applies when tax is paid late, even
f if the return was filed on time. The due date for payment of tax shown
f on a return generally is the return due date without regard to
f extensions. Increases in tax must be paid within 21 days of our notice
f demanding payment (10 business days if the amount in the notice is
f \$100,000 or more).

f
f If we issue a Notice of Intent to Levy and the balance due isn't paid
f within 10 days from the date of the notice, the penalty for paying
f late increases to 1% per month.

f
f For individuals who filed on time, the penalty decreases to 1/4% per

f month while an approved installment agreement with the IRS is in
f effect for payment of that tax.

f
f ** Interest -- IRC Section 6601 **

f
f We are required by law to charge interest when you do not pay your
f liability on time. Generally, we calculate interest from the due date
f of your return (regardless of extensions) until you pay the amount you
f owe in full, including accrued interest and any penalty charges.
f Interest on some penalties accrues from the date we notify you of the
f penalty until it is paid in full. Interest on other penalties, such as
f failure to file a tax return, starts from the due date or extended due
f date of the return. Interest rates are variable and may change
f quarterly.

f
g ** Late or incomplete [] return -- IRC Section [] **

g
g The penalty is \$[] per [], for each month
g or part of a month the return was late or incomplete, for up to
g [] months.

g
h This letter doesn't extend the period of time you have to file a
h petition, if you choose to, with the United States Tax Court.

h
i If you don't accept our findings, you may petition the United States
i Tax Court for a re-determination of the amount of tax you owe, as
i explained in the Notice of Deficiency we sent to you earlier.

i
j We need your signature on the "Consent to Tax Increase" at the end
j of this letter to complete our action on your tax account. Sign the
j consent statement and send it to us. If you filed a joint return, both
j you and your spouse must sign the consent.

j
k If you don't agree with our proposed changes, write to us and explain
k why in a signed statement. If you agree with our proposed changes,
k sign the "Consent to Tax Increase" at the end of this letter. If you
k filed a joint return, both you and your spouse must sign the consent.

k
l If you agree with our proposed tax increase but can't pay the amount
l you owe in full, sign the "Consent to Tax Increase" at the end of
l this letter. When we receive your signed consent, we'll send your
l request for an installment agreement to the appropriate office. They
l will contact you about payment arrangements and applicable fees within
l 60 days from the date of this letter. If you have questions regarding
l this process, contact customer service at 1-800-829-1040 between 7:00
l AM and 7:00 PM, local time.

l
m Once you file a joint return, you can't change your filing status for
m that tax period after the due date of the joint return.

m
n We may not have enough time to deduct your tax increase from your
n expected refund as you requested. If you receive your full refund,
n we'll send you a bill for your income tax deficiency.

n
o If you find additional information that would cause an increase or
o decrease in your tax, you should file a Form 1040X, Amended U.S.
o Individual Income Tax Return, to correct your tax account. Generally,

o the due date for filing Form 1040X is three years from the due date
o of your original return or two years from the date you paid your tax
o in full, whichever date is later.

p Use the enclosed envelope to send your signed consent or explanation
p by []. You can also fax your consent or explanation to
p []. If we don't hear from you within that time, we
p will continue to process the proposed changes to your tax return based
p on the information we currently have. If there is an amount you owe,
p we'll continue to charge interest until the amount you owe is paid in
p full.

q Use the enclosed envelope to send your signed consent or explanation
q to us. We will continue to process the proposed changes to your tax
q return based on the information we currently have, if we don't hear
q from you.

r If you have questions or need assistance, call []
r between [] and [] at [] or fax us at
r [].

When you write, include a copy of this letter and provide in the
spaces below, your telephone number and the hours we can reach you.
(NOTE: if you filed a joint tax return, show the name and the
telephone number of the taxpayer we can contact.) Keep this letter
for your records.

Home Telephone Number () _____ Hours _____

Work Telephone Number () _____ Hours _____

Thank you for your cooperation.

Sincerely yours,

Enclosure(s):

s Copy of this letter
t Envelope
u []
v Notice []
w Notice 746
x Publication []
x Form []
.

y If, after further investigation, you determine that the proposed
y adjustments are correct, sign the statement below and return it to us.

Y
z I/We consent to the immediate assessment and collection of the
z increase in tax and penalties as previously shown on the Notice
z [] plus any interest due. I/We will not be able to contest, in
z the U.S. Tax Court, these changes for the tax period shown in this

z letter unless additional tax is determined to be due for this tax
z period.
z
z Your signature _____ Date _____
z
z Spouse's signature _____ Date _____
z (REQUIRED IF YOU FILED A JOINT TAX RETURN)
z
z Your taxpayer identification number _____
z Tax Period _____
z

Sample