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Does the IRS Owe You Money? A Recent Court Case May Create Refund Opportunities. Act Before July 10, 2026.

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Taxpayers who paid penalties or interest between 2020 and 2023 may have an opportunity to preserve potential refund claims while the courts determine the final outcome of the Kwong case.

Most taxpayers know one tax date by heart: April 15.

Miss that deadline and the consequences can be expensive. Penalties begin to accrue. Interest starts running. Refund opportunities can expire. For years, taxpayers and advisors alike have accepted those rules as fact.

But what if the deadline wasn't actually April 15?

A recent federal court case is raising exactly that question—and the answer could mean refunds of penalties, reductions of interest charges, and even additional interest owed by the IRS to certain taxpayers.

While the issue is highly technical, the planning opportunity is surprisingly straightforward.

A Court Case Worth Watching

In Kwong v. United States, the U.S. Court of Federal Claims interpreted a disaster-relief provision in the tax code and concluded that COVID-era emergency declarations may have legally postponed many federal tax deadlines until July 11, 2023.

That's a much broader interpretation than the administrative relief the IRS provided during the pandemic.

If the court's reasoning ultimately survives appeal, some tax returns that were previously considered late may actually have been timely under the law.

And that distinction matters. A lot.

Why This Matters

Tax penalties and interest calculations are based on statutory due dates.

If the legal due date was later than the IRS assumed, taxpayers may have been charged penalties and interest that never should have been assessed in the first place.

The years most likely affected are tax returns originally due during the 2020 through mid-2023 timeframe, generally covering tax years 2019 through 2022.

For taxpayers who paid substantial penalties or interest during this period, the dollars at stake could be meaningful.

Penalties May Be Worth Revisiting

Many taxpayers simply paid IRS assessments and moved on.

However, if the Kwong interpretation is ultimately upheld, taxpayers may have grounds to seek:

- Abatement of assessed penalties
- Refunds of penalties already paid
- Recalculations of interest charges
- Additional interest on refunds previously issued

This is particularly relevant for taxpayers who filed returns after the traditional due date but before July 11, 2023.

In other words, what was once viewed as late may not have been late at all.

One of the Most Interesting Opportunities: Refund Interest

The most overlooked opportunity may not be penalties—it may be interest owed by the IRS.

Typically, when a taxpayer files a refund claim late, the IRS limits or eliminates interest that would otherwise be paid on the refund.

Under the Kwong interpretation, however, certain returns previously considered late could instead be treated as timely filed.

If that happens, taxpayers may be entitled to interest they never received when their refunds were processed.

For taxpayers who made large estimated tax payments, overpaid taxes, or later filed amended returns claiming refunds, this could represent a meaningful recovery opportunity.

As we often remind clients, sometimes the tax planning opportunity isn't reducing the tax bill—it's making sure you're collecting every dollar you're already entitled to receive.

Protective Claims Are Already Being Filed

The IRS disagrees with the court's interpretation and is expected to continue challenging the decision.

As a result, many advisors are filing what are known as protective claims.

A protective claim preserves a taxpayer's rights while the litigation works its way through the courts. It doesn't guarantee success, but it can prevent a taxpayer from losing an opportunity simply because the statute of limitations expired while the case was pending.

Think of it as reserving your seat at the table while the courts decide whether relief ultimately becomes available.

How Are Protective Claims Filed?

A protective claim is a refund claim filed before the statute of limitations expires when a taxpayer's entitlement to a refund depends on the outcome of future events, such as ongoing litigation.

Depending on the circumstances, taxpayers may file Form 843, an amended return, or a written protective claim identifying the affected tax years and explaining that the claim is contingent upon the final outcome of the Kwong case.

Importantly, taxpayers do not need to calculate the exact amount of the refund being claimed. A valid protective claim generally must identify the affected tax years, explain the legal basis for the claim, and clearly describe the contingency that may result in a refund.

Because refund statutes continue to run while the litigation proceeds, taxpayers should review potential claims promptly. For many taxpayers, July 10, 2026 may represent a critical deadline for preserving refund rights.

Who Should Consider a Review?

Taxpayers may want to revisit their records if they:

- Paid significant IRS penalties between 2020 and 2023
- Paid substantial IRS interest charges
- Filed returns that were considered late during that period
- Received refunds without interest
- Made large estimated tax payments
- Filed amended returns claiming refunds
- Have unresolved IRS assessments relating to those years

This issue is widespread and not limited to a small group of taxpayers.

If the court's decision in Kwong ultimately holds up, affected taxpayers may be entitled to refunds of penalties or interest paid, abatements of penalties or interest not yet paid, and potentially additional interest on refunds previously issued.

The Bottom Line

The Kwong decision does not eliminate taxes, erase filing obligations, or create a tax holiday.

What it does do is challenge a fundamental assumption regarding when certain tax deadlines legally expired.

If the courts ultimately uphold that interpretation, some taxpayers may discover they paid penalties they didn't owe, interest that should not have accrued, or missed interest the IRS should have paid to them.

As with many tax planning opportunities, the key is not waiting until the issue is settled.

The best planning often happens while everyone else is waiting for answers.

At Wellspring, our teams are currently reviewing client tax returns, IRS assessments, and filing histories from the affected years to identify clients who may benefit from this opportunity. If we determine that you may be impacted, we will contact you directly and discuss whether filing a protective claim is appropriate. Where warranted, we will assist with preparing and filing protective claims on your behalf to help preserve your rights while the courts continue to evaluate the case.

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