http://www.RMGOnlineNews.com/news/index.cfm?nk=66991

What to do if you owe the IRS money

(The Conversation is an independent and nonprofit source of news, analysis and commentary from academic experts.)

(THE CONVERSATION) Tax Day is finally here once more. If you're getting a refund, lucky you. But if you owe the government money, you may be worried that you have to pay the amount due by the filing deadline on April 15 – even if you asked for an extension.

Owing the IRS – especially when you don't have the funds to pay – can cause major stress. But before you let the anxiety get the best of you, know this: The Internal Revenue Service, believe it or not, understands. In addition, you may qualify for a collection alternative to pay off your debt gradually or at a substantially reduced amount.

Most taxpayers, particularly those who may have more difficulty paying an unexpected tax debt, usually aren't aware that these options exist. As a result, they can end up sending the government more money than they can afford to pay, as I've learned in my work at Georgia State's Philip C. Cook Low-Income Taxpayer Clinic.

This looming issue creates a stressful situation that could be alleviated or minimized by a simple phone call.

Unable to pay

Each year, millions of taxpayers receive notices from the IRS reflecting balances they are unable to pay. This represents billions of dollars owed to the federal government.

The IRS takes collections seriously, so it's important for taxpayers to make arrangements with the IRS for their tax debts. Failure to address them can result in wage and account levies, property liens and even the denial of a passport.

The IRS has created three collection processes to assist taxpayers so no adverse collection action (such as a levy) occurs: an "installment agreement," "currently not collectible" status and an "offer in compromise."

Installment agreement

Installment agreements are commonly referred to as payment plans, which allow a taxpayer to pay the debt in smaller, more manageable payments. These

payments are generally the same amount each month for a designated period of time, which will satisfy the debt in full.

The advantage is it allows you to make small payments toward the overall debt, and the IRS generally cannot take any additional collection activity against you (aside from applying future refunds to the outstanding debt).

The disadvantage is penalties and interest continue to accrue on the unpaid balance. Therefore, the debt is paid off more slowly than the taxpayer may anticipate.

A typical scenario would involve the IRS asking the taxpayer how much he or she can afford to pay. If that amount will satisfy the liability in under 72 months and before the 10-year collections statute of limitations expires, the IRS will generally approve the suggested amount.

This collection alternative can be requested by completing Form 9465, Installment Agreement Request, or by calling the IRS' Automated Collections Service. Form 9465 can accompany a completed return (filed on April 15) that reflects taxes due or it can be submitted separately. It also may cover multiple tax years or periods. A one-time setup fee will be charged when the installment agreement is approved. This fee is reduced for low-income taxpayers and for those taxpayers who wish to set up a direct debit agreement.

While you are in an installment agreement, it is important to remember to pay at least the agreed payment amount by the due date each month. It is also important to file your tax return each year by the filing deadline, even if you can't pay the full balance due on the return, and pay the full balance when possible.

Currently not collectible

Sometimes a taxpayer's monthly necessary living expenses such as food, housing/utilities, transportation and health care exceed the taxpayer's monthly income. When this occurs, paying the IRS would cause the taxpayer a financial hardship.

In situations like this, the taxpayer may request that the IRS place collection of a tax debt on hold. This protective coding is known as "currently not collectible" status. This is advantageous because the taxpayer is not required to make any payments. Another advantage is the IRS will not levy the taxpayer's income or accounts.

As with the installment agreement, a disadvantage of this option is that interest and penalties continue to accrue. Because this is temporary, the IRS can lift the status in the event the taxpayer's financial situation changes and the IRS deems

he or she can pay.

The IRS will routinely monitor the taxpayer's information. If the taxpayer's income increases to the extent that the IRS believes making payments is an option, he or she will be placed back into active collection status.

The IRS has four main categories of allowable expenses which are capped based on national and regional trends. These, and other expenses, are deducted from any income earned by the taxpayer to determine financial hardship:

-

food, clothing and other items

-

housing and utilities

-

transportation

-

out-of-pocket health care expenses.

The currently not collectible status can be requested by mailing in a completed Form 433-F, Collection Information Statement, or by calling the IRS once the return has been processed and you receive a bill. Typically the IRS will want you to file all prior year returns before they will place you in the CNC status.

Offer in compromise

The offer in compromise program assists taxpayers with renegotiating their tax debt by looking at the taxpayer's cash and noncash assets, monthly disposable income and future income to determine how much it can ever expect to collect.

Once a number is agreed upon, the taxpayer can elect to pay the amount in 24 months or less. The advantage of this alternative is that the remainder of the tax debt is forgiven, and once the negotiated terms are satisfied, any liens that may have been filed on your property are released within 30 days.

The disadvantages include adhering to certain compliance requirements for five years after acceptance, such as filing all required returns and paying all taxes due by the filing deadline each year, and forfeiture of any refunds for a period of time.

For some taxpayers, these disadvantages will far outweigh the fresh start created by the elimination of the excess tax debt.

The offer in compromise (when there's doubt as to collectability) can be requested by completing Form 656-B. The offer must be accompanied with documentation – on income received, expenses paid and liabilities owed on noncash assets such as real estate and vehicles – showing the taxpayer has an inability to pay the full balance owed. An application fee and initial payment must also be included with the completed offer, unless your income is below 250 percent of the poverty line.

Take action

So whether you've been ignoring IRS notices about taxes owed on previous returns or you're expecting to have to write a check when you file last year's return, it's time to take action.

The IRS may have a reputation for being difficult to deal with, but as I noted above, it can be quite understanding when individuals are open and up front about their financial situation and willingness to pay what they can.

The worst thing you can do is be nonresponsive. Contact the agency or your local Low-Income Taxpayer Clinic – there's at least one in most states. Take advantage of one of these alternatives and work toward resolving the issue.

You will come out better in the long run.

This is an updated version of an article originally published April 15, 2016.

This article is republished from The Conversation under a Creative Commons license. Read the original article here: http://theconversation.com/what-to-do-if-you-owe-the-irs-money-94790.

Associated Press