



November 26, 2010

IRS and Tuskegee Agree on Plan

After much discussion, the IRS has accepted a plan from the city of Tuskegee to repay its tax arrears. The city had hired 2 tax attorneys to submit its proposal to the IRS. They submitted an initial proposal on April 16 but the IRS asked for more information. Then a second proposal was submitted, which was finally accepted by the IRS. But the city made a payment of \$17,160 as a gesture of good faith before the second proposal was accepted.

As at November 9, 2010, the city had accumulated \$3,448,229 in unpaid taxes including penalties and interests after deducting those taxes from employees for payments to the IRS. About \$2 million of this amount comprises of interests and penalties. The city had first paid employee salaries and benefits such as health insurance and contributions into retirement funds. Due to lack of finances, the city had insufficient cash to pay the IRS.

There was a brief time when the city's health insurance with the Blue Cross and Blue Shield of Alabama had lapsed but was later restored in October. Likewise, payments for retired city employees were stalled at one point but later brought up-to-date.

Since May the IRS has placed a lien on the city's assets, its finances and property. On August 20, the IRS froze the city's bank accounts including the one used for payroll. But the city assured the IRS that payroll taxes would be paid on time and this prompted the IRS to release the funds.

Under the proposal submitted by the city, a period of 6 years is set for the city to repay \$2,563,480 of the arrears in taxes. After 3 years, an option to review and adjust the agreement is given. After 6 years, the IRS and the city will negotiate the repayment of the balance of the outstanding taxes including interests and penalties unless the IRS agrees to waive some of these interests and penalties.

The city intends to pay its November payment of \$44,440 by the November 28 deadline. The same amount is due for December this year, January and February 2011. The amount due will drop to \$17,160 from March 2011 to December 2012, except for August 2012 where a one-time payment of \$117,160. Subsequently, from January 2013 to July 2016, the city will pay \$36,160 per month except on August 2013 and 2014 when \$136,160 will be paid and on August 2015 and 2016 when the city will pay \$86,160.