

What if I cannot pay my taxes?

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The IRS is a business- they look at a risk versus reward utility curve. If they can have a guaranteed collection of an amount less than owed, the IRS might consider this a win. In other words, shooting for the proverbial moon from the IRS's perspective might not be in their best interest since the amount might be totally uncollectable.

Having said, there are several options if you cannot pay your taxes, either with a tax return or from a Notice of Deficiency. The IRS advises that if you cannot pay your taxes in full, pay as much as you can and contact their offices to explain your situation. From there, you have the following avenues:

Installment Agreement: Payment plans typically involve a fixed monthly payment along with the usual interest charges. Terms will be based on the amount you owe and your ability to pay. Collection proceedings such as wage garnishment and other levies are halted during your application review, for 30 days after the IRS rejects your application and for the duration of your appeal following a rejection.

There are two types of installment plans-

1. Statutory Installment Agreement- for amounts less than \$10,000, current tax laws allow for an automatic payment plan approval. As with all plans and agreements, all your tax returns must be filed.
2. Streamlined Installment Agreements- for amounts up to \$50,000, the IRS has created a more simplified process for installment agreements. Terms are generally limited to 72 months (6 years), and for amounts over \$25,000 you will need to complete Form 433 which is a financial statement and disclosure.

The IRS has an online application at **www.irs.gov/Individuals/Online-Payment-Agreement-Application**.

You can also download Form 9465-FS at **wcginc.com/Installment.pdf**. We can also electronically file the installment agreement request with your eFiled tax returns.

Lastly you can make an application for installment at your local IRS office. Pack a lunch.

To be eligible for an Installment Agreement you must file all required tax returns, and there is a user fee charged for all approved agreements. If you get rejected for your installment plan, you can request the Office of Appeals to review your application.

Offer in Compromise (OIC): The IRS can accept an amount less than the full balance due. This is similar to a short-sale for a home. However, and this is a big however, Offers in Compromise are only accepted by the IRS when-

- they agree that your tax debt may not be accurate,
- you have insufficient assets and income to pay the amount due, or
- because of your exceptional circumstances, paying the amount due would cause an economic hardship or would be unjust.

There are several companies on television touting their ability to reduce your tax debts. Essentially they are coordinating OICs on your behalf, for a nice fee of course.

The amount of an offer is based on how quickly you can pay the offered amount, and there are two types. A lump sum offer must be paid in six months, and a short-term payment offer is spread out over 24 months. The deferred payment offer where you could make a lump sum payment in the future is gone.

The IRS wants their money, and they want all of it. And they don't mind waiting while you make installment payments- heck, they're earning 4% interest. Where else can the IRS get that kind of return? As stated earlier, however, the IRS is still a business and is willing to accept something less.

There are two applications for an Offer in Compromise-

Form 656-L is used when you doubt the accuracy of your tax debt.

Form 656 is used for all other situations (can't pay, hardship, special circumstances, etc.). You can download this at **wcginc.com/OIC.pdf**.

Request a Delay in Collection: The IRS can also grant a delay in collection where they temporarily halt collection proceedings until your financial situation improves. A 120-day extension is not uncommon especially if you can demonstrate the ability to pay in the future (such as reliance on a future tax refund). Penalties and interest will still accrue on the unpaid balance. The IRS may also place a lien on your assets to protect their interests.

Bankruptcy: Bankruptcy can only alleviate some tax burdens, some of the time. Please see [How does bankruptcy affect my unpaid taxes?](#).

All applications for installment plans, offers in compromise and other collection actions are appealable through the **Office of Appeals** (the appeals office handles both examination appeals and collection appeals).