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TAX SECTION E-ALERT

June 13, 2007

"TAX NEWS YOU CAN USE" --

Treasury Issues Transitional Relief for Preparer Penalties

As indicated in the June 11, 2007, Tax E-Alert on the strengthened section 6694 return preparer penalties, the [AICPA asked Treasury](#) and the IRS for transitional relief. As that E-Alert was being sent to you, the IRS granted the broad relief we requested. [IRS Notice 2007-54](#) clarifies some of the issues we identified, specifically with respect to the sections on effective date issues and "adequate disclosure."

For income tax returns, amended returns, and refund claims filed during the transition relief period, the Service will apply the preparer standards set forth under the prior section 6694 and its current regulations in determining whether or not to impose a penalty under section 6694(a).

For other returns, the IRS will apply the reasonable basis standard under the section 6662 regulations – without regard to its disclosure requirements – in determining whether or not to impose the penalty under section 6694(a).

The notice also details what constitutes "adequate disclosure."

The transitional relief is provided for (1) all returns, amended returns, and refund claims due on or before December 31, 2007, (determined with regard to any extension of time for filing); (2) 2007 estimated tax returns due on or before January 15, 2008; and (3) 2007 employment and excise tax returns due on or before January 31, 2008. No transitional relief was granted for penalties under section 6694(b), relating to penalties due to willful or reckless conduct.

This prompt and enlightened transitional relief by the IRS will help practitioners comply, and the AICPA Tax Team will continue to work with Congress to provide more rational preparer penalties.

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