



Court Decision Creates Time-Sensitive Tax Opportunity

A recent court decision may create a time-sensitive opportunity for some taxpayers to recover certain IRS penalties and interest assessed during the COVID-19 period.

The case is under appeal, and refunds are not guaranteed. However, taxpayers who paid penalties or interest related to tax deadlines between January 20, 2020, and July 10, 2023, may want to review their situation. Many have until July 10, 2026, to preserve their rights by filing a protective claim.

What is the Kwong case about?

In *Kwong v. United States*, the court ruled that certain disaster-relief provisions enacted during the COVID-19 federal emergency may have postponed tax filing and payment deadlines beyond what the IRS recognized.

Based on that interpretation, some penalties and interest assessed during the pandemic period may have been improperly charged. The ruling applies to deadlines between January 20, 2020, and July 10, 2023, though the government has appealed the decision.

Why is this important for taxpayers?

If the court's interpretation stands, some taxpayers may be entitled to refunds or abatements of penalties and interest that were assessed during the COVID-19 period. Potentially affected taxpayers is broad in scope and includes individuals, businesses, trusts, and estates, to name a few.

However, relief will not be automatic. Taxpayers generally must take action to preserve their claims.

Which penalties or charges might qualify for relief?



Commonly cited items include failure-to-file penalties, failure-to-pay penalties, certain estimated tax penalties, and related interest. Eligibility depends on each taxpayer's situation, including when returns were filed, when taxes were paid, and when penalties were assessed.

Who should pay attention to this issue?

Taxpayers who incurred IRS penalties or interest during the pandemic years may want to review their situation, typically for tax years 2019 through 2023. Other tax periods could also be impacted based on unique circumstances. Generally, taxpayers who were not assessed penalties or interest during the COVID-19 period are unlikely to be affected by the court's decision.

What is the July 10, 2026, deadline?

July 10, 2026, is an important deadline for filing a *protective claim* for refund, which preserves a taxpayer's rights while the legal issues are resolved.

The exact deadline may vary based on filing and payment dates, so taxpayers should not assume the same date applies to everyone. Those unsure about pandemic-era tax penalties or interest should consult a CPA to determine whether filing a protective claim is appropriate.

Will the IRS automatically send refunds?

No. The IRS is not expected to issue refunds automatically. Taxpayer action is generally required to preserve or pursue a claim.

What happens if the government wins its appeal?

The outcome remains uncertain. The government has appealed the *Kwong* decision, and future court rulings, IRS guidance, or legislation could change how the issue is resolved.

Filing a claim does not guarantee a refund. However, filing a protective claim may help preserve a taxpayer's rights if the courts ultimately uphold the ruling.

What should taxpayers do now?

The first step is to determine whether the IRS assessed penalties or interest during the COVID-19 period. Taxpayers who identify potential exposure should consider consulting a CPA or tax advisor to evaluate eligibility and determine whether to file protective claim, refund claim, or request for penalty abatement.

With the July 10 deadline approaching and the appeal ongoing, waiting could mean missing a limited-time opportunity.



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