Taxpayers may be Eligible for Significant COVID-19 Pandemic Tax Refunds

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Recent legal developments, particularly *Kwong v. United States*, 179 Fed. Cl. 382 (Nov. 2025), suggest the IRS should not have assessed certain penalties and interest during the COVID-19 federal disaster period – from January 20, 2020, through July 10, 2023. Based on the court's holding in *Kwong*, filing and payment deadlines were postponed during that entire COVID-19 federal disaster period and, as a result, tax returns and payments due anytime within that window were not late until after July 10, 2023. Thus, impacted taxpayers may be entitled to a refund or abatement of certain assessments made during the COVID-19 period, including:

- Penalties assessed for failure to timely file returns, failure to pay taxes, or failure to make estimated tax payments;
- Certain information return penalties;
- Late payment interest; and
- Overpayment of interest.

Impacted taxpayers consist of individuals, corporations, partnerships, S-corporations, LLCs, trusts, estates, nonprofits, small businesses and large corporations. The issue also impacts taxpayers with obligations related to income, employment, estate, gift and excise taxes. Further, it may affect taxpayers who filed late international information returns.

The law authorizes the IRS to issue a credit or refund when taxpayers have overpaid their taxes, including penalty and interest. However, the time to file a claim is limited. If the deadline is missed, the refund may be permanently lost. Generally, a claim for credit or refund must be filed within three years from the date the return was filed (including extensions), or two years from the date the tax was paid.

Despite those IRS rules, according to the court in *Kwong*, taxpayers have a deadline of July 10, 2026, to file a claim for refund for any penalties and interest already paid or to file an abatement request for any unpaid penalties and interest assessed during the COVID-19 federal disaster period. Yet, the court's decision in

Kwong is not final, and the IRS could appeal the decision. Since the outcome of the appellate process remains uncertain, taxpayers must act quickly to preserve their rights to claim a refund or abatement of penalties and interest.

Please keep in mind, the holding in *Kwong* does not automatically refund any taxpayer funds. The IRS will not issue refunds or abate any penalties or interest on its own initiative. Refund and abatement claims must be filed within the applicable statute of limitations.

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