

# WHAT TO DO WHEN YOU RECEIVE A TAX NOTICE

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Inquiries from the Internal Revenue Service and state taxing authorities can be sobering. According to the [IRS](#), the number one thing to do is not panic, then follow the instructions in the letter.

Whether you follow those instructions alone or would be better served with representation depends on what type of notice it is. You may be able to handle simple issues like missing payments or forms yourself. But anything more complex, or in disputed areas, you may need help interpreting federal and state tax policy and, down the line, representation to present your case before taxing authorities.

## Understand why

There are more than 100 reasons why the IRS sends notices to taxpayers--a flagged item on your tax return, request for taxes due, or a change in your account.

Next steps when you  
receive a tax notice:

- Don't panic
- Understand why
- Know how to respond
- Act before the issue escalates
- Avoid making promises

The [reasons](#) generally fall within the following categories.

- Balance due
- Larger or smaller refund due
- Question about a tax return
- Need for identity verification
- Need for additional information
- Change in return
- Processing delays

State notices are often triggered for many of the same reasons as federal notices. In other cases, what the state hasn't seen can trigger an inquiry. Often taxpayers may receive a notice if they have filed a tax return for one type of tax (income, payroll, or sales) but not another. States cross-check their system to see if a taxpayer is filing for other tax types and if they aren't, the taxpayer may be flagged for an inquiry. For example, a business that files payroll but not an income tax return and doesn't have a sales and use tax license may be flagged for questioning.

When expected returns don't show up, states may flag an open account. A taxpayer that files a sales, income or payroll tax return in one period and fails to file in the following period may trigger an inquiry. This oversight commonly occurs when month-to-month sales tax filers fail to file a "zero" balance return in months with no sales.

Nexus questionnaires and out-of-state taxpayer letters can be particularly onerous notices to receive. Nexus questionnaires are sent to businesses not currently filing income tax or sales tax returns to obtain information concerning their out-of-state business activities and to determine whether those activities subject the company to nexus, and thus, a filing responsibility.

Generally, the questions on a nexus questionnaire can be quite broad and are designed to catch noncompliant taxpayers. Instead of responding with a simple "yes," each question may be an opportunity for you to further explain your activities in a way that provides a solid basis for concluding you do not have nexus.

## Know how to respond

While everyone wants to be honest, especially with a government inquiry, it is important to understand your facts before you let a taxing authority decide who you are and what you need to do. How you respond and what you say will directly impact the taxing authority's next steps, including further examination.

However you decide to proceed, act before the issue escalates and your options become limited. Enlisting the help of an experienced tax professional can help you avoid common pitfalls as you work to present your case in the best possible light.

*How you respond and what you say will directly impact the taxing authority's next steps*

# We're here to help

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