



Magic Wand for Tax Problems? Not so fast, but there is hope!

by Ryan Duffy

Individuals and businesses find themselves in tax trouble for a multitude of reasons. Economic hardship, family death/illness, professional negligence, gambling, and any other number of factors may lead to tax problems. Being contacted by the IRS or other taxing authority is an alarming process for most people. The first thing to remember is that these tax issues will not disappear if ignored. The second thing to remember is prompt action is vital.

There are many national “tax firms” that essentially offer a magic wand to fix all your tax problems for pennies on the dollar. As with most things in life, if it sounds too good to be true, it is. Consumers must be wary of being preyed upon by scams promising to fix all their tax problems in the blink of an eye. The shut-down of *American Tax Relief* is an appropriate cautionary tale for these types of promises. Read more about that situation here:

[A tax-debt scheme shut down](#)

The reality of tax problems is that they do not generally go away painlessly or cheaply, but are manageable and will not destroy your life. For purposes of this blog, we will assume that a tax debt has already been established. That being said, if a proposed tax debt has not been established, and there is reason to dispute, a taxpayer should contact an accountant and/or attorney to promptly take steps to do the same. The timeframe for disputing a tax debt is often 60 days or less, and the timeframes are hard deadlines.

Once a tax debt has been established, the taxpayer has certain options to settle the same. First and foremost, steps should be taken immediately to prevent garnishment or seizure of assets. Methods to accomplish the same range from requesting a Collection Due Process hearing to filing for an Offer in Compromise to all things in between. If nothing is done, the taxing authority has a number of options to satisfy the debt, including but not limited to seizure of assets, filing liens on property, and levy of financial accounts.

Ultimately, if a tax debt is not disputed, settlement of the tax debt comes down to the taxpayer entering into an Offer in Compromise (to pay less than the full debt) or an Installment Agreement (to pay the full debt over time).

The Offer in Compromise process involves the taxpayer providing a full financial snapshot of their current affairs to the IRS including documentation to support the same. The Taxpayer then makes an Offer to pay over a timeframe ranging from 5 months to 24 months. The IRS then analyzes the taxpayer's ability to pay, and either accepts, denies, or counters on the Offer. The IRS's analysis, while may be lightly swayed by "extraordinary circumstances", is largely done on a black and white, financial basis. The IRS will look at the taxpayer's household income versus expense as well as equity in the taxpayer's assets, and then will assess the Offer. This is why the "pennies on the dollar" tax settlement is a pipe dream for most taxpayers. If the IRS deems the taxpayer has the ability to pay the taxes over the allowable collection period (generally 10 years from the date the tax was due), the taxpayer can either dispute this conclusion by reviewing the numbers and circumstances, or may look into an Installment Agreement.

An Installment Agreement, much like an Offer in Compromise, involves the taxpayer providing a financial snapshot much like the Offer procedure. The IRS will derive a monthly payment that it deems the taxpayer is able to make, and ensures the debt is paid off before the statute of limitation has run. The monthly payment amount is somewhat negotiable, but again is based largely off of financial numbers provided by the taxpayer.

NOTE: Most states have a procedure somewhat similar to the IRS procedures.

In sum, the key for a taxpayer when faced with a tax problem is to take prompt action. While some taxpayers can navigate the system on their own, I certainly recommend the assistance of a professional, whether that is an attorney or CPA. The taxpayer should certainly be wary of any help that promises the world up front without undertaking at the very least an initial look at the taxpayer's specific situation.



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