

21 Facts About Getting Your IRS Debt Resolved, Reduced, or Forgiven

Are you behind on filing your federal income tax returns or paying your federal IRS taxes in the last year or more? If so, you're not alone. More than 22 million taxpayers in the U.S. have either failed to file a tax return or are behind in paying their IRS taxes due, and that was before the pandemic hit.

If things have been tight financially, it can be easy to ignore the task of filing and paying your federal taxes to the IRS. You might think that you can get caught up "next year" when things get better. But they don't get better. You skip tax filing again. And maybe again.

Initially, you might think you've gotten away with not paying the IRS. But in a year or two, they will catch up with you. While you procrastinate, the penalties and interest will build up to a dollar amount that is way more than what you would have owed if you had filed and paid on time.

Letters from the IRS will come eventually. If you let it go too long, they can take away your assets. By then, the penalties and interest will be so high that it will feel like an impossible situation to get out of. Here are just a few of the powers that the IRS has to collect your debt:

- The IRS can freeze your bank account and clean out your cash.
- They can garnish your wages, meaning they can take away part of your paycheck. Plus, they notify your boss of your IRS debt, which can be very embarrassing.
- IRS officers can take away your car, house, boat, and other big assets.
- They can take your retirement fund and garnish part of your social security payment.
- The IRS can restrict your travel by seizing your passport.
- They can take away your jewelry, including family heirlooms.
- The IRS can take away things like furs, art, and gun collections.
- If you're self-employed, the IRS can notify your business vendors of your debt, which can be professionally embarrassing.

Worse, if you're driven to bankruptcy, there's a chance it might not end there. The rules are complicated, but some of your IRS debt may not be forgiven if you declare bankruptcy.

Just the anxiety alone is not worth getting this far behind on your taxes. You may even be losing sleep over all of these IRS debt problems. Especially now, everyone needs to keep their stress level low and their immune system in tip-top shape to fight the virus. For some people in high-risk health categories, this added stress could cause a more severe illness. And that's the last thing you need because in a worst-case scenario, that can lead to lost wages and hospital bills on top of your IRS debt.

Owing the IRS can cause serious problems in your marriage too. There have been plenty of divorces where the two partners disagree on money issues. When IRS debt and your bad credit are added to the conflict, your marriage can be in jeopardy.

Taking the First Steps

You owe it to yourself and your loved ones to begin the journey of getting right with the IRS. A huge burden will be lifted from your shoulders, and you will feel enormous relief when you take the first step toward getting your IRS issues resolved.

So, let's see if we can begin to relieve some of that anxiety and help you solve your IRS problems. Let's look at all the steps and options you have when you get behind in filing or paying your federal income taxes to the IRS.

Learning the Facts about IRS Debt Resolution

Here are some facts about resolving your debt with the IRS.

1. The IRS wants to work with taxpayers.

The IRS is actually on your side, in a way. The agency is typically eager and happy to collect old debts. It truly wants to work with taxpayers, but there are many, many rules you need to know about and a process to follow if you want a positive result.

2. Only three types of professionals can represent you in front of the IRS.

While you can represent yourself in IRS matters, it might not be the best idea, especially if your debt is very high or you've ignored the situation for a long time.

The three types of professionals that can represent your case at the IRS:

- 1) Certified Public Accountants (CPAs). But be careful: not all CPAs are experienced in IRS tax resolution.
- 2) Enrolled Agents (EAs). Again, make sure the EA has experience with IRS tax representation, representing taxpayers before the IRS.
- 3) Attorneys. Same story as above. Not all attorneys are tax attorneys, and even not all tax attorneys have a bustling tax controversy practice.

A great question to ask anyone you consider hiring is "What is your Offer in Compromise acceptance rate?"

3. You'll probably need to get your bookkeeping caught up.

If you're behind on your taxes, it can often follow that you are behind on your bookkeeping as well. Anyone you hire is going to need good numbers in order to work with you, so a good first step is to catch up on your bookkeeping. If you don't have your records, a professional can help you reconstruct them.

Often, tax resolution professionals provide bookkeeping catch-up services or services to reconstruct your records. They'll do the minimum you need in order to get you or your business in compliance.

4. You'll probably need to organize your mail from the IRS.

I know. It's sitting in a stack somewhere in your home. If you haven't opened the mail, start opening it up. It's helpful for tax professionals to know what type of notices you've received. In most cases, tax resolution specialists will know the letter by form number, and that will give them an idea of where to start with your case.

If you're too anxious, I totally understand. For some people, it can simply be too overwhelming to open a letter from the IRS. In that case, when you hire a tax representation professional, you can bring them into the office and that will be the first thing that they can take care of for you.

The Internal Revenue Service, state tax agencies, and local entities will send a letter if one of the following happens:

- You miss a payment deadline for payroll taxes due.
- You miss a deadline for filing payroll tax reports.
- You miss a deadline for filing your personal or corporate income tax returns.
- You miss a deadline for paying tax due from your personal or corporate income tax returns.
- You miss a deadline for filing and/or paying corporate franchise tax due.
- An amount paid is short or over what the taxing agency calculates as due.
- The agency notices a discrepancy on any of your tax returns and needs an explanation.
- You have been selected for an audit.
- You fail to respond to previous correspondence.

Please note: The IRS will never send you an email about any of the above situations. They always send physical letters. If you get an email, it's a scam.

Getting into Compliance with the IRS

You can't ask to have any debt forgiven until you get into "compliance" with the IRS. Here is what you need to do to get that done.

5. You should almost always file your past due tax returns, but there are some exceptions and filing needs to be done carefully so additional debt is not triggered.

Before any debt can be forgiven, the taxpayer needs to get into compliance. This means all past due returns must be filed. You don't have to pay off all your debt currently; we'll talk about what you need to pay in the next item.

However, there are a couple of big "ifs" when it comes to this step. In rare situations, filing can trigger more debt. Also, filing a particular way can also trigger more debt.

That's why it just makes sense to get a tax resolution professional involved in every step of this process, so they can keep you out of more trouble than you're already in.

6. Pay your current taxes.

While you don't have to pay all of your old IRS debt, you do have to be paying the current taxes. This is part of getting into compliance. You need to be able to show the IRS that you can pay the taxes that are current. This means that if you have a job as an employee, sufficient taxes are being withheld from your current paychecks. Or if you're an entrepreneur taking draws, that you are currently making your estimated tax payments.

Paying Off Your IRS Debt: Options

Here are the options you have for paying off your IRS debt. This is where it gets extremely complicated. Selecting the best resolution option from the ones listed below can make a difference of many thousands of dollars, and even success or failure.

If you still haven't hired a tax resolution professional, I recommend you do so at this time. You'll save many hours of time spent trying to learn about all the rules and forms and processes involved. Plus, you'll feel the relief knowing your issue is in good hands with a professional.

7. Pay off the entire amount, including penalties and interest.

If you can afford to, just pay the entire balance due. You'll save on legal fees, but if you're a first-time offender, you may be paying penalties and interest that you might have gotten out of if you hired a professional to help you.

If the IRS calculated your tax due, they may have overstated it. Yes, the IRS makes mistakes. Would you know? Or, what if you could have gotten the interest waived?

8. If the IRS has made an error, begin the process of getting the error corrected.

If you don't feel you owe the taxes that the IRS is saying you owe, there may be a mistake on the IRS's part. If it's a recent error, it can be fairly easy to fix. But if the error occurred a long time ago, you may need to go through a complex process to prove you don't owe the amount they say you do.

For this type of IRS problem, it's best to hire a tax representation professional. Especially if it's related to payroll taxes, the IRS can be extremely aggressive about going after innocent people.

A professional tax representative can get into the IRS files and find out what information they have concerning your case. They can also review your filed tax returns and check to see what errors they can spot.

It can be scary to talk to an IRS officer directly. That's when a tax professional can be extremely helpful. They love helping taxpayers. They know where to go if the IRS officer is pulling any kind of power play on you (it happens). They'll do their best to get you a good resolution to your IRS problems.

9. Get some relief if you can claim that you are an "innocent" spouse.

Did your partner get you into this IRS problem? Is it only their problem and you just got dragged into it? You may have a situation with your spouse if they promised to file and didn't or they don't file correctly or they don't pay.

If that's the case, you might be able to get some relief, depending on the circumstances. In some cases, you can claim that you were the "innocent spouse" and get your account corrected. A tax representation professional can help you through the process of sorting out the debts owed by your spouse versus the debts owed by you.

10. Ask for a first-time penalty abatement.

Some taxpayers might be eligible to get some of their penalties waived. In some cases, you don't need a reason, and in other cases you might need a reason to ask for this debt reduction. Some of the reasons include you being a victim of a fire, natural disaster, illness, or other qualifying calamities.

11. Get accepted for an IRS installment payment plan.

Some taxpayers can request IRS approval to make installment payments over a specified period. The IRS requires a detailed application form to be filled out along with documentation related to every aspect of your financial life: assets you have, debt you owe to others, how much you earn, and how much you spend, to start with.

12. Qualify for a streamlined installment payment plan.

If you owe a relatively small amount of money and meet several criteria, you may be able to get a streamlined installment agreement. In this case, less documentation is required for submission, and the approval is automatic. But not everyone qualifies.

13. Apply for a partial-payment installment agreement.

The Partial Payment Installment Agreement (PPIA) is similar to a regular installment agreement where you make monthly payments to the IRS for taxes owed. However, you are only paying back part of the taxes you owe over time. The IRS agrees to a lower payment when it sees you can't make the full payments.

To apply, you must submit a full financial disclosure. That includes details about your income, assets, debts, and expenses. PPIAs are harder to get than other types of installment plans. However, they are easier to get accepted than an Offer in Compromise, which is described a little later.

14. Buy yourself some time by achieving the status of "Currently Not Collectible".

If your financial situation is currently dire, the IRS might stamp your file with a status called Currently Not Collectible, or CNC. This occurs when the IRS determines that you are unable to make any payments on your back taxes. But this is simply a way to buy time; the debt is still due.

When a taxpayer is deemed uncollectable, the IRS may still file a Notice of Federal Tax Lien to secure its position in the taxpayer's assets. But it will not otherwise take enforcement action to seize (or levy) the taxpayer's assets or income.

A taxpayer's CNC status will be reviewed for possible changes every year or two.

15. Understand RCP: Reasonable Collection Potential.

One of the key concepts in getting IRS debt forgiven is reasonable collection potential, or RCP. RCP is a complicated formula based on the assets and income you currently have along with your debt and expenses. It's used to determine what the IRS can reasonably expect you to pay. A tax representation

professional can work with you to calculate this number, which is then used to present an offer to the IRS.

There are several kinds of IRS offers, some of which are listed below. A tax representation professional can determine you can qualify for one of them.

16. Apply for an Offer in Compromise.

An Offer in Compromise, or OIC, is an offer that a taxpayer or their representative can make to ask the IRS to relieve some of the debt owed. A negotiated amount of IRS debt is agreed upon, and the taxpayer makes payments until the debt is paid off. The taxpayer also must continue to file and pay their current taxes on time for five years.

Less than half of all offers that are made are accepted by the IRS. There is a stringent process to follow, and not everyone gets it right. The offer acceptance rate is higher for experienced tax professionals and lower for inexperienced applicants. In 2017 only 40% of Offers in Compromise were accepted.

17. Claim doubt as to liability.

Doubt as to liability is a form of an Offer in Compromise. It can be used in special circumstances when there is evidence that the tax assessed is not accurate. Just because the taxpayer disagrees with the tax is not a good enough reason to use this type of offer.

This type of offer can be used if a taxpayer was not able to be present at an audit, if a taxpayer has been incorrectly assigned responsibility for past due payroll taxes of a company they worked for, and if the taxpayer has waited too long to correct the tax using other IRS channels.

18. Qualify for doubt as to collectability.

Doubt as to collectability is another form of Offer in Compromise. It may apply when the taxpayer owes the money but cannot afford to pay due to their financial situation. It's the most common type of offer.

When an offer is received, the IRS will scrutinize every financial record they can get their hands on: bank account records, home values, credit card history, utility bills, and more. They'll want to make sure you're not hiding any income or assets before they reduce your debt.

19. Try for the rare "effective tax administration" exception.

In cases where the taxpayer does owe the money and technically can pay it back, but it's not a good outcome for anyone, the category of effective tax administration can be used. This status is extremely rare and is only approved in special situations where both the IRS and the taxpayer are considered to be worse off if the tax is collected.

20. Do nothing.

Doing nothing is an option; however, it won't solve your IRS troubles. In fact, it will likely make them worse. The penalties and interest will continue to build so that you owe even more than you do now.

You might have a lot of excuses for justifying doing nothing, but that's all they are. Excuses. For example, you might have lost your paperwork and have made that as an excuse. Paperwork can be reconstructed, so it's not a valid reason to delay action.

Not having money to pay a professional can also be an excuse to do nothing. However, a good tax professional can often help you find the money.

21. Hire a tax representation professional to assist you in making the best choice for you.

With so many requirements, forms, processes, deadlines, qualifications, and exceptions, it just makes good sense to take all this worry off your shoulders and leave it to a tax professional experienced in representing taxpayers in front of the IRS.

The difference between choosing the wrong option and the best option can be thousands of dollars and months and years of additional worry. If you want the most expedient solution, hire a tax resolution expert that can provide a shield between you and the IRS officers that you would otherwise have to deal with yourself.

You can find an IRS tax resolution professional that is local to you in your city or state. Most taxpayers prefer to work with someone locally that knows the region rather than a chain store service where you call a national number and get someone different each time.

Personal service and attention are essential, and you are more likely to get that with a local business than you are a national chain. Your privacy and confidentiality are also extremely important, and a local tax professional that works in a smaller tax firm has fewer employees, meaning fewer people will see your personal information. And a smaller firm has more incentive to produce outstanding results for you.

Tackling Your IRS Problem and Working with a Tax Representation Professional

It can be very exciting and a huge relief to act on an IRS problem that has plagued you for years. I'm here for you when you are ready to get caught up, and the sooner, the better. I can help you relieve that huge psychological burden, so you feel lighter and free from all that stress.

It's serious business to owe the IRS money. They do not fool around. It's a great idea to get a tax professional like me working for you.

I'll work diligently to find the best outcome for your situation and handle your case with the utmost confidentiality and privacy. Please feel free to call or email me at no obligation to confidentially discuss your tax problem and how I can help.

If you or someone you know has an issue with paying their federal taxes and needs help to end their IRS nightmare, please feel free to pass this information on to them.

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