CHAMBERLAIN HRDLICKA
CASE STUDY – TAX REFUND/COLLECTION MATTER

Chamberlain Hrdlicka turns a $2.1 million tax bill into a $600,000 refund

It's not unusual for the Internal Revenue Service to say that more money is due during a tax audit, but the numbers can be staggering if the matter is not addressed promptly. When an accountant cannot get an issue resolved with the IRS, Chamberlain Hrdlicka's nationally recognized Tax Controversy & Litigation team can be called in to get results.

In a recent case, a prominent client whose accountant failed to file his 2006 tax return was hit with a tax bill for $2.1 million, which included penalties and interest. Chamberlain Hrdlicka's team unraveled the mess and determined that the IRS, in fact, owed the client. In a striking reversal, the firm recovered about $600,000 for its client.

About the case

The client's tax problems came to light in 2013 when the IRS audited his 2006 tax return. The client's CPA had assured him that the 2006 return was filed. But the CPA lied, allowing the IRS to come after the money it says is owed at any time. At the end of the audit the IRS sent a notice of deficiency, which provided 90 days to contest the tax bill – about $1 million of taxes, plus penalties and interest. Despite his assurances, the accountant did nothing, and because the accountant did nothing in response to the Notice of Deficiency, the client inadvertently waived the right to contest the alleged tax bill in Tax Court.

The Internal Revenue Code calculates penalties as a percentage of the taxes due. The IRS continued to hit the client with late filing penalties, late payment penalties and accuracy-related penalties. The client originally intended to roll forward refunds to future years, but because his accountant failed to file a return for 2006, there was no refund to roll forward.

The initial mistake created a snowball effect that created years of tax problems.

The IRS began seizing the client's subsequent year refunds to pay the alleged taxes due for 2006. The client hired a new CPA to address the issues, but then the IRS started trying to collect the alleged taxes due for 2006, which had ballooned from $1 million to $2.1 million.

Chamberlain Hrdlicka shareholder John Hackney and forensic accountant Joe Odom first got involved in January 2016, just as the IRS was actively trying to take the client's property, including his retirement nest egg, to satisfy the tax bill. The team filed a collection-due process request, which stopped the IRS' collection efforts.

After working with the client's new accountant to determine that the client should receive money back for 2006, Chamberlain Hrdlicka filed a claim for refund to get the overpayments back. The IRS denied the claim for refund, so Chamberlain Hrdlicka's team protested the denial to the IRS Office of Appeals, which agreed that the original examiner made a mistake and that the client was due a refund. This result turned a $2.1 million tax bill into a $600,000 refund.

Getting results

Chamberlain Hrdlicka understands how to help people with IRS disputes. In this case, Hackney and Odom determined the accuracy of the tax figures and handled the collection process. About a year and a half after taking the case, the team made a big problem for the client go away. Hackney and Odom resolved the tax bill for 2006, as well as subsequent returns with the state and federal government.

The case is a cautionary tale for all taxpayers. If you receive a notice from the IRS, it’s vital that you respond promptly. The worst thing to do is not answer. If the IRS does not get a response, they may bill you for the wrong amount and then try to collect it.

If you have a dispute with the IRS that you and your accountant can't resolve, it’s time to get counsel involved.

This case was unusual because the legal team was brought in at a late stage, which makes tax disputes much more difficult to resolve. However, Chamberlain Hrdlicka’s experience demonstrates that even if a situation looks dire, a favorable outcome can be achieved.