7 Proven Strategies to Resolve Your IRS Tax Problems

EAST COAST TAX CONSULTING GROUP LLC
A TAX RESOLUTION FIRM

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What You Need To Know

If you or someone you know is currently experiencing IRS difficulties, you can discover how to get back on track with these seven proven strategies for tax relief. Discover how to resolve your tax problems so you can avoid crippling IRS penalties, financially devastating levies on your wages and bank accounts, and get the fresh start you deserve. You have numerous options available to resolve your tax problems. However, not all options will apply to your specific situation. In this guidebook, we will discuss the following tax resolution strategies:

- **Offer in Compromise**
- **Installment Agreement**
- **Penalty Abatement**
- **Currently Not Collectible**
- **Innocent Spouse Relief**
- **Audit Reconsideration**
- **Bankruptcy**

These strategies may enable you to pay your back taxes over time at an amount you can afford, reduce the amount you owe, or even reach a settlement with the IRS. Best of all, you will find that your IRS tax problem can be resolved without causing financial hardship to you and your family.

We hope this guidebook will provide you with the tools you'll need to deal with the IRS and resolve your tax problems quickly and with the least amount of stress.

Offer In Compromise

If your unpaid taxes have accumulated to the point where you cannot pay the IRS in full, an Offer in Compromise (OIC) may be your answer for tax relief. The OIC program allows you to settle your back tax debt with the IRS for less than what you owe.

While an OIC can be beneficial in settling back taxes, a thorough analysis must be performed to determine whether you are a good candidate for the program and the extent of your possible tax savings. The IRS decides if your offer meets the minimum amount they will accept by calculating what is known as the Reasonable Collection Potential (RCP).

Your RCP consists of two components: a prescribed percentage of the equity in your assets and your future remaining income. The IRS calculates your future remaining income by first determining your monthly remaining income. This is simply the amount of your monthly income from all sources minus allowable living expenses. It is important to note that in many cases, your actual living expenses will exceed those the IRS allows for offer purposes. The remaining monthly income is multiplied by either 12 or 24 to derive your future remaining income.

The use of a 12 or 24 multiplier depends on whether your offer is a lump sum cash offer or a periodic payment offer.

A lump sum cash offer requires you to pay your equity component plus 12 times your remaining monthly income. You must make a 20% nonrefundable down payment with the offer and the remaining balance paid in five or fewer installments within five months of acceptance of your offer. A periodic payment offer also includes your equity component but requires 24 months of your remaining monthly income. You must make your first payment with the offer, and the balance must be paid within 24 months from the time you submit the offer.

Offer In Compromise

Your offer is calculated on ***Form 433-A (OIC) Collection Information Statement for Wage Earners and Self-Employed Individuals***. It is submitted with ***Form 656 Offer in Compromise***, an application fee, and your initial payment as discussed above. A business is required to file ***Form 433-B (OIC) Collection Information Statement for Business***. The following example illustrates how an offer is calculated for an individual taxpayer:

Assume you owe the IRS $75,000; your only asset is your home, which has a market value of $300,000 and a mortgage of $225,000. The IRS requires you to include 80% of the value of your home, less the outstanding mortgage, as part of your offer amount. This amounts to $15,000 ($300,000 x 80%—$225,000), which is the equity component of your offer.

If your wages are $6,000 a month and based upon your family size and locale, you determine your allowable living expenses per the IRS to be $5,500 a month; your remaining monthly income is $500. If you choose the periodic payment offer, you must multiply the $500 by 24, resulting in an income component or future remaining income of $12,000. When you add this amount to the equity component your RCP is $27,000. Barring any extraordinary circumstances, this should be the amount of your offer.

If the IRS accepts your offer, the remaining back taxes of $48,000 are forgiven.

Once the IRS accepts your OIC, you must comply with all your tax obligations for the next five years. Otherwise, you will default on the offer. Default may result in reinstating the original entire liability, less payments made before the default.

Installment Agreement

An Installment Agreement is the most common method for resolving back tax problems. With an installment agreement, you can set up a monthly payment plan with the IRS to gradually pay off your taxes. Once you have an installment agreement, the IRS will cease enforced collection activity if you keep current with your tax filing and payment obligations.

The rules for setting up an installment agreement with the IRS depend on the amount you owe them.

Guaranteed Installment Agreement: Taxpayers who owe $10,000 or less (excluding penalties and interest) can request a Guaranteed Installment Agreement. To qualify, you must agree to pay the liability within three years, have not entered into an installment agreement within the past five years, have filed your income tax returns and have paid any tax on such returns during the five-year period.

Streamlined Installment Agreement: A Streamlined Installment Agreement (SIA) gives taxpayers up to six years or by the remaining Collection Statute Expiration (CSED) date, whichever is earlier, to pay their outstanding taxes without the need to disclose financial information if the assessed balance owed does not exceed $50,000. You can take advantage of this plan even if you have money or other assets available to pay your taxes but would rather invest or use it for other purposes.

For balances between $25,001-$50,000, you'll need to make payments by direct debit or payroll tax deduction to avoid the IRS filing a Notice of Federal Tax Lien, assuming one has not yet been filed. If you owe more than $50,000 and can pay down the balance to $50,000, you can qualify for an SIA.

In-Business Trust Fund Express Installment Agreement: This installment agreement is an option for businesses that owe $25,000 or less, including assessed penalties and interest, in payroll taxes. The amount owed must be paid within 24 months or before the CSED, whichever comes first. If the amount owed is between $10,000 and $25,000, payment must be made by direct debit. The business is not required to provide a financial statement, and the IRS does not need to file a NFTL.

Installment Agreement

Non-Streamlined Installment Agreement: In March 2020, the IRS implemented a new "full pay Non-Streamlined Installment Agreement" (NSIA). This option is available to taxpayers owing up to $250,000.

The NSIA program makes it easier to set up a payment plan for more taxpayers by:

- **Increasing payment terms from 72 months to the remaining statute of limitations on collections if longer. The collection statute is 10 years from the date of assessment.**
- **Not requiring the taxpayer to use available assets to pay down the outstanding balance.**
- **Removing the requirement to submit financial documentation.**

The IRS will normally file a tax lien when an NSIA is set up.

Routine Installment Agreement (Negotiated): If you don't qualify for one of the above payment plans, you can still request an installment agreement, but you will be required to disclose your financial information. This disclosure is provided on either ***Form 433-A Collection Information Statement for Wage Earners and Self-Employed Individuals***, or a less detailed ***Form 433-F***. All reasonable living expenses may be allowed if (1) you can show that you can stay current with all tax requirements and (2) the unpaid tax can be paid within six years.

A taxpayer who needs to negotiate an installment agreement and is unable to fully pay within six years often has living expenses that exceed IRS allowable standards. This may result in the IRS demanding a monthly payment in excess of what you can afford. The good news is that the IRS has a policy that allows you to make lower monthly payments for up to one year, giving you time to modify or eliminate excessive necessary and/or other unallowable expenses.

A federal tax lien is generally filed when a negotiated installment agreement is established.

Partial Payment Agreement: If you cannot pay your tax in full and don't qualify for an OIC, but can pay some of the tax you owe, you may be eligible for a Partial Payment Installment Agreement (PPIA). A PPIA allows you to make monthly payments until the collection period expires. Then, you will stop making payments, and the remaining taxes will no longer be collectible. Before the IRS agrees to a PPIA, they will determine whether you have any equity in your assets that can be used to pay your back taxes. Until the collection period ends, the IRS will review your financial position periodically to determine whether you can increase your installment payments.

Penalty Abatement

Did you know you can ask the IRS to abate a tax penalty? Penalty abatement or relief may result in a reduction or total elimination of penalties that have been added to your unpaid tax liability. In fact, you may request a refund of a previously paid penalty.

The IRS commonly assesses the following penalties:

- **Failure to Timely File Your Tax Return**
- **Failure to Pay Your Tax Timely**
- **Accuracy Related Penalties**
- **Failure to Deposit Employment Taxes Timely**

Sometimes, adding penalties and interest can cause your tax problem to spiral out of control. If this is the case and you have ***reasonable cause*** for why you filed or paid late, you should request abatement of all or part of the assessed penalties. Since the IRS charges you interest on the unpaid penalties, the accrued interest will also be removed if a penalty is abated. The following are some reasons the IRS will accept your request for penalty relief due to reasonable cause:

- **Reliance upon a Tax Professional**
- **Unable to Obtain Records**
- **Serious Illness, Death, or Unavoidable Absence**
- **Casualty, Natural Disaster or Other Disturbance**
- **Ignorance of the Law**

Penalty Abatement

The IRS determines whether to grant you penalty relief due to reasonable cause based on your case's facts and circumstances. It is essential that your request clearly and concisely lays out the reasons why you want the IRS to consider penalty abatement. Your ability to substantiate or document your reasons will significantly enhance your chances of the request being granted. To request penalty relief, you can complete ***Form 843 Claim for Refund and Request for Abatement***, or, in many cases, simply send a letter to the IRS.

If the IRS denies your penalty abatement request, you have 30 days to appeal the denial to the IRS Independent Office of Appeals.

You may also qualify for penalty relief under the IRS **first time abatement policy**. Although not widely known, it allows first time noncompliant taxpayers to seek penalty abatement for late filing, late payment, and late deposit penalties. To qualify taxpayers must have a clean history for the three prior years. For instance, Caden filed and paid his 2022 taxes late. The IRS assessed late filing and late payment penalties of $2,500. Caden filed and paid his 2019-2021 taxes timely. Since he was in compliance for the three years before 2022 (the penalty year), the IRS will remove the 2022 penalties.

"Saved More Than $300,000"

The tax professionals at East Coast Tax Consulting Group are honest and ethical and helped me and my husband through a very difficult time. They represented us in Appeals and saved us more than $300,000. We will be forever grateful.

★★★★★

Daniel M. - New York

Currently Not Collectible

If your financial condition has reached the point where you cannot make even small monthly payments towards your back taxes, you can ask the Internal Revenue Service to designate your account as Currently Not Collectible (CNC) due to financial hardship. So, if you can't arrange an installment agreement or request an offer in compromise to resolve your unpaid back taxes, the IRS will place you in CNC status.

If you are granted CNC status, the IRS will stop collection activity and will release levies and garnishments that have been issued against you. Although collection activity will stop, interest and penalties will continue to accrue and are added to your unpaid taxes while in CNC status.

Unless your financial situation improves, you will remain in hardship status until the statute of limitations on collections expires, at which time your tax debt is forgiven. The IRS will periodically review your financial status to determine whether any change has occurred that allows you to fully or partially pay your back taxes.

You'll need to submit a collection information statement demonstrating you have no funds to pay your back taxes after covering your reasonable basic living expenses. In addition, you must not have any equity in assets you can sell or borrow to pay your taxes.

While a business can be put in CNC status, the parameters differ from an individual taxpayer.

Innocent Spouse Relief

Are you being held liable for back taxes because you filed a joint return with a spouse or former spouse, and they acted improperly concerning items reported on the return or were responsible for paying the tax and failed to do so? The law recognizes this is unfair and with the innocent spouse rules, allows you to be relieved of a tax debt that is your spouse's or former spouse's responsibility.

You may qualify for one of the following types of tax relief.

- **Innocent Spouse Relief -** Provides relief from taxes you have been found responsible for that are from your spouse or a former spouse failing to report income, reporting income incorrectly, or claiming improper deductions or tax credits. You must demonstrate that you did not know or have any reason to know of the understatement of tax, and considering all the facts and circumstances, it is unfair to hold you accountable for the balance due.

- **Separation of Liability Relief -** Applies when you no longer live with your spouse or are divorced from your former spouse, and there is an understatement of tax on a jointly filed return due to erroneous items of the other spouse. The understated tax on the return is allocated between you and your spouse or former spouse, and you are responsible for the amount allocated to you. You must not have known of the erroneous items attributable to your spouse or former spouse when you signed the return.

- **Equitable Relief -** Applies if you are not eligible for innocent spouse relief or separation of liability relief for items not properly reported on a joint return, and it would be unfair to hold you liable for the tax. Equitable relief can also be used in cases where the amounts shown on the tax return are correct, but the tax has not been paid.

Innocent Spouse Relief

To request innocent spouse status, you must complete and file ***Form 8857*** with the IRS. It's important to know that your spouse or former spouse will be notified by the IRS that you are seeking innocent spouse relief, and they will have the opportunity to participate in the process. If you are granted Innocent Spouse Status, you will not be liable for all or part of the taxes owed by you and your spouse or former spouse for the year relief is granted. This means that the IRS will stop collection activities against you, and you may be entitled to a refund for any taxes you paid due to such enforced collections.

You have appeal rights if your request for innocent spouse status is denied. If your appeal is also denied, you can take your case to the U.S. Tax Court.

"Attentive, Professional and Totally Conversant"

I wish to express (as I am sure hundreds have done before me) my enthusiastic praise for East Coast Tax Consulting Group's care and kindness shown me in my tax situation. Mr. Sal Bochicchio was attentive, professional and totally conversant with all procedures that would help resolve my problem. Resolve it he did and very satisfactorily. I never want to be in this situation again, but if you, reading this, find it applies to you, RUN to East Coast Tax Consulting with full confidence that your problem will be dealt with skillfully and with compassion.

★★★★★

Ellen B. - NYC

Audit Reconsideration

Audit reconsideration is a process you can use to have the IRS reevaluate the results of a tax audit or revise the tax previously assessed by the IRS on a return it prepared for you because you failed to file. Audit reconsideration is not widely known by taxpayers and is a discretionary service provided by the IRS and not required by law.

A taxpayer who was previously audited may qualify for audit consideration for the following reasons:

- **They did not appear at the audit.**
- **They disagree with the IRS assessment from the audit of their tax return and have additional information to present.**
- **They moved and did not receive the IRS letter regarding the audit.**

If you wish to dispute a tax return prepared by the IRS on your behalf (“substitute for return” or “SFR”), you can prepare an original return and submit it to the appropriate IRS office with supporting documentation for audit reconsideration. Usually, this can result in a significant reduction in the tax as the IRS did not know your correct filing status, number of dependents, or allowable deductions and expenses when it prepared the SFR.

Audit Reconsideration

The following is an actual example of the results from audit reconsideration.

The taxpayer failed to file his 2018 income tax return, and ultimately, the IRS prepared an SFR for him from information provided by third parties such as his bank, brokerage company, and casinos and racetracks where he gambled. The IRS included the gross proceeds from the sale of stocks reported by the brokerage company without offsetting the proceeds with the stock cost. In addition, the IRS treated the gains as ordinary income rather than long-term capital gains, thus depriving the taxpayer of the benefit of the lower capital gains tax rates. We instructed the taxpayer to contact his former brokerage company to request the cost and acquisition date of the stocks sold in 2018. The information provided resulted in a substantially smaller gain and qualified for the reduced capital gains rates.

The IRS also taxed the gross gambling winnings reported by the casinos and racetracks without considering any of the taxpayer's gambling losses. The taxpayer reported his gambling losses, which offset his winnings. After reviewing the return filed by the taxpayer, the audit reconsideration unit accepted the taxpayer's return. It reduced the previously assessed tax, penalties, and interest, saving more than $50,000.

A request for audit reconsideration can be made for any year the IRS attempts to collect taxes from you, even if the deadline to request a tax refund has passed. This means that even though you can't get a refund, you can still reduce the amount of back taxes the IRS claims you owe.

"Extremely Pleased With The Results

I found myself terrified when the IRS contacted me and told me my business was going to be audited. I immediately called East Coast Tax Consulting Group. They eased my fears and handled the audit without me having to meet with the IRS. I was extremely pleased with the results and feel that without them the IRS would have sent me a very large tax bill.

★★★★★

Billy - Miami

Bankruptcy

There is a common misconception among taxpayers that taxes are never dischargeable in bankruptcy. In fact, it is possible to discharge back income taxes. However, determining which back taxes are dischargeable can be a bit complicated as there are specific requirements you must meet to have your taxes discharged in bankruptcy.

For tax debt to be discharged, you must not have committed tax fraud or willful tax evasion and meet the following time conditions:

- **The taxes must be from a tax return due (including extensions) at least three years before you filed for bankruptcy. For example, if taxes were reported on a 2021 income tax return for which an extension to file expired on October 17, 2022, the tax return due date test will be satisfied if the bankruptcy petition is filed after October 17, 2025.**

- **Your income tax returns must have been filed at least two years before filing for bankruptcy. However, in certain jurisdictions, if you filed a late return, you may be unable to discharge the back taxes.**

- **The taxes must be assessed (the IRS recorded the liability) at least 240 days before you file for bankruptcy.**

Now, let’s examine the common types of bankruptcy that can be filed.

Chapter 7: A Chapter 7 bankruptcy, also known as a "liquidation bankruptcy," can be filed by an individual, partnership, or corporation. A trustee is appointed to convert the debtor’s non-exempt assets into cash for distribution among creditors, including the IRS. Any qualifying debt that remains unpaid after that will be discharged. If a business files for Chapter 7 bankruptcy, it does so with the intent to dissolve.

Bankruptcy

It’s important to understand that even if you discharge your income tax debt through Chapter 7 bankruptcy, any federal tax liens placed on your property before filing for bankruptcy will remain in effect. Sometimes, the IRS may agree to release a lien post-bankruptcy in Chapter 7 if the property's value is minimal, or you may be able to negotiate a settlement of the lien for less than your equity in the property.

Chapter 13: A Chapter 13 bankruptcy is a debt reorganization process designed for individuals with regular income, such as wage earners and sole proprietors. Under Chapter 13, a repayment plan is established to repay debts over a period of three to five years. The bankruptcy court structures the repayment plan based on a debtor’s income and ability to pay. In Chapter 13 bankruptcy, tax and other debts become part of your repayment plan. However, if your tax debt is not secured by a federal tax lien and meets the conditions discussed above for dischargeability, it can often be paid at a small percentage of what is owed.

You can remove a federal tax lien in Chapter 13 by paying off your tax obligations through your repayment plan.

Chapter 11: A Chapter 11 is typically used for reorganizing business debts, but individuals whose debt exceeds the limit allowed in Chapter 13 may also file Chapter 11. Like Chapter 13 bankruptcy, the goal of a debtor in Chapter 11 is normally to repay creditors over time. However, this type of bankruptcy can be a complex and expensive process. The ability to discharge tax debt as well as remove a federal tax lien is similar to that of a Chapter 13 bankruptcy.

In addition to discharging taxes, it’s possible to discharge interest and certain tax penalties. Interest follows the underlying tax and is dischargeable if the tax is dischargeable. Your ability to discharge penalties depends on various factors, including the type of bankruptcy filed, whether it is a pecuniary penalty, and whether it’s secured by a federal tax lien.

It's important to seek advice from a qualified bankruptcy attorney to determine if bankruptcy is a viable solution for your tax and other debt problems.

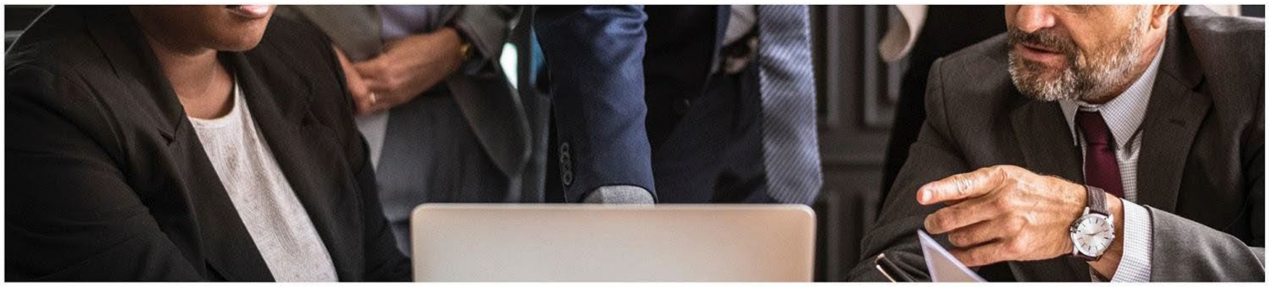
“Highly Recommended - 10 Stars”

If I could give East Coast Tax Consulting 10 stars, I would. If you have a tax issue or problem, this is the best, most honest, knowledgeable and competent group to work with to get the issue resolved so you can move on with your life! Best of all, everything is handled with calm professionalism that puts you at ease—and when you are involved with the IRS—having a feeling of confidence in your representation is the best feeling possible. Highly recommended!

★★★★★

Julie H. - Tennessee

Let Us Help You



Now that you've familiarized yourself with the strategies that can help put an end to your IRS tax problems, you need to put them into action. If you fail to act, the IRS will pursue enforced collection activities against you, such as garnishing your wages, levying your bank account, or filing a federal tax lien. While this guidebook provides the knowledge and tools to assist you in resolving your back tax issues on your own, in many instances, hiring a qualified tax professional will offer you the best possible opportunity for a successful outcome.

The CPAs at East Coast Tax Consulting Group are ready to give you professional advice, guidance, and representation you need to resolve your tax issues at an affordable price. Our tax professionals consistently deliver expert tax resolution and tax audit defense services to individual and business taxpayers facing IRS problems like yours.

If you have any questions regarding this guidebook or want more information about how we can help you solve your tax problems, please call us at 866-550-7655 or email us at info@eastcoasttaxconsulting.com.

Speak with a Tax Relief Expert

Call Today: 866-550-7655

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