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IRS Waives Penalties For Reasonable Cause—Not For AI Tax Research



No one wants to pay penalties on top of taxes and interest, but the IRS frequently adds penalties to a tax bill when it finds something amiss. Many people feel that penalties add insult to injury. The bitter pill of paying additional taxes and interest wouldn't be quite so bad if you could at least get the penalties removed. But can you? That turns out to be a nuanced 'it depends' question.

What is Reasonable?

One of the biggest and most misunderstood justifications for penalty abatement is the defense that a tax position was based on reasonable cause and that you acted in good faith. Many people *think* they should easily qualify, since those seem to be friendly, easy-to-understand words. Actually, though, they are terms of art and even if you think you comply with them as a matter of common sense, the IRS may not agree.

The IRS materials on [penalty relief for reasonable cause](#) are extensive and worth reading. Relying on professional tax advice is a classic way to show that you acted reasonably. Relying on a professional is a reasonable and responsible thing to do, and the IRS may not penalize you if the tax adviser you relied on turned out to be mistaken. But how about relying on AI? According to the unit of the IRS called the Taxpayer Advocate Service, relying on AI tax advice that you have not vetted with a tax professional [is unlikely to be considered reasonable](#). That means no relief from penalties.

Other Penalty Standards

How the IRS evaluates a penalty defense depends on which penalty has been assessed, so you need to know that to see if you were reasonable. On top of

reasonable cause, some penalty defenses involve other concepts, such as an absence of willful neglect. Isn't that proving a negative? Yes, and the IRS usually wins in a tax penalty stalemate. Taxpayers bear the burden of substantiating their reasonable cause. We all must exercise ordinary business care and prudence in reporting our proper tax liability.

All tax returns are signed under penalties of perjury. The IRS applies a facts and circumstances test on a case-by-case basis to determine whether a taxpayer meets the reasonable cause and good-faith exception. As you might expect, that can lead to inconsistent results, and ones that are subjective. According to the IRS, the most significant factor in determining whether you have reasonable cause and whether you have acted in good faith is your effort to report the proper tax liability.

You are doing your best to report the right amount, and that sounds simple. Notably, though, unlike the taxpayer defense of "reasonable basis," reasonable cause does not depend on the legal authority you have stacked up. Rather, reasonable cause depends on your actions.

- Example: Suppose that you report the amount from an erroneous Form 1099, but you didn't actually know that the Form 1099 was wrong. You think the Form 1099 has the total you were paid, but under audit, it turns out that the Form 1099 reported less than you actually received. That could happen to anyone.
- After all, we all often rely on Form 1099 data, so reasonable cause may apply if you just pick up a reported number and reasonably assume it is correct. What if you were paid \$300,000, but the Form 1099 said you received \$300? It might be harder to say that you picked up that number unintentionally and reported it, compared with an inaccurate

Form 1099 that said \$285,000. Still — how you behaved and what you did may be reasonable, even with a big error.

What about an isolated computation or transposition error you might make on your return? We all might do that too, and that too may be consistent with reasonable cause and a good faith effort. It is easy enough to transpose numbers, or to make other errors. A mistake or two can often be explained, even if it is clear in the end that you were just plain wrong. For more information, check out the IRS pages on [penalty relief](#).

Although the revised provision covers most significant California wildfires, there are still some fires that did not receive a federal major disaster declaration or emergency declaration, nor even a California state disaster declaration. If you are affected by these wildfires, you may need to rely on Section 1033 and other relief provisions in the federal and state tax code.