Option for Resolving Tax Debt

Prior to choosing the best option for resolving outstanding tax debt, the first step is accurately determining how much you owe. If you have failed to file past or current tax returns, penalties for late filing and interest will continue to accrue until you do file all returns. The advantage to this position, however, is you can still claim all available deductions and credits in order to reduce your tax bill. Even if you have filed all required returns, you can still amend prior returns if you missed out on ways to reduce your tax bill. Amending tax returns requires substantial work, and you should do so with the assistance of a tax professional only. A great deal of supporting documentation is necessary to justify amending tax returns and to avoid a potential IRS audit. A tax professional who has thoroughly reviewed your situation can advise whether an amendment is worth it.

Having calculated the correct amount owed, the IRS offers three principal methods to resolve that tax liability: (1) an Installment Agreement, (2) an Offer in Compromise, (3) and "Currently Not Collectible."

1. The Installment Agreement allows you to pay off your tax debt over time. Usual agreements are from one to three years. With the installment agreement, you can elect to pay off the entire amount or attempt to negotiate a reduced payoff amount (i.e. partial payment installment agreement).

2. The Offer in Compromise allows you to pay off your tax debt in a single payment or with a short-term payment plan. As with the Installment Agreement, you can attempt to negotiate with the IRS to accept a lesser amount that what you owe to satisfy your tax liability.

3. Finally, you can petition the IRS to classify you as "Currently Not Collectible" if you cannot afford any payments. The IRS will not forgive your tax debt, but will not take collection action for a specified period. Once that time is up, however, the IRS will resume action to claim back taxes.

Barring the three options outlined above, the alternatives are to take a "wait and do nothing" approach, or to declare bankruptcy and try to have your tax debt discharged. These two alternatives are not typically desirable because of their slight chance of success and other associated drawbacks. If you choose to wait and do nothing, penalties and interest will continue to pile up. In addition, the IRS will likely institute harsher collection actions, such as a federal tax lien, that will end up costing you much more in the end. It's always possible that the IRS may make a mistake as to older debts and let the statute of limitations for assessment (that is, the time they have to hit you with a higher tax bill), or collection (the time they have to collect the tax already assessed), but this is not common. Some income taxes are dischargeable in bankruptcy but only under limited circumstances.

Contact us now if you have or expect to owe a significant amount to the IRS, or seek to negotiate a reduced payoff amount, it is best to consult and hire a qualified tax professional. I will explore the different options for resolving your tax debt in detail in the coming weeks. Stay tuned!

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