Tax Tips You Can Use

Four options for a taxpayer who owes taxes
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The IRS encourages taxpayers to file a tax return even if the taxes can not be paid by April 15. So… the tax return is filed and there are taxes owed. What happens now? This is the subject for this article.

There are four choices of action if taxes are owed to the IRS. The two bad options are to just write a check for the balance or to ignore the debt. The two reasonable options are to pay in installments or to settle the debt. There are key points to know about each option.

Taxpayers who could write a check for the balance owed, do it. This is a bad option because if you could pay it, you would not have the debt. Some taxpayers, however, can pay the debt quickly but not by April 15. In that case, a taxpayer can call the IRS and request an "extension to pay" of up to 120 days. The extension does not stop interest and penalties, but does stop collection letters and problems. It should not be used as a stalling tactic. If a taxpayer asks for that extension, something needs to happen on or before the last day.

Ignoring the IRS is another bad option. It is true that the IRS only has ten years to collect the debt. It amazes me how many people think that the biggest, most powerful collection agency in the history of the world will forget about them. In the ten years that the IRS has to collect a debt, they have many tools to use. The IRS can take bank balances, take retirement funds, garnish wages, garnish social security checks (including disability), and withhold federal payments for goods or services. I have even seen a case where they first garnished the social security check then levied the remainder from the bank account on the day the check was deposited. Ignoring the IRS is a bad option.

Settling the debt can be a good option for some people. The "pennies-on-the-dollar" guys on TV make it sound easy. It is not. The IRS has formula to determine how much you can offer for your debt. First you must take the value of all of your assets and then add at least 48 times the amount the IRS determines that you could pay per month. That is your minimum offer. That means that a person with no income and no assets could offer a very tiny amount regardless of their debt amount. If you have assets the IRS will not let you off the hook easily. Let's say that a taxpayer is underwater on their house, but has two paid off cars worth $1000 each. Also, using the IRS formula, the taxpayer can pay $100 per month. That taxpayer would have to offer at least $6800 to settle their debt. If the debt is $200,000, then maybe we are at 'pennies on the dollar'. If the debt is $10,000, then it is many pennies for each dollar.

The last option is the most common. Installment agreements are a way for taxpayers to pay their debt over time. There are several types of installment agreements with payments of zero dollars for a time to plans with just a few installments to pay the whole amount. There is even an 'un-installment' plan that I sometimes recommend. The subject deserves an article of its own, so plan to read about installment agreements in another article.

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