

By Nevada Attorney Dorothy G Bunce

Understanding Tax Debt

A quick guide to finding your way out of the nightmare of owing overwhelming taxes.

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Understanding Tax Debt

When you owe tax debt, it can be hard to find accurate information explaining what to do. Urban myths, misunderstandings, and downright lies are everywhere. As a result, understanding the tax collection process works is confusing and frustrating.

Tax Debt is not One Thing.

When someone says they have tax debt, they may assume everyone knows they mean income taxes to the federal government. But tax professionals cannot make that assumption. There are many types of tax debts. Therefore, when you consult a professional about ways to solve this debt, you should be prepared to provide more details about this debt.

If you owe income taxes, the options to solve it could be different if this debt includes penalties or interest. Other issues that matter include:

- *Did you file the return on time?*
- *For which years do you owe these taxes?*
- *Did you owe these taxes as a result of an audit?*

For example, suppose you owe "trust taxes," which cover taxes for employee withholding or sales taxes you collected. Or perhaps you owe property taxes, taxes from operating or selling a business, taxes from a profit from the selling assets, or even taxes from holding a specific type of business license. In any of those circumstances, solving the debt will be more complicated. Of course, the options to resolve these taxes will differ. It is essential to understand that resolving any tax debt varies based on the type of tax debt.

There are as many types of tax debts as vodka flavors in a Las Vegas nightclub. As a result, there are many ways to resolve tax debts.

Penalties for Not Filing

Tax problems almost always start by failing to fill out and submit tax paperwork on time. The collection process does not begin when the paperwork is turned in. On the contrary, most tax collection begins when the authorities don't receive the required paperwork. Penalties for not turning in the paperwork or submitting it late are substantial. These penalties include monetary fines, being ineligible for programs designed to help resolve tax problems, as well as a potential criminal repercussions. If the tax authorities haven't flagged your account, get the tax reports in before they do. By voluntarily complying with the law, you can obtain some redemption and minimize the consequences.

Anxiety

Not filing taxes may be a sign of an emotional or even a psychological problem. The longer someone goes without preparing the paperwork, the more difficult it becomes to start. The longer it takes to begin, the more the person will suffer sleepless nights due to worrying. There will be substantial relief after completing the tax paperwork.

Receipts

Someone who hasn't filed taxes may be overwhelmed with boxes of receipts. It is a little-known secret, but receipts seldom make much difference to the tax owed. Someone could spend hours going through receipts only to see \$20 in savings. Although you want your taxes to be correct, the IRS and other taxing authorities usually do not require accuracy "to the penny." Tax professionals may use the phrase "good enough for government work." An honest estimate may be acceptable even if there is no receipt to back it up.

Collection Methods

Tax authorities have several tools to collect tax debts. Tax authorities usually do not need a court order to implement collection processes. Instead, the taxpayer must apply to a tax board or court to challenge the tax debt or stop the collection. These methods include:

1. Bank account attachment.

The tax authority can "freeze" a bank account belonging to a person who owes taxes and will apply the proceeds toward the tax debt.

2. Wage garnishment.

The tax authority can instruct the employer of a person who owes taxes to take a portion of their wages to pay the tax debt.

3. Tax lien.

A tax lien affects the ownership rights to real estate, vehicles, and even other assets ordinarily protected by state or federal laws. If an asset is liened, to sell it, you must pay the tax debt. Smaller government units, such as the state, the county, or the city, can even use the lien to sell the property of a person who owes the taxes. You can lose your home if you don't pay taxes to your local government. Tax debt is that harsh.

4. Passport restrictions.

The government can cancel a US passport and prevent a person from traveling overseas when they have a significant tax debt.

5. Criminal prosecution.

In rare instances, the government can bring criminal charges for failing to pay taxes.

Payment Options.

Collecting a debt can be tricky, even for the government. As a result, tax entities typically offer programs making payment more manageable. Surprisingly, the smaller government units are usually the most aggressive about collecting taxes. For example, your community water district or Home Owners Association might place a lien against your property. They may even be able to sell it in less than a year. At the same time, the IRS may be willing to stop collection efforts on a large debt if you agree to make a small payment every month.

Payment Plan.

Most tax authorities offer payment plans. The IRS, for example, requires a commitment to paying a specific dollar amount each month. In return, the tax authorities will not pursue collection. However, the IRS does have a free payment plan if you propose to pay off the tax debt in 120 days.

But if you need more time, for a one-time fee of \$31.00, you can implement a payment plan by authorizing a direct withdrawal from your bank account. If you can't authorize an automatic withdrawal, the one-time enrollment fee for a payment plan increases to \$149.00. And if you are low-income, the IRS can even waive these fees.

Offer in Compromise

This is an IRS settlement program. Entering this program is somewhat of a gamble because:

- 1) you must make a deposit to submit your application, and*
- 2) there is no guarantee the tax authority will accept this offer.*

We do not recommend the Offer in Compromise program because it is costly and is seldom successful.

Uncollectible status

For someone who is disabled, has a small income, or owns few or no assets, the IRS may suspend the collection process. However, you must apply for this program. And in this program, expect the government to look over your shoulders because if things should change, the collection process can resume.

Bankruptcy.

It is an urban myth that *"you can't bankrupt the IRS."* The IRS is subject to bankruptcy laws just as other creditors are. However, the IRS and other tax authorities have a special status in bankruptcy court. The hallmark of this status is known as "priority."

In chapter 13 bankruptcy, *"priority"* debts are paid after administrative expenses. Chapter 13 requires you to pay priority debts in full. Of course, tax debt is not the only type of priority debt. However, a tax debt isn't always a priority debt. For example, a tax debt may lose its priority status as it ages. In addition, if the IRS files a lien, the tax debt is no longer a priority debt and is secured by any property you own.

A tax lien relies on the value of your assets to guarantee repayment. It is crucial to recognize that a tax lien does not just affect real estate. Tax liens affect retirement accounts, the right to government benefits, such as social security, your vehicles, and virtually every other asset.

With a tax lien, the value of the tax debt is never more than the value of your assets. For example, suppose the IRS files a tax lien for a tax debt of \$100,000. If you have a retirement account with \$200,000, the tax debt for \$100,000, plus interest and penalties, is unaffected by the bankruptcy. But if the IRS has filed a tax lien and all you own is an old car, this lien drastically reduces your tax obligation to the value of your assets.

The secret to eliminating tax debt in bankruptcy is filing when the tax has lost its priority status AND the when government has not filed a tax lien or any assets securing the lien are modest.

Solutions to Tax Debt

While there are no easy solutions to tax debts, here are some simple strategies to deal with them.

File the Return or other paperwork on time if possible.

If you receive certified mail, pick it up from the post office. Unfortunately, it probably is from the IRS. Not picking it up will not stop the IRS from ruining your life.

See a competent tax professional about what options might be most appropriate for you.

Be scrupulously honest when preparing your taxes and keep records for any significant deductions you claim.

Don't rely on your friends, neighbors, or the person at the barstool next to you for tax advice. Although tax professionals won't help you out for free, the cost of their services is well worth the money they save you.

Stop whining and get off of any pity-pot. Not only is it annoying, but you are also wasting your time and everyone else's time by complaining and your "poor me" 'tude. You are the only person responsible for this problem. You could be spending this time looking at real solutions. But looking for a "poor baby" reaction and a pat on the head won't solve your tax problems.

If you run out of options, bankruptcy can often offer meaningful help. Forget all the things you think you know about bankruptcy. In the right circumstances, bankruptcy can solve your tax problems.

IRS Forms Related to Tax Debts

Tax professionals love to rattle off the numbers of various tax forms. As a result, people are often feel intimidated. However, once you know what name describes each number, the forms themselves are pretty self-explanatory. Common forms relating to tax debts include:

433-A Offer in Compromise.

This application asks the IRS to settle your tax debt at a reduced amount. You must submit detailed information about your income, expenses, assets, and your family. Based on your answers, the IRS will decide if it will accept less than your total tax debt.

433-F Uncollectible Status.

This form requires you to list all your assets, current income, and necessary living expenses. From this form, the IRS decides if it will temporarily or permanently allow you to pay nothing on your back taxes while holding off on its collection efforts. As a result, pursue this application only if your circumstances are extraordinary. For example, if you are disabled, unemployed, or own little or nothing.

2848 Power of Attorney.

You appoint someone, usually a licensed professional or family member, to obtain your tax information and speak with the IRS about your taxes.

4605 Tax Transcript.

In this form, you order a copy of your tax return or a transcript summarizing it. The cost of the actual tax return is \$43.00, while the transcript is free. There are several types of transcripts. Some transcripts will list your payments, any penalties imposed, and the balance you owe.

9865 Installment Agreement.

With this form, you ask the IRS to pay your tax debt through monthly payments. This agreement will require information about your income, your family size, and your living expenses.

Conclusion

Of course, it would be great if this eBook could conclude by saying that solving your tax debt is easy. As you have seen, there are several ways to approach income tax debt to the federal government. Each offers different costs and benefits. It may be unrealistic to learn enough to decide on the best choice to solve your unique problem with tax debt. If your tax debt is significant, the right thing to do is to consult a trusted tax professional before making this important decision.

Now that you understand tax debt...



What are you going to do?

Getting started is the most difficult part of dealing with tax debt.

Failing to address your tax debt will cause things to go from bad to worse.

There are people happy to help you solve your tax debts. This situation requires experienced professional help.

As an attorney, even I need someone to help me with my tax problems. I am always happy to recommend you to a tax profession if I am not able to solve the problem for you myself.

Best Wishes,

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