



Tax Tips You Can Use October 2010

## **IRS Collections: Installment Agreements**

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The August tax article stated that there are four options for dealing with an IRS tax debt. That article discussed three of the options, but left the fourth option for this article. The fourth and most common way for taxpayers to pay off a tax debt is the installment agreement.

Installment agreements can be easy to set up or hard. Most people have to pay a set up fee of \$105 to get started. The other condition that can trip up a taxpayer is that all returns must be filed on time and the taxes paid on time or the agreement defaults and the taxpayer is back in trouble.

There are several kinds of installment agreements. The easy agreements to set up are called Automatic or Streamlined agreements. If the taxpayer owes less than \$10000 and can pay the entire amount within three years, the IRS will automatically agree to set up a payment plan. In fact, that agreement can be set up with a telephone call to the automated response system. If a taxpayer owes less than \$25000 and can full pay in 5 years, the IRS will streamline the agreement and not require financial information. Any other situation gets very hard, very fast. Professional help is advised.

If a taxpayer cannot set up an automatic or streamlined agreement because he owes too much or cannot pay enough per month, the IRS will require a financial statement. The reason for this is that, at that point, the question changes from “How much do you owe?” to “How much can you pay?”. The financial statement is very detailed and looks at household inflow and expense outflow using IRS limits for food, housing, and transportation. The difference is the expected payment. The IRS gives no amount for credit card bills or school tuition. They expect to be paid first. If the taxpayer’s financial condition indicates that no monthly payments can be made, then the IRS can put the taxpayer into “Currently Uncollectible” status. Collection is suspended and the computer watches the tax returns for a change in income level that would payments affordable.

The last option only applies to people who upon filing their annual return find that they cannot pay all of the money owed before April 15. A taxpayer can request an extension to pay of up to 120 days. Penalties and interest accrue, but the IRS does not hassle the taxpayer for the 120 days. The alternative is to pay the IRS something every time the taxpayer gets a bill letter- about every 30 days- and pay off the debt before the fifth letter. This information applies to federal taxes. The process for Oregon income tax debt is similar, but sadly, the Oregon Department of Revenue moves very fast from asking to taking and can be heartless. There is a taxpayer who owes \$700. Oregon has started garnishing his weekly wages. By the time we can get someone in Salem to answer the telephone and talk to us, he will be homeless and have no way to get to work, but Oregon will have it’s money.

The Jacksonville Tax Lady, LLC can be reached at 541-899-7926 and is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso.

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