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IRS Can Issue Tax Refunds, Then Demand Them Back With Interest

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Getting a hefty tax refund can be a big relief. When you file your return with the refund showing, you might think something will go wrong, or that you may have miscalculated. When the payment arrives, you may well breathe a big sigh of relief. After all, surely the IRS would not send out your refund without making sure you were entitled to it, right? Not necessarily. The mere fact that you receive a tax refund does *not* mean your return has been audited and approved. The IRS generally has three years to audit your return. Often, the refund will be processed, but the audit will come later.

In fact, this is so common that you may want to double check your refund in the first place. If you receive a refund that seems too large, you may want to wait to cash the check or use the money until you receive a notice explaining it. Expect a notice within a few days of receiving the payment. If you receive a big refund that you know is wrong, the IRS may want its money back, usually with interest. If you think you're in this big mistake category, check with the IRS. Of course, you also might get a smaller refund than you expect.



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If your refund is smaller than expected, you'll usually receive an explanation of the difference. It may be a math error, an exemption mistake, a penalty, etc. You usually have a right to dispute what the IRS has done, so pay attention to any deadlines the IRS mentions. If significant money is involved and you think the IRS is wrong, get some professional help. If your refund check is short and you still haven't received a written explanation from the IRS two weeks after receiving your refund, contact the IRS.

If you get an incorrect bonanza-sized tax refund and

don't want to ask any questions, just consider the fact that the IRS normally will figure out the mistake eventually. So if you get a larger than expected refund, hold your horses. The IRS will want the money back, with interest. And there are even some cases in which the matter gets way more serious than that. [Stephen McDow](#) of Laguna Beach, California learned this the hard way. He was [jailed](#) for spending a generous \$110,000 refund the IRS erroneously deposited in his bank account.

The refund was meant for a woman who had requested to have the funds deposited in her Citibank account. She gave the IRS her *old* Citibank account number—not knowing it had been reassigned to [Mr. McDow](#). Mr. McDow's case is unusual, but erroneous tax refunds happen more than you might think. In 2015, a watchdog report revealed that the IRS actually paid out \$5.8 billion in fraudulent refunds that it realized were fraudulent only later. Actually, there may be fraudulent refunds not included in these numbers. The IRS may never know just how many dollars of fraudulent refunds it has paid.

In many cases, though, the audit is to determine if you were really entitled to that refund or not. It might seem sensible for the IRS to do that first, not to issue the payment first. But either way, you can expect to have to support what you claimed on your return. Amended returns are often looked at more closely. So if you file an amended return asking for considerable money back, the IRS may review the situation even more carefully.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.