

Nevada Legal Services' Low Income Taxpayer Clinic (NLS LITC)

IRS Tax Collection: Process and Options



How did my IRS tax debt happen?

The usual process

- Most taxes are "self-assessed." You tell the IRS that you owe money by filing a tax return that shows an amount due.
- People owe taxes when:
 - their employer didn't withhold enough income taxes and their tax credits don't cover the remaining tax debt; or
 - (if self-employed) they didn't make enough quarterly tax payments to cover payroll taxes and income taxes.
- File and pay by the April 15th deadline. The penalty for filing late and paying late can be **more than 25% of the tax due**. In addition, the IRS charges interest on any amount owed.

How did my IRS tax debt happen?

The process if you don't file a return on time.

- The IRS prepares a "substitute for return."
- This usually isn't good for taxpayers and their families, who:
 - will probably lose tax credits and refunds;
 - will likely owe more than if they filed on time; and
 - don't have the peace of mind and annual financial record from filing a complete and accurate tax return.

How did my IRS tax debt happen?

The message

- **File an accurate tax return on time!** You may receive **free** assistance from Volunteer Income Tax Assistance ("VITA") or Tax Counseling for the Elderly ("TCE") sites.
 - Visit <http://irs.treasury.gov/freetaxprep> each filing season for a list of local VITA and TCE sites.
- If you don't file a tax return, there's **no time limit** on when the IRS can prepare an automated substitute for return!

But how do I know if I have to file a tax return?

- “Better safe than sorry.” If you aren’t sure, file a tax return.
 - Free VITA sites and TCE sites, like AARP Foundation Tax-Aide.
 - <http://freefile.irs.gov> if you want to prepare your own tax return
(Only use this software if you know what you’re doing!)
- Earned income tax credit (“EIC” or “EITC”). A person **only** gets this **valuable** credit by filing an **accurate** tax return **on time**.
 - In 2014, the average EIC amount paid out was \$2,407.
 - 20% (1 in 5) of those eligible for the EIC didn’t claim it.
- No harm in filing an accurate return when not required to. To see if need to file: www.irs.gov/uac/Do-I-Need-to-File-a-Tax-Return%3F

The IRS is proposing a tax increase.

Can I do anything?

- YES! Taxpayers can prove that the IRS is wrong.
 - You lose this right if you wait too long. **If you receive an IRS letter, open it immediately!** The IRS will not call, e-mail, or text you. But it can “levy” (take) your wages or property.
 - Contact the IRS. Notices have a phone number and mailing address. Take notes and make copies of documents sent.
 - You need supporting documents. IRS usually has 3 years to audit a return, so save your documents at least that long.
 - You may need help. If you do not know what you need to do, contact a **qualified** tax professional.

IRS Collection: Myths and Facts

- I can't pay my taxes, so the IRS will send me to jail.
 - **That's a myth.** Not having enough money to pay taxes is not a crime. Hiding income and money to avoid paying taxes is against the law.
- I owe the IRS money, but the government will work with me.
 - **That's a fact.** The IRS will work with people on reasonable payment options.
- I can't pay the IRS, so it will take my home or my car.
 - **That's almost always a myth.** In 2012, there were nearly 3 million IRS levies versus 733 IRS seizures.

How long does the IRS have to collect taxes?

- IRS can **usually** collect from the day a person owes the tax until 10 years after (s)he owes the tax.
- Some things pause this 10-year clock. Examples:
 - taxpayer signs agreement to extend collection time;
 - IRS considering offer in compromise;
 - IRS considering installment agreement;
 - taxpayer requests a collection due process hearing; or
 - taxpayer files a court case about the tax.

The IRS is right, I owe taxes. What can I do?

Options if you can make payment.

- Pay the full amount by the due date (April 15th).
 - Late payment penalty can be **up to 25% of the taxes due.**
 - Interest will also be owed on any taxes due.
 - Can request 120-day extension to pay in full (no fee)
- Apply for installment agreement (monthly tax debt payments)
 - There are different varieties of installment agreements.
 - Only available if all required tax returns are filed.
 - Only agree to make **affordable** payments.
 - IRS charges applicable penalties and interest.

The IRS is right, I owe taxes. What can I do?

Options if you can't make payments.

- Currently not collectible status (“CNC”)
 - Available if income doesn't cover necessary living expenses.
 - IRS Collection Information Statement must be accurate and complete. Document the financial information provided.
 - Available even if all required tax returns haven't been filed.
 - IRS charges applicable interest and penalties. IRS will keep future tax refunds and apply them to the tax debts.
 - If owe \$10,000 or more, IRS will likely file a tax lien notice.

The IRS is right, I owe taxes. What can I do?

Options if you can't make payments.

- Offer in compromise (“OIC”)
 - Most often used when income and assets not enough to pay entire tax debt **and** IRS can't levy money offered.
 - Only available if all required tax returns are filed.
 - Settles tax debt **only if** required tax returns filed on time and new taxes paid on time for 5 years after OIC accepted.
 - IRS Collection Information Statement **must** be accurate and complete. Document the financial information provided.

Questions or concerns?

Nevada Legal Service's Low Income Taxpayer Clinic (LITC) at 702-314-3555 or 855-657-5489 (toll free).

www.irs.gov and www.taxpayeradvocate.irs.gov

