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Enrolled Agent Part 3 Study Guide

Representation, Practices & Procedures — SEE Part 3

Current Circular 230 & IRS procedures · for SEE testing July 2026 – Feb 2027

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How to Use This Guide and the SEE Part 3 Exam Format

What Part 3 covers

The Special Enrollment Examination (SEE) is the three-part test the IRS uses to decide who may become an enrolled agent (EA). Part 1 covers individuals, Part 2 covers businesses, and **Part 3 covers Representation, Practices and Procedures**. You can take the parts in any order.

Part 3 tests the rules for working with clients and with the IRS: who may practice before the IRS, the duties and restrictions in Treasury Department **Circular 230**, preparer and taxpayer penalties, statutes of limitation, examinations, collections, appeals, authorizations, and electronic filing. It has fewer computations than Parts 1 and 2. Most questions ask you to choose the right rule, deadline, form, or consequence.

The IRS says SEE questions are based on tax law as amended through **December 31, 2025**. For penalty amounts that are adjusted for inflation, this guide gives the figures for **returns filed in 2026** (2025 tax-year returns).

Exam format at a glance

Item	Rule for the July 2026 – February 2027 window
Test vendor	PSI Services (replaced Prometric on March 1, 2026)
Questions per part	100 multiple-choice: 85 scored and 15 unscored experimental questions
Testing time	3.5 hours per part. Seat time is about 4 hours, including a tutorial, a survey and two scheduled 10-minute breaks.
Materials	Closed book
Scoring	Scaled scores run from 200 to 800. The passing score is 500.
Score report	If you pass, you see "pass" without a number. If you fail, you get a scaled score and diagnostic information by topic area.
Fee	$317 per part, paid when you schedule. It is non-refundable and non-transferable.
Domestic testing window	July 1, 2026 through February 28, 2027. No testing in March and April while the exam is updated.
Attempts	Up to 4 attempts per part in each testing window
Retake wait	24 hours after a failed attempt before you can schedule that same part again
Rescheduling	Free if done at least 48 hours before the appointment. Later changes require a new exam fee.
Carryover	A passed part stays valid for 3 years from the date you passed it.
Enrollment	Apply on Form 23 ($140) within 1 year of passing the last part.

Watch out: The scoring scale changed when PSI took over. Older study material says scores run from 40 to 130 with a pass mark of 105, and it may name Prometric as the vendor. Those figures no longer apply. Confirm current rules on IRS.gov and the PSI website before you book.

Here is how the 3-year carryover works in practice.

Example: Lena passes Part 1 on November 15, 2025, and Part 2 on February 15, 2026. Each part carries over for 3 years from its own pass date. She must pass Part 3 by **November 15, 2028**, or her Part 1 credit expires. Once Part 1 expires she must retake it, and her Part 2 credit is still good until **February 15, 2029**.

The four content domains

The IRS content outline for Part 3 groups the questions into four domains. This guide follows those domains and splits them into chapters that match the practice tests.

Official domain	Chapters in this guide
1. Practices and procedures	2 Practice before the IRS · 3 Enrolled agent status · 4 Circular 230 duties · 5 Preparer responsibilities and due diligence · 6 Preparer penalties and sanctions
2. Representation before the IRS	10 Authorizations (Forms 2848 and 8821, CAF) · 9 Recordkeeping and IRS procedures · 7 Taxpayer penalties and interest
3. Specific areas of representation	8 Statutes of limitation · 11 Examinations · 12 Collections · 13 Appeals and the Tax Court
4. Filing process	14 Filing process and e-file rules

The first three domains carry most of the scored questions. The filing process domain is the smallest. Exact counts can change from one window to the next, so spread your study time across every chapter.

A study plan that works

1. **Read one chapter, then take that chapter's practice test** on UPractice.org. For every question you miss, go back and reread that part of the chapter.
2. **Make a numbers sheet.** Part 3 rewards exact recall: 30 days, 90 days, 3 years, 10 years, 36 months, $65, $650, 20%, 75%. Each chapter ends with tables you can copy.
3. **Learn the form numbers.** You will see 2848, 8821, 656, 9465, 433-A, 12153, 843, 8857, 872, 870, 4549, 8879, 8867 and 8948.
4. **Do the worked examples yourself** before you read the answer. The penalty arithmetic follows a few fixed patterns.
5. **Finish with chapter 15**, the final review checklist, in the last week before the exam.

> **Exam tip:** Many questions turn on one word, such as *may* or *must*, *knows* or *should know*, *willful* or *negligent*, or *all* or *except*. Read the last sentence of the question first so you know what it is asking, then read the facts.

Many dates and periods recur across Part 3. This shortcut groups the most common ones.

> **Memory trick:** For Part 3 timelines, think "**30 – 90 – 3 – 10**": 30 days to protest or request a CDP hearing, 90 days to petition the Tax Court, 3 years to assess, 10 years to collect.

On test day

- Arrive early, or check in early for a remote session. If you arrive 30 or more minutes late, you lose the whole fee.

- Bring the ID that PSI requires. The name on it must match your registration exactly.
- Answer every question. There is no penalty for guessing.
- Use the review flag on hard questions and come back to them after you finish the rest.

Key takeaways

- Part 3 has 100 questions (85 scored) in 3.5 hours. The scale is 200 to 800, and 500 passes.
- The 2026–27 domestic window runs from July 1, 2026 to February 28, 2027, with PSI as the vendor. The fee is $317 per part.
- You get up to 4 attempts per window. Passed parts carry over for 3 years.
- Questions reflect law through December 31, 2025.
- Study chapter by chapter and take the matching practice tests on UPractice.org.

Practice Before the IRS

Circular 230 in one page

Treasury Department **Circular 230** (31 CFR Part 10) is the set of regulations that governs practice before the IRS. The version in effect is **Rev. 6-2014**. It has five subparts:

Subpart	Sections	What it covers
A – Rules governing authority to practice	10.0 – 10.9	Who may practice, enrollment, renewal, CE, return preparers
B – Duties and restrictions	10.20 – 10.38	Records, diligence, fees, conflicts, advertising, standards for returns and advice
C – Sanctions	10.50 – 10.53	Censure, suspension, disbarment, monetary penalties, disreputable conduct
D – Rules applicable to disciplinary proceedings	10.60 – 10.82	Complaints, answers, hearings, appeals, reinstatement, expedited suspension
E – General provisions	10.90 – 10.93	Records, saving clause, effective date

The **Office of Professional Responsibility (OPR)** administers and enforces Circular 230 and handles discipline. The **Return Preparer Office** handles PTINs and the Annual Filing Season Program. Its Office of Enrollment handles EA applications and renewals.

> **Memory trick:** Read the subparts as a story. **A** says who gets in, **B** says how to behave, **C** says what happens if you don't, **D** is the trial, and **E** is the fine print.

What "practice before the IRS" means

Under section 10.2, practice before the IRS covers **all matters connected with a presentation to the IRS about a taxpayer's rights, privileges or liabilities** under the laws the IRS administers. It includes:

- preparing documents and filing them with the IRS
- corresponding and communicating with the IRS
- giving written advice about any entity, transaction, plan or arrangement that could avoid or evade tax
- representing a client at conferences, hearings and meetings

According to IRS guidance, the following are **not** practice before the IRS:

- preparing a tax return, by itself

- furnishing information at the IRS's request
- appearing as a witness for the taxpayer

A practitioner is an attorney, CPA, EA, enrolled actuary or enrolled retirement plan agent.

> **Watch out:** Preparing a return is not, by itself, practice before the IRS. Paid preparers are still subject to the Subpart B duties and the Subpart C sanctions when they prepare returns, through section 10.8. In 2013, *Loving v. IRS* held that the IRS cannot license or regulate unenrolled preparers as practitioners. The IRS answered with the voluntary Annual Filing Season Program.

Who may practice, and how far

Who	Scope of practice
Attorney (in good standing in any state, DC or territory)	Unlimited: any matter, any IRS office, any taxpayer
CPA (duly qualified to practice in any state)	Unlimited
Enrolled agent	Unlimited: may represent any taxpayer on any tax matter before any IRS office
Enrolled actuary	Limited to certain pension and actuarial matters
Enrolled retirement plan agent	Limited to certain employee plan matters
AFSP Record of Completion holder	Limited: may represent only in examinations, and only for returns the person prepared and signed. See below.
Unenrolled preparer without AFSP	Cannot represent clients for returns prepared and signed after December 31, 2015. May receive information through Form 8821.

> **Exam tip:** EAs have the **same unlimited representation rights** before the IRS as attorneys and CPAs. Being an EA does **not** let you practice law or represent clients in the U.S. Tax Court. Tax Court practice requires bar admission or passing the Tax Court's own nonattorney exam.

Limited practice without enrollment (section 10.7)

Some people may represent a taxpayer without being practitioners, because of their relationship to that taxpayer:

- **Yourself.** Any individual may represent himself or herself.
- **Family member.** An individual may represent a member of their immediate family.
- **Officer.** A bona fide officer may represent the corporation or association.

- **Partner.** A general partner may represent the partnership.
- **Employee.** A regular full-time employee may represent the employer.
- **Fiduciary.** A trustee, receiver, guardian, administrator, executor or personal representative may act for the taxpayer. A fiduciary acts *as* the taxpayer, so no Form 2848 is needed. File Form 56 instead.
- **Unenrolled return preparer.** Limited to the cases described next.
- **Special appearance.** The IRS may authorize any individual to represent another person in a particular matter.

Annual Filing Season Program (AFSP)

The AFSP is voluntary. A preparer who completes the required annual CE gets a **Record of Completion**. That requires 18 hours, made up of a 6-hour Annual Federal Tax Refresher course with a test, 10 hours of federal tax law and 2 hours of ethics. The preparer must also have a valid PTIN and consent to the Circular 230 duties. Certain exempt groups need fewer hours.

AFSP participants have **limited representation rights**. They may represent clients before revenue agents, customer service representatives and similar employees, during an **examination** of a return they **prepared and signed**. For returns prepared and signed after December 31, 2015, they need a Record of Completion for both the year the return was prepared and the year of the representation.

An AFSP participant **cannot**:

- represent a client before Appeals, revenue officers (Collection) or Chief Counsel
- sign a closing agreement or a consent to extend the statute of limitations
- sign a waiver or file a refund claim on the client's behalf

> **Example:** Marco is an unenrolled preparer with an AFSP Record of Completion for 2025 and 2026. He prepared and signed Dana's 2025 return in March 2026. In September 2026 Dana's return is selected for a correspondence exam. Marco **may** represent Dana before the examiner. If the exam goes unagreed and Dana requests Appeals, Marco **may not** follow the case to Appeals. Dana will need an attorney, CPA or EA there. If Marco had prepared the return but not signed it, he could not represent her at all.

Practice by former government employees and notaries

- **Former government employees (section 10.25).** A former IRS or Treasury employee may not represent anyone in a particular matter in which he or she **personally and substantially participated** while in government. Further time-limited

bars apply to matters under the employee's official responsibility. A firm that hires a former employee must isolate that person from such matters.

- **Notaries (section 10.26).** A practitioner who is a notary may not take acknowledgments, administer oaths or certify papers in any matter in which he or she is employed as counsel, attorney or agent, or has a material interest.

Rules for return preparers (section 10.8)

Anyone who prepares, or helps prepare, all or substantially all of a return or refund claim for compensation must have a valid **PTIN**. Such preparers are subject to the Subpart B duties and the Subpart C sanctions even if they are not practitioners. An individual who prepares returns without a valid PTIN can be sanctioned under section 10.51(a)(17).

> **Watch out:** A person who only types, reproduces or does other mechanical work on a return is **not** a "preparer". Someone who prepares a return without pay, such as for a friend, does not need a PTIN.

Key takeaways

- Circular 230 (Rev. 6-2014) governs practice. OPR enforces it.
- Practice covers preparing and filing documents, communicating with the IRS, written advice and representation. Preparing a return by itself is not practice.
- Attorneys, CPAs and EAs have unlimited practice rights. Actuaries and retirement plan agents are limited. AFSP holders may represent only in exams of returns they prepared and signed.
- Section 10.7 lets you represent yourself, your family, your employer, your partnership or your corporation, or act as a fiduciary, without enrollment.
- EA status does not give the right to practice law or to appear in the Tax Court.

Enrolled Agent Status: Enrollment, Renewal, CE and PTIN

Two paths to enrollment

Section 10.4 of Circular 230 allows two ways to become an enrolled agent:

1. **Pass all three parts of the SEE**, then apply for enrollment.
2. **Qualify through IRS experience.** A former IRS employee may qualify without the exam if they have at least **5 years** of continuous IRS employment in technical work that regularly applied and interpreted the Code and regulations. The scope of the enrollment can be limited to the areas the person worked in.

Either way, the applicant must be at least 18 and must pass a **suitability check**. The check reviews the applicant's own tax compliance, meaning filed returns and paid taxes, and includes a criminal background review.

Applying: Form 23

Item	Rule
Application form	Form 23, *Application for Enrollment to Practice Before the IRS*
Fee	$140, non-refundable. Pay through Pay.gov online, or by check if you mail the form.
Deadline	Within **1 year** of the date you passed the last part of the SEE
Prerequisite	A valid PTIN
Processing	About 60 days; 90–120 days for former IRS employees
Possible denial reasons	Unfiled returns, unpaid taxes, conduct described in section 10.51

An applicant who is denied gets written notice of the reasons. He or she may **appeal to the Secretary of the Treasury (or delegate) within 30 days**.

> **Watch out:** Passing the SEE does not make you an EA. You are enrolled only when the IRS approves your Form 23 and issues your enrollment card. Until then you may not call yourself an enrolled agent.

Renewal: Form 8554 and the three-year cycle

EAs renew every **3 years**. The cycle you belong to depends on the **last digit of your Social Security number**:

Last digit of SSN	Renewal group
0, 1, 2 or 3	Group 1
4, 5 or 6	Group 2
7, 8 or 9, or no SSN	Group 3

Each year one group renews, in rotation. The current window is for SSNs ending in **7, 8 or 9**, and for EAs without an SSN. It runs from **October 1, 2026 to January 31, 2027**, and the new cycle begins **April 1, 2027**. An EA in that group who does not renew loses active enrollment after **March 31, 2027**.

Renewal item	Rule
Form	Form 8554, filed online through Pay.gov
Fee	$140, non-refundable whether or not renewal is approved
Other requirements	Active PTIN, CE completed, personal and business tax compliance
Processing	Allow about 90 days
Tax compliance check	Form 8554 asks whether you have filed and paid all individual and business taxes. A "no" answer needs an explanation.

> **Exam tip:** Your first renewal comes at the end of the cycle that contains your enrollment date, even if you were enrolled only a short time. That is why CE for a new EA is prorated (see below).

Continuing education (section 10.6)

CE requirement	Amount
Per 3-year enrollment cycle	**72 hours**
Minimum each year	**16 hours**
Ethics each year	**2 hours**. These count toward the 16, for 6 ethics hours per cycle.
Provider	Must be an IRS-approved CE provider
Subject	Federal tax law or federal tax-related matters, including accounting, tax preparation software and ethics
CE year	Calendar year, January 1 – December 31
Record retention	Keep proof of CE for **4 years** after the renewal date
First (prorated) renewal	**2 hours for each month** enrolled during the cycle, including 2 hours of ethics for each year enrolled
Retook and passed the SEE since last renewal	Only 16 hours are needed in the last year of the cycle

Example: Priya was enrolled partway through a cycle and has **20 months** of enrollment when her first renewal comes due. Her requirement is 2 hours × 20 months = **40 hours**. Those 40 hours must include 2 hours of ethics for each enrollment year. She does not need the full 72 hours, and the 16-hour annual minimum does not apply to her partial first cycle.

Experienced EAs must also meet the annual minimums, as the next example shows.

Example: Carlos completed 30 hours of CE in year 1 of his cycle, 30 in year 2 and 12 in year 3, for a total of 72. The total looks right, but year 3 is **4 hours short** of the 16-hour annual minimum (16 − 12 = 4). The extra hours from earlier years cannot fill that gap. He does not meet the requirement.

To remember the CE rules, use this shortcut.

Memory trick: "**72 – 16 – 2**": 72 hours per cycle, at least 16 every year, with 2 hours of ethics every year.

Inactive and retired status

- An EA who does not meet the renewal requirements is placed on the **roster of inactive enrolled individuals**. An inactive EA may not practice or call himself or herself an EA.

To return to active status, the EA files a renewal application showing the missing CE was completed.

- An EA who stays inactive past the allowed period, or does not apply, can be moved to **terminated** status. To practice again, that person must reapply, which can mean retaking the SEE.
- An EA who no longer practices may request **inactive retirement status**, and may later apply to return to active status.

Preparer Tax Identification Number (PTIN)

Anyone who prepares, or substantially assists in preparing, a federal return for compensation must have a PTIN and enter it on every return they sign. EAs must hold an **active PTIN** to keep their enrollment active.

PTIN rule	Detail
How to get one	Apply online through the IRS Tax Pro Account / PTIN system, or on paper with Form W-12
Fee	**$18.75** to obtain or renew. This amount applies for both 2026 and 2027.
Term	One calendar year. Every PTIN expires on **December 31**.
Renewal season	Renew online from mid-October through December 31 for the next year
Other identification	Firms show their EIN on the return in addition to the preparer's PTIN
No PTIN	Preparing returns for pay without a valid PTIN can bring section 6695(c) penalties and Circular 230 sanctions

Watch out: The PTIN fee and the EA renewal fee are different. The PTIN costs **$18.75 every year**. EA renewal costs **$140 every 3 years**. The Form 23 enrollment fee is also **$140**. The SEE fee is **$317 per part**.

Using the EA title

EAs may describe themselves as "enrolled agent," "enrolled to represent taxpayers before the Internal Revenue Service," "enrolled to practice before the Internal Revenue Service," or "admitted to practice before the Internal Revenue Service" (section 10.30). EAs may **not** use the word "certified," and may not imply that they are employed by or connected with the IRS. EAs may use the "EA" designation.

Key takeaways

- To become an EA, pass all three SEE parts and file Form 23 ($140) within 1 year, or qualify with 5 years of technical IRS work. Everyone faces a suitability and tax compliance check.
- Renewal is every 3 years on Form 8554 ($140). The group depends on the last digit of the SSN. SSNs ending 7–9 renew from October 1, 2026 to January 31, 2027, for a cycle starting April 1, 2027.
- CE is 72 hours per cycle, at least 16 hours a year, and 2 hours of ethics a year, from approved providers. Keep CE records for 4 years.
- A new EA needs 2 hours of CE per month enrolled, including 2 ethics hours a year.
- The PTIN fee is $18.75, renewed every year, and every PTIN expires December 31.

Circular 230 Duties and Restrictions

Subpart B (sections 10.20–10.38) sets out what practitioners must do and what they must not do. This is the most heavily tested part of Circular 230. For each section, know what the rule requires, what triggers it and any time limit.

Quick map of Subpart B

Section	Topic	Core rule in one line
10.20	Information to be furnished	Promptly give the IRS records it properly requests, unless you reasonably believe they are privileged
10.21	Knowledge of client's omission	Promptly advise the client of an error or omission and its consequences
10.22	Diligence as to accuracy	Exercise due diligence in preparing documents and making representations
10.23	Prompt disposition	Do not unreasonably delay a matter before the IRS
10.24	Assistance from disbarred persons	Do not knowingly accept help from, or help, a suspended or disbarred person
10.25	Former government employees	Bars on matters handled while in government
10.26	Notaries	No notarial acts in matters where you are the representative
10.27	Fees	No unconscionable fees. Contingent fees only in 3 situations.
10.28	Return of client records	Return the client's records on request
10.29	Conflicting interests	Written informed consent. Keep it 36 months.
10.30	Solicitation and advertising	No false or misleading claims. Honor published fees for 30 days. Keep copies 36 months.
10.31	Negotiation of taxpayer checks	Never endorse or negotiate a client's government refund check
10.32	Practice of law	Circular 230 does not authorize practicing law
10.33	Best practices	Aspirational standards for tax advisors
10.34	Standards for returns and documents	Do not sign a return with an unreasonable position. Advise clients on penalties.
10.35	Competence	Have the knowledge, skill, thoroughness and preparation the matter needs
10.36	Procedures to ensure compliance	Firm leaders must have adequate procedures
10.37	Written advice	Reasonable assumptions, facts and reliance. Do not consider the chance of audit.
10.38	Advisory committees	Practitioners may serve on IRS advisory committees

10.20 – Information to be furnished

When an authorized IRS officer or employee properly requests records or information, the practitioner must **promptly submit** them. The exception is when the practitioner believes in good faith, on reasonable grounds, that they are **privileged**. If the records are not in the practitioner's possession, the practitioner must promptly say so and give any information he or she has about who may have them. The practitioner may not interfere with, or try to interfere with, a proper IRS attempt to get the information. The exception is when the practitioner believes in good faith that the information is privileged.

10.21 – Knowledge of a client's omission

A practitioner who **knows** that a client has not complied with the tax law, or has made an error or omission in a return or other document, must **promptly advise the client** of two things: the noncompliance, error or omission, and its **consequences** under the Code and regulations.

> **Watch out:** Section 10.21 requires you to tell the **client**, not the IRS. You have no duty to report the client to the IRS, and you may not do so without the client's consent (see the section 7216 disclosure rules in chapter 5). If the client refuses to correct a return, you may need to decide whether you can keep representing them. You cannot file a document you know is false.

Here is how section 10.21 works in practice.

> **Example:** While preparing Ana's 2025 return, an EA notices that Ana's 2024 return, which another preparer prepared, left out $8,000 of Form 1099-NEC income. Under section 10.21 the EA must promptly tell Ana about the omission and its consequences, such as additional tax, interest, possible accuracy-related penalties and the option to amend. The EA is not required to amend the 2024 return or to notify the IRS. When preparing the 2025 return, the EA must decide whether a pattern of omissions affects the current year.

10.22 and 10.23 – Diligence and promptness

- **10.22.** A practitioner must exercise **due diligence** in preparing, approving and filing returns and other documents, and in determining the correctness of oral and written statements to clients and to the IRS. A practitioner may rely on the work product of another person if the practitioner used **reasonable care** in engaging, supervising, training and evaluating that person.
- **10.23.** A practitioner must not **unreasonably delay** the prompt disposition of any matter before the IRS.

10.24 – Assistance from or to disbarred and suspended persons

A practitioner must not **knowingly**, directly or indirectly:

- accept help from, or help, any person who is under disbarment or suspension from practice, if the help relates to a matter that is practice before the IRS
- accept help from a former government employee in a way that violates section 10.25 or federal law

10.27 – Fees

Rule	Detail
Unconscionable fees	Prohibited in any matter before the IRS
Contingent fee, general rule	**Prohibited** for services connected with any matter before the IRS
Exception 1	Services connected with an IRS **examination of, or challenge to, an original return**, or an amended return or refund claim **filed within 120 days** after the taxpayer receives a written notice of the examination or challenge
Exception 2	Services connected with a refund claim filed **solely** for interest or penalties assessed by the IRS
Exception 3	Services connected with any **judicial proceeding** arising under the Code
Fixed and hourly fees	Allowed, as are fees based on the time and complexity of the work

A contingent fee is any fee based, in whole or in part, on whether a position is sustained or on a specified result. That includes a fee based on a percentage of the refund or of the tax savings, and an arrangement to refund some of the fee if a position is not sustained.

> **Example:** On May 1 a client receives a letter saying her original 2024 return is under examination. Her EA proposes a fee of 25% of any tax the exam fails to sustain. This is **allowed**, because it relates to an IRS examination of an original return. Now suppose the client asks the EA to prepare an amended return claiming a new deduction, for a fee of 20% of the refund. That fee is allowed **only if** the amended return is filed within 120 days after the client received the exam notice, which is **by August 29** in this case. A contingent fee for preparing an *original* return is never allowed.

To remember the three exceptions, use this shortcut.

Memory trick: The three contingent-fee doors are **E-I-J**: **E**xam (including an amended return or claim filed within 120 days of the exam notice), **I**nterest and penalty refund claims, and **J**udicial proceedings.

10.28 – Return of client records

When the client asks, a practitioner must **promptly return any and all records of the client** that the client needs to comply with federal tax obligations. The practitioner may keep copies.

- An unpaid fee **does not** let the practitioner keep the client's original records, such as W-2s, 1099s and bank statements.
- If state law lets the practitioner keep records during a fee dispute, the practitioner need only return the records that must be **attached to the client's return**. The practitioner must still give the client reasonable access to review and copy any other client records the client needs.
- The client's records are what the client gave the practitioner. They also include any return or document the practitioner prepared and gave the client, or that the client already filed.
- The practitioner's own **work product**, such as worksheets, research memos and a return the client has not paid for and that has not been delivered, is **not** a client record. It may be withheld until the fee is paid.

Watch out: A typical question: "The client owes you $1,500 and wants her documents back. What must you do?" Return her original W-2s, 1099s and other records promptly. You may keep your unpaid work product, such as a return you prepared but have not delivered.

10.29 – Conflicting interests

A conflict of interest exists when representing one client is **directly adverse** to another client, or when there is a **significant risk** that the representation will be materially limited by the practitioner's duties to another client, a former client, a third person, or the practitioner's own personal interest. A common example is representing both spouses when one wants innocent spouse relief.

A practitioner may still represent the clients if **all** of these are true:

1. The practitioner reasonably believes he or she can give **competent and diligent** representation to each affected client.
2. The representation is not prohibited by law.

3. **Each affected client** waives the conflict by giving **informed consent, confirmed in writing**.

Item	Time limit
When written confirmation must be obtained	When the conflict becomes known. If that is not possible, within a reasonable period, but **no later than 30 days** after the conflict is known.
How long to keep the written consents	**36 months** from the date the representation ends
IRS access	Provide the consents to the IRS on request

10.30 – Solicitation and advertising

- No false, fraudulent, coercive, misleading or deceptive statements or claims in any advertising or solicitation.
- EAs must describe their status only in the approved terms from chapter 3. They may not use "certified" or imply an IRS connection.
- **Fee information** that may be published includes fixed fees for specific routine services, hourly rates, a range of fees, the fee for an initial consultation, and the availability of a written fee schedule. The practitioner may not charge more than a published fee for at least **30 calendar days** after the last date the fee information was published or broadcast.
- A practitioner must keep a copy of any advertisement or communication, and a list of the people it was sent to, for **36 months** from the date of last use.
- Uninvited in-person solicitation is restricted. Some contacts are allowed, such as with existing or former clients and family members.
- Communications must identify the practitioner and comply with other applicable law.

10.31 – Negotiation of taxpayer checks

A practitioner who prepares returns must not **endorse or otherwise negotiate** any check issued to a client by the government for a federal tax liability. That includes directing or accepting payment of the refund, by any means, into an account the practitioner owns or controls. This is the counterpart of preparer penalty section 6695(f) (chapter 6).

10.33 – Best practices (aspirational)

Tax advisors **should**:

- communicate clearly with the client about the terms of the engagement
- establish the relevant facts and evaluate the reasonableness of any assumptions

- relate the applicable law to the facts
- arrive at a conclusion supported by the law and the facts
- advise the client of the conclusion and its impact, including penalty consequences
- act fairly and with integrity in practice before the IRS

Firm leaders should take reasonable steps to make sure the firm's procedures follow these practices. Section 10.33 is a guideline. Violating it does not by itself lead to sanctions.

10.34 – Standards for tax returns and documents

(a) Returns. A practitioner may not willfully, recklessly or through gross incompetence sign a return or refund claim, or advise a client to take a position, that the practitioner knows or should know:

- lacks a **reasonable basis**
- is an **unreasonable position** as described in section 6694(a)(2) (the preparer penalty standard)
- is a willful attempt to understate the liability, or a reckless or intentional disregard of the rules

(b) Documents, affidavits and other papers. A practitioner may not advise a client to take a position on a document submitted to the IRS that is frivolous, or that is meant to delay or impede the administration of the tax laws. A practitioner may not submit such a document. A practitioner also may not advise a client to submit a document with frivolous positions or an intentional disregard of the rules unless the practitioner also advises the client how to avoid penalties.

(c) Advising clients on penalties. The practitioner must inform the client of any penalties **reasonably likely to apply** to a position the practitioner advised or prepared, and of any opportunity to avoid them through **disclosure** (for example, Form 8275), along with the requirements for adequate disclosure.

(d) Relying on client information. A practitioner may rely **in good faith, without verification**, on information the client furnishes. The practitioner may not ignore the implications of what he or she knows. The practitioner must make **reasonable inquiries** if the information appears **incorrect, inconsistent or incomplete**.

> **Example:** A client says he paid $14,000 in charitable cash gifts on $38,000 of wages. The EA does not need receipts for every routine item. But this amount is unusually large compared with the client's income, so section 10.34(d) requires reasonable inquiry. The EA should ask about acknowledgments and the recordkeeping rules before claiming the deduction.

10.35, 10.36 and 10.37 – Competence, procedures and written advice

- **10.35 Competence.** Competent practice means having the knowledge, skill, thoroughness and preparation needed for the engagement. A practitioner may become competent through research or by consulting experts.
- **10.36 Procedures to ensure compliance.** Anyone with principal authority for a firm's practice must take reasonable steps to make sure the firm has adequate procedures for compliance with Circular 230. That person can be sanctioned if, through willfulness, recklessness or gross incompetence, they fail to do so, or fail to act after learning of a pattern of noncompliance.
- **10.37 Written advice.** When giving written advice on any federal tax matter, including email and other electronic communications, a practitioner must:
- base it on **reasonable factual and legal assumptions**, including about future events
- **reasonably consider all relevant facts** the practitioner knows or should know
- use reasonable efforts to identify and ascertain the facts
- not rely **unreasonably** on representations, statements, findings or agreements of the taxpayer or anyone else
- relate the law to the facts
- **not take into account the possibility that a return will not be audited** or that an issue will not be raised or will be settled

When the practitioner knows or has reason to know the advice will be used to promote, market or recommend an investment plan, a heightened standard of care applies.

> **Watch out:** The old "covered opinion" rules in the former section 10.35 were removed in 2014. Today section 10.35 is about **competence**, and section 10.37 sets one principles-based standard for **all** written advice.

Section 7525 – the federally authorized tax practitioner privilege

Section 7525 extends attorney-client confidentiality to tax advice from any federally authorized tax practitioner, including EAs and CPAs. It has limits:

- It applies **only in non-criminal** tax matters before the IRS and in non-criminal tax proceedings in federal court.
- It does **not** cover written communications that promote a **tax shelter**.
- It covers **advice**, not return preparation information. Information given in order to prepare a return is generally not privileged.

Key takeaways

- Section 10.20: promptly provide records the IRS properly requests, unless you reasonably believe they are privileged.
- Section 10.21: when you know of an error or omission, tell the client and explain the consequences. You have no duty to tell the IRS.
- Contingent fees are allowed only for exams (including claims filed within 120 days of the exam notice), interest and penalty refund claims, and judicial proceedings.
- Return the client's records on request even if the fee is unpaid. Unpaid work product may be withheld.
- For conflicts, get written informed consent within 30 days and keep it 36 months. Keep advertising records 36 months and honor published fees for 30 days.
- Never endorse or negotiate a client's refund check.
- Section 10.34 requires a reasonable basis or better, advice on penalties and disclosure, and reasonable inquiry when client information looks wrong.
- Section 10.37 says to ignore the chance of an audit and to use reasonable assumptions and reliance.

Preparer Responsibilities and Due Diligence

Who is a "tax return preparer"?

Under section 7701(a)(36) and the regulations under it, a tax return preparer is anyone who prepares **for compensation**, or employs others to prepare for compensation, **all or a substantial portion** of a return or refund claim. There are two kinds.

- **Signing preparer.** The individual preparer who has primary responsibility for the overall substantive accuracy of the return. This person signs the return.
- **Nonsigning preparer.** Someone who prepares a substantial portion of the return, or gives advice on one, but does not sign. Advice given after a return is filed, about events that have already happened, generally does not make someone a preparer of that return.

People who are **not** preparers include:

- someone who only gives typing, reproduction or other mechanical help
- an employee preparing the employer's return
- a fiduciary preparing a return for the trust or estate
- someone preparing a refund claim in response to an IRS notice of deficiency or waiver
- volunteers who are not paid, such as VITA volunteers

The basic duties of every paid preparer

Duty	Code section	Penalty for failure (returns filed in 2026)
Give the taxpayer a **copy** of the return, no later than when the taxpayer is asked to sign it	6107(a) / 6695(a)	$65 per failure
Sign the return (manual or approved electronic signature)	6695(b)	$65 per failure
Enter your **identifying number (PTIN)**	6109(a)(4) / 6695(c)	$65 per failure
Keep a copy of the return, or a list of the taxpayers' names and TINs, for **3 years** after the close of the return period	6107(b) / 6695(d)	$65 per failure
A firm must keep a record of the preparers it employed during the return period, available for **3 years**	6060 / 6695(e)	$65 per return and per item
Do not endorse or negotiate a client's refund check	6695(f)	$650 per check
Meet the **due diligence** rules for EITC, CTC/ACTC/ODC, AOTC and head of household status	6695(g)	$650 per failure

For returns filed in 2026, the annual cap on each $65 penalty type is **$32,500**. The $650 penalties under 6695(f) and (g) have **no cap**. Chapter 6 has the full table.

> **Watch out:** The 6695(a) through (e) penalties do **not** apply if the failure was due to **reasonable cause and not willful neglect**. The 6695(g) due diligence penalty has no reasonable cause exception. The preparer avoids it only by actually meeting the due diligence requirements.

Due diligence for refundable credits and HOH status (section 6695(g))

A paid preparer who prepares a return or claim claiming any of these benefits must meet four due diligence requirements:

- **EITC** (earned income tax credit)
- **CTC / ACTC / ODC** (child tax credit, additional child tax credit, credit for other dependents)
- **AOTC** (American opportunity tax credit)
- **HOH** (head of household filing status)

The four requirements

#	Requirement	What it means
1	**Complete and submit Form 8867**	Fill out the *Paid Preparer's Due Diligence Checklist* from information the client gave, and file it with the return
2	**Compute the credits**	Complete the computation worksheets, or your own equivalent record, for each credit claimed
3	**Knowledge**	Do not know, or have reason to know, that information used is incorrect. Make reasonable inquiries when information seems incorrect, inconsistent or incomplete, and **document** the questions and answers when you make them.
4	**Keep records**	Keep Form 8867, the worksheets, a record of how and when you got the information, and copies of any documents the client provided, for **3 years** from the latest of the return due date, the date you filed it, or the date you gave it to the taxpayer to file

Memory trick: "**F-C-K-R**": **F**orm 8867, **C**omputation, **K**nowledge, **R**ecords.

Penalty computation

The penalty is **per failure**. One return can claim up to four covered benefits (EITC, CTC/ACTC/ODC, AOTC and HOH), so one return can carry up to **4 penalties**.

Example: A preparer files a 2025 return in 2026 that claims HOH status, the EITC, the CTC and the AOTC. The preparer did not complete Form 8867 or make any inquiries, so all four benefits fail the requirements. Penalty = 4 × $650 = **$2,600** for this one return. If the same preparer had 10 such returns, the exposure would be 10 × $2,600 = $26,000. No annual cap applies.

Who else can be penalized

- An **employer** of the preparer can also be penalized under section 6695(g) when:
- a manager participated in the failure or knew about it, or
- the firm failed to have reasonable compliance procedures, or
- the firm disregarded its own procedures.
- The **client** may have to repay the credit with interest and may face accuracy or fraud penalties. A client who claimed the credit improperly through reckless or intentional disregard of the rules can be barred from the EITC, CTC/ACTC/ODC or AOTC for **2 years**. For **fraud**, the bar is **10 years**. A client whose credit was denied may have to file **Form 8862** before claiming it again.
- The **preparer** may face sanctions beyond the penalty, including expulsion from IRS e-file, OPR discipline, an injunction and criminal referral.

Example: A client claims two qualifying children for the EITC. One is a 20-year-old "nephew" who the client says lived with her all year. The preparer must ask follow-up questions, such as whether the nephew is a full-time student, where he lived, and what documents show he lived there, and must write down the answers. Accepting the claim with no questions would violate the knowledge requirement.

Taxpayer information: sections 7216 and 6713

Preparers may use and disclose a client's tax return information **only to prepare the return**, unless the client gives a **written consent** that meets the regulatory requirements, or a specific exception applies.

Rule	Detail
Civil penalty, section 6713	**$250 per** unauthorized disclosure or use, up to **$10,000** per calendar year
Civil penalty, identity theft related	**$1,000 per** violation, up to **$50,000** per calendar year
Criminal penalty, section 7216	A misdemeanor for **knowing or reckless** disclosure or use: fine up to **$1,000**, up to **1 year** in prison, or both, plus costs of prosecution
Consent requirements	Written, signed and dated by the taxpayer before the disclosure or use. It must identify the information, the purpose and the recipient. A consent to use information for other purposes is generally valid for **1 year** unless a different period is stated.
No consent needed	Disclosures to the IRS, to another preparer at the same firm, for quality or peer reviews, under a court order or subpoena, and in other listed situations

Watch out: Using a client's tax information to market non-tax products, such as insurance or investments, or sharing it with a lender, needs a **separate signed consent before** the disclosure. A consent signed after the information has been shared is too late.

Protecting client data

Tax professionals are "financial institutions" under the Federal Trade Commission's **Safeguards Rule**. They must keep a **written information security plan (WISP)** that names a qualified individual to run it, assesses risks, sets safeguards, trains staff and monitors service providers. If client data is stolen, the preparer should report it promptly to

the IRS (through the local Stakeholder Liaison) and follow state notification laws. IRS Publication 4557 explains the standards.

Preparer record checklist

Record	Keep for
Copy of return, or list of clients' names and TINs (6107)	3 years after the close of the return period
Record of employed preparers (6060)	3 years, for the return period
Form 8867 and due diligence documentation	3 years from the latest of the due date, the date filed, or the date given to the client
Form 8879 (e-file signature authorization)	3 years from the later of the return due date or the date the IRS received the return
Conflict-of-interest written consents (Circular 230 §10.29)	36 months after the representation ends
Advertising copies and recipient lists (§10.30)	36 months from the date of last use
EA's own CE records	4 years from the renewal date

> **Memory trick:** Preparer documents are "**3s**" (3 years). Circular 230 consent and advertising records are "**36**" (36 months). Your own CE proof is "**4**" (4 years).

Key takeaways

- A paid preparer must give the client a copy of the return, sign it, include a PTIN, and keep a copy or a list for 3 years. Each failure costs $65, up to $32,500 a year for returns filed in 2026, unless there is reasonable cause.
- The due diligence rules cover EITC, CTC/ACTC/ODC, AOTC and HOH. The four requirements are Form 8867, computation, knowledge and records kept for 3 years.
- The due diligence penalty is $650 per failure for returns filed in 2026. One return can have up to 4 failures, $2,600, and there is no cap.
- Client consequences include the 2-year bar (reckless or intentional disregard), the 10-year bar (fraud) and Form 8862.
- Disclosing client information without consent: $250 per disclosure, up to $10,000 a year ($1,000 and $50,000 if tied to identity theft). Criminal penalty under section 7216: up to $1,000 and 1 year.

Preparer Penalties and Circular 230 Sanctions

A preparer who gets it wrong can face three separate kinds of consequences:

- **civil penalties** under the Internal Revenue Code, assessed by the IRS
- **disciplinary sanctions** under Circular 230, imposed through OPR
- **criminal prosecution** in serious cases

The exam expects you to tell these apart.

Understatement penalties: section 6694

Subsection	Conduct	Penalty per return or claim
6694(a)	Understatement caused by an **unreasonable position** that the preparer knew or reasonably should have known about	Greater of **$1,000** or **50%** of the income the preparer derived (or will derive) from that return
6694(b)	Understatement caused by **willful** conduct (a willful attempt to understate the tax) or **reckless or intentional disregard** of rules or regulations	Greater of **$5,000** or **75%** of the income derived

When is a position "unreasonable"?

Type of position	Standard needed to avoid the 6694(a) penalty
Not disclosed	**Substantial authority**
Disclosed (Form 8275 or 8275-R, or on the return as allowed)	**Reasonable basis**
Tax shelter or reportable transaction	The preparer must reasonably believe the position is **more likely than not** (more than 50%) to be sustained

Even if a position does not meet the standard, the preparer avoids the 6694(a) penalty by showing **reasonable cause and good faith**.

> **Memory trick:** List the standards from weakest to strongest: **reasonable basis**, about 20% (enough if disclosed); **substantial authority**, about 40% (needed if not disclosed); **more likely than not**, over 50% (needed for tax shelters). The percentages are only rough guides. The law does not state them.

If the 6694(b) penalty applies, the 6694(a) penalty for the same position is reduced by it, so the preparer is not penalized twice for one understatement. If a final court decision later finds there was no understatement, the IRS refunds the penalty.

Example: A preparer charged $1,200 for a return that took an undisclosed position with no substantial authority, and the position caused an understatement. Under 6694(a) the penalty is the greater of $1,000 or 50% × $1,200 = $600. The penalty is **$1,000**. Now suppose the preparer acted willfully on a complex return with a $12,000 fee. Under 6694(b) the penalty is the greater of $5,000 or 75% × $12,000 = $9,000. The penalty is **$9,000**.

Other assessable preparer penalties: section 6695

The amounts are adjusted for inflation each year according to the year the return is filed.

Subsection	Failure	Returns or refund claims filed in 2026	Annual maximum
6695(a)	Failure to give the taxpayer a copy	$65 per failure	$32,500
6695(b)	Failure to sign	$65 per failure	$32,500
6695(c)	Failure to furnish identifying number	$65 per failure	$32,500
6695(d)	Failure to keep a copy or list	$65 per failure	$32,500
6695(e)	Failure to file correct information returns (6060)	$65 per return and per item	$32,500
6695(f)	Negotiating a taxpayer's refund check	$650 per check	No limit
6695(g)	Due diligence failure (EITC, CTC/ACTC/ODC, AOTC, HOH)	$650 per failure	No limit

Source: Rev. Proc. 2024-40, section .55. Amounts for later years are set by later revenue procedures.

Example: A preparer forgot to enter a PTIN on 600 returns filed in 2026 and has no reasonable cause. Before the cap, the penalty would be 600 × $65 = $39,000. The 6695(c) penalty for returns filed in 2026 is capped at **$32,500**, so the IRS assesses **$32,500**.

Penalties for promoters and helpers

Section	Conduct	Penalty
6700	Promoting abusive tax shelters	For false or fraudulent statements: 50% of the gross income from the activity. For a gross valuation overstatement: the lesser of $1,000 or 100% of the gross income derived, for each activity.
6701	Aiding and abetting an understatement of tax liability	**$1,000** per taxpayer per period, or **$10,000** if the return is a corporation's. Assessed once per taxpayer per period.
6702	Frivolous tax submissions	**$5,000** per submission (this one is assessed on the taxpayer who files)
6713	Unauthorized disclosure or use of return information	$250 per disclosure, up to $10,000 per year. Tied to identity theft: $1,000 per disclosure, up to $50,000.
7407	Injunction against a preparer	A court may stop a preparer from specific conduct or, for continual or repeated conduct, from preparing returns at all
7408	Injunction against a promoter	Stops specified shelter promotion and related conduct

Criminal penalties

Section	Offense	Maximum penalty
7201	Tax evasion (felony)	$100,000 fine ($500,000 for a corporation), 5 years, or both, plus costs
7206(1)–(2)	Fraud and false statements, including **aiding or assisting** a false return (felony)	$100,000 fine ($500,000 for a corporation), 3 years, or both, plus costs
7207	Fraudulent returns, statements or documents (misdemeanor)	$10,000 fine ($50,000 for a corporation), 1 year, or both
7216	Knowing or reckless disclosure or use of return information by a preparer (misdemeanor)	$1,000 fine, 1 year, or both, plus costs

Circular 230 sanctions (Subpart C)

Types of sanctions (section 10.50)

Sanction	Effect
Censure	A public reprimand. The practitioner may keep practicing.
Suspension	No practice before the IRS for a stated period. Practice may resume when the period ends.
Disbarment	No practice before the IRS at all. The practitioner may petition for reinstatement after **5 years**.
Monetary penalty	Up to the **gross income derived**, or to be derived, from the conduct. It may be imposed in addition to, or instead of, the other sanctions. A firm may also be penalized if it knew or should have known of the conduct.
Disqualification of appraisers	An appraiser can be barred from having appraisals considered in IRS proceedings

The IRS may impose a sanction when a practitioner is shown to be **incompetent or disreputable** (section 10.51), fails to comply with Circular 230 (section 10.52), or, with intent to defraud, willfully and knowingly misleads or threatens a client or prospective client.

Disreputable conduct (section 10.51) – frequently tested examples

- Being convicted of any criminal offense under the federal tax laws, any offense involving **dishonesty or breach of trust**, or any **felony** that makes the practitioner unfit to practice
- Giving false or misleading information to Treasury or the IRS, or taking part in doing so
- Soliciting business in violation of section 10.30
- **Willfully failing to file one's own federal tax returns**, or evading or attempting to evade tax, or helping a client do so
- Misappropriating, or failing to properly remit, funds received from a client to pay taxes
- Trying to influence an IRS employee through bribery, threats or gifts
- Being disbarred or suspended as an attorney, CPA or actuary by a state or federal authority
- Knowingly helping a disbarred or suspended person practice
- Contemptuous conduct in practice, such as abusive language or false accusations
- Giving a false opinion knowingly, recklessly or through gross incompetence
- **Willfully failing to e-file** returns that must be filed electronically, or willfully failing to sign returns
- **Preparing returns for pay without a valid PTIN**
- Representing a taxpayer without a valid power of attorney or other proper authority

Violations subject to sanction (section 10.52)

A practitioner may be sanctioned for willfully violating any Circular 230 rule other than section 10.33, which is aspirational. A practitioner may also be sanctioned for **recklessly or through gross incompetence** violating sections 10.34, 10.35, 10.36 or 10.37.

Disciplinary proceedings (Subpart D)

Step	Rule
Starting a case	OPR institutes the proceeding by filing a **complaint** (sections 10.60 and 10.62). It is served on the practitioner (section 10.63).
Conference	Before filing a complaint, OPR may offer a conference. The practitioner may offer a **consent** to a sanction (section 10.61).
Answer	Due within **30 days** of service of the complaint (section 10.64). Failing to answer counts as an admission and can lead to a default decision.
Hearing	Before an **Administrative Law Judge (ALJ)** (section 10.72)
Standard of proof	**Preponderance of the evidence** for censure or a suspension of less than 6 months. **Clear and convincing evidence** for a monetary penalty, disbarment or a suspension of 6 months or more (section 10.76).
Appeal	Either party may appeal the ALJ decision to the **Secretary of the Treasury** (or delegate) within **30 days** (section 10.77). The practitioner may then seek review in federal district court.
Reinstatement	A disbarred practitioner may petition after **5 years** (section 10.81)
Expedited suspension	Section 10.82 allows a fast suspension, without an ALJ hearing, when the practitioner has, within the past 5 years, lost a professional license, been convicted of certain crimes, or been sanctioned by a court. The practitioner has **30 days** to answer and can request a conference.

Watch out: IRS penalties and Circular 230 sanctions are **independent**. One act can lead to a section 6694 penalty assessed by the IRS **and** a suspension by OPR, and the IRS can also refer the matter for criminal prosecution. Paying the civil penalty does not prevent the sanction.

Note also which body hears an appeal of a disciplinary decision.

Exam tip: The ALJ decides the case. The appeal goes to the **Secretary of the Treasury**, not to the Tax Court or to IRS Appeals.

Key takeaways

- Section 6694(a), unreasonable position: the greater of $1,000 or 50% of the fee. Section 6694(b), willful or reckless conduct: the greater of $5,000 or 75%.
- Standards: substantial authority if the position is not disclosed, reasonable basis if it is disclosed, more likely than not for tax shelters.
- Section 6695(a)–(e): $65 per failure for returns filed in 2026, capped at $32,500 per type.
- Section 6695(f) and (g): $650 per failure for returns filed in 2026, with no cap.
- Circular 230 sanctions are censure, suspension, disbarment and monetary penalty (up to the gross income from the conduct).
- The practitioner answers a complaint within 30 days and may appeal an ALJ decision within 30 days. A disbarred practitioner can seek reinstatement after 5 years.

Taxpayer Penalties and Interest

Representatives spend much of their time computing, explaining and asking the IRS to remove penalties. Learn each penalty's rate, base, cap and relief options.

Failure to file and failure to pay: section 6651

Penalty	Rate	Maximum	Base
Failure to file (FTF), 6651(a)(1)	**5%** per month or part of a month	**25%**	Net tax due on the return: tax shown minus timely payments and credits
Failure to pay (FTP), 6651(a)(2)	**0.5%** per month or part of a month	**25%**	Unpaid tax shown on the return
FTP after a notice of intent to levy	Rises to **1%** per month, starting 10 days after the notice	25% total	Unpaid tax
FTP during an installment agreement	Drops to **0.25%** per month for an individual who filed on time, including extensions	25% total	Unpaid tax
Fraudulent failure to file, 6651(f)	**15%** per month	**75%**	Net tax due

When both penalties apply in the same month, the FTF is reduced by the FTP for that month. The combined rate is therefore 5% a month: 4.5% FTF plus 0.5% FTP. Over 5 months the FTF reaches its cap at **22.5%** (5 × 4.5%). The FTP can keep running until it reaches 25%. The combined maximum is **47.5%**.

Minimum FTF penalty. If a return is filed **more than 60 days** late, the FTF penalty cannot be less than the **smaller of** a fixed dollar amount or **100% of the tax due** on the return.

Return's due date (including extensions) is in	Minimum FTF penalty, if more than 60 days late
2026 (for example, 2025 Forms 1040 and 1120)	Lesser of **$525** or 100% of the tax due

Example (FTF and FTP together): Jordan's 2025 return showed $10,000 of tax due, and no payment was made by April 15, 2026. He filed and paid on August 10, 2026, without an extension. That is 4 months late, counting each partial month as a full month. FTP = 0.5% × 4 × $10,000 = **$200**. FTF = (5% − 0.5%) × 4 × $10,000 = 4.5% × 4 × $10,000 = **$1,800**. Total penalties = **$2,000**, plus interest.

The minimum penalty can be larger than the regular computation.

Example (minimum penalty): Mia owes $3,000 and files 3 months late. The regular FTF would be 4.5% × 3 × $3,000 = $405. Her return is more than 60 days late, so the minimum is the lesser of $525 or $3,000, which is $525. Her FTF penalty is **$525**. Her FTP is 0.5% × 3 × $3,000 = **$45**.

For small balances, the 100%-of-tax limit controls instead.

Example (small balance): Noah owes only $400 and files 70 days late. The regular FTF would be 4.5% × 3 × $400 = $54. The minimum is the lesser of $525 or 100% of the tax due ($400). The FTF penalty is **$400**, which equals the full tax.

Over a long delay, both penalties reach their caps.

Example (hitting the caps): A return showing $10,000 of tax due is filed 6 months late, and the tax stays unpaid for 12 months. FTF stops at 5 months × 4.5% = 22.5%, or **$2,250**. FTP = 12 × 0.5% = 6%, or **$600**. Total = **$2,850**. The FTP keeps running until it reaches 25%, which takes 50 months.

Clients often misunderstand what an extension does.

Watch out: An extension of time to **file** (Form 4868) is not an extension of time to **pay**. The FTP still runs from the original due date. One exception: for individuals on an automatic extension, the IRS treats reasonable cause as shown for FTP if they paid at least 90% of the tax by the original due date and pay the rest with the return.

Accuracy-related penalty: section 6662

The penalty is **20%** of the portion of the underpayment caused by:

- **negligence** or disregard of rules or regulations
- a **substantial understatement** of income tax
- a **substantial valuation misstatement** (value or basis of 150% or more of the correct amount)

- a substantial overstatement of pension liabilities, or a substantial estate or gift tax valuation understatement
- a transaction lacking economic substance (20%, or 40% if the transaction is not disclosed)
- an undisclosed foreign financial asset understatement (40%)

It rises to **40%** for a **gross valuation misstatement**, meaning value or basis of **200%** or more of the correct amount.

Taxpayer	"Substantial understatement" means the understatement exceeds
Individuals (and most others)	The **greater of** 10% of the correct tax or **$5,000**
Corporations, other than S corporations and personal holding companies	The **lesser of** (1) 10% of the correct tax, or $10,000 if that is greater, or (2) **$10 million**

The understatement is reduced for items supported by **substantial authority**, and for items **adequately disclosed** (Form 8275) that have a **reasonable basis**. The reasonable cause and good faith exception (section 6664(c)) also applies.

> **Example:** Correct tax is $40,000, and the return showed $33,000. The understatement is $7,000. The threshold is the greater of 10% × $40,000 = $4,000 or $5,000, which is $5,000. The $7,000 understatement is more than $5,000, so it is substantial. Penalty = 20% × $7,000 = **$1,400**.

Civil fraud and related penalties

Section	Penalty
6663 – Civil fraud	**75%** of the part of the underpayment due to fraud. The IRS must prove fraud by **clear and convincing evidence**. Once the IRS proves part of an underpayment is fraudulent, the whole underpayment is treated as fraud unless the taxpayer proves otherwise. The accuracy penalty does not apply to the same portion.
6676 – Erroneous refund claim	**20%** of the excessive amount claimed without reasonable cause
6702 – Frivolous submission	**$5,000**
6657 – Bad check or failed electronic payment	**2%** of the payment. If the payment is under **$1,250**, the penalty is the lesser of **$25** or the payment amount.

Example (bad check): A $5,000 check bounces: 2% × $5,000 = **$100**. A $1,000 check bounces: it is under $1,250, so the penalty is the lesser of $25 or $1,000, which is **$25**. A $15 check bounces: the penalty is **$15**.

Estimated tax penalty: section 6654 (individuals)

The penalty is figured like interest, at the underpayment rate, on each quarterly installment that was underpaid, for the period it was underpaid. It is reported on **Form 2210**.

Rule	Detail
No penalty if	Tax due after withholding and credits is **less than $1,000**, or the taxpayer had **no tax liability** in the prior 12-month tax year as a U.S. citizen or resident
Required annual payment	The **lesser of** 90% of current-year tax or 100% of prior-year tax. Use 110% of prior-year tax if prior-year AGI was more than $150,000 ($75,000 if married filing separately).
Farmers and fishermen	66⅔% of current-year tax instead of 90%, with one installment due January 15
Waiver	Casualty, disaster or other unusual circumstances, or retirement after age 62 or disability, with reasonable cause
Corporations	Section 6655, Form 2220. Corporations owing less than $500 are exempt.

Example: Ravi's 2025 tax was $20,000 and his 2025 AGI was $160,000. His 2026 tax is expected to be $30,000. Because his prior-year AGI was over $150,000, the prior-year safe harbor is 110% × $20,000 = $22,000. The current-year option is 90% × $30,000 = $27,000. His required annual payment is the lesser amount, **$22,000**, or **$5,500** per quarter.

Failure to deposit: section 6656 (employment and other deposited taxes)

Deposit made	Penalty
1–5 calendar days late	2%
6–15 days late	5%
16 or more days late, or paid directly to the IRS or with the return instead of deposited	10%
Not paid within 10 days after the first IRS notice, or on the day a demand for immediate payment is received	15%

Example: A $20,000 payroll deposit made 10 days late: 5% × $20,000 = **$1,000**. The same deposit made 20 days late: 10% × $20,000 = **$2,000**.

Business return and information return penalties

Penalty	Returns required to be filed in 2026
Late partnership return, 6698 (per partner, per month or part, up to 12 months)	$255
Late S corporation return, 6699 (per shareholder, per month or part, up to 12 months)	$255
Information returns, 6721/6722 – general penalty per return not corrected in time	$340
Corrected within 30 days	$60
Corrected after 30 days but by August 1	$130
Intentional disregard (greater of $680 or 10% of the amount required to be reported; no cap)	$680 minimum

Example: A 5-partner partnership files its 2025 Form 1065 four months late without reasonable cause. Penalty = $255 × 5 partners × 4 months = **$5,100**. A 3-shareholder S corporation filing 14 months late pays for only 12 months: $255 × 3 × 12 = **$9,180**.

Interest

Rule	Detail
Underpayment rate	Federal short-term rate + **3** points. Large corporate underpayments (over $100,000): + 5 points.
Overpayment rate	Individuals: federal short-term rate + 3. Corporations: + 2, or + 0.5 on the part over $10,000.
Compounding	**Daily**
Rate changes	Set every quarter
Recent underpayment rates	7% for every quarter of 2025, 7% for Q1 2026, 6% for Q2 2026, 7% for Q3 and Q4 2026
Starts on	The tax's original due date, without regard to extensions, until the date paid
Interest on penalties	FTF and accuracy or fraud penalties: from the return due date, including extensions. Most other penalties: from the date of notice and demand, if not paid within 21 calendar days (10 business days if $100,000 or more).
Refund interest	None if the IRS refunds within **45 days** of the later of the due date or the filing date
Waiving interest	Interest **cannot** be waived for reasonable cause. It can be **abated** under section 6404(e) for unreasonable IRS errors or delays in ministerial or managerial acts (request on Form 843). It is also reduced automatically when the underlying tax or penalty is abated.

Example (interest across a rate change): Hana owes $5,000 of 2025 tax due April 15, 2026, and pays on September 30, 2026. From April 15 to June 30 is 76 days at 6%. From June 30 to September 30 is 92 days at 7%. Interest compounds daily on a 365-day year: $5,000 × (1 + 0.06/365)^76 = $5,062.85, then $5,062.85 × (1 + 0.07/365)^92 = $5,152.96. Total interest = **$152.96**. Simple interest would be $150.68. The $2.28 difference comes from daily compounding.

A full quarter at a single rate is simpler to compute.

Example: A $10,000 balance unpaid for all of Q4 2026 (92 days at 7%) grows to $10,000 × (1 + 0.07/365)^92 = $10,177.99. That is **$177.99** of interest.

Penalty relief

Type	When it applies
First-time abatement (FTA)	An administrative waiver for FTF, FTP and FTD penalties. The taxpayer must have **no penalties in the 3 prior tax years**, other than an estimated tax penalty, must have filed all currently required returns, and must have paid or arranged to pay the tax due. It does not apply to accuracy-related or fraud penalties.
Reasonable cause	The taxpayer used ordinary business care and prudence but still could not comply. Examples: serious illness, death in the family, fire or disaster, inability to get records, reliance on wrong written IRS advice. Ignorance of the law or forgetting, by itself, is not enough.
Statutory exceptions	Relief written into the law, such as reliance on written advice from the IRS (section 6404(f))
Correction of IRS error	The IRS assessed the penalty by mistake

To request relief, call the number on the notice, respond in writing, or file **Form 843**. If the request is denied, the taxpayer can appeal to the Independent Office of Appeals.

> **Exam tip:** When a taxpayer qualifies for both FTA and reasonable cause, IRS procedures generally apply **FTA first**. Many practitioners prefer to argue reasonable cause first and keep FTA for a future year.

Key takeaways

- FTF is 5% a month up to 25%. FTP is 0.5% a month up to 25%. In months when both apply, the FTF drops to 4.5%, for a combined maximum of 47.5%.
- If a return is more than 60 days late, the minimum FTF is the lesser of $525 or 100% of the tax (returns due in 2026).
- Accuracy penalty is 20%, or 40% for gross valuation misstatements. Civil fraud is 75%. Substantial understatement for individuals means more than the greater of 10% or $5,000.
- Estimated tax: no penalty under $1,000. Safe harbors are 90% of current year or 100% of prior year (110% if AGI over $150,000).
- FTD penalties are 2, 5, 10 and 15%. Bad checks: 2%, or the lesser of $25 or the amount if under $1,250.
- Interest is the federal short-term rate + 3, compounded daily. The rate was 7% for most of 2025–2026 and 6% in Q2 2026. Interest is not waived for reasonable cause.
- FTA requires a clean 3-year history and covers FTF, FTP and FTD.

Statutes of Limitation: Assessment, Collection and Refund

Three clocks control most tax controversies:

Clock	What it limits	General period	Code section
ASED (assessment statute expiration date)	How long the IRS has to **assess** additional tax	**3 years** after the return is filed	6501
CSED (collection statute expiration date)	How long the IRS has to **collect** an assessed tax	**10 years** after assessment	6502
RSED (refund statute expiration date)	How long the taxpayer has to **claim a refund**	The later of **3 years** from filing or **2 years** from payment	6511

Assessment: section 6501

Basic rule

The IRS must assess tax within **3 years after the return was filed**. A return filed **early** is treated as filed on the **due date**, not counting extensions. A return filed **late** starts the clock on the date it is actually filed.

> **Example:** A 2025 Form 1040 is due April 15, 2026. If the taxpayer files it on February 10, 2026, it is treated as filed on April 15, 2026, and the ASED is **April 15, 2029**. If the taxpayer gets an extension and files on August 10, 2026, the ASED is **August 10, 2029**.

Exceptions

Situation	Assessment period
No return filed	**Unlimited.** The tax can be assessed at any time.
False or fraudulent return filed with intent to evade tax	**Unlimited**
Willful attempt to evade tax	**Unlimited**
Substantial omission of gross income: more than **25%** of the gross income stated on the return	**6 years**
Omission of more than **$5,000** of income from specified foreign financial assets	**6 years**
Failure to file certain **foreign information returns** (for example, Forms 5471, 8938, 3520)	Stays open until **3 years** after the required information is provided. The extension may cover only the related items if the taxpayer shows reasonable cause.
Agreement to extend (Form 872 for a fixed date, or Form 872-A open-ended)	Extended as agreed. The agreement must be signed **before** the ASED expires.
Amended return showing additional tax received **within 60 days** before the ASED	The IRS gets **60 days** after receiving it to assess the additional tax
Bankruptcy, or an outstanding notice of deficiency	The period is suspended. For example, it is suspended for the 90 days to petition the Tax Court plus 60 days after that (section 6503).

Example (25% omission): A sole proprietor reported $80,000 of gross receipts and left out $25,000. $25,000 ÷ $80,000 = **31.25%**, which is more than 25%. The IRS therefore has **6 years** to assess. For a trade or business, "gross income" for this test means gross receipts before cost of goods sold.

The clock also needs a valid return to start.

Watch out: An **unsigned** return, or a document that doesn't contain enough information to calculate the tax, is not a valid return and does not start the assessment clock. A substitute for return (SFR) prepared by the IRS also does not start it.

Consents to extend: Form 872

The IRS often asks for an extension during an exam that is nearing the ASED. The taxpayer must be told that they have the right to **refuse**, or to **limit the extension to particular**

issues or to a set period (section 6501(c)(4)(B)). If the taxpayer refuses, the IRS usually issues a statutory notice of deficiency based on the information it has.

> **Exam tip:** If the taxpayer refuses to sign Form 872, the IRS does not lose its case. It issues a **notice of deficiency**, which suspends the ASED and sends the taxpayer to the Tax Court route without any Appeals review before the notice.

Collection: section 6502

Basic rule

After the IRS assesses tax, it has **10 years** from the date of assessment to collect it by levy or by a court proceeding. Each assessment has its own CSED. A return with additional tax assessed after an exam can therefore have more than one CSED.

Events that suspend (toll) the CSED

Event	Suspension period
Offer in compromise pending	While pending, plus **30 days** after rejection, plus while a timely appeal is pending
Installment agreement request pending	While pending, plus **30 days** after rejection or termination, plus while a timely appeal is pending
Collection due process (CDP) hearing timely requested	From the request until the determination is final (including any Tax Court review). If fewer than 90 days remain at that point, the CSED is extended to 90 days.
Bankruptcy	While the automatic stay is in effect, plus **6 months**
Taxpayer **outside the United States**	While continuously outside the U.S. for **6 months or more**. The CSED cannot expire earlier than 6 months after the taxpayer returns.
Innocent spouse claim (sections 6015(b), (c) or (f))	Collection against the requesting spouse is suspended while the claim is pending and during the Tax Court period
Taxpayer Assistance Order (TAS)	As stated in the order
Wrongful levy claim or suit by a third party	While pending

The taxpayer may agree to extend the CSED **only** in connection with an installment agreement (a partial payment agreement) or a release of levy after the CSED. IRS policy allows this only in limited situations.

Example: Tax was assessed on June 1, 2020, so the original CSED is **June 1, 2030**. The taxpayer submitted an offer in compromise that was pending for 120 days and then rejected. The taxpayer did not appeal. The CSED is suspended for 120 days plus 30 days after the rejection, a total of 150 days. The new CSED is June 1, 2030 + 150 days = **October 29, 2030**.

Some events do not suspend the CSED.

Watch out: A request for **currently not collectible** status does **not** suspend the CSED. The 10-year clock keeps running while the account is CNC. Taxpayers with no realistic way to pay are sometimes left in CNC until the CSED expires.

Refunds: section 6511

Time to file the claim

A refund claim (Form 1040-X, Form 843, or an original return that shows an overpayment) must be filed by the **later of**:

- **3 years** from the date the return was filed, or
- **2 years** from the date the tax was paid

A return filed early is treated as filed on the due date. **Withholding and estimated tax payments are treated as paid on the return's original due date**, not counting extensions.

How much can be refunded: the lookback rule

Claim filed	Refund limited to tax paid during
Within 3 years of filing the return	The **3 years** before the claim, plus any **extension** of time to file
Otherwise (relying on the 2-year rule)	The **2 years** before the claim

Example A (timely claim): Kim filed her Year 1 return on April 15, Year 2. Her $6,000 of withholding is treated as paid that same day. On April 10, Year 5, she files an amended return claiming a $1,200 refund. The claim is within 3 years of filing, so the lookback reaches back to April 10, Year 2. That period includes the withholding, so the full **$1,200** can be refunded.

The lookback rule is a trap for late original returns.

Example B (the late-return trap): Leo never filed his Year 1 return. His $4,000 of withholding is treated as paid on April 15, Year 2. He files the original return on May 1, Year 5, showing a $1,500 refund. The return is the claim, so the claim is filed within 3 years of the return. But the lookback covers only the 3 years before May 1, Year 5, which starts May 1, Year 2. The withholding was treated as paid on April 15, Year 2, which is outside that window. Leo's refund is **$0**. He needed to file by April 15, Year 5.

When a claim misses the 3-year window, the 2-year rule may still help.

Example C (2-year rule): After an exam, a taxpayer paid an extra $2,000 on June 1, Year 4, for a return filed April 15, Year 2. On March 1, Year 6, the taxpayer files a claim. That is more than 3 years after the return was filed, but within 2 years of the payment. The claim is **timely**, and the refund is limited to amounts paid in the 2 years before the claim, which is the **$2,000**.

Special refund periods

Situation	Period to claim the refund
Bad debt or worthless security deduction	**7 years** from the return's due date
Foreign tax credit	**10 years** from the due date of the return for the year the foreign taxes were paid or accrued
Carryback of a net operating loss or credit	Measured from the due date of the return for the year the loss or credit arose
Financial disability (a physical or mental condition that a physician certifies)	The period is suspended while the taxpayer is unable to manage financial affairs and no one else is authorized to act
Federally declared disasters and combat zones	Deadlines can be postponed

Refund suits

If the IRS disallows a refund claim, or does not act on it within **6 months**, the taxpayer may sue in a federal district court or the Court of Federal Claims. The suit must be filed within **2 years** after the IRS mails a notice of disallowance (section 6532). The taxpayer can extend that 2-year period by agreement (Form 907).

Key takeaways

- Assessment: 3 years from the later of the filing date or the due date. 6 years if more than 25% of gross income was omitted. Unlimited for no return, fraud or evasion. Extensions by agreement on Form 872 must be signed before the ASED.
- Collection: 10 years from assessment, suspended during pending offers in compromise and installment agreement requests (plus 30 days), CDP hearings, bankruptcy (plus 6 months), and long absences from the U.S. CNC status does not suspend it.
- Refunds: the later of 3 years from filing or 2 years from payment. The lookback is 3 years plus extensions, or 2 years. Withholding counts as paid on the due date.
- Special refund periods: 7 years for bad debts and worthless securities, 10 years for the foreign tax credit.
- Refund suit: allowed after a disallowance or 6 months without IRS action, and must be filed within 2 years of the disallowance notice.

Recordkeeping and IRS Procedures

Taxpayer recordkeeping

Every taxpayer must keep records that are good enough to show income, deductions and credits (section 6001). How long to keep them depends on how long the IRS can still examine the return or the taxpayer can still claim a refund.

Situation	Keep records for
General rule	**3 years** from the date the return was filed, or the due date if later
Refund claim filed after the original return	3 years from filing, or 2 years from the date the tax was paid, whichever is later
Unreported income of more than 25% of gross income	**6 years**
Bad debt or worthless securities deduction	**7 years**
Fraudulent return, or no return filed	**Indefinitely**
Employment tax records	At least **4 years** after the tax is due or paid, whichever is later
Property records, for basis and depreciation	Until the limitations period runs out for the year the property is **disposed of**

Records can be paper or electronic. Electronic records must be accurate, readable and retrievable, and the IRS can ask to see the system behind them. When records are lost through fire, flood or theft, the taxpayer may reconstruct them from third-party sources. The *Cohan* rule lets courts estimate some expenses, but not those that need strict substantiation under section 274(d), such as travel, gifts and listed property.

> **Example:** A client sold a rental building in 2025 that she bought in 2008. She filed the 2025 return on April 15, 2026. She should keep the purchase documents, improvement receipts and depreciation records until at least **April 15, 2029**, which is 3 years after filing the return that reports the sale. She has to keep the 2008 papers because they prove her basis in 2025.

Identification numbers

Number	Who uses it	How to get it
SSN	U.S. citizens and authorized workers	Form SS-5 (Social Security Administration)
ITIN	People who need a TIN but can't get an SSN	Form W-7, filed with a federal tax return unless an exception applies. Certifying Acceptance Agents can verify documents. ITINs that go unused for 3 consecutive years expire.
ATIN	Children being adopted who don't yet have an SSN	Form W-7A
EIN	Businesses, trusts, estates and employers	Form SS-4, or online
PTIN	Paid preparers	Online or Form W-12, renewed every year

How the IRS is organized

Unit	Responsibility
Wage and Investment (W&I)	Most individual taxpayers with wage and investment income. Submission processing and accounts management.
Small Business/Self-Employed (SB/SE)	Small businesses, self-employed people, and estate, gift and excise taxes. Field collection (revenue officers) and most field and office exams.
Large Business and International (LB&I)	Corporations, S corporations and partnerships with assets of $10 million or more, and international issues
Tax Exempt and Government Entities (TE/GE)	Employee plans, exempt organizations and government entities
Independent Office of Appeals	Settles disputes independently of the IRS functions that made the decision
Taxpayer Advocate Service (TAS)	Independent organization led by the National Taxpayer Advocate. Helps with significant hardship and systemic problems.
Office of Professional Responsibility (OPR)	Enforces Circular 230 and disciplines practitioners
Return Preparer Office	PTINs, the AFSP and the EA program, through the Office of Enrollment
Criminal Investigation (CI)	Criminal tax and financial crimes
Chief Counsel	The IRS's lawyers. Issues guidance and represents the IRS in the Tax Court.

Taxpayer Advocate Service

TAS is independent of the IRS's operating divisions. It helps taxpayers who face economic harm, delays of more than 30 days, or no response by a promised date, or whose problems the normal IRS process has not solved. The request is made on **Form 911**. TAS can issue a **Taxpayer Assistance Order (TAO)** directing the IRS to act or to stop acting. The National Taxpayer Advocate sends two reports to Congress each year. TAS also oversees the **Low Income Taxpayer Clinics (LITCs)**.

> **Watch out:** Asking TAS for help does **not** extend any deadline, including the 90-day Tax Court deadline or a 30-day CDP deadline. TAS cannot represent taxpayers in court.

The Taxpayer Bill of Rights

Section 7803(a)(3) lists **10 rights**. IRS Publication 1 explains them:

1. The right to be informed
2. The right to quality service
3. The right to pay no more than the correct amount of tax
4. The right to challenge the IRS's position and be heard
5. The right to appeal an IRS decision in an independent forum
6. The right to finality
7. The right to privacy
8. The right to confidentiality
9. The right to retain representation
10. The right to a fair and just tax system

> **Memory trick:** "**I Q P C A F P C R F**": **I**nformed, **Q**uality, **P**ay correct, **C**hallenge, **A**ppeal, **F**inality, **P**rivacy, **C**onfidentiality, **R**epresentation, **F**air. Try "**I**nformed **Q**uick **P**ayers **C**an **A**ppeal **F**or **P**rivate **C**onfidential **R**epresentation **F**airly."

Sources of tax authority

Practitioners need to know which sources are binding and which count as "substantial authority" for the penalty rules.

Source	Issued by	Binding on	Notes
Internal Revenue Code	Congress	Everyone	The highest authority (along with treaties)
Treasury Regulations: final, temporary, proposed	Treasury	Final and temporary bind taxpayers and the IRS. Proposed do not.	Proposed regulations can still be authority
Revenue Rulings	IRS	IRS and taxpayers with substantially the same facts	Published in the Internal Revenue Bulletin (IRB)
Revenue Procedures	IRS	Procedural guidance	Also published in the IRB
Notices and Announcements	IRS	Guidance on current issues	Published in the IRB
Private Letter Rulings (PLRs)	IRS National Office	**Only the taxpayer who requested it**	Cannot be cited as precedent, but count as substantial authority. Most require a user fee.
Technical Advice Memoranda (TAMs)	National Office, at a field office's request	That taxpayer's case	Similar weight to PLRs
Determination letters	Area directors	That taxpayer	For example, exempt status or a plan's qualified status
Court decisions	Federal courts	Supreme Court decisions bind everyone. Others bind within their jurisdiction.	The Tax Court follows the Circuit Court of Appeals the case would be appealed to (the *Golsen* rule).
IRS publications and form instructions	IRS	**Not** authority	Helpful, but you cannot rely on them as substantial authority

Common IRS notices and letters (individuals)

Notice	Meaning	Response time
CP14	First balance-due notice	Pay or arrange payment. Interest and penalties continue to accrue.
CP501 / CP503	Reminder notices	—
CP504	Notice of intent to levy. The IRS may levy state refunds.	Act right away
LT11 / Letter 1058	**Final notice of intent to levy and notice of right to a hearing** (CDP)	**30 days** to request a CDP hearing
Letter 3172	Notice of federal tax lien filing and right to a hearing (CDP)	Hearing request due by the date in the letter, which is 30 days after the 5-business-day notice period ends
CP2000	Automated Underreporter proposed adjustment (income mismatch)	Respond by the date on the notice, generally 30 days
CP3219A / Letter 3219	**Statutory notice of deficiency** (90-day letter)	90 days (150 if addressed outside the U.S.) to petition the Tax Court
Letter 525 / Letter 950	30-day letters proposing exam adjustments	30 days to agree or request Appeals
Letter 1153	Proposed trust fund recovery penalty	**60 days** to appeal (75 days if outside the U.S.)

Exam tip: A CP2000 is **not** an audit. It is an automated matching notice. The taxpayer can agree, partly agree or disagree in writing. If the dispute isn't resolved, the IRS issues a statutory notice of deficiency.

Requests for information

- **Transcripts.** Representatives can get account, return, wage and income, and record-of-account transcripts through the Transcript Delivery System, Tax Pro Account or by phone. Taxpayers can use Form 4506-T or the online account. Form **4506** gets a copy of the actual return, for a fee.
- **Freedom of Information Act (FOIA).** Gives access to IRS records, such as an administrative file, that are not exempt from disclosure.
- **Section 6103** protects the confidentiality of returns and return information. The IRS may disclose information only to the taxpayer, to an authorized representative (Form 2848 or 8821), or as the law allows.

Key takeaways

- Taxpayers keep records 3 years in general, 6 years for omissions over 25%, 7 years for bad debts and worthless securities, and 4 years for employment tax records. Keep property records until the period ends for the year of disposal. Keep records indefinitely for fraud or no return.
- Know the IRS business units: W&I, SB/SE, LB&I and TE/GE. Appeals, TAS and OPR are independent functions.
- TAS uses Form 911 and Taxpayer Assistance Orders, and does not extend deadlines.
- The Taxpayer Bill of Rights has 10 rights.
- A PLR binds only the requesting taxpayer. IRS publications are not authority.
- Key notice deadlines: LT11/1058 has 30 days for CDP, the notice of deficiency has 90 or 150 days, Letter 1153 has 60 days, and 30-day letters have 30 days.

Authorizations: Forms 2848 and 8821, the CAF and Other Disclosures

Choosing the right authorization

Form or method	What it allows	Who can be named
Form 2848, Power of Attorney and Declaration of Representative	**Representation**: advocating, negotiating and signing agreements, plus receiving confidential information	Only individuals eligible to practice: attorneys, CPAs, EAs and others listed below
Form 8821, Tax Information Authorization	**Information only**: inspect or receive confidential information. No representation.	Any individual, firm or organization, such as a lender, an unenrolled preparer or a family member
Oral disclosure consent	The IRS may talk with a third person the taxpayer brings into a call or meeting, for that conversation only	Anyone
Third-party designee (checkbox on the return)	Lets the designee discuss the processing of **that return** with the IRS: refund status, math errors, missing information	Anyone. Ends no later than the due date, without extensions, of the next year's return.
Form 56, Notice Concerning Fiduciary Relationship	Tells the IRS a fiduciary is acting **as** the taxpayer	Executors, trustees, guardians, receivers
Form 8655, Reporting Agent Authorization	Lets a payroll provider sign and file employment tax returns and make deposits	Reporting agents

Watch out: A fiduciary, such as an executor, **steps into the taxpayer's shoes** and files Form 56. The fiduciary does not use Form 2848 to represent the estate. The fiduciary can, however, sign a Form 2848 to appoint a representative for the estate.

Form 2848 in detail

Part I – the taxpayer and the matters covered

- The taxpayer's name, TIN and address. For a joint return, **each spouse files a separate Form 2848**.

- **Line 1:** up to **four representatives** on the form (more can be added on attachments). Each listed representative must have a **CAF number**. The IRS assigns one the first time a representative files.
- **Line 3, acts authorized:** list the **type of tax**, the **form number** and the **specific years or periods**.
- General references such as "all years" or "all taxes" are **not accepted**. The IRS returns the form.
- Future periods are allowed, but only up to **3 years after December 31** of the year the IRS receives the form.
- Past years can be listed with no limit.
- **Line 4, specific use not recorded on the CAF:** for one-time matters such as a private letter ruling request, an EIN application or a Form W-7 ITIN application. The form is mailed or faxed to the office handling that matter.
- **Line 5a, additional acts:** acts that must be **specifically granted**:
- **substituting or adding** another representative
- signing certain returns
- disclosing return information to a third party
- accessing records through an Intermediate Service Provider
- signing Form 907 to extend the time to file a refund suit
- **Line 5b, acts not authorized:** used to withhold specific powers
- **Line 6, retention of prior powers of attorney:** filing a new Form 2848 for the same matter **revokes earlier ones on the CAF** unless this box is checked and copies of the earlier forms are attached
- **Line 7:** the taxpayer's signature, date, and title if signing for an entity

What a representative may NOT do, even with Form 2848

- **Endorse or negotiate a refund check**, or direct a refund into the representative's own account. No line of the form can authorize this.
- **Sign the taxpayer's income tax return**, except when the regulations allow it and it is granted on line 5a. The regulations allow it only in three situations:
- the taxpayer cannot sign because of **disease or injury**
- the taxpayer has been **continuously absent from the U.S. for at least 60 days** before the due date
- the taxpayer has **specific permission** from the IRS for other good cause

Part II – Declaration of representative

Each representative states their eligibility by a designation letter and signs the declaration:

Designation	Representative
a	Attorney
b	Certified public accountant
c	Enrolled agent
d	Officer of the taxpayer organization
e	Full-time employee
f	Family member: spouse, parent, child, grandparent, grandchild, step-parent, step-child, brother or sister
g	Enrolled actuary
h	Unenrolled return preparer (AFSP-limited; see chapter 2)
k	Student or law graduate working in an LITC or a Student Tax Clinic Program (STCP)
r	Enrolled retirement plan agent

Signature timing and filing

Rule	Detail
Taxpayer signs first	The representative must sign within **45 days** (**60 days** if the taxpayer lives abroad)
Representative signs first	No time limit for the taxpayer to sign
How to file	Online through IRS.gov/Submit2848 (electronic signatures allowed), or by **fax or mail** to the CAF unit for the taxpayer's location. Forms sent by fax or mail need handwritten signatures. A Form 2848 can also be handed to the IRS employee handling a matter.
Tax Pro Account	A representative with a CAF number can request authorization online. The taxpayer approves it in their IRS Online Account, and it records immediately.
Copies of notices	The taxpayer can check a box to have copies of notices sent to the first and second representatives listed on line 1
Students	The CAF automatically removes the student or law graduate **130 days** after the taxpayer signs

Example: On March 2 a taxpayer signs a Form 2848 naming her EA. The EA is traveling and signs the declaration on April 20, which is 49 days later. That is more than the 45-day limit, so the form is not valid. The EA should have the taxpayer sign a new Form 2848.

Revoking and withdrawing

Action	How
Taxpayer revokes	Write "**REVOKE**" across the top of the first page of a copy, sign and date it, and send it to the IRS. If no copy exists, send a signed statement identifying the authority being revoked.
Representative withdraws	Write "**WITHDRAW**" across the top of a copy, sign and date it, and send it to the IRS. Or send a signed statement.
New Form 2848 for the same matter	Automatically revokes earlier ones on the CAF unless line 6 is checked

Substitution and delegation

A representative may add or substitute another representative only if **line 5a** authorizes it. The representative then files a new Form 2848 signed only by the representative making the change. If line 5a did not authorize it, the taxpayer must sign a new form.

Form 8821 in detail

- Authorizes **any designee**, including a person, firm or organization, to **inspect or receive** confidential information for the tax matters and years listed.
- Gives **no authority to represent**, advocate, argue, negotiate or sign anything. Someone holding only an 8821 cannot argue the client's position.
- Must be **received by the IRS within 120 days** of the taxpayer's signature date, or it is not recorded on the CAF.
- Like Form 2848, it covers future periods up to 3 years after December 31 of the year received, and it does not accept "all years."
- Revocation works the same way, by writing "REVOKE" on a copy.

> **Exam tip:** An unenrolled preparer who did not prepare the return, or who lacks an AFSP Record of Completion, **cannot** be named on Form 2848. That preparer can be named on **Form 8821** to receive information, but not to represent.

The Centralized Authorization File (CAF)

The CAF is the IRS database of Forms 2848 and 8821. It lets IRS employees confirm a representative's or designee's authority, and lets the IRS send copies of notices automatically.

- A **CAF number** is a 9-digit number the IRS gives each representative or designee the first time they file an authorization. It is **not** a credential and does not let anyone practice. It only identifies the person.

- Authorizations for matters **not recorded on the CAF**, such as those checked on line 4, are handled by the IRS office working the matter.
- A representative should keep a copy of every authorization and check that it is recorded before calling the IRS. The IRS will not discuss the account if the authorization is missing or covers the wrong years or forms.

Conduct when representing

- Present your authorization and **identify yourself** at every contact.
- **Be truthful.** Giving false or misleading information to the IRS is disreputable conduct under section 10.51.
- An IRS employee may **bypass** a representative and contact the taxpayer directly, with supervisory approval, when the representative is unreasonably delaying or hindering an exam or collection. The employee must notify the representative.
- In an interview, the taxpayer generally does not have to attend if the representative is present with a valid Form 2848, unless the IRS issues an administrative summons to the taxpayer.

Key takeaways

- Form 2848 is for representation by eligible individuals. Form 8821 gives information access to anyone. A fiduciary uses Form 56.
- Form 2848 requires a specific type of tax, form and period. "All years" is rejected. Future periods are allowed only up to 3 years after December 31 of the year received.
- A representative must sign within 45 days of the taxpayer (60 if abroad). Form 8821 must be received within 120 days.
- Substitution, signing returns and other extra acts require line 5a. No representative may negotiate a refund check.
- Revoke with "REVOKE" and withdraw with "WITHDRAW". A new form for the same matter revokes earlier ones unless line 6 is checked.
- The CAF number is an identifier, not a credential.

Examinations

How returns are selected

- **DIF score (Discriminant Function System).** A computer score that rates the potential for change on each return, based on norms from the IRS research program.
- **Unreported Income DIF (UIDIF).** A score that flags possible unreported income.
- **Information matching.** W-2s, 1099s and other third-party reports are compared with the return. A mismatch usually produces a CP2000 notice, which is not a formal audit.
- **Related examinations.** Returns of business partners, investors or other parties connected to a return that is already under examination.
- **National Research Program.** Random selection to measure compliance and update the DIF formulas.
- **Compliance initiatives, referrals and other sources**, including information from whistleblowers.

Being selected does not mean the IRS believes the taxpayer did something wrong.

Types of examinations

Type	Where	Typical issues	Typical taxpayer
Correspondence	By mail	One or two items, such as substantiating a deduction or credit	Individuals with simple returns
Office	IRS office	Several issues needing interview and documents	Individuals and small businesses
Field	Taxpayer's home, business or representative's office	Broad, complex issues	Businesses and complex individual returns

The taxpayer may ask to have an exam **moved to another IRS office** for good reason, such as a change of residence. The IRS sets the time and place. It usually looks for a place that is reasonable for the taxpayer and generally holds field exams where the books are kept.

Taxpayer rights during an exam

- **Publication 1** (Your Rights as a Taxpayer) and Publication 556 (Examination of Returns, Appeal Rights, and Claims for Refund) are provided with the exam letter.

- **Representation (section 7521(b)).** If the taxpayer clearly asks to consult a representative during an interview that the taxpayer did not start, the IRS must **suspend the interview**. This does not apply when the interview is held under an administrative summons.
- **Recording (section 7521(a)).** A taxpayer may audio-record an in-person interview by giving **10 days' advance notice** and supplying their own equipment. The IRS may also record the interview after notifying the taxpayer, who can get a copy for a fee.
- **Representative in place of the taxpayer (section 7521(c)).** A representative with a valid Form 2848 can attend without the taxpayer, unless the IRS summons the taxpayer.
- **Financial status audits (section 7602(e)).** The IRS may not use financial status or economic reality techniques, such as lifestyle analysis, to find unreported income **unless it already has a reasonable indication** that unreported income is likely.
- **Third-party contacts (section 7602(c)).** The IRS must notify the taxpayer, generally at least **45 days in advance**, before contacting third parties about the taxpayer's liability. The notice must state the period the contacts will cover. The IRS must give the taxpayer a list of the contacts on request.
- **One inspection per year (section 7605(b)).** A taxpayer may not be subjected to unnecessary examinations. Only one inspection of the books for a tax year is allowed unless the taxpayer asks for more or the IRS gives written notice that another inspection is necessary.
- **Repetitive audits.** If the same issue was examined in either of the two previous years with **no change**, the taxpayer can ask the IRS to consider ending the exam on that issue. This applies mainly to individuals.

Summonses

- **Section 7602** lets the IRS summon the taxpayer, or any person holding relevant records, to produce books and records and give testimony.
- **Third-party summons (section 7609).** The IRS must give the taxpayer notice within 3 days after serving the summons, and at least **23 days before** the date set for examining the records. The taxpayer may file a **petition to quash** in federal district court within **20 days** after the notice is given.
- A summons may not be issued after the IRS has referred the case to the Department of Justice for prosecution.

Ending the exam

Outcome	What happens	Key documents
No change	The IRS accepts the return as filed	No-change letter
Agreed	The taxpayer agrees with the adjustments, signs, and pays or arranges to pay	**Form 4549** (Report of Income Tax Examination Changes) or **Form 870** (Waiver of Restrictions on Assessment)
Partially agreed	The agreed issues are assessed, and the unagreed issues go forward	Form 4549 for the agreed items
Unagreed	The IRS sends a **30-day letter** (Letter 525 for correspondence exams, Letter 950 for field exams) with the examination report	The taxpayer can request an Appeals conference within 30 days, or do nothing and get a notice of deficiency

Exam tip: Signing **Form 870** waives the restrictions on assessment. The IRS can assess right away, and interest stops accruing on the agreed deficiency **30 days** after the IRS receives the signed waiver if it has not yet issued a notice and demand. The taxpayer keeps the right to pay and then **file a refund claim**. A signed Form 870 is **not** a final closing agreement. A Form 906 closing agreement is final.

After the 30-day letter

- **Request Appeals.** For a proposed deficiency of **$25,000 or less** for any tax period, a **small case request** is enough. For more than $25,000, a **formal written protest** is required (see chapter 13).
- **Do nothing.** The IRS issues a **statutory notice of deficiency** (the 90-day letter). The taxpayer then has **90 days** (150 if the notice is addressed outside the U.S.) to petition the Tax Court. If no petition is filed, the IRS assesses the tax.

Statutory notice of deficiency (sections 6212–6213)

- The IRS must mail it to the taxpayer's **last known address**.
- The IRS **cannot assess or levy** while the 90-day period runs, or while a Tax Court case is pending.
- The last date to petition is printed on the notice. A petition filed by that date is timely even if the IRS's calculation was wrong.
- The notice is the "**ticket to the Tax Court**." A taxpayer cannot go to the Tax Court on a deficiency without it.

Example: Exam proposes a $9,500 deficiency on a 2024 return. On June 10, 2026, the taxpayer receives a 30-day letter. She disagrees but does not want to go to court. Because the amount is $25,000 or less, she sends a **small case request** to Appeals by the deadline in the letter. If she ignores the letter, a notice of deficiency will follow. Her only prepayment forum would then be the Tax Court, and she would have **90 days** to petition.

Other exam procedures

- **Audit reconsideration.** After tax has been assessed, a taxpayer can ask the IRS to reopen the exam by presenting new information that the IRS did not consider. Common reasons are a missed exam, a moved taxpayer, or newly found records. It is not available if the taxpayer signed a closing agreement or the Tax Court decided the case.
- **Fast Track Settlement (FTS).** An Appeals mediator helps the taxpayer and Exam settle issues while the case is still in Examination, usually within about 60 days. It is available in SB/SE, LB&I and TE/GE.
- **Consent to extend the ASED (Form 872).** Covered in chapter 8. The taxpayer may refuse, or may limit the consent to particular issues or a set period.
- **Interest abatement and penalty relief.** These can be raised during the exam (see chapter 7).
- **Burden of proof (section 7491).** The burden can shift to the IRS in court if the taxpayer introduces **credible evidence**, kept the required records, cooperated with reasonable requests, and (for businesses) meets net worth limits.

Partnership audits: the centralized regime

Under the Bipartisan Budget Act (BBA) regime, the IRS examines partnerships at the **partnership level**. It generally assesses any **imputed underpayment** against the partnership in the year the adjustment becomes final, called the "adjustment year." The alternative is for the partnership to **push out** the adjustments to the partners of the reviewed year.

- The partnership must name a **partnership representative**, who has **sole authority** to bind the partnership and all its partners. The partnership representative does not have to be a partner, but must have a substantial presence in the U.S.
- Eligible partnerships with **100 or fewer** partners, all of them eligible types such as individuals, C corporations, S corporations and estates, may **elect out** each year on a timely filed return.

Key takeaways

- Exams are correspondence, office or field. Returns are chosen by DIF and UIDIF scores, information matching, related exams and random research. CP2000 is a matching notice, not an audit.
- Rights: a representative can attend in place of the taxpayer; an interview stops when the taxpayer asks to consult a representative; recording needs 10 days' notice; third-party contacts need 45 days' advance notice; lifestyle audits need a reasonable indication of unreported income.
- For a third-party summons, notice goes to the taxpayer at least 23 days before, and a petition to quash is due within 20 days.
- Agreed exams use Form 4549 or 870. Unagreed exams get a 30-day letter, then a notice of deficiency with 90 days (150 abroad) to petition the Tax Court.
- Appeals requires a small case request for $25,000 or less, and a formal written protest above that.
- Under the BBA regime, the partnership representative binds everyone. Partnerships with 100 or fewer eligible partners may elect out.

Collections: Liens, Levies, Payment Plans, Offers and CNC

The collection process at a glance

1. **Assessment** of the tax, followed by **notice and demand** for payment (section 6303). The first bill is usually CP14.
2. **Reminder notices** (CP501, CP503), then **CP504**, a notice of intent to levy that lets the IRS levy state tax refunds.
3. **Final notice of intent to levy and notice of right to a hearing**: LT11 or Letter 1058. The taxpayer has **30 days** to request a CDP hearing.
4. A **Notice of Federal Tax Lien** (NFTL) may be filed at any point after assessment. The IRS sends Letter 3172 to notify the taxpayer.
5. **Enforcement**: levy and seizure. Or **resolution**: full pay, installment agreement, offer in compromise or currently not collectible status.

Taxpayers generally must have **filed all required returns** before any collection alternative is approved. A revenue officer will ask about current compliance, including estimated taxes and, for businesses, federal tax deposits.

Federal tax liens

Point	Rule
When the lien arises	Automatically under section 6321 when the IRS has **assessed** the tax, **sent notice and demand**, and the taxpayer **neglected or refused to pay**. This is the "silent" or statutory lien.
What it attaches to	**All property and rights to property** the taxpayer owns now or acquires later
Notice of Federal Tax Lien (NFTL)	Filed in public records to establish the IRS's priority against other creditors (section 6323). The IRS generally files when the balance is over $10,000, but it may file for any amount.
CDP notice for the lien	Letter 3172 is sent within **5 business days** after the NFTL is filed. The taxpayer may then request a CDP hearing (section 6320) within the 30-day period that follows.
Release	Required within **30 days** after the liability is paid, becomes legally unenforceable (for example, the CSED expires), or a bond is accepted (section 6325(a))
Withdrawal (Form 12277)	Removes the public NFTL as if it had never been filed. Allowed when the filing was premature or not in line with procedures, when the taxpayer entered an installment agreement (unless it provides otherwise), when withdrawal will help collection, or when it is in the best interests of the taxpayer and the government (section 6323(j)).
Discharge (Form 14135)	Removes the lien from **specific property**, for example so it can be sold
Subordination (Form 14134)	Lets another creditor move ahead of the IRS, for example to refinance
Refiling	An NFTL must be refiled within the required window, which ends 10 years and 30 days after assessment, or the lien loses its effect against later creditors

Watch out: Release ends the lien because the debt is resolved. **Withdrawal** removes the public notice, and the lien itself may still exist. **Discharge** frees one asset. **Subordination** lets another creditor move ahead. These four are a favorite exam question.

Levies

Point	Rule
Definition	A **legal seizure** of property to satisfy the tax (section 6331). A lien is a **claim** against property. A levy actually **takes** it.
Prerequisites	Assessment and notice and demand. At least **30 days'** written notice of intent to levy (section 6331(d)). A **CDP notice** (section 6330) at least **30 days** before the first levy, sent with or after the intent-to-levy notice.
Exceptions to the pre-levy CDP notice	Jeopardy, state refund levies, federal contractor levies, and disqualified employment tax levies. The taxpayer then gets a hearing after the levy.
Bank levy	The bank holds the funds for **21 days** before sending them, so errors can be fixed
Wage levy	**Continuous** until released. An exempt amount based on filing status and dependents is left for the taxpayer.
Federal Payment Levy Program (FPLP)	An automated levy of up to **15%** of certain federal payments, such as Social Security benefits
Seizing a principal residence	Requires **written approval of a federal district court judge or magistrate** (section 6334(e))
Property exempt from levy	Examples include unemployment benefits, certain annuity and pension payments, workers' compensation, child support the taxpayer is ordered to pay, a minimum exemption for wages, and certain public assistance payments. Fuel, provisions, furniture and personal effects, and books and tools of a trade, are exempt up to dollar limits that are adjusted for inflation.
Return of levied property	The IRS may return property that was wrongfully levied. A third party may file a wrongful levy claim within **2 years** of the levy (section 6343(b)).
Release of levy	Required if the liability is satisfied, the CSED expires, release will help collection, an installment agreement is entered (unless it provides otherwise), or the levy causes **economic hardship** (section 6343)

Installment agreements (section 6159)

Payment plans are made through the Online Payment Agreement (OPA), by phone, by mail on **Form 9465**, or in person. Larger balances may require **Form 433-F** or **Form 433-A/433-B**.

Plan	Who qualifies	Key terms
Short-term payment plan	Balance of **$100,000 or less** (tax, penalties and interest) to apply online	Pay within **180 days**. No setup fee.
Guaranteed IA	Individuals owing **$10,000 or less** in tax (not counting penalties and interest) who have filed and paid on time for the last **5 years**, had no IA in the last 5 years, can pay in full within **3 years**, and cannot pay now	The IRS **must** approve it
Simple / streamlined IA	Individuals with an assessed balance of **$50,000 or less**	Generally no financial statement required. Must pay in full by the CSED, typically within 72 months. An NFTL is generally not required.
Non-streamlined IA	Larger balances	Collection Information Statement required. An NFTL may be filed.
Partial payment IA (PPIA)	Can pay something each month but not the full balance before the CSED	Financial statement required. Reviewed every 2 years.
In-business trust fund express	Businesses with employees that owe $25,000 or less	Pay within 24 months or by the CSED

Installment agreement user fees (as of July 5, 2026)

How set up	Direct debit	Other payment methods
Online (OPA)	**$29**	**$69**
Phone, mail or in person	**$107**	**$178** (also payroll deduction)
Low-income taxpayers (AGI at or below 250% of the federal poverty guidelines)	Fee **waived**	**$43**, which may be reimbursed when the plan is completed
Reinstate or restructure a plan	$6 online; $89 otherwise ($43 low income)	

While an IA is in effect:

- interest keeps accruing
- the FTP penalty rate drops to **0.25%** a month if the return was filed on time

- the IRS **cannot levy** while an IA request is pending, while the IA is in effect, for 30 days after a rejection or termination, or while an appeal is pending
- refunds are applied to the balance

If the IA defaults, the IRS generally sends a notice of intent to terminate, and the taxpayer can appeal through the **Collection Appeals Program (CAP)**.

> **Example:** Eva owes $8,200 of 2025 income tax plus $900 of penalties and interest. She has filed and paid on time for 5 years and has never had an IA. Her tax is $10,000 or less (not counting penalties and interest), so she qualifies for a **guaranteed IA** if she pays within 3 years. If she sets it up online with direct debit, the fee is **$29**. Because her return was filed on time, her FTP rate drops from 0.5% to **0.25%** a month while the IA is in effect.

Offer in compromise (section 7122)

Point	Rule
Grounds	**Doubt as to collectibility**: assets and income are less than the debt. **Doubt as to liability**: real doubt that the tax is correct. **Effective tax administration**: the tax is collectible, but collecting it would cause economic hardship or be unfair.
Forms	**Form 656** with Form 433-A (OIC) and/or 433-B (OIC). Use **Form 656-L** for doubt as to liability. The Form 656-B booklet has instructions.
Eligibility	All returns filed. Current-year estimated payments made. For employers, current-quarter and prior two quarters of deposits made. Not in an open bankruptcy.
Application fee	**$205**. Waived for doubt as to liability offers and for low-income individuals (AGI at or below 250% of the poverty guidelines).
Lump-sum offer	Paid in **5 or fewer** installments within 5 months of acceptance. **20%** of the offer must be sent with the application and is **nonrefundable**.
Periodic payment offer	Paid in 6 or more monthly installments within **24 months**. The first payment goes with the application, and payments continue while the offer is pending.
Minimum acceptable offer	Generally the **reasonable collection potential (RCP)**: net realizable equity in assets plus future disposable income. Future income is 12 months for lump-sum offers and 24 months for periodic payment offers.
Deemed acceptance	An offer not rejected within **24 months** of IRS receipt is considered accepted (section 7122(f))
Effect on refunds	The IRS keeps refunds for tax periods through the year the offer is accepted
Compliance after acceptance	Timely file and pay for **5 years** after acceptance, or the IRS may default the offer and reinstate the original debt
CSED	Suspended while the offer is pending, plus 30 days after rejection, plus during a timely appeal
Rejection	Appeal to the Independent Office of Appeals within **30 days** of the rejection letter, on Form 13711 or by letter. A **returned** offer, such as one missing the fee or required returns, cannot be appealed.
Levy	The IRS generally may not levy while an offer is pending

Example: A taxpayer offers $15,000 as a lump sum. With the application she must send the $205 fee plus 20% × $15,000 = **$3,000**, for a total of **$3,205**. Both are nonrefundable. If she qualifies as low income, both the fee and the 20% payment are waived.

Currently not collectible (CNC)

When a taxpayer cannot pay any of the debt because they cannot meet basic living expenses, the IRS may report the account as **currently not collectible**. Other reasons for CNC include being unable to locate the taxpayer, a deceased taxpayer with no estate, or a defunct business.

- The debt **is not forgiven**. Interest and penalties keep accruing.
- The **CSED keeps running**. CNC does not suspend it.
- The IRS may still file an NFTL, and it keeps **offsetting refunds**.
- The IRS reviews income periodically and may reactivate collection if the taxpayer's ability to pay improves.
- Supporting documents include Form 433-F or 433-A, and the IRS Collection Financial Standards (national and local expense standards).

Trust fund recovery penalty (TFRP): section 6672

Employers hold **trust fund taxes** for the government: income tax withheld and the **employee's** share of Social Security and Medicare (FICA). If those taxes aren't paid, the IRS can assess a penalty equal to **100%** of the unpaid trust fund taxes against any **responsible person** who **willfully** failed to collect, account for or pay them.

Element	Meaning
Responsible person	Someone with the duty and power to decide which bills get paid, such as an officer, director, owner, bookkeeper with signature authority, or payroll service. Several people can be responsible at once.
Willfulness	Knowing the taxes were due and choosing to pay other creditors, or recklessly disregarding the risk. No evil motive is required.
Procedure	Interview on **Form 4180**, then **Letter 1153**. The person has **60 days** (75 if the letter is addressed outside the U.S.) to appeal before assessment.
What is excluded	The **employer's** share of FICA, FUTA, and penalties and interest on the business account

Example: A company withheld $30,000 of income tax from employees in a quarter and owes the employee share of FICA on $150,000 of wages: 7.65% × $150,000 = $11,475. The trust fund amount is $30,000 + $11,475 = **$41,475**. That is the TFRP that can be assessed against each responsible person. The IRS collects it only once in total. The employer's matching $11,475 of FICA is **not** included.

Spousal relief

Joint filers are **jointly and severally liable**. Three types of relief are requested on **Form 8857**.

Type	Key requirements	Deadline
Innocent spouse – 6015(b)	Understatement from **erroneous items of the other spouse**. The requesting spouse **did not know and had no reason to know**. Holding the requesting spouse liable would be unfair.	Within **2 years** after the IRS's first collection activity against the requesting spouse
Separation of liability – 6015(c)	Divorced, legally separated, widowed, or not a member of the same household for the **12 months** before the request. The deficiency is divided as if separate returns had been filed. Relief is denied to the extent the requesting spouse had **actual knowledge** of the item.	Within **2 years** after the first collection activity
Equitable relief – 6015(f)	Unfair to hold the spouse liable, considering all the facts. The **only** type that covers **underpayments**, meaning tax correctly reported but not paid.	While the CSED is open, or within the refund statute if a refund is requested

Watch out: Injured spouse relief, on **Form 8379**, is different. It applies when a joint **refund** is offset to pay the **other spouse's** separate debt, such as child support or student loans, and the requesting spouse wants their share of the refund back.

Bankruptcy and collection

- Filing a bankruptcy petition creates an **automatic stay** that stops IRS collection. The CSED is suspended during the stay **plus 6 months**.
- Older income taxes may be **dischargeable** under the "**3-2-240**" rules:
- the return was due, including extensions, more than **3 years** before the bankruptcy filing
- the return was actually filed more than **2 years** before the bankruptcy filing
- the tax was assessed more than **240 days** before the bankruptcy filing
- in all cases, there was no fraud or willful evasion
- The **TFRP** and trust fund taxes are **not** dischargeable.
- A valid **NFTL** may survive the bankruptcy against property the taxpayer owned before filing.

Key takeaways

- A lien is a claim that arises automatically after assessment, demand and nonpayment. A levy actually takes property, and needs a 30-day notice plus a CDP notice.

- Know the difference between NFTL release (within 30 days of payment), withdrawal (Form 12277), discharge (Form 14135) and subordination (Form 14134).
- IAs: short-term up to 180 days for balances up to $100,000; guaranteed for tax up to $10,000; streamlined for balances up to $50,000. Fees: $29, $69, $107 or $178; low income is waived or $43. The FTP rate is 0.25% for timely filers.
- OICs: Form 656, $205 fee, 20% nonrefundable down payment for a lump sum, deemed accepted after 24 months, 5 years of compliance afterward.
- CNC does not stop interest, penalties or the CSED.
- TFRP is 100% of the withheld income tax and the employee FICA share. The responsible person must be willful. Appeal within 60 days of Letter 1153.
- Spousal relief is requested on Form 8857. Only 6015(f) covers underpayments. Form 8379 (injured spouse) is a different remedy.

Appeals and the Tax Court

The Independent Office of Appeals

Appeals is an **independent** office within the IRS. Its mission is to settle tax controversies **without litigation**, fairly and impartially, both for the government and for the taxpayer. The Taxpayer First Act of 2019 put it in law as the "Independent Office of Appeals."

- Appeals officers may weigh the **hazards of litigation**, meaning how likely each side is to win in court. Examiners and revenue officers cannot. This is why Appeals can reach settlements that Exam cannot.
- **Ex parte rules.** Appeals may not discuss the substance of a case with the IRS function that made the decision, such as Exam or Collection, unless the taxpayer or representative is given the chance to take part.
- Appeals generally does not raise **new issues** or reopen issues the taxpayer and the IRS have agreed on.
- **Who may represent** a taxpayer before Appeals: attorneys, CPAs and EAs. Unenrolled preparers, including AFSP participants, **cannot**.

Getting to Appeals from an examination

Amount in dispute (for any tax period)	What to file
$25,000 or less	A **small case request**. Form 12203 or a brief written statement listing the items you disagree with and why.
More than $25,000	A **formal written protest**
Field exam, any amount	A formal written protest is generally required

A formal written protest must include:

1. The taxpayer's name, address and daytime phone number
2. A statement that the taxpayer wants to appeal to the Independent Office of Appeals
3. A copy of the letter showing the proposed changes, or its date and symbols
4. The tax periods involved
5. A list of the changes the taxpayer disagrees with, and why
6. The facts supporting the taxpayer's position
7. The law or authority the taxpayer relies on
8. A penalties-of-perjury statement signed by the taxpayer. If a representative prepares the protest, the representative instead signs a declaration saying whether they know

personally that the facts are true and correct.

The protest must be filed by the date in the **30-day letter**.

> **Example:** The proposed deficiency is $18,000 for 2023 and $14,000 for 2024, a total of $32,000. Each **tax period** is $25,000 or less, so the taxpayer may use a **small case request** for both years. The $25,000 test is applied to each period, not to the total.

Docketed and nondocketed cases

- **Nondocketed.** The taxpayer goes to Appeals **before** a notice of deficiency is issued, by protesting the 30-day letter.
- **Docketed.** The taxpayer files a Tax Court petition after the notice of deficiency. IRS Counsel usually refers the case to Appeals for settlement first, if Appeals has not already considered it.

> **Exam tip:** Skipping Appeals at the 30-day-letter stage does not end the chance of settlement. Docketed cases usually go to Appeals first. A Tax Court petition is the only way to get **both** an Appeals review **and** a guaranteed prepayment court forum.

Collection appeals: CDP and CAP

Feature	Collection Due Process (CDP)	Collection Appeals Program (CAP)
Legal basis	Sections 6320 (lien) and 6330 (levy)	IRS administrative procedure
Covers	NFTL filing; proposed or completed levies	Liens, levies and seizures (before or after), rejected, modified or terminated IAs, and some other actions
When to request	Within **30 days** of the CDP notice (Letter 1058/LT11, or the date in Letter 3172), on **Form 12153**	Usually right after a conference with the collection manager. Form 9423 for most actions.
Issues Appeals can consider	Collection alternatives (IA, OIC, CNC), spousal defenses, whether the lien or levy is appropriate, and the **underlying liability only if** the taxpayer did not receive a notice of deficiency or otherwise have a chance to dispute it	Mainly whether the collection action is appropriate. **Not** the underlying liability.
Effect on collection	Levy is generally **suspended**, and the **CSED is suspended**	Collection generally stops for the action being appealed
Judicial review	**Yes.** Petition the **Tax Court within 30 days** of the Notice of Determination.	**No.** The Appeals decision is **final** and binding on both sides.
Speed	Slower	Faster

Equivalent hearing

A taxpayer who misses the 30-day CDP deadline may request an **equivalent hearing** on Form 12153 within **1 year** of the date of the levy CDP notice. For a lien, the year runs from the end of the 5-business-day notice period. Appeals considers the same issues, but:

- the result is a **decision letter**, not a determination
- the decision **cannot** be appealed to the Tax Court
- levy is **not** suspended by law
- the CSED is **not** suspended

> **Example:** A taxpayer received an LT11 dated March 2, 2026. If he files Form 12153 within 30 days, he gets a full CDP hearing. Levy is suspended, and he has the right to petition the Tax Court within 30 days of Appeals' determination. If he files on May 15, 2026, he can get only an **equivalent hearing** (available until March 2, 2027). There is no Tax Court review and no automatic levy protection.

Other appeal rights to know

Matter	Time to appeal
Rejected offer in compromise	**30 days** from the rejection letter (Form 13711)
Proposed trust fund recovery penalty (Letter 1153)	**60 days** (75 days if outside the U.S.)
Penalty abatement denial	A written appeal by the deadline stated in the denial letter
Rejected or terminated installment agreement	Use CAP. IA rejections and terminations can also come up in a CDP hearing.
Innocent spouse determination	Appeals within 30 days of the preliminary determination. A **Tax Court petition** is due within **90 days** of the final determination letter, or the taxpayer may petition if the IRS has not acted within 6 months of the claim.

The courts

Court	Pay first?	Jurisdiction and features	Appeals go to
U.S. Tax Court	**No.** Prepayment forum.	Petition within **90 days** of the notice of deficiency (**150** if addressed outside the U.S.). Filing fee **$60**, which can be waived. No jury. Judges travel to cities around the country.	U.S. Court of Appeals for the taxpayer's circuit
Tax Court **small tax case ("S case")**	No	Elected when the amount in dispute, **including penalties, is $50,000 or less for each year**. Informal procedures. Decisions **cannot be appealed** and are **not precedent**.	No appeal
U.S. District Court	**Yes.** Pay the full tax, file a claim, then sue for a refund.	**Jury trial available.** Suit may be filed after the claim is denied or 6 months pass with no IRS action, and no later than 2 years after a notice of disallowance.	U.S. Court of Appeals for the circuit
U.S. Court of Federal Claims	**Yes**	Refund suits. No jury. Sits in Washington, D.C.	U.S. Court of Appeals for the **Federal Circuit**
U.S. Supreme Court	—	Hears tax cases only if it grants **certiorari**	—
U.S. Bankruptcy Court	No	Can decide tax liabilities in a bankruptcy case	District Court or Bankruptcy Appellate Panel

Watch out: There are two common traps here. First, only the **Tax Court** lets a taxpayer litigate **without paying first**. District Court and the Court of Federal Claims are **refund** forums, and the *Flora* rule requires paying the full assessment first. Second, **jury trials** are available **only in District Court**.

A short phrase can help you keep the three trial courts apart.

Memory trick: "**T**ax Court: **T**ime to pay later. **D**istrict: **D**ollars first, but **D**emocracy (a jury). **C**laims Court: **C**ash first, in the **C**apital."

Who may practice before the Tax Court

Attorneys admitted to practice there, and **nonattorneys who pass the Tax Court's own examination**. Being an EA or CPA does **not** by itself give the right to practice before the Tax Court. Taxpayers may represent themselves (*pro se*).

Tax Court tidbits

- **Timely mailing.** Under section 7502, a petition is timely if the U.S. postmark or a designated private delivery service record shows it was sent by the deadline. Petitions can also be e-filed through the court's **DAWSON** system.
- The last day to petition is printed on the notice. If that day falls on a weekend or legal holiday in D.C., the deadline moves to the next business day.
- **Missing the deadline is fatal.** The Tax Court has no jurisdiction. The taxpayer must pay and sue for a refund, or seek audit reconsideration.
- **Burden of proof** is generally on the taxpayer. It is on the IRS for **fraud** (by clear and convincing evidence) and for **new matters** the IRS raises in its answer.
- **Litigation costs (section 7430).** A taxpayer who prevails may recover reasonable administrative and litigation costs if they exhausted administrative remedies, meet net worth limits, and show the government's position was not **substantially justified**.
- **Frivolous positions (section 6673).** The Tax Court may impose a penalty of up to **$25,000** for frivolous or groundless positions, or for proceedings started mainly for delay.

Key takeaways

- Appeals is independent, considers hazards of litigation, and follows ex parte rules. Attorneys, CPAs and EAs may represent before Appeals. Unenrolled preparers may not.
- Use a small case request for $25,000 or less per period, and a formal written protest above that. Both are due by the date in the 30-day letter.
- CDP: Form 12153 within 30 days, suspends levy and the CSED, and allows Tax Court review within 30 days of the determination. The equivalent hearing is available within 1 year, with no court review. CAP is fast and final, with no court review.
- Tax Court: 90 or 150 days, $60 fee, no prepayment. S cases cover up to $50,000 per year and cannot be appealed.
- District Court and the Court of Federal Claims require payment first. A jury is available only in District Court. Appeals from the Court of Federal Claims go to the Federal Circuit.
- EAs need the Tax Court's own exam to practice before the Tax Court.

Filing Process and E-File Rules

Becoming an Authorized IRS e-file Provider

A firm that wants to e-file returns for others applies online through **IRS e-Services** using the **IRS e-file Application**. The IRS reviews the application, and if it is approved, issues an **EFIN** (Electronic Filing Identification Number).

Step	Detail
Identity	Create an e-Services account through secure online identity verification
Application	List the firm, its **Principals** and its **Responsible Officials**, and the provider options it will use
Fingerprints	Required for Principals and Responsible Officials who are **not** attorneys, CPAs, EAs, bank officials or officers of publicly owned corporations. Professionals give their credentials instead.
Suitability	Background check, credit and tax compliance check, and review of past penalties and e-file history
Keeping it current	Update the application within **30 days** of any change, such as a new address or a change in principals
EFIN	Identifies the firm. It is not the same as a PTIN, which identifies an individual preparer.

Provider roles

Role	What it does
Electronic Return Originator (ERO)	Originates electronic returns by sending them to a transmitter or directly to the IRS. Usually the tax preparation firm.
Transmitter	Sends the electronic return data directly to the IRS
Intermediate Service Provider (ISP)	Processes return data between the ERO and the transmitter
Software Developer	Writes e-file software that must pass IRS testing (ATS)
Reporting Agent	Files employment tax returns for clients (Form 8655)
Online Provider	Allows taxpayers to self-prepare and e-file

Mandatory e-filing

Preparers: the specified tax return preparer rule

A preparer who **reasonably expects to file 11 or more** individual income tax returns (Forms 1040 and 1041) in a calendar year must e-file them. Members of a firm count the firm's returns **together**.

- **Taxpayer choice.** A client may choose to file on paper. The preparer gets a **hand-signed and dated statement** from the client, keeps it, and attaches **Form 8948**, *Preparer Explanation for Not Filing Electronically*, to the paper return.
- **Hardship waiver.** A preparer may request one on **Form 8944**.
- Some returns cannot be e-filed, for example because of IRS system limits. These are also explained on Form 8948.
- **Willfully failing to e-file** when required is **disreputable conduct** under Circular 230 section 10.51(a)(16).

Businesses and information returns

Under final regulations effective for returns required to be filed in **2024 and later**:

- Filers of **10 or more returns** of **any type** in a calendar year generally must e-file. This counts information returns (Forms W-2, 1099 and others), income tax returns, employment tax returns and excise tax returns together. The old threshold was 250 returns of each type.
- **Partnerships with more than 100 partners** must e-file the partnership return. Partnerships that file 10 or more returns of any type in a year must also e-file their partnership return.
- The rules apply to corporate returns, partnership returns, exempt organization returns (Form 990 series, which must be e-filed under the Taxpayer First Act), withholding returns and others.
- Waivers for undue hardship are requested on **Form 8508** for information returns. Other waivers follow the procedures for each form.

> **Example:** A small company will file 4 Forms W-2 and 5 Forms 1099-NEC in 2026. Information returns of all types are added together: 4 + 5 = **9**. Nine is under 10, so the company **may** file these information returns on paper. If it also has to file one Form 1099-MISC, the total becomes 4 + 5 + 1 = **10**, and it **must** e-file all of them.

Signing an electronic return

Method	How it works
Self-Select PIN	The taxpayer picks any five digits (not all zeros) and authenticates with the prior year's AGI or prior-year Self-Select PIN, plus date of birth
Practitioner PIN	The taxpayer picks a five-digit PIN and authorizes the ERO to enter it. No prior-year AGI is needed. The taxpayer **must sign Form 8879**.
Form 8879	*IRS e-file Signature Authorization*. Signed by the taxpayer (in person, or remotely with an approved electronic signature and identity verification) **before** the return is transmitted. The ERO **keeps** it and does **not** send it to the IRS unless asked.
Form 8878	The signature authorization for an e-filed **extension** (Form 4868) when the taxpayer authorizes the ERO to enter or generate the PIN
Form 8453	*U.S. Individual Income Tax Transmittal for an IRS e-file Return*. Used to mail supporting **paper documents** that must accompany an e-filed return, within 3 business days after the IRS accepts it.

Form 8879 retention: The ERO keeps it for **3 years** from the **later of the return's due date or the date the IRS received the return**. It may be kept electronically.

ERO responsibilities (Publication 1345)

- **Verify the taxpayer's identity**, especially for new clients and remote signatures.
- Get **Forms W-2, W-2G and 1099-R** before filing. Do not file using pay stubs, except in limited cases the IRS allows.
- Give the taxpayer a **complete copy** of the return.
- Sign the return as the **paid preparer** when the ERO also prepared it. Enter the EFIN and PTIN correctly.
- **Monitor acknowledgments.** If the IRS rejects a return and the ERO cannot fix the problem, the ERO must take reasonable steps to tell the taxpayer **within 24 hours**, and give the rejection code and an explanation.
- **Changes after the taxpayer signs.** If the data changes after the taxpayer signs, a new signature is required when Total income or AGI changes by **more than $50**, or when total tax, withholding, refund or amount owed changes by **more than $14**.
- **Advertising.** Do not use "IRS" in a way that suggests endorsement, and follow the IRS e-file logo guidelines. Do not advertise that an e-filed refund will arrive by a guaranteed date.
- **Refunds.** The refund must go to the taxpayer. An ERO may not take a refund into its own account, and may not base its fee on the refund amount.
- **Data security.** Follow the Gramm-Leach-Bliley Safeguards Rule and keep a written information security plan (chapter 5).

Rejected returns: the perfection period

Situation	Rule
Rejected return retransmitted electronically	Treated as timely if the corrected return is accepted within **5 calendar days** after the rejection
Taxpayer files on paper instead	Treated as timely if filed by the **later of** the due date **or 10 calendar days** after the rejection notice. The paper return must include an explanation and a copy of the rejection notice, be marked as a rejected electronic return, and be **signed** by the taxpayer. The e-file PIN does not count as a signature on paper.

Example: A client's 2025 return is e-filed on April 15, 2026 and rejected that evening because a dependent's SSN was already used on another return. The ERO cannot resolve it electronically. The client may file a paper return by **April 25, 2026** (10 calendar days after the rejection), with the required explanation and the rejection notice, and it will be treated as timely.

Refund delivery and payment options

- **Direct deposit** can be split among up to **three** accounts on **Form 8888**.
- No more than **three** electronic refunds can go to one bank account or prepaid card. Any further refunds are sent as paper checks.
- **Refund-related products**, such as refund transfers and refund anticipation loans, come from banks, not the IRS. EROs must disclose fees and must not misrepresent them as IRS products.
- **Electronic payments** include Direct Pay, EFTPS, the IRS Online Account, debit and credit cards, and electronic funds withdrawal when e-filing.

When a return counts as filed

- **Timely mailing equals timely filing (section 7502).** A paper return is timely if the **U.S. Postal Service postmark**, or the date recorded by a **designated private delivery service** using an approved service level, is on or before the due date. Certified or registered mail gives proof of mailing.
- **Electronic returns** are timely if the electronic postmark (from the transmitter) is on or before the due date and the IRS later accepts the return, including within the perfection period.
- **Weekends and holidays (section 7503).** When a due date falls on a Saturday, Sunday or legal holiday, the deadline moves to the next business day.

Return (calendar-year filer)	Due date	Automatic extension
Form 1040	April 15	6 months (Form 4868), to October 15. Taxpayers abroad get an automatic 2 months to June 15.
Form 1065 / Form 1120-S	March 15	6 months (Form 7004), to September 15
Form 1120	April 15	6 months (Form 7004), to October 15
Form 1041	April 15	5½ months (Form 7004), to September 30
Form 990 series	May 15	6 months (Form 8868), to November 15
Forms W-2 and 1099-NEC (nonemployee compensation) to the government	January 31	No automatic extension

Accuracy in filing

- **Identity Protection PIN (IP PIN).** A six-digit number, issued to anyone who opts in or to identity theft victims, that must be entered on e-filed and paper returns. A new one is issued every year. An e-filed return with a wrong or missing IP PIN is rejected.
- **Due diligence and Form 8867.** Required for EITC, CTC/ACTC/ODC, AOTC and HOH returns (chapter 5).
- **Amended returns.** Form 1040-X can be e-filed for the current and two prior tax years.
- **Name and TIN mismatches** cause rejects. Check them against Social Security cards or ITIN letters.

Key takeaways

- Getting an EFIN takes an IRS e-file Application through e-Services, with suitability checks and fingerprints for non-credentialed principals. Update the application within 30 days of any change.
- Specified tax return preparers (11 or more individual or trust returns a year, counted firm-wide) must e-file. Paper returns filed by client choice need a signed client statement and Form 8948.
- Businesses that file 10 or more returns of all types combined must e-file. Partnerships with more than 100 partners must e-file.
- Form 8879 authorizes the Practitioner PIN. The ERO keeps it for 3 years. Form 8453 transmits required paper documents.
- After a rejection: retransmit within 5 days, or file on paper within 10 days. Tell the taxpayer within 24 hours if the problem can't be fixed.

- Refunds go to no more than 3 accounts per return (Form 8888), and no more than 3 refunds may go to one account.
- Timely mailing equals timely filing. Weekend and holiday deadlines move to the next business day.

Final Review Checklist

Use this chapter in the last week before your exam. Cover the right-hand column of each table and try to recall the answer. Reread the chapter for any line you miss, then retake its practice test on UPractice.org.

Exam logistics

- 100 questions (85 scored), 3.5 hours, two 10-minute breaks. Scores run from 200 to 800, and 500 passes.
- $317 per part. Domestic window July 1, 2026 – February 28, 2027 with PSI. Up to 4 attempts per part per window.
- Passed parts carry over for 3 years. Apply on Form 23 within 1 year of passing the last part.

Must-know numbers: practice and EA status

Item	Answer
Form 23 enrollment fee	$140
Form 8554 renewal fee	$140, every 3 years
Current renewal group	SSNs ending 7, 8 or 9, or no SSN: October 1, 2026 – January 31, 2027
CE requirement	72 hours per cycle, 16 a year, 2 ethics a year
CE for a new EA	2 hours per month enrolled, including 2 ethics a year
Keep CE records	4 years
PTIN fee and expiration	$18.75 (2026 and 2027). Expires December 31 every year.
Experience path to enrollment	5 years of technical IRS employment
Contingent fee windows	Exam of the original return (or a claim filed within 120 days of the exam notice), interest and penalty refund claims, judicial proceedings
Conflict consent	Written within 30 days. Keep 36 months.
Advertising records	Keep 36 months. Honor published fees for 30 days.
Disciplinary answer and appeal	30 days to answer the complaint. 30 days to appeal the ALJ decision to Treasury.
Reinstatement after disbarment	After 5 years

Must-know numbers: penalties (returns filed in 2026)

Penalty	Amount
6694(a), unreasonable position	Greater of $1,000 or 50% of the fee
6694(b), willful or reckless	Greater of $5,000 or 75% of the fee
6695(a)–(e)	$65 each, capped at $32,500 per type (returns filed in 2026)
6695(f) refund check, 6695(g) due diligence	$650 each, no cap
Maximum due diligence penalties on one return	4 × $650 = $2,600
6701 aiding and abetting	$1,000 ($10,000 for a corporation)
6713 disclosure	$250 each, up to $10,000 ($1,000 and $50,000 if tied to identity theft)
7216 criminal disclosure	$1,000 fine and/or 1 year
Failure to file / failure to pay	5% and 0.5% per month, each capped at 25%. Combined maximum 47.5%.
Minimum FTF (more than 60 days late)	Lesser of $525 or 100% of the tax (returns due in 2026)
Accuracy / gross valuation / fraud	20% / 40% / 75%
Substantial understatement, individual	More than the greater of 10% of the correct tax or $5,000
Bad check	2%. Under $1,250: the lesser of $25 or the amount.
FTD	2% / 5% / 10% / 15%
Late partnership or S corporation return	$255 per partner or shareholder per month, up to 12 months (returns due in 2026)
Frivolous submission	$5,000
Interest	Federal short-term rate + 3, compounded daily. 7% for Q4 2026 (6% in Q2 2026).

Must-know time limits

Clock	Answer
Assessment (ASED)	3 years. 6 years if more than 25% of gross income was omitted. Unlimited for fraud or no return.
Collection (CSED)	10 years from assessment
Refund claim	The later of 3 years from filing or 2 years from payment. Lookback of 3 years plus extensions, or 2 years.
Bad debt / worthless securities claim	7 years
CDP hearing request	30 days. Equivalent hearing within 1 year.
Tax Court petition after a notice of deficiency	90 days (150 if addressed outside the U.S.)
Tax Court after a CDP determination	30 days
Protest of a 30-day letter	30 days
TFRP appeal (Letter 1153)	60 days (75 outside the U.S.)
Rejected OIC appeal	30 days
Innocent spouse, 6015(b)/(c)	2 years after the first collection activity
Refund suit	After the claim is denied or 6 months pass. Within 2 years of the disallowance notice.
Form 2848 representative signature	45 days after the taxpayer signs (60 if abroad)
Form 8821 received by the IRS	120 days after signature
Future periods on 2848/8821	Up to 3 years after December 31 of the year received
Third-party contact notice	45 days in advance
Third-party summons	Notice at least 23 days before. Petition to quash within 20 days.
Recording an interview	10 days' notice
Lien release	Within 30 days after payment
OIC deemed accepted	24 months
OIC compliance period	5 years after acceptance
Rejected e-file	Retransmit within 5 days, or file on paper within 10 days
Form 8879, Form 8867, preparer copies	Keep 3 years

Clock	Answer
Employment tax records	Keep 4 years

Must-know forms

Form	Purpose
23 / 8554	EA enrollment / EA renewal
W-12	PTIN application
2848 / 8821 / 56 / 8655	Power of attorney / information authorization / fiduciary notice / reporting agent authorization
8275 / 8275-R	Disclosure statement / disclosure of a position contrary to regulations
8867	Paid preparer due diligence checklist
8862	Claiming EITC/CTC/AOTC again after disallowance
843	Claim for refund or request for abatement, including penalty and interest abatement
1040-X	Amended individual return
872 / 872-A	Consent to extend the assessment period (fixed date / open-ended)
4549 / 870	Exam report / waiver of restrictions on assessment
12203	Request for Appeals review (small case)
12153	CDP or equivalent hearing request
9423	Collection Appeals Program request
9465	Installment agreement request
433-A / 433-B / 433-F	Collection information statements
656 / 656-L	Offer in compromise / offer based on doubt as to liability
13711	Appeal of a rejected OIC
12277 / 14135 / 14134	Lien withdrawal / discharge / subordination
4180	TFRP interview
8857 / 8379	Innocent spouse relief / injured spouse allocation
911	Taxpayer Advocate Service assistance request
8879 / 8878 / 8453	e-file signature authorization / extension signature authorization / paper document transmittal
8948 / 8944	Preparer explanation for paper filing / preparer hardship waiver request
8888	Splitting a refund among up to 3 accounts

Form	Purpose
4506 / 4506-T	Copy of a return / transcript request

The 20 most common traps

1. Preparing a return, by itself, is **not** practice before the IRS.
2. EAs have unlimited **IRS** practice rights, but **no** Tax Court practice rights unless they pass the Tax Court exam.
3. AFSP holders represent only in **exams** of returns they **prepared and signed**. They cannot appear before Appeals or Collection.
4. Section 10.21 requires telling the **client** about an error, not the IRS.
5. An unpaid fee does not let you keep the **client's** records. You may keep your own work product.
6. Contingent fees are never allowed for preparing an original return.
7. The 6695(g) due diligence penalty applies **per credit**, has no reasonable cause exception, and has no cap.
8. A Form 4868 extension extends the time to **file**, not the time to **pay**.
9. The FTF minimum applies only to returns more than 60 days late, and it can never exceed 100% of the tax due.
10. Interest cannot be waived for reasonable cause. It can be abated only for IRS ministerial or managerial delays, or when the tax is reduced.
11. An early-filed return is treated as filed on the due date.
12. CNC status does **not** stop the 10-year collection clock.
13. A late original return can still be barred from a refund by the 3-year **lookback**.
14. A lien is a claim. A levy is a seizure. Release, withdrawal, discharge and subordination are four different remedies.
15. CAP is fast but gives **no** Tax Court review. CDP gives Tax Court review if requested within 30 days.
16. Only the Tax Court is a **prepayment** forum, and only District Court has a **jury**.
17. Tax Court S-case decisions cannot be appealed. The limit is $50,000 per year.
18. A new Form 2848 for the same matter revokes earlier ones unless line 6 is checked. "All years" is not accepted.
19. Form 8821 gives information only, with no advocacy.
20. Innocent spouse (Form 8857) and injured spouse (Form 8379) are different remedies. Only 6015(f) covers underpayments.

Last-day plan

- Review this chapter's tables twice.

- Take one timed, full-length Part 3 practice exam on UPractice.org and review every miss.
- Sleep well, arrive early, and answer every question. There is no penalty for guessing.

Key takeaways

- Most Part 3 points come from exact recall of numbers, deadlines and forms. The tables in this chapter are your final review sheet.
- Before you sit the exam, work through the trap list until you can explain why each trap is wrong.
- Good luck. You've prepared for this.

Now practice it

Every chapter in this guide has matching practice tests, simulations and mock exams at **UPractice.org**.