

# From IRS Tax Debt to Tax Relief:

A Blueprint for Resolving  
Your IRS Nightmare



**By James D. Wade, Esq.**

Tax Attorney, CPA, and IRS Problem Solver

Dedicated to Defending Honest Taxpayers Facing Difficult IRS Tax Problems

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## **DEDICATION**

This book is dedicated to my beloved wife Katrina, who passed away after a short but ferocious battle with cancer. I know you are smiling down on all of us from Heaven.

You live forever in our hearts.



## ATTENTION

### No-Risk Offer To Readers Of This Book

I understand that if you have an IRS tax problem, you would rather be doing anything else, such as spending time with family or working on building a successful business. By reading this book, you are taking the first step to get your IRS situation under control. As such, I want to reward you for taking time away from your family and business to read this book, with a no-risk IRS Resolution Case Review.

### Take The First Step

Stop worrying and start sleeping again. If you fear what the IRS will do to you then you owe it to yourself to schedule a 30-minute consultation with me. We will talk about your situation and determine if I can help you resolve it. You will leave with a report that details my thoughts on your case and what it might cost to resolve it.

Don't wait for the IRS to take everything you own! Get answers now! Follow the instructions below to set up your no-risk IRS Resolution Case Review.

### How To Claim Your No-Risk IRS Tax Debt Consult

If you want to schedule your consultation, please visit [www.beacontaxadvocates.com/contact](http://www.beacontaxadvocates.com/contact) and fill out our contact form to request your IRS Resolution Case Review. You will be asked to complete a comprehensive questionnaire. Once that is done, I will schedule an appointment for us to talk by phone or Zoom. You may also call my office at 207-502-7181 if you have questions about this no-risk offer.



## TESTIMONIALS

I engaged Jim Wade earlier in 2018 to represent me in an IRS collection case arising out of several years of unpaid personal federal taxes, and was impressed by his professionalism, knowledge of tax laws, and experience in representing taxpayers before the IRS.

At our first meeting he explained clearly the IRS collection process and recommended a number of steps I should take to put our position in the best possible light. He worked closely with me to gather all necessary information and formulate an offer of a repayment plan for the nearly \$360,000 I owed in unpaid taxes, penalties, and interest. He met personally with the IRS case agent on my behalf and was able to get an agreement for the exact plan we'd hoped for. He further recommended that we attempt to get an abatement of some of the penalties and interest, and ultimately was successful in knocking about \$70,000 off the amount due. An incredible result!

I had the feeling throughout the whole process that Jim really cared about our case and us individually, and the incredible results certainly confirm that.

Jim will be my first contact if I ever need legal services again, as I know he'll give me the guidance I need whether it's strictly within his field of expertise or not. He's fantastic.

— **David G. of Falmouth, ME**



## TESTIMONIALS

### Highly Recommended

I engaged Jim Wade earlier in 2018 to represent me in an IRS collection case arising out of several years of unpaid personal federal taxes, and was impressed by his professionalism, knowledge of tax laws, and experience in representing taxpayers before the IRS.

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— **Jordan H., Wells, ME**

### Kind, Helpful, And Reassuring

I am an attorney in a different field of practice, and I have clients with a variety of income tax needs. I need the tax information I receive and pass along to be spot-on accurate. I recently had an extended consultation with James, and I found that he has in-depth knowledge of the tax laws. His explanations were in plain English and provided great clarity. His demeanor is kind, helpful, and reassuring. He is a valuable professional resource.

— **Brent P., Portsmouth NH**



## TESTIMONIALS

### **Fantastic Tax Attorney**

I was referred to James Wade for a very cumbersome tax lien bill problem that was put on my home by the IRS. James was extremely helpful and gave me tremendously helpful legal advice whenever I had a question or thought of going a different legal route.

Thank goodness to his legal advice I waited it out and he did accomplish and was successful with having the lien removed from my property. This was so crucial as I am a single mother and needed this legal help desperately and he saved us from a lot of financial agony...seriously!

If you have a tax issue James would be your go to guy for his legal expertise. He's very helpful, prompt and available to you. He will get back to you right away if you leave him a message and actually prefers the phone as a better means of communication depending on the status of your case. To me that means he really cares and takes each case personally and wants to see each client be successful.

I'm so glad that he was referred to me and I could not have asked for a better nor more competent attorney! Highly, highly recommend him!!

— **Elena B, Westbrook, ME**

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To my wife, Katrina, who sadly did not live to see this book published. You gave me the priceless gift of a family. I am eternally grateful to you for putting up with my long hours at work while you raised our son, without complaint. Your love and support meant everything to me. Love you forever babe.

To my brother, who encouraged me to write this book and spent many hours reviewing my work and helping me bring it to life. Thank you for your help and for always being there to give a hand.

To my friend and business mentor Scott Roberts, whose sage advice and encouragement gave me the push I needed to turn a solo operation into a profitable business. I don't know where my business would be without you.

Most importantly of all, to all my clients over the last 11 years who have trusted me to fight on their behalf. Without you, literally, none of this would be possible. After dealing with hundreds of clients, I understand that those balances due are not mere numbers on a page. Each dollar due comes with sleepless nights, emotional turmoil, and business struggles.

Thank you for allowing me to help free you from your IRS nightmare. My heartfelt appreciation to all of you!



## **WANT TO SKIP AHEAD?**

**Our Roadmap to Recovery is on Page 141**

**See How We Help You Take Control  
of Your IRS Tax Problems**

Are you feeling overwhelmed by IRS tax issues? You're not alone. Millions face the daunting challenge of navigating the complex world of taxes, and it can feel like an uphill battle. But there is hope!

In the upcoming section of my book, "Your Roadmap to Recovery," we will explore our step-by-step process we follow to help clients deal with their IRS tax problems. This isn't just a dry list of actions; it's a comprehensive journey that combines practical advice with real-life stories of triumph over adversity.

Here's What You'll Discover:

- **Understanding Your Situation:** Learn how to assess your unique tax problems and identify the best path forward.
- **Building Your Action Plan:** We'll outline a clear, actionable plan that breaks down the complex IRS processes into manageable steps.
- **Navigating IRS Communication:** Discover effective strategies for communicating with the IRS, including tips on how to handle tough conversations and negotiations.
- **Exploring Solutions:** From payment plans to offers in compromise, we'll delve into various options available to you, ensuring you choose the best fit for your situation.
- **Staying on Track:** Recovery doesn't end with a resolution. We'll discuss how to maintain your financial health and avoid future tax pitfalls.

**Do not worry, no one is watching over your shoulder!  
See how we handle IRS tax problems and help our  
clients get started on the path to freedom!**



## MAKE YOURSELF A PROMISE!

I know this may seem strange to ask before we get started. Still, I need you to make yourself a promise. If you have an IRS problem, then you owe it to yourself and your family to make it a priority to **end your IRS nightmare!**

Do not worry, this is an easy promise: **promise to take the first step to ending your IRS nightmare by talking with a tax professional.** That's it.

You do not need to talk to me. You just need to talk with someone who specializes in handling IRS collection cases. Even if you do not hire them to resolve your case, you will come away with a better understanding of the process of resolving your IRS nightmare once and for all.

I want you to make this promise as doing nothing means another sleepless night. Another day taking a scary walk to the mailbox. Another day worrying if today is the day the IRS will garnish your wages or seize money in your bank account. **Do not do that to yourself and your family!**

**Take the First Step! Talk with Someone About Your IRS Problem and Get Started on the Path to Freedom!**





## INTRODUCTION

Leona Helmsley, the former “Queen of Mean”, is alleged to have said, “We don’t pay taxes. Only the little people pay taxes.” Helmsley was once a well-known hotelier and real estate mogul back in booming 1980s New York City.<sup>1</sup> She and her husband thought their wealth put them above the law. How wrong she was. Fame and fortune are no defenses against paying your taxes when the IRS comes after you.

Helmsley soon found out how wrong she was when in 1989 she was convicted of tax evasion and jailed. She found out the hard way that anyone – rich or poor – can end up with a serious tax problem.

As we speak, over 11 million Americans have a back tax problem.<sup>2</sup> Doctors, financial planners, truckers, nurses, accountants, bankers, actors, consultants, teachers, contractors, and (even) attorneys can find themselves with an IRS tax problem.

Anyone regardless of wealth or profession can find themselves facing off against the IRS, as even Helmsley found out. Every day regular people of all types find themselves facing an IRS problem. These folks, completely stressed out and frustrated trying to deal with their unpaid taxes, find their way to my office to see what help is available to them.

99.9% of the people calling my firm are good people. I tell them – as I am telling you – “Your tax problem does not make you a bad person.

<sup>1</sup> She was also famous for leaving \$12 million to her pet dog, aptly named “Trouble”.

<sup>2</sup> IRS 2023 Data Book, from Table 27 regarding ending inventory regarding returns filed with a balance due: <https://www.irs.gov/pub/irs-pdf/p55b.pdf>

You are just a good person who found themselves in a bad situation.”  
**Why then does the IRS make you feel like a criminal!**

The IRS has two major goals, which often contradict: one, provide service to taxpayers to ensure they understand and properly apply the tax laws; and two, enforcement of the tax laws to ensure taxpayers are honest and pay what is due on time and in full.<sup>3</sup> This is why the IRS seems so schizophrenic – do you help taxpayers or extract the maximum amount due?

From personal experience, the IRS Agents assigned to my clients’ cases seem to take great pride in extracting the maximum amount out them without spending a great deal of time considering how it impacts those same taxpayers. Why should they, you didn’t pay your taxes so it must be your fault?! Right? **So, what is a good person to do?**

The purpose of this book is to answer that question. I want to help you—and maybe someone you know—understand the IRS collection process and what possible solutions are available to you.

Throughout this book, I will share real-life stories of people from all walks of life who have faced, and often prevailed against, their IRS tax problems. These stories will illustrate that being in tax trouble is not a reflection of your character, but rather a situation that can happen to anyone.

Whether you are facing a tax problem yourself or are simply interested in learning more, my goal with this book is to provide you with both engaging stories and practical knowledge about the IRS collection process. If you find this book both entertaining and informative, then I have done my job.

*James D Wade*

September 2024

<sup>3</sup> IRS Mission Statement: “Provide America’s taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.” Found on the IRS website: <https://www.irs.gov/about-irs/the-agency-its-mission-and-statutory-authority/The%20IRS%20Mission>



# CHAPTER 1

## IT CAN HAPPEN TO ANYONE: LESSONS FROM THREE COMEBACK STORIES

### How IRS Problems Start

Everything has a beginning, and IRS tax problems are no different. Nicholas Cage – who famously (or is it notoriously) had a huge tax problem in 2010 – did not wake up one morning and find himself owing millions in taxes. Something occurred in his life which caused him to join the other millions of Americans who have a tax problem. So, what happened?

There are a variety of ways to find yourself in trouble with the IRS – in Cage's case he was fabulously wealthy but a big spender and thus lived well beyond his means. For others it could be something else, such as:

- Incorrect Withholdings from Salary or Wages
- Self-Employment Tax Issues
- Mistakes on Your Tax Returns
- Failure to File Tax Returns
- Wide Swings in Income
- Significant Investment or Capital Gains Income
- Large Withdrawals from Retirement Accounts
- IRS Audit Adjustments

- Significant Life Changes (Death, Disability, Divorce)
- Dealing with a Financial Hardship

There are an almost infinite variety of reasons that you can find yourself facing an IRS tax problem, some of which are totally outside your control. Rich, poor, famous, or infamous, we can all find ourselves with a tax problem.

To illustrate how easy it is to find yourself with a tax problem, here are three stories of taxpayers who found themselves with a tax problem, including Nicholas Cage.



## REAL LIFE CLIENT STORY:

### Victimized First by Scammers and Then by the IRS

Pam, not her real name, was the victim of a “phishing” scam.<sup>4</sup> She was convinced by a scammer that someone had installed child porn on her computer. To “protect” herself and her assets, she was advised by the scammer to convert all her liquid assets to cryptocurrency and put them in a “safe place”, in this case in the crypto wallet of the scammer.

While this may seem ridiculous, I can assure you that hundreds, if not thousands, of Americans are victimized daily by these schemes and she was just one of the unfortunate casualties. As a result of liquidating all her assets, she ended up with a large tax bill related to retirement plan distributions – in this case around \$60,000. When she realized she was scammed it was too late to get her funds back and now she had no money to pay the IRS.<sup>5</sup>

When she came to my office, she was living alone, with some savings, a fixed income, and facing the prospect of having to sell her family home.

<sup>4</sup> All client stories are anonymized. I have changed names and omitted or changed some facts to protect client confidentiality.

<sup>5</sup> Currently the tax law does not provide a deduction for theft losses related to stolen retirement distributions. As I write this, Congress appears to be working on this issue.



I was able to get my client into a payment arrangement called hardship status or in IRS' parlance, currently not collectible status. I was able to negotiate a deal where the IRS got off her back— hopefully until the debt expires on its own (something we will discuss later) – so she no longer has to fear losing her home to the IRS.

Like Pam, your life can take an unexpected event which can turn your life upside down, leaving you unable to pay your taxes. Now she is in a better place, able to sleep again at night.



## NICHOLAS CAGE:

### When \$150 Million in Earnings Does Not Prevent an IRS Problem

Nicholas Cage was, and still is, a renowned and much beloved actor, known for his captivating performances in films such as “Leaving Las Vegas”, “Con-Air”, and “National Treasure.” During his career, Cage is estimated to have earned \$150 million dollars, which afforded him a lifestyle most of us can only dream of.<sup>6</sup> Unfortunately for him, Cage developed a taste for the finer things in life, and his extravagant spending knew no bounds.

He splurged on a private island, a fleet of luxury cars, multiple real estate properties, and a huge collection of exotic pets and rare artifacts. Here are just some of the luxury or extravagant purchases Cage is alleged to have acquired:<sup>7</sup>

- 15 properties, including a home in Newport Beach CA, a countryside estate in Newport RI, and a home in Las Vegas, NV.
- The infamous LaLaurie mansion in New Orleans, reputed to be a true haunted house.
- Two castles in Europe.
- An island in the Bahamas.

<sup>6</sup> Online article from CNBC “Nicholas Cage once blew \$150 million on a private island and a dinosaur skull – here’s everything he bought” by Emmie Martin, CFP, published Jan 20, 2018. <https://www.cnbc.com/2018/01/19/how-nicholas-cage-once-blew-his-entire-150-million-fortune.html>

<sup>7</sup> Online article from CNBC “Nicholas Cage once blew \$150 million on a private island and a dinosaur skull – here’s everything he bought” by Emmie Martin, CFP, published Jan 20, 2018. <https://www.cnbc.com/2018/01/19/how-nicholas-cage-once-blew-his-entire-150-million-fortune.html>

- His own pyramid burial tomb, 9 feet tall.
- A collection of shrunken pygmy heads.
- The former Shah of Iran's Lamborghini.
- A pet octopus.
- Action Comics No. 1 (the first appearance of Superman).
- A dinosaur skull (which later needed to return as it was stolen from Mongolia).

Ultimately, Cage's high-flying lifestyle led him to the point of financial ruin. His extravagant spending habits left him without money to pay the IRS when he was suddenly faced with a staggering tax debt to the IRS.

As he tells it, he had invested heavily in real estate and when his IRS problems arose it came during the housing crisis of 2008-2009, burdening him with numerous debts and few liquid assets to pay off his tax debts.<sup>8</sup> Cage also accused his business manager and accountant, Samuel Levin, for mismanaging his money.

At that point, regardless of who's fault it was, Cage's career began a downward trajectory. The once beloved actor became toxic to Hollywood and roles for him dried up, now that his dirty laundry was waving in the open for all to see. Cage, whatever his faults, did not give up. Facing his problems head on, Cage began to sell off some of his possessions, real estate holdings, and rare memorabilia, to pay off his IRS tax debt and regain control of his financial situation.

Cage said this about the roles he took during this difficult time in his life, "Work was always my guardian angel. It may not have been blue-chip, but it was still work. Even if the movie ultimately is crummy ... I'm not phoning it in. I care, every time."<sup>9</sup>

I wanted to highlight Nicholas Cage's story as it provides a valuable

8 Online article from Yahoo! Finance written by Bethan Moorcraft entitled "I couldn't get out in time': Nicolas Cage recalls being \$6M in debt after the real estate market crashed and making 'crummy' movies to pay it off — here are some of his craziest buys." Published June 18, 2023. <https://finance.yahoo.com/news/couldnt-time-nicolas-cage-remembers-103000349.html>

9 Online article from Yahoo! Finance written by Bethan Moorcraft entitled "I couldn't get out in time': Nicolas Cage recalls being \$6M in debt after the real estate market crashed and making 'crummy' movies to pay it off — here are some of his craziest buys." Published June 18, 2023. <https://finance.yahoo.com/news/couldnt-time-nicolas-cage-remembers-103000349.html>

lesson. Cage never let his tax problems ruin his life. No matter the role, he gave it 110% and just kept working. It was not easy or quick, but he had a plan and today he is free of his IRS problems. **Never give up, never surrender! Have a plan and focus on the future. There is an end to your IRS tax problems!**



## REAL LIFE CLIENT STORY: The Comeback Kids

I wanted to end this chapter with a story of a couple who struggled mightily but ultimately overcame their tax problems. Bob, a successful entrepreneur, and his wife Marcie were living a comfortable life. Childless, Bob and Marcie adopted two young children and were looking forward to raising a family when Marcie was diagnosed with a rare genetic defect which left her vulnerable to certain cancers. Marcie needed to undergo immediate surgery, otherwise she faced the real potential of being stricken down with cancer.

Suddenly Bob was thrust into the role of primary caregiver for children and as breadwinner while Marcie underwent surgery and then proactive chemotherapy. Bob, not unexpectedly, becoming overwhelmed trying to run his business, raise his children and care for his wife. In the chaos of juggling his family and business obligations, Bob missed filing their personal and his corporate tax returns.

At first Bob was not aware of the missed deadlines but once he realized what had happened, he didn't know what to do. Would the IRS take his car or his house? How would he pay his bills if he needed to pay everything back to the IRS? Worst of all, how would his wife react? Marcie relied on him to take care of the house while she recovered. Now everything was falling apart! So, he did nothing and said nothing. Soon one year turned to two years of unfiled returns and then three years of unfiled returns. The stress became unbearable and so Bob sought my help.

I sat down with Bob, and we discussed what needed to be done. I told

him from the start that he needed to let Marcie know what happened as she had to be part of the solution. I persuaded him that he needed to come clean as Marcie was going to find out eventually. Bad news never gets better with time. It was a hard sell, but Bob finally agreed and told his wife.

Marcie was upset, very upset. I still have her angry email in the client file. She was completely blindsided by her husband, and she had no idea things were so bad. I completely understand her pain and anger. Bob and I had a plan, however, and we told her that the problem could be resolved. It took some time, but Marcie eventually came on board with our plan and agreed to work with me to get this case resolved.

Confronting the truth was painful for Bob and Marcie but together we came up with a workable solution. First, Bob worked with a local accountant and prepared his overdue returns, the total balance due ended up around \$350,000 including penalties and interest. For most people that is a huge sum, impossible to imagine paying it all back, but we had a plan.

Second, we crafted a realistic payment plan which would pay the IRS back in full, which the IRS quickly accepted. I made sure to explain to the IRS agent about the couple's problems and asked for the agent to consider abating the late filing and payment penalties. Due to Bob and Marcie's situation, I was also able to get the IRS agent to forgive all of their tax penalties, roughly \$70,000.

The final result was a payment plan Bob could afford, meaning their home and other assets were safe and they had enough money to care of their children. On top of that, they were able to knock the balance down considerably through penalty abatement. Bob and Marcie finally caught a break.

Bob and Marcie's story, like that of Nicolas Cage, demonstrates that anyone can overcome their IRS troubles. You just need a plan. You are not defined by your faults, and with determination and the right help, you can rebuild your life. There is always a way out.

Postscript. The last time I spoke with Bob, about three years later, he said the couple were still happily married (great news) and he had paid off the IRS tax debt early (even better). **These are the outcomes that I live for.**

## Chapter Summary

I want you to know that anyone can come back from the brink. You are not the sum of your faults. You can rebuild your life after getting into IRS trouble, just like Nicholas Cage and my clients: Pam and Bob and Marcie.

In summary, let me say this now. **You should not be ashamed to have a tax problem. You should only be ashamed if you choose not to deal with it.** As these stories show, there is a way out of your IRS tax problems!







RESET

## CHAPTER 2

### WHAT ABOUT THE FRESH START INITIATIVE I HEAR SO MUCH ABOUT?!

#### Separating Fact from Fiction

I know you've heard those TV and radio ads that now may be the time to settle your taxes for "pennies on the dollar" or for the "least amount legally possible". More likely you have heard about why now is the best time to settle with the IRS under the "IRS' Fresh Start Initiative".

Like the pied piper of legend, these national tax resolution companies sing a sweet tune to lure you to hire them. What they do not tell you is that the IRS is not in the business of settling tax debts. In fact, these national companies have so muddled the water that many people hold some very wrong ideas about the IRS Fresh Start Initiative, often leading them to unrealistic expectations regarding their options.

One of the biggest misconceptions is that the Fresh Start Initiative guarantees significant reductions in tax debt. In reality, while the Fresh Start Program offers potential relief, it does not guarantee a settlement or any reductions in the amount due. If you seek to settle your IRS tax debt, you must meet specific qualifications, which I will discuss later, to even be considered for settling your tax debt.

Another common misconception I see is that people believe qualifying for the Offer in Compromise program is a straightforward process. I do not know how many times I have been asked if the IRS will take some sum of money to settle. In fact, I had one attorney who kept asking me if the IRS would consider settling his client's IRS tax debt for \$10,000. He seemed to think you just send in a check with a letter.

In fact, to request to settle your IRS tax debt, you need to submit several IRS forms and extensive documentation to even be considered. On top of that, it can take months of back-and-forth communications with the IRS before a resolution is reached. Very often, we need to submit additional documentation and answer questions. There is nothing quick or simple about the process.

Finally, people seem to not consider that the Fresh Start Initiative does not act like a magic wand wiping away all tax problems. To get relief under the offer-in-compromise program you need to have filed all legally required tax returns (see current compliance), keep up with estimated tax payments, AND you need to file your tax returns on time (and pay any taxes due) for five years following acceptance. So even if you otherwise qualify, if you do not keep your nose clean (as regards taxes) you end right back where you started.

Now let us discuss the real Fresh Start Initiative and what it means for you.

## **What is The Fresh Start Initiative?!**

So, can you settle for pennies on the dollar?! The easy answer is yes BUT it is not as simple as those ads make it seem. In 2023, the IRS agreed to settle roughly 12,000 of about 30,000 offers that were submitted. That is right. Out of the millions of taxpayers who owe the IRS, only about 30,000 offers were made and of those offers only 42% were settled.

Now you are probably wondering, "Well what is this 'Fresh Start Initiative' then I keep hearing about?" The Fresh Start Initiative was a change in the IRS Offer-in-Compromise program made in 2012.<sup>10</sup> The IRS made a few changes to how it collects tax debts, which did make it easier to settle your tax debts, but it is now just part of the regular collection process.



Here is a quick list of the changes:

- **Increased Installment Agreement Thresholds:** Allowing higher amounts of tax debt to be paid off through installment plans without additional financial disclosure.
- **Expanded the Offer in Compromise (OIC) Program:** The IRS made certain changes to the OIC program which made it easier for taxpayers to settle their tax debt for less than the full amount owed.
- **Eased Lien Filing Policies:** The IRS raised the dollar threshold for issuing liens and making it easier to withdraw liens once debts are paid; the amount is not disclosed but appears to be around \$10,000.

That's it. Whoever came up with using the Fresh Start Initiative as a marketing tool is a genius as it has so embedded itself into people's minds that most taxpayers think the Fresh Start Initiative is something more than it actually is (**and let's not forget the resolution companies do not highlight the Fresh Start Initiative happened in 2012.**)

So, all those tax resolution companies banging the drum about the Fresh Start Initiative are just dangling this bait in front of desperate taxpayers who want an end to their IRS nightmare. It is just a smoke screen to entice you into thinking the IRS is ready to cut a deal so you will call them to find out about this amazing program! Many of them are charging \$5,000 or more to file an offer-in-compromise so there is a large financial incentive to hook you with dreams of being rid of the IRS once and for all. What they will not tell you is that they will gladly take your money to file an offer, even if it has no chance of succeeding.

## Chapter Summary

Sadly, the truth is that the Fresh Start Initiative is just part of the regular IRS collection process, and it is not some new IRS settlement initiative. Unless you consider 2012 new. The Fresh Start Initiative is a marketing gimmick plain and simple. And I have seen some tax professionals I respect use it in their marketing even now. I know why they do it, because it works. So do not be fooled by those ads, the Fresh Start Initiative is old news.

Now that I have ripped off the band-aid, the rest of this book is about your REAL options for getting out from under your IRS nightmare. You are going to learn how to deal with the IRS, how to avoid potential pitfalls, and finally what your options are to finally get some peace of mind. From here on out, you are going to get the straight scoop and no marketing nonsense.





RESET

## CHAPTER 3

### WAKE-UP CALL! UNDERSTANDING YOUR IRS CORRESPONDENCE

#### Open Your Mail!

Navigating the labyrinth of IRS notices can be daunting. I know many of you may want to just stick your head in the sand rather than deal with your tax problems. Ignorance is not bliss when it comes to the IRS. **Your first step in solving your IRS problem is to open your mail!**

I know you want to get right to solutions but first we need to do some emergency triage first. In this chapter, we will start with how to deal with the deluge of IRS notices and other correspondence you receive then, in the next chapter, we will learn how to navigate the IRS collection process.

#### Purpose of the IRS Notices

IRS collection notices serve an important purpose. By law the IRS must provide notification to the taxpayer of the balance due, as well as what your options are for resolving your unpaid taxes. IRS notices also have a purpose of notifying you of important deadlines to act before the IRS takes more aggressive collection action.

For that reason, you should never ignore any correspondence from the IRS. Don't put it on an end table, under some books or magazines, and certainly not on the kitchen counter, with your other bills and junk mail.

Under no circumstance should you ignore any notices that come by certified mail. You will recognize them by the green slip attached to the letter. **Certified mail from the IRS is a harbinger of bad news.**

I am going to keep the discussion of IRS notices to the basics. The subject of IRS notices could fill a book on its own. For now, let's just stick to the most common IRS collection notices you might receive, from the first bill notice to the final notice of intent to levy (the big bad wolf of this story). If you are curious about other types of notices, I have a list of other common IRS notices in the Appendix.

## **IRS Collection Notice Stream**

IRS collection notices follow a routine sequence. Each notice comes regularly, usually about 28 days apart. I am going to list them by their identification number, which you can find in the upper right-hand corner of the IRS notice. It is either a CP (computer paragraph) or LT (letter) followed by a number. Here is the basic list of collection notices:

- CP 14 – Balance Due
- CP 501 – Reminder, We Show You Still Owe
- CP 503 – Important – Immediate Action Required
- CP 504 – Urgent Notice – We Intend to Levy on Certain Assets, Please Respond Now
- LT11/LT1058/CP 90/CP 297 – Notice of Intent to Levy and Notice of Your Right to a Hearing

## **The Initial Notice: CP14**

The journey often begins with the CP14 notice, formally known as the "Notice of Balance Due." This is the first notice the IRS sends to you when you have an outstanding tax balance due. The CP14 informs you of the tax year and the amount of tax due, including any penalties and interest accrued.

You can find more information on this notice (and any other notice you receive) at [www.irs.gov](http://www.irs.gov). Just type in the search bar the CP or LT number, e.g. CP14. Here is the important information you will find if you type in CP14 on [www.irs.gov](http://www.irs.gov):

**What this notice is about**

We sent you this notice because you owe money on unpaid taxes.

**View this notice and manage your communication preference online**

Sign into your Online Account to:

- View and download this notice
- Go paperless for certain notices
- Get email notifications for new notices

**What you need to do**

- Read your notice carefully. It will explain how much you owe and how to pay it.
- Pay the amount you owe by the due date on the notice.
- Make a payment plan if you can't pay the full amount you owe.
- Contact us if you disagree.

**You may want to**

- Learn more about how to make a payment plan.
- Learn more about how to submit an Offer in Compromise.

Receiving a CP14 notice is a critical wake-up call. This is the first “shot across the bow” from the IRS. It is essential you review the notice carefully to understand what tax year is involved as well as the amount due. If you disagree with what is reported as the tax due, you want to act quickly to resolve that before IRS collections begins in earnest.

## **Reminder Notice: CP501**

If you do not respond to the initial CP14 notice, the IRS follows up in about 30 days with a CP501 "Reminder Notice – Balance Due". This notice serves as a reminder to you that you still have an outstanding balance due, including any further penalties and interest that have accrued since your last notice.

The IRS also emphasizes in CP501 the importance of resolving the balance promptly to avoid more severe consequences. Each subsequent notice will start threatening more aggressive action.

## **Urgent Reminder: CP503**

Again, if no response, the IRS will send you a CP503 notice, "Second Reminder – Balance Due". You will note that this notice's tone is more urgent and includes a warning that further action will be taken if the balance remains unpaid.

As I said earlier, the tone of each subsequent notice becomes sterner, emphasizing the need to deal with the tax debt quickly. The CP503 notice also warns that failure to act may lead to enforced collection actions.

## **Notice of Intent to Levy: CP504**

The CP504 notice, "Notice of Intent to Levy – Balance Due," marks the start of more aggressive IRS collection action. If you read the notice closely you will see the IRS will now start seizing your state tax refunds.

Often this notice gets most taxpayers' attention. These CP504 notices are often sent out in bulk, and I can tell as I often get a rush of calls from potential clients when these notices hit taxpayers' mailboxes. Look on the second or third page of the notice. If you find a reference to a collection appeal program appeal (CAP), you are usually okay.

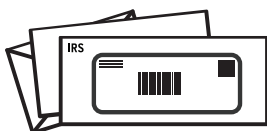
At this stage, the taxpayer has 30 days to respond before the IRS moves forward with the levy. It is imperative to contact the IRS to either pay the balance, set up a payment plan, or dispute the amount owed if there are grounds for disagreement.

## **Final Notice of Intent to Levy: LT11/LT1058/CP 90/CP 297**

The final step before the IRS starts enforcement action against you is the "Final Notice of Intent to Levy and Notice of Your Right to a Hearing", which is sent as a LT11, LT1058, CP90, or CP297 notice. This notice is usually the last warning you will receive before more aggressive collection action. In this notice, the IRS is telling you that it intends to levy your assets, such as bank accounts, wages, and other property.

All hope is not lost though. The final notice of intent to levy also informs you of your right to request a Collection Due Process (CDP) hearing. We will talk about this CDP hearing in the next chapter. For now, just know that you have a means to avoid a tax levy.

You now have 30 days to act before the IRS takes more aggressive collection action. Failure to respond within those 30 days may subject you to wage garnishment or bank levies. Ignore this notice at your own peril!



## **REAL LIFE CLIENT STORY: Unopened Mail Creates Huge Problems**

Lisa's problem occurred because she did not open her mail. Lisa hired my firm to resolve a \$200,000 tax debt related to an audit on two different tax years. Her accountant represented her during the audit but for some reason wires got crossed and somewhere between her accountant and the IRS, supporting documentation was lost.

As a result, the IRS agent denied a good portion of her claimed business expenses and sent her a proposed audit report, which Lisa could appeal to the United States Tax Court. Unfortunately for her, she admits she put the audit report aside – to “deal with it later” (famous last words). By the time she got back to it, her time to appeal had passed.

Once her chance to appeal passed, the IRS can start the collection ball rolling (more on that next chapter), which ended up being around \$200,000 in additional taxes, interest and penalties. If she had appealed, Lisa might have been able to reduce some or all of the calculated tax due without paying anything.

Due to Lisa's failure to keep on top of her IRS correspondence, her options to fix her IRS problem are much more limited. An expensive oversight on her part, thankfully one I think we can fix through audit reconsideration or an offer-in-compromise doubt as to liability.<sup>11</sup>

## Chapter Summary

Understanding the IRS collection notice stream, from the initial CP14 to the final notice of intent to levy, is essential for resolving your IRS tax issues.

Ignore these notices at your own peril, as illustrated by my client's failure to deal with her IRS audit notice. Failure to respond to the IRS can lead to severe consequences, such as wage garnishment or seizure of money in your bank account.

If you are not sure what an IRS notice is asking you to do, go to [www.irs.gov](http://www.irs.gov) and type in the CP or LT number in the search box. You will be taken to a webpage which explains what the notice is trying to tell you. Not always the easiest to understand but certainly better than trying to figure it out by yourself.



<sup>11</sup> Audit reconsideration and offer-in-compromise doubt as to liability are just means to request the IRS to reopen its assessment and see if it cannot be corrected. This is a complicated topic and a subject for another time. If you think the IRS is wrong about the tax due, you can get that fixed. I recommend talking with a tax professional as doing it yourself will be difficult if you do not understand the process.





## **CHAPTER 4**

### **HOW THE IRS COLLECTS TAXES FROM 100-MILLION TAXPAYERS**

#### **The IRS Collection Process Explained**

#### **Introduction**

Now that we have discussed the IRS collection notice stream, I think it will be extremely helpful to lay out how the IRS deals with delinquent taxpayers. Often, I am asked during an initial meeting, “Is the IRS going to take my car? Garnish my wages?” And on and on. There is a great deal of fear and uncertainty about what the IRS will do...or not do.

This chapter I hope is going to answer many of your questions about what the IRS can do if you fail to pay your taxes. I hope by the end you will be better informed and maybe a little less afraid. Not so much though that you forget that you need to focus on getting your problem resolved rather than let it sit and continue to fester.

## America's Most Powerful Collection Agency

The IRS has been tasked by Congress with being the primary revenue collector for the U.S. government, as a part of the Treasury Department. As you can imagine this is no easy task. The United States has roughly a 100 million taxpayers, both individuals and businesses, so the IRS has a huge job on its hands to ensure all taxpayers comply with tax laws and pay their “fair share”.

Due to the size of the task, the IRS has vast powers to compel taxpayers to get current and stay current on their taxes. A regular creditor generally must go to court first and get a judgment against you before it can start the process of seizing any of your assets (and there are some big limits on that power). The IRS does not have that problem. Once the tax is assessed, the IRS can begin to use the full force of the government to collect.<sup>12</sup> It is not an exaggeration than to say that the IRS is the most powerful collection agency in America.

Having read all of that, you may have some legitimate concerns about what the IRS is going to do if you find yourself with a back tax problem. Is the IRS just going to show up and take my house, my car, my retirement, and so on.<sup>13</sup> All of these are legitimate concerns. My goal is to answer those questions and more in this and the subsequent chapters.

The first thing to know is that the IRS does have limits on its power. Most taxpayers with a tax problem did not just wake up one day, to the sound of an angry IRS agent furiously pounding on his or her front door demanding immediate payment. There is a process the IRS must follow when collecting.

This process I am going to lay out follows the general course most of my cases (as well as my colleagues) follow. I am basing this on my knowledge of tax procedure and tax law as well as my personal experience representing hundreds of taxpayers over the years. Of course, there are always exceptions, but this is the most likely direction your case might follow.

<sup>12</sup> The IRS has some limits on this power which we will discuss but as you will see most cards are in the IRS' hands.

<sup>13</sup> As I wrote that line I remembered the old joke about country songs. What do you get when you play a country record backwards? You get your house back, your wife back, your dog back, your truck back...

## THE IRS COLLECTION PROCESS: FROM NOTICE TO RESOLUTION

Navigating the IRS collection process can be a complex (and often stressful) experience. Still, it is important for you to understand it at a high level, so you know what to expect next. In later chapters I may dig deeper into some of the steps we go over, so keep that in mind. There is no way to cover everything in exact detail. I doubt you (or anyone else for that matter) would want to read a book like that.

### Assessment

We need to start with the tax assessment. Nothing can begin without it. A tax assessment is simply the recording of the taxpayer's name, address, and the amount of tax due as of the assessment date also known as the 23C date.

A formal assessment is the starting point of the IRS collection process. Without an assessment, the IRS cannot begin collection. Here's how a tax assessment can occur:

- **Self-assessment:** When you file your tax return.
- **Math Error Correction:** When the IRS corrects errors on your return.
- **Audit or Examination:** Following a discrepancy found during an IRS audit or examination.
- **Automated Underreporter Program (AUR):** When reported income does not match information returns.
- **Substitute for Return (SFR):** Filed by the IRS if you fail to file a return as required.

Once a tax has been assessed, regardless of how it occurred, it is now on the IRS' books, for lack of a better term.<sup>14</sup> Your balance due is now part of the IRS' collection inventory. The IRS will now notify you of the assessment and make a demand for payment using IRS collection notices. Let us go over what this notification process looks like.

<sup>14</sup> This book is mainly on IRS collections, but you may have the right to contest your assessment using the IRS administrative process or through the United States Tax Court, by requesting audit reconsideration, filing for bankruptcy (rarely), filing a petition in United States Tax Court, or by requesting an offer-in-compromise, doubt as to liability. If you are thinking of disputing a tax assessment, you should contact a tax professional to see what your best course of action is.

## IRS Collection Notices

I have covered this section in Chapter 2, so this is just going to be a quick summary to put it in its proper place. Once a tax assessment has been made, the IRS collection process begins with the initial notice and demand for payment using notice CP14 and continues until you receive the IRS final notice of intent to levy. Here is a recap of the notice stream.

- CP 14 – Balance Due
- CP 501 – Reminder, We Show You Still Owe
- CP 503 – Important – Immediate Action Required
- CP 504 – Urgent Notice – We Intend to Levy on Certain Assets, Please Respond Now
- LT11/LT1058/CP 90/CP 297 – Notice of Intent to Levy and Notice of Your Right to a Hearing

These IRS collection notices escalate in urgency and potential consequences until the taxpayer receives the "Final Notice of Intent to Levy and Notice of Your Right to a Hearing", which is sent as a LT11, LT1058, CP90, or CP297 notice. This notice is the last warning you will typically receive before more aggressive collection action.

In this notice, the IRS is telling you that it intends to levy your assets, such as bank accounts, wages, and other property. All hope is not lost though. The final notice of intent to levy also informs you of your right to request a Collection Due Process (CDP) hearing.

The CDP hearing is a crucial opportunity for you to contest the proposed levy and to offer up an alternative solution, such as a payment plan (called an installment agreement) or to otherwise resolve your case through settlement (an offer-in-compromise), hardship status (currently-not-collectible), or penalty abatement.

To take advantage of this critical right, you must request this hearing within 30 days of the notice date to halt the levy process temporarily. Failing to respond to this notice can result in the IRS seizing your assets to satisfy the tax debt.

My strong recommendation if you do receive a notice of final intent to levy is to immediately seek professional help. At this point, your situation has reached a boiling point, and the IRS may be ready to garnish your

wages or seize your bank accounts at any time. A levy could be financially devastating for most Americans as such you should seriously consider talking to a tax professional.

## **Rinse and Repeat: Failure to Respond to these Notices (or a Tax Levy) is Not the End**

Once the notice stream is complete, the process does not end. Instead, the IRS will start the process over again if you fail to respond. The IRS is not required to reissue the notice of intent to levy. Here is the exact language of IRC 6331(c):

*Successive seizures: Whenever any property or right to property upon which levy has been made by virtue of subsection (a) is not sufficient to satisfy the claim of the United States for which levy is made, the Secretary may, thereafter, and as often as may be necessary, proceed to levy in like manner upon any other property liable to levy of the person against whom such claim exists, until the amount due from him, together with all expenses, is fully paid.*

Not an easy read to be sure but what you should take away from it is this: if the levy does not pay the tax liability in full, the IRS can levy your assets as many times as the IRS chooses until the debt is fully paid.

So, if you fail to respond to the IRS, you can expect more of the same. I do not know about you, but I would want to make the IRS nightmare end. Still, some of you may be gluttons for punishment and take a wait-and-see approach to paying your taxes. We will talk about why that may be a bad idea later when I discuss the IRS' big hammer: Revenue Officers.<sup>15</sup>

## **How IRS Tax Liens Fit into the Process (And a Word of Warning)**

I mentioned this earlier, but it is worth repeating. Once the IRS sends you the initial billing notice, CP14, you have received the official notice and demand for payment. You have 10 days to pay the balance due. If you do not, then a tax lien arises automatically by law against your property.

<sup>15</sup> I will also go over potential criminal penalties if you intentionally avoid paying your lawful tax debt.

A tax lien is a claim against your property, not an actual seizure (I will go into both the tax lien and tax levy more in a later chapter). While the IRS does not take your property, you now have a claim that has to be dealt with if you later try to sell the property.

Do not confuse the tax lien with the Notice of Federal Tax Lien, which is something completely different. During the collection notice process (and sometimes afterwards), the IRS may file the Notice of Federal Tax Lien to inform the world it has a claim against your property. When you receive that notice, the tax lien already existed at the time you failed to pay your taxes.

The distinction between a tax lien and a Notice of Federal Tax Lien can be confusing and I will go over it in more detail later. For now, just be aware that the IRS may file this notice, and it may give your rights to a collection due process hearing, which can be very helpful to your case. Do not lose that notice! More on this in a moment.

The IRS uses tax liens because they work. This is the least intrusive way to collect taxes. It protects the IRS' interest in repayment of taxes without actually seizing a person's property. Many professionals disagree with this position as it negatively impacts a taxpayer's credit, and it is not clear it actually improves collections. Regardless, the IRS believes it works and that is the reason it regularly files a Notice of Federal Tax Lien for tax debts over \$10,000.

Once a Notice of Federal Tax Lien is filed it makes things much more complicated to resolve. I will go into more detail later on why this is. For now, just remember that an IRS tax lien arises automatically when you fail to pay your taxes, but that is between you and the IRS, which is why it is referred to as a silent lien. The more obnoxious Notice of Federal Tax Lien is public notice to the wider world of your IRS tax lien, which makes buying and selling property much harder and negatively impacts your credit.

Now for the warning. One of the recurring issues with these notices of tax lien is that you will start receiving spam letters and calls from sketchy national resolution firms attempting to scare you into either hiring them. You may also be approached by scam artists posing as IRS agents trying to scam you by attempting to scare you into "paying" your taxes to avoid jail.<sup>16</sup> If you get a Notice of Federal Tax Lien be prepared for these letters and calls and be careful.

## Bringing Down the Hammer: What Can the IRS Do if You Fail to Respond

Failing to respond to the IRS collection notice stream means the IRS may need to take more aggressive action to get your attention. The IRS has a range of tools at their disposal to get the unpaid taxes from you, willingly or not. Let's delve deeper into the tools the IRS can utilize when taxpayers fail to address outstanding tax liabilities after receiving collection notices:

- **Wage Garnishment:** This is a powerful tool where the IRS instructs your employer to deduct a portion of your wages directly from your paycheck. These funds are then remitted to the IRS until your tax debt is paid off.
- **Bank Levy:** With a bank levy, the IRS can seize funds directly from your bank account to satisfy your tax debt. This action can be taken against checking accounts, savings accounts, and even certificates of deposit.
- **Passport Revocation:** A recent addition to the IRS' collection toolbox is passport revocation. If you owe over \$50,000, the IRS can notify the State Department that you are classified as a seriously delinquent taxpayer. Once certified to the State Department as such, your passport can be revoked, if you have a passport, or your passport application denied if you need to get or renew a passport.
- **Home Seizure:** In more serious cases, the IRS can pursue foreclosure of your home to satisfy your tax debt. This means the IRS can legally take your home. This is often a last resort, pursued when other collection methods have proven unsuccessful, but you need to know it can be done.
- **Legal Action:** Again, in more serious cases, the IRS can file a lawsuit to extend the time to collect your tax debt. A court judgment will provide the IRS with another 20 years to collect and often makes it substantially harder to resolve your unpaid taxes as the Department of Justice handles repayment, who have stricter guidelines, rather than the IRS.

The IRS has powerful tools to collect unpaid taxes. Ignoring notices or attempting to avoid contact will only worsen the situation. It's always in your best interest to respond promptly to IRS notices otherwise you may face serious repercussions such as a wage garnishment or bank levy.

<sup>16</sup> The IRS generally uses the mail to correspond with taxpayers; in a case where the IRS agent intends to call you, he or she will send you a letter first. Scam artists often give up the game when they demand you pay by putting money on gift cards or refillable debit cards. Do not fall for it.

## WHAT TO DO IF YOU DISAGREE WITH THE IRS

What if you disagree with what the IRS intends to do? Let us say you disagree with the IRS filing a Notice of Federal Tax Lien against your property or a threatened levy? Believe it or not, you have the right to appeal any IRS collection actions you disagree with, to include if the IRS rejects a proposed installment agreement or offer-in-compromise. Appeals as a topic is complicated so I am just going to hit the high points. Keep that in mind as you read this section.

### Collection Appeals Program

A Collection Appeals Program (CAP) appeal allows you to appeal certain collection actions. This is a fast and informal process where a local IRS manager reviews your case. You can request a CAP review by calling the phone number on your IRS notice. If the IRS agrees then the IRS will reverse the collection action; if, however, the IRS disagrees with you then you have no further right of appeal.

The CAP appeal allows taxpayers to appeal certain collection actions taken by the IRS, such as:

- IRS determination to File a Lien
- IRS determination to levy or seize a taxpayer's assets
- Installment Agreement Rejections or Terminations
- Offer in Compromise Rejections

### Collection Due Process Hearing

A Collection Due Process Hearing (CDP) provides a more formal appeals process in a situation where the IRS proposes the filing of a tax lien or seizing assets through a tax levy. Unlike a CAP appeal, your case will be heard by a settlement officer with the IRS Independent Office of Appeals, which acts as a neutral party in your dispute with the IRS.

Unlike a CAP appeal, if the settlement officer disagrees with you, you may be able to appeal to the U.S. Tax Court. To do so, you must request a CDP hearing within 30 days of receiving the IRS notice. The advantage of requesting a CDP hearing is that IRS collections must cease on any tax years that are the subject of the Notice of Federal Tax Lien or tax levy.



After the 30 days have passed, you still have 11 months to request an equivalent hearing which, while not as favorable as a CDP hearing, still allows you a hearing with a settlement officer. No appeal can be taken from an equivalent hearing, but you still get a chance to make your case for why the lien should be withdrawn or the proposed levy stopped.

CDP hearings (or equivalent hearings) are informal affairs. Often you will get a notice of the date and time of the hearing, usually done by phone, and from there you can provide whatever information you want the Appeals officer to consider. Appeals officers tend to be more experienced and more even-handed in their approach. Hearings tend to focus on resolving the whole case rather than fighting over issues. In short, super helpful way to get a case resolved for both you and the IRS.

## **Taxpayer Advocate**

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help taxpayers resolve IRS-related issues. Its function is like an ombudsman. A Taxpayer Advocate can intercede on your behalf through a Taxpayer Assistance Order and work to resolve problems with the IRS.

You can contact TAS if you are experiencing a financial hardship, or the IRS has not resolved your issue through normal channels. What TAS will not do is tell the IRS what to do, that is completely outside their control. The TAS is very helpful when you are trying to work something out with the IRS and the IRS is either unresponsive or drags its feet in resolving a dispute. Sadly, I have had to use TAS a lot more in the last couple of years for those reasons. Still, it is nice to know that you can turn to someone to get things fixed.

## **United States Tax Court**

In certain cases, such as through a CDP hearing, you may have the option to file a petition in United States Tax Court (Tax Court). The Tax Court provides a new avenue to have your case heard and resolved. While I know going to court strikes fear in most people, the Tax Court is an administrative court. Formal court rules apply but they tend to be somewhat streamlined and easier to deal with than if you took your case to a Federal District Court.

A hidden benefit to filing in Tax Court you will often get an opportunity to try to work out your dispute with the Independent Office of Appeals first before your case proceeds to court. This means you may never see the inside of a court or deal with the IRS's attorneys. What's not to like about that.

There is a strict 90-day deadline to file a petition in Tax Court. Do not miss that deadline or you will have to possibly pay much more to resolve your dispute. A current client of mine missed the deadline and now we need to put a lot more work into disputing the assessment. Pay attention to those deadlines!

## **What Are My Resolution Options?!**

Finally, we arrive on the key portion of this chapter. At any point after receiving that initial CP14 notice, you have a number of options to resolve your unpaid taxes. Some options are obviously better than others, such as settling your tax debt rather than paying it in full, though all of these options can prevent the IRS from taking more aggressive collection action against you.

I am going to do a quick run-down of the options as I will go over the more important options in more detail later in this book. I will not go into more detail on bankruptcy as the whole topic of taxes and bankruptcy is too complicated for this short book.<sup>17</sup>

## **Full Payment**

You may be asking, why is this an option? If I could pay my taxes, I would have already. You would think so, but I have met with several prospective clients who had the money or assets to pay their taxes in full. They were terrified of dealing with the IRS. Often this is their first time they find themselves in this situation and the IRS notices seem to be threatening aggressive collection action. So, if you fall into this camp, you have a few options if you can full pay.

The IRS has a short-term payment plan that can provide you with up to 180 days to fully pay what you owe. The IRS will not file a tax lien or

<sup>17</sup> I also am omitting it as most people have an adverse reaction to filing bankruptcy, almost a phobia. Do not let the label of "debtor" act as the scarlet letter. Bankruptcy is enshrined in the Constitution, and it is an option for the honest but unfortunate debtor. Keep an open mind as to your resolution options.

attempt to seize any of your assets (such as wage garnishment or seizing bank funds).

If you are concerned about paying your taxes in full if you want to get penalty abatement or you have a concern that your tax liability is incorrect then you do have the right to request penalty abatement or challenge what you owe in taxes at a later date.<sup>18</sup>

An added bonus (if you can call it that) of paying in full is that you avoid the onerous interest and penalties charged by the IRS. At time of this book, the IRS was charging interest around 7 to 9%. Let us not forget that on top of interest, the IRS charges another .5% failure to pay penalty on top of what is owed per month.

## **Payment Plans aka Installment Agreements**

If full payment is not possible, the taxpayer can request an installment agreement to pay the debt over time in smaller, more manageable amounts. In some cases, the IRS may agree to a payment plan even if it will not pay your tax debt in full by the end of the collection statute or CSED. The IRS calls it a partial-pay installment agreement, but I call it a back door offer-in-compromise. I will discuss the collection statute end date and the partial-pay installment agreement in more detail later but first let us discuss the big daddy of resolution options – the offer-in-compromise program.

## **The IRS Tax Debt Settlement Program aka the Offer – In – Compromise (OIC)**

You may be able to settle your IRS tax debt for less than you owe. To qualify for an OIC, you must demonstrate that you are unable to pay your tax debt in full now or in the foreseeable future, based on your current income, expenses, and equity in assets.

OICs tend to be settled based on your ability to pay but the IRS may consider other special circumstances, such as medical hardship or economic downturn. For example, you may have funds in a retirement plan that can be applied to your tax debt, but you need these funds to pay for necessary medical expenses.

<sup>18</sup> Just be aware that there are time limits on requesting refunds related to penalty abatement or a corrected tax liability so you would want to make the request for a refund quickly. I generally recommend within 6 months.

I have a whole section dedicated to discussing OICs as well as going over the many myths and misconceptions that surround the program. This is an area of abuse by unscrupulous tax professionals, and I want to spend some time explaining the program so you know what you can expect from the OIC program. We will also discuss Wesley Snipe's attempts to settle his tax debt, which is interesting in and of itself.

### **Hardship Status aka Currently Not Collectible (CNC):**

You may qualify for hardship status, meaning temporary relief, from IRS collections if paying your taxes would cause financial hardship. Financial hardship, more than mere inconvenience, means that you cannot pay your basic living expenses as well as unpaid tax debt. If that is the case, then the IRS can place your account into hardship status called CNC by the IRS.

IRS collections will be suspended until your financial situation improves or the tax debt expires. Just be aware that hardship status does not remove your tax liability and interest, and penalties will continue to accrue. Many people do not understand this point and get quite upset. We will discuss this program in a later chapter, and you will see why CNC may be a great way to resolve your case.

### **Bankruptcy**

You may qualify to have your unpaid tax liability discharged, meaning become no longer legally collectible, if you filed for bankruptcy. The topic of what tax debts qualify for a bankruptcy discharge is complicated. Just be aware that you could file bankruptcy to resolve your unpaid tax liabilities.

### **Expiration of the Collection Statute (CSED)**

Finally, while not a solution per se, waiting out the IRS collection statute might resolve your IRS problem. The IRS has a limited time to collect assessed tax debts from taxpayers, generally 10 years from the date of the tax assessment. This 10-year period can be extended for such things as filing bankruptcy or pursuing an offer-in-compromise.

The IRS is allowed to use its administrative powers to collect. Once this 10-year statute of limitations expires, the debt is considered legally

unenforceable, and you will no longer be obligated to pay it.<sup>19</sup> If there are any tax liens filed against your property, those liens will automatically expire and be removed. All taxes, interest, and penalties will be written off. In short, you will be free of that tax debt.

Just be aware that the IRS does have the option of pursuing collections through the court, which will allow the IRS another 20 years to collect. While this rarely happens, you need to keep this in mind.

## THREE VERY IMPORTANT CONSIDERATIONS

### Current Compliance

Almost every resolution requires that you, the taxpayer, be in “current compliance”. Current compliance basically means that you have filed all legally required tax returns for the last six years, including the current year.<sup>20</sup> It also means that you are not accruing new tax liabilities, so if you are self-employed you need to pay your estimated tax payments (on time and in full!). If you are an employee, then you need to check your tax withholdings to ensure proper withholdings.

If I am unable to get help for a client, it is often because they cannot keep up with their tax return filings and tax payments. **It will kill your case – dead!**

### No Guaranteed Outcomes

When dealing with the IRS there are no guaranteed outcomes. Think of it like you were facing criminal charges. A criminal defense attorney, no matter how good, cannot guarantee he or she can get you acquitted. The same goes for the IRS.

<sup>19</sup> There are several exceptions and circumstances that can extend the collection statute beyond 10 years. For example, if a taxpayer files for bankruptcy, submits an offer in compromise, or appeals a collection action in court, the statute of limitations may be suspended for the duration of those proceedings. The IRS may also sue the taxpayer in court to obtain a court judgment which will extend the collection statute for another 20 years.

<sup>20</sup> Policy Statement 5-133 “Delinquent returns—enforcement of filing requirements”, found under IRM 1.2.1.6.18. Link here: [https://www.irs.gov/irm/part1/irm\\_01-002-001](https://www.irs.gov/irm/part1/irm_01-002-001)

## Resolution Options Can Be Changed

You are not necessarily tied to any one resolution option and if your circumstances change you may be able to work out a different agreement with the IRS.

For example, I have self-employed clients who are set up on an installment agreement. Their income is rarely consistent. If I set them up on a payment plan there is the real possibility that the client may end up with a bad year and not be able to pay. In those cases, we can request a modification and reduce the payment amount, if their situation changes substantially.

## Chapter Summary

Most Americans file and pay their taxes on time. It is only when something bad happens in their lives, like Nicholas Cage, that they find themselves facing a large IRS tax debt. They are ill prepared to deal with it.

The reason is simple: the IRS collection system is both intimidating and seemingly chaotic. You only need to read a few of the IRS' collection notices to realize how hard they are to understand. Those same notices threaten dire consequences if you fail to do the right thing.<sup>21</sup> No wonder people are so terrified of the IRS.

That is why it is so important to understand how the IRS collects taxes. I know these chapters were a long detour from our Hollywood stories. I hope it gives you a good idea of how the general flow of the collection process goes. Understanding this process will be helpful to understanding other chapters as we proceed.



<sup>21</sup> The IRS says it is updating the notices to make them more taxpayer friendly. From my perspective, people are just as confused as before, so the IRS has plenty more work to do.



# CHAPTER 5

## LIENS, LEVIES, AND LINDSAY LOHAN

### The IRS Collection Process Explained

#### Introduction

Last chapter, I went over the tools the IRS uses to collect unpaid taxes. In this chapter, I want to dig a bit deeper into tax liens and tax levies. Liens and levies are frequently used by the IRS so I felt it would be helpful to dig a bit deeper into both. I will also share several client stories (and one from Lindsay Lohan's life) which will highlight how these two tools can cause significant problems in your life. So, let us start with the fundamental question: what are tax liens and levies and how are they different?

#### Tax Lien versus Tax Levy?

In legal terms, a tax lien is an “encumbrance”, meaning a claim against your property, like a home mortgage or court judgment. It is NOT an asset seizure! An IRS tax lien does not transfer ownership of property to the IRS or make the IRS a co-owner.

When an IRS tax lien arises, the IRS is potentially given priority of payment ahead of you and potentially other creditors. If you later sell your assets, the IRS will then potentially receive a share of any proceeds. A tax lien is basically a way to get paid from a taxpayer's assets without owning the property.

I tell clients and prospects to think of Uncle Sam with a giant hand being held out when you sell your property and that will give you a good idea of how a tax lien works. The tax lien just puts the IRS in lien to get paid out of the proceeds of any sales of your property.

An IRS tax levy, on the other hand, is most certainly a seizure of your assets, think wage garnishments or a levy on your bank account. An IRS tax levy can also be used to seize other types of assets such as homes, cars, and other assets but it is rare. The IRS has to jump through some hoops to seize these other assets, so it is usually more of a hassle than continuing to seize your wages or money in the bank. Does not mean it cannot happen but less likely to happen.

That is just a quick summary of both tax liens and tax levies. I will go over each in more detail separately, starting with tax liens.

### **Tax Liens: Beware the “Silent Lien”**

An IRS tax lien arises upon notice to the taxpayer of a balance due for a tax year with a demand for payment. If the balance due is not paid by the due date, then a lien automatically arises by operation of law. This is called a “silent tax lien” by tax professionals as only the IRS and you know about it. The obvious question that is probably crossing your mind is, “So what then is that document the IRS filed in the county registry of deeds?” Good question.

The notification from the IRS you received is called a “Notice of Federal Tax Lien” and it lets other parties, mostly lenders and other creditors, know that the IRS has a tax lien against any and all of your property. You may think that the IRS has no claim against your assets before then, but you would be wrong. If you fail to pay your balance due within 10 days of the original demand for payment, then the tax lien will spring into existence by law.

Why difference does this make regarding a silent tax lien and the notice of federal tax lien? When the silent lien arises, the IRS has a claim against all your property, now and in the future, whether it be land, money in the bank, vehicles, retirement plans, stocks and bonds, collectibles, or anything of value you own. If you transfer, sell or acquire property then the IRS has a claim against your assets, even if it is no longer in your hands.

This tax lien also extends to property you may not even think about such as an interest in a business, an inheritance, social security benefits, or



intellectual property rights, such as copyrights or trademarks. Pretty much everything is subject to the reach of the IRS tax lien.

The notice of federal tax lien, on the other hand, only serves as notification to the world at large that the IRS has a claim against your property. While the notice merely tells other parties about your tax lien, it has the effect of making it much harder to buy or sell property unless you deal with it first.

It is important to understand that the IRS does not file a notice of federal tax lien in every case. Generally, the IRS will file the notice if your total tax liability exceeds \$10,000.

In summary, keep in mind that a silent lien arises by law after the IRS demands payment and you do not do so. This tax lien is there to protect the government's interest in your property, but it does not give the IRS a right to take it or otherwise obtain an ownership interest in your property. The IRS can, but is not required to, file a notice of federal tax lien, which notifies other parties that the IRS has a claim against your property.



## **EVEN THE RICH: Lindsay Lohan Struggles with IRS Tax Liens**

Lindsay Lohan, best known for her roles in "Mean Girls" and "The Parent Trap", found herself with a tax problem. In 2012, the IRS filed a tax lien against her for approximately \$93,000 in unpaid taxes for her 2009 taxes.<sup>23</sup> Things escalated further when Lohan failed to pay her 2010 and 2011 taxes. The IRS filed additional tax liens for those years, bringing her total tax debt up to roughly \$233,000.<sup>24</sup>

Despite various efforts by her and others to resolve these debts, including receiving about \$100,000 from actor Charlie Sheen<sup>25</sup>, it is my understanding that she only recently paid off the remainder of what she owed.

<sup>23</sup> Online article from CBS News.com (from KCAL) written by Unknown entitled "Lohan Facing Lien For \$93K In Unpaid Income Taxes" Published January 11, 2012 <https://www.cbsnews.com/losangeles/news/lohan-facing-lien-for-93k-in-unpaid-income-taxes/>

<sup>24</sup> Online article from HuffPost written by Unknown entitled "Lindsay Lohan Taxes: Actress Hit With Third Tax Bill From The IRS" Published Feb 25, 2013 and Updated Feb 25, 2013 Lindsay Lohan Taxes: Actress Hit With Third Tax Bill From The IRS | HuffPost Entertainment

<sup>25</sup> Ibid

Unfortunately for her, the notice of federal tax lien is a public record (unlike the “silent lien”) and can be obtained by anyone. As such, Lohan’s tax problems became news fodder along with other highly publicized financial and legal troubles she was facing at the time. The tax lien may not have been the sole reason for her inability to get acting gigs, but I doubt it helped.

The lesson here is you do not have to be a Hollywood star for the public filling (and subsequent publishing in the news) of a tax lien to hurt your business or your career, potentially even your personal life. Once that notice of federal tax lien is filed, the cat is figuratively out of the bag. Now anyone can find out your secret shame and potentially it could hurt you personally or professionally.

## **Why Does the IRS Use Federal Tax Liens?**

While this does not help resolve your IRS tax problem, it does help to know what the IRS is trying to do with IRS tax liens. The IRS files the liens because it increases the IRS’ chance of payment on taxpayer’s outstanding tax debts. The IRS believes, based on studies conducted by the agency, that the filing of a Notice of Federal Tax Lien dramatically increases the chance of payment.

I know from personal experience that prospective clients who contact me are often upset by the lien (more specifically the notice) and just wish the IRS would remove it. The problem for them (and for you) is that the IRS believes strongly that the lien and notice protects the government’s interest and increases the chance of payment.

The IRS holds this same position even if you have no assets and no prospects of acquiring new assets. As I will discuss shortly, it is not impossible to get the IRS to remove the Notice of Federal Tax Lien, or potentially, the Federal tax lien itself, but you will need to show to the IRS that your proposed solution safeguards the government’s interest and provides a better chance of payment of the taxes due.

## **HOW A FEDERAL TAX LIEN CAN MESS UP YOUR LIFE**

So how can a tax lien impact your life? Here are just some of the ways. I am going to list some of the big areas where tax liens can cause

significant issues. As you just read, Lindsay Lohan was hit with multiple tax liens, and it certainly added more problems to her already growing list of financial and legal issues she was facing at the time. Beyond your reputation, however, there are other areas that you need to know about.

## **On Your Assets**

The Federal tax lien attaches to all your assets as of the date of the lien as well as any future assets you acquire. For example, if you receive an inheritance, start a business, get a life insurance payout, or win the lottery then the Federal tax lien will attach to that property as well.

A word of caution! Some people think that by transferring property out of their name that this will remove the IRS tax lien. Wrong! Let's say that you transfer your home, after an IRS tax lien arises, to your spouse or children. By law, the Federal tax lien continues to attach to the property unless you do something to remove the lien before the transfer. If the property is later sold the IRS may be paid from the proceeds.

## **On Your Credit**

The national credit agencies no longer list IRS or state tax liens on your credit report. While that is somewhat helpful, more sophisticated lenders have built up other systems to determine which borrowers have a lien filed against them. This means that purchasing a car or home may be more expensive than a similarly situated individual without a lien.

Beyond your credit score, a Notice of Federal Tax Lien gives notice to mortgage lenders that any property you purchase will immediately be subject to an IRS tax lien. While the law provides the lender a higher priority for payment than the Federal tax lien so the lender has some protection, the lender still has to consider whether or not the lien will make it more or less likely that you will be able to keep up on the required payments. For that reason, lenders may be less likely to take the risk even if you otherwise have a good credit score.

In short, the Federal tax lien will impact your credit meaning either higher interest rates or reduced opportunities to borrow due to the Notice of Federal Tax Lien.

## **On Your Business**

If you operate a business then the Federal tax lien attaches to all business property and to all rights to business property, such as accounts receivable, trademarks, or copyrights. If you later want to sell the business or business assets, then you will have to address the tax lien first. Otherwise, the prospective buyer may be quite upset when they find that the IRS comes calling about the business or assets you sold them.

I would be remiss if I did not mention that a common tactic among business owners with a substantial tax debt is to close the business and transfer assets to a new business. A fresh start, right? Wrong.

Putting aside the issue of the tax lien transferring along with the property, the IRS may treat the new business as merely a successor of the old business and attempt to collect the older tax debts from the new business. In some cases, the IRS may bring a criminal case if they believe the new business was part of a scheme to evade payment of the taxes due.

Tread very carefully if you own a business subject to a tax lien. Talk with a tax professional first before selling or transferring any assets of the business. You may be creating future problems down the road for you and any potential buyers.

## **On Transfers as Part of a Divorce or Estate Planning**

Federal tax liens may continue to attach to your property even if you transfer it during a divorce or as part of your estate plan (see Alicia's story next). Keep in mind that the IRS may act against the recipient of the transfer as part of collecting your tax debt subjecting him or her to unwanted and unnecessary scrutiny from the IRS. Talk with a tax professional if you or your spouse have property subject to a tax lien and are considering a transfer property as part of a divorce or an estate plan.

## **On Any Potential Bankruptcy**

If you file for bankruptcy, a tax lien may survive unaffected after the bankruptcy. This may be true even if the underlying tax debt is discharged against you personally. You should consult with a bankruptcy attorney if you are considering filing for bankruptcy and are subject to a tax lien.



## REAL LIFE CLIENT STORY:

### A Pig in a Poke<sup>26</sup>

I once assisted a client, let's call her Alicia, to investigate potential innocent spouse relief (discussed in a later chapter). One of the big issues was that she had received in her divorce a 100% interest in the marital home. At the time of the divorce, however, the home was subject to a tax lien from her ex-husband's tax debts.

Unfortunately for Alicia, if she sells the home any time before the tax lien is resolved the IRS will get paid from the proceeds for her ex-husband's 50% share of the home. This is true even though he no longer has an interest in the property. The tax lien preexisted the transfer and so a change in title will not defeat the tax lien. A huge blow to Alicia as she made other concessions to her ex-husband to obtain the marital residence "free and clear", when in fact it was not.

The lesson here is this: a tax lien is like pine pitch. It is sticky and damned hard to get rid of. It will attach to all your current property and anything you acquire afterwards. If you try to transfer it to someone else, then it will stay on the property even if the other person does not know about it, such as my client, Alicia.

## How to Remove a Federal Tax Lien

Now that we've discussed some of the sticky issues regarding a tax lien, let's talk about how to remove them. We are going to discuss the four most common methods of removing a tax lien or the Notice of Federal Tax Lien. Not necessarily all of them but certainly the most common ones.

- **Lien Subordination:** This option allows the IRS to place your tax lien in a lower priority position compared to other creditors,

<sup>26</sup> An old English expression meaning you bought something different than you thought, originally a farmer would sell a "piglet" (usually a cat) in a bag to an unsuspecting buyer who would later "let the cat out of the bag" (another quaint English expression). In short, my client got something very different than what she bargained for.

such as a mortgage lender or business loan provider. Essentially, the IRS agrees to let another creditor's claim take precedence over the tax lien. This can be very helpful if you're trying to secure new financing, as the prospective lender will be more willing to work with you if they can take priority over the tax lien and be more assured of repayment.

- **Lien Withdrawal:** With a lien withdrawal, the IRS agrees to remove the Notice of Federal Tax Lien from your record, even if the full debt hasn't been paid off yet. The tax lien still remains, it is just no longer part of the public record. This can provide significant relief if the tax lien has been negatively impacting your credit or ability to live or work.
- **Lien Discharge:** A lien discharge is when the IRS agrees to remove the tax lien from a specific piece of property, such as your home or a piece of business equipment. This can be helpful if you're trying to sell an asset or use it as collateral for a loan, as the prospective buyer or lender won't have to worry about the IRS's claim on the property.
- **Lien Release:** This is the ultimate goal – getting the IRS to fully release the tax lien. This happens once the entire debt has been paid off or the IRS is satisfied with your proposed alternative payment arrangement. Once the lien is released, it's as if the tax lien never existed, and your credit record will be cleared.

Each of these options to remove a tax lien has its own unique set of requirements and procedures. If you need to address a tax lien, I recommend talking to a tax professional to assist you. For example, it can take months for a lien discharge and if you want to sell your home then you want to get your ducks in a row well in advance of the closing date.

Too often people call me a month before the sale and you need at least 45 to 60 days, even under the best circumstances (which never seems to happen at the IRS). In short, not a do-it-yourself type of task.



## **REAL LIFE CLIENT STORY: Underhanded Ex-Husband Muddies Water for Former Spouse**

Brenda came to my office as she was contemplating selling her home but when she started the process, she found that the IRS had filed a tax lien on her property. Brenda said she always filed and paid on time, so she did not believe she owed anything to the IRS.

I investigated the case, and I found that the tax lien was in her and her ex-husband's name. Bingo. I told Brenda that the tax lien was related to a joint return she filed with her ex-husband so that's why. People often forget that they are liable when filing jointly for their spouse's tax debts (even if they later divorce). She told me she specifically filed married separately as she did not trust her ex-husband.

The mystery now deepened. She insisted she never filed jointly but the tax lien said otherwise. I called the IRS to find out what was going on and I was told that Brenda indeed filed a joint return. She, according to the IRS, filed a separate return first but later amended it to file jointly with her ex-husband. I smelled something fishy, and the IRS agent was able to fax me a copy of the amended return that was filed.

I could see immediately that the signature on the amended return did not match my client's, as I had some samples of her handwriting in her file. Someone had forged her signature on the amended tax return and filed it. I cannot prove it was her ex-husband, but it clearly was not my client's signature.

I was able to put together something for the client and got it off to the IRS, with proof of Brenda's actual signature. I requested the IRS disregard the fraudulent amended tax return and release the tax lien. The IRS (thankfully) quickly agreed and within short order the tax lien was released. Had she not come to my office, she would not have known

what to do and potentially she would have been forced to pay some or all of her ex-husband's tax debt.

## Summary on Tax Liens

I hope this summary of tax liens (and how they differ from tax levies) helps put in perspective how they work and what you can do to remove them. Just remember a few key pieces of information:

- A tax lien is essentially a claim against your property, akin to a mortgage. The IRS does not take possession of your assets, and it cannot foreclose on your property without going to court to get permission.
- A silent tax lien arises automatically when you fail to pay your tax debt after you receive notice.
- The Notice of Federal Tax Lien is just that: notification to other creditors that the IRS has a lien. Removing the notice of tax lien does not mean you are not still subject to it.
- The primary effect of a tax lien is that it complicates your ability to buy or sell property.
- If the tax lien negatively impacts you, you may be able to get the lien or Notice of Federal Tax Lien removed. This is important if you later intend to buy or sell a home or car.

As I mentioned in discussing the difference between tax lien and tax levies, it is the tax levy you should be most worried about, and I will go over tax levies next.

## Tax Levies, An Introduction

Let us turn now to the IRS' big shillelagh – a tax levy, also known as an asset seizure. Using a tax levy, the IRS can seize just about any asset you own, such as garnishing your wages or seizing money in your bank account. It can also be used to seize other assets such as your home, your retirement accounts, money owed to you by customers, and commissions you earned as a salesperson or real estate agent, to name just a few. If you own something, the IRS can probably seize it.

The IRS uses tax levies to get your attention and does it ever. Nothing will cause more panic than when your employer receives a wage garnishment, or your bank informs you that you have a negative balance as the IRS



just levied you. Nine times out of ten this is the tool the IRS will use (or threaten to use) to get you to deal with your back taxes.

I mentioned earlier that the IRS can seize your home, though it rarely does so. Politically, the IRS seizing your home or car looks bad. While rare, the IRS can seize your home, but it does take more work and needs higher level approval.<sup>27</sup>

## **What is a Tax Levy?**

A levy is simply a seizure of a taxpayer's assets to pay a tax debt. It should not be confused with a tax lien, which is a claim placed on real estate or personal property. Liens are passive collection measures; the IRS will place the lien on your property and then wait for you to sell it, at which point the IRS will be paid.

Levies, on the other hand, are an active collection measure; the IRS can act immediately to seize property to satisfy your tax debt. Often levies are intended to be a wake-up call to delinquent taxpayers, the idea is to encourage the taxpayer to take immediate steps to address their tax liability. I can tell you from personal experience that a levy does indeed get a client's attention.

## **When Will the IRS Use a Tax Levy?**

As I said earlier, the IRS uses tax levies to either get assets to pay any taxes due or to force you, the taxpayer, to enter some payment arrangement to address your IRS tax debt. In deciding whether to levy a taxpayer's assets the IRS will consider the following circumstances:

- Your financial condition, including whether the levy will create an economic hardship for the taxpayer.
- Your responsiveness to attempts at contact and collection.
- Your filing and paying compliance history.
- Your efforts to pay your back tax debt.
- Whether current taxes are being paid (meaning are you making estimated tax payments or have sufficient withholdings taken from your pay to cover your tax liability).

As you can see, you are more likely to face a levy if you have not been reactive to prior attempts to settle your tax debt. Even more so if you are

<sup>27</sup> Hopefully, this bit of information will put some of you at ease if you own your home or car free and clear.

in the habit of not being compliant with filing your tax returns on time and paying any taxes due.

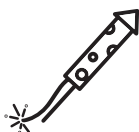
Once the IRS has identified a taxpayer who is fit for a levy, the IRS will take certain steps to encourage the taxpayer to get compliant and avoid the levy.

- First, the IRS will send out notice CP 501 “Notice and Demand for Payment”, regarding your tax liability.
- Second, the IRS will confirm you either failed or refused to pay the tax due.
- Finally, the IRS sent you a Final Notice of Intent to Levy and Notice of Your Right to A Hearing (a Collection Due Process Hearing) at least 30 days before the levy.

## **A Word of Warning**

People who call me after being levied often tell me they had no idea the IRS was going to do that. In a prior chapter, I laid out the IRS notice process and how the IRS explains over the course of at least four collection notices how it intends to take more aggressive action if you fail to address your back taxes.

It is a rare taxpayer who is levied by accident. What happens most often is that most taxpayers just do not open their mail. If they did, they would see right off the bat that the IRS intended to garnish their wages or seize their bank accounts. **It is worth repeating – open your mail from the IRS!**



## **REAL LIFE CLIENT STORY:**

### **How Not to Respond to an IRS Tax Levy**

Years ago, when I was working for a CPA firm, one of my jobs was to help clients prepare payroll returns and figure out their payroll deposits. I had one client who owned a limo and fireworks company.<sup>28</sup> I would come in monthly to do payroll and I noticed that as time went on, he was falling behind more and more on his payroll taxes.

Turns out, this client was paying the IRS late because his customers were slow in paying him. Local towns which hired his company to do fireworks were always slow at paying and as such was really putting a strain on cashflow. As is often the case, the business “borrowed” from the IRS by not paying over the taxes collected from employees’ paychecks to pay essential vendors.

Money due to the IRS for employees’ withholdings are called trust funds. Failing companies try to stay afloat by only paying the net wages to employees and plan to “get caught up later”. Rarely does this work and what happens is that now the owner is personally liable for those taxes and may face criminal prosecution if the “theft” of trust funds is bad enough. Do not do it!

One day I was in his office and as I finished that month’s payroll, I told him what was due. He let me know he would send it in without payment. I told him that was a bad idea as you should never get behind on payroll. The IRS treats unpaid payroll taxes as a priority for payment. I remember him laughing. He said the IRS can wait in line like everyone else. Bad idea as it turned out. A Revenue Officer was shortly assigned to his case to collect those unpaid payroll taxes.

I was only handling payroll returns for the company, so I do not know all

<sup>28</sup> An interesting combo. The owner was originally a firefighter and moved into fireworks when he was not physically capable of the work anymore. Fireworks shows are seasonal so to earn extra money throughout the year he bought a limo. From there he built a successful limo business. I remember seeing pictures in his office of famous celebrities who he had driven around, and he would share the occasional story. It was sad to see this business fail as it obviously brought him a great deal of joy.

the details of what happened next. I just remember one day the partner that oversaw this client account came in to tell me that the Revenue Officer, after repeated attempts to resolve the matter, levied the client's business bank account – snatching about \$12,000. That was all of the company's operating cash. Unsurprisingly, the client laid off all his employees a few days later and closed the doors for good.

Before all of this, this client's company had a sterling reputation in the area. The owner was one of the nicest guys you would ever meet, he just did not understand you do not tell the IRS to wait in line. Tax levies are no joke.

## **WHAT HAPPENS AFTER THE IRS LEVIES YOUR ASSETS?**

After the IRS determines a levy is appropriate and it confirms that it has followed all the required steps, the IRS will send paperwork to your employer or bank informing them that there is a levy in place.

### **Wage Garnishment**

Where the IRS garnishes your wages, the IRS will take a portion of your wages each pay period until you make payment arrangements with the IRS, the taxes are paid in full, or the levy is otherwise released. Your employer will receive information on how much should be withheld from your paycheck and forwarded to the IRS.<sup>29</sup>

To properly determine the amount to withhold, your employer is required to provide you with a Statement of Exemptions and Filing Status to complete and return within three days. Failure to return the statement within the required time frame means the employer is required to withhold the maximum amount possible.

You also need to be aware that if you are to receive a bonus then potentially 100% of the bonus may be payable to the IRS! This depends on whether you were paid in the same pay period as the bonus payment.

I want to provide a quick example of how a wage garnishment works

<sup>29</sup> An employer who fails to properly handle a wage garnishment may end up liable for any money that should have been paid. Additionally, you cannot sue your employer for doing so as by law they are protected from suit.

so you can see how punitive it is. Let's say Mike is subject to a wage garnishment. He is single, no children and makes \$1,000.00 in take home pay a week. Using the IRS Publication 1494, revised annually, we see that Mike is allowed to keep \$280.77 in exempt funds. The rest, \$719.23, must be paid over to the IRS by his employer. This simple example points out quite well why you want to avoid a wage garnishment.

## **Bank Levy**

In the case of a bank levy, your bank will receive a levy notice from the IRS, requiring it to hold the balance of your account for 21 days. After the 21 days have passed the bank will pay the funds seized, as of the date of the levy, to the IRS, unless you work out something with the IRS, like a wage garnishment.

Funds subsequently deposited into your account, after the date of the levy, are not seized and so you can use the funds as you did before the levy. For example, if you have \$1,000 in your account on the date of the levy, with another \$1,000 deposited the following day, then the bank will hold the first \$1,000 for 20 days; the remaining \$1,000 is free to use by you. State tax authorities may not follow a similar rule. In Maine, if Maine Revenue levies your bank account all funds that are deposited within the 21-day period are paid over to it.

A quick word of caution, if you get wind of a tax levy you should not take steps to avoid it as that may constitute tax evasion, such as setting up a new bank account, having money paid to others, or going to a check cashing business. A better step is to request a release of the bank levy, which we will talk about next.

## **Can the Tax Levy Be Released? Avoided?**

Yes. The IRS will release the levy under the following circumstances:

- You pay what you owe
- The statute of limitations for collection has expired
- You enter into a payment agreement with the IRS
- The levy creates an economic hardship for you
- The value of the seized asset is sufficient to cover any tax due and releasing the levy will not hinder the collection of the tax due

Economic hardship requires some explanation. It does not mean you are inconvenienced by the levy or that you can't pay all your bills. Instead, economic hardship means the IRS has determined the levy prevents you from meeting basic, reasonable living expenses. You will need to provide proof that you qualify for economic hardship before the levy will be released. Pleading poverty just will not cut it.

It is better to avoid a tax levy altogether and generally the IRS will provide you with an opportunity to offer up an alternative to a tax levy. We discussed this in the last chapter about the IRS collection process. You will be provided with an opportunity to request a collection due process hearing. This will prevent a tax levy in the first place.

Just be prepared to have a plan in place for the IRS to consider. Again, telling the IRS that it should not levy you it not enough, you need to suggest a resolution that is better for both you and the government.

## Summary on Tax Levies

Dealing with IRS tax liens and levies can be daunting, but understanding your options and taking proactive steps can make the process more manageable. Whether you're facing a lien or a levy, it's essential to stay informed, communicate with the IRS, and seek professional help if necessary. By addressing the issue head-on, you can work towards resolving your tax debt and regaining control of your financial situation.



## A REAL LIFE (FORMER) CLIENT STORY: Being Levied into the Ground

I was representing a client with personal income tax debts, who turned out to be miserable to deal with and he just refused to get his affairs in order. At some point, he started acting weird and talked as if there was an actual conspiracy to ruin him financially by the IRS. An important deadline was approaching, and he refused to provide me the information

I needed to work something out. I told him I could not represent him if he did not and at that point we agreed to part ways.

Two years later he contacted me as he wanted to sue the IRS for “harassing him”. It turns out the IRS continued to attempt to collect, eventually seizing money from a bank account several times. Even after that he still refused to pay off his taxes, arguing he paid it all in “full”, though he had no idea how much he owed and what he paid. Worse, he apparently tried to run things through his business, thinking the IRS would not notice he was not depositing money into his personal bank account. The IRS immediately figured that out and filed a lien against his business arguing it was being used to evade IRS collections.

Worst of all, he told me he was “loaning money” to his son, which now puts his son at risk (Dad of the Year folks). What he was doing was trying to park money with his son to again try and defeat IRS collections. He told me that the IRS agent he was dealing with flat out accused him hiding assets from the IRS. As far as I know, he has not been criminally charged but who knows if that will last.

I took his call out of morbid curiosity, with no intention of taking his case, and at the end I gave him some names of attorneys he might call about suing the IRS. I highly doubt they will take him on as a client. The IRS has been known to be wrong and does some messed up things but based on my past experiences with this person, I suspect the IRS is more right than wrong.

Things are only going to get worse for this gentleman. The IRS is likely to keep levying him until his business and personal financial life is ruined. He may even end up in prison. If he had just worked out a payment arrangement when I started with him three years ago, he would likely be much closer to having it resolved and he would not be worrying about tax levies.

## Chapter Summary

As we discussed previously, it's important to understand the difference between a federal tax lien and an IRS levy. A tax lien is a claim the IRS places on your property, which gives them a legal right to your assets if you don't pay your taxes. A levy, on the other hand, is an active seizure

of your property to satisfy a tax debt.

The IRS has the authority to levy on a wide range of assets, including wages, bank accounts, retirement accounts, social security benefits, real estate, vehicles, and even business assets. They can use these levies to either collect the full amount owed or force the taxpayer to enter a payment plan.

The last thing to discuss about liens and levies is that the IRS must follow specific procedures when filing a tax lien or issuing a tax levy. If the IRS fails to follow these procedures or violates the taxpayer's rights, the taxpayer may have grounds to challenge the lien or levy and seek damages. If you receive notice of a lien or levy it pays to have a tax professional, look at it to ensure it meets all the legal requirements.

If you do get levied, you can get the levy released. It is important to have a plan in place or proof that the levy will cause you economic hardship. You will be expected to prove your case when you talk to the IRS, so do not take it lightly.

Finally, do not forget you have an opportunity to contest the tax lien and levy with a collection due process hearing (or if that has been used, through collection appeals program appeal). Being proactive will prevent potentially worse outcomes if you are levied or your wages garnished.

Chapter 6: Faci







# CHAPTER 6

## FACING THE ENFORCER

### Understanding the Role of an IRS Revenue Officer

#### What is a Revenue Officer?

We have talked about tax liens and levies and now let me tell you about the IRS' field army, the revenue officers. Revenue officers are local IRS agents who have broad powers to collect unpaid taxes (including the power to file a tax lien or use a tax levy to seize assets). These IRS agents are legally authorized to investigate your case, seize assets, file tax liens, and even refer your case for criminal prosecution.<sup>30</sup> Once the IRS has set its sights on you then things are going to get tougher.

The IRS' attitude is that if you have up to this point refused to address your unpaid taxes, whether this is true or not, then you should not expect to be treated as well as others who have. As such, Revenue officers are trained to push taxpayers hard to get their cases resolved. Here is an actual story to illustrate my point.

<sup>30</sup> Criminal referrals are uncommon but do happen. Being honest, cooperative, and showing you are acting in good faith working on your back taxes is the best way to avoid this outcome.



## **REAL LIFE CLIENT STORY:**

### **The Case of the Pushy IRS Revenue Officer**

I just resolved a case involving a rather pushy Revenue Officer. My clients owed about \$110,000, accrued over four years. When they came to me the IRS agent had just sent a letter demanding a long list of information: bank statements, financial information, details on their home mortgage and vehicles owned by them. It also included a nice note demanding the couple inform the Revenue Officer of how they intended to list and sell property as well as borrow against their home. That's a fine how-do-you-do.

The couple thought from the tone of the request that the IRS agent was going to break down their door and start taking their stuff, so they hired me. I reviewed their financials and realized the clients could get this all paid off in 2 years so there was absolutely no risk to the IRS at present (now if the clients do not pay, well that is a different story.). I said no sales of assets or borrowing, just a monthly payment. The IRS agent agreed without any further discussion. Very frustrating as you can imagine.

IRS Revenue Officers are trained to be aggressive with taxpayers as most people do not get professional help, often with bad results for the taxpayer. Once a tax professional gets involved the IRS agents tend to become more reasonable.

In another case, a couple came to me when the IRS Revenue Officer assigned to their case started demanding a whole bunch of financial information regarding a \$17,000 tax debt. When the taxpayers started asking questions about the tax debt and the need for this information, the agent launched into a tirade about issuing tax levies if they failed to comply. They wisely shut down the call with the agent and hired me.

A short time later, I was able to set up a streamlined payment plan (meaning without providing financial information) in short order. I am not sure if the Revenue Officer would have offered that option to

the taxpayers, likely looking to force a full payment of what was due. For many Revenue Officers, this is just par for the course.

## **Dealing with an IRS Revenue Officer**

Facing an IRS Revenue Officer can be daunting. These IRS agents have the authority to enforce tax laws, and their involvement usually signals trouble for taxpayers. The reason for this is simple. Once a Revenue Officer is assigned to your case, you can expect a great deal of attention by the IRS in your case.

I will talk a bit more about this under Initial Contact but often the Revenue Officer will come out swinging with a 30-day timeline to get him or her financial information, a proposal for how to resolve their IRS tax debt, and a demand for any non-essential assets to be sold. For most people these demands can be overwhelming.

Do not expect the Revenue Officer to be super helpful. Many times they will call demanding a response to some request and then disappear for days or weeks at a time. It can be incredibly frustrating getting ahold of the agent and if you get ahold of them, often they are not super helpful in explaining what they need and why.

Additionally, your options for resolving your case are reduced. Often if you are dealing with the IRS Automated Collection System (ACS) you can set up an agreement with no financial information for up to \$250,000 in tax debt. Once a Revenue Officer is involved, that drops to \$50,000. The IRS believes that if you have forced them to assign a Revenue Officer to your case that you should not get as favorable treatment (I strongly disagree with this sentiment but the IRS makes the rules<sup>31</sup>).

While having a Revenue Officer assigned to your case is not good, understanding the process and knowing how to interact with a Revenue Officer can still result in a good outcome. Let us take a quick walk through what you need to know about both the process of dealing with an IRS Revenue Officer as well as some tips on what to do.

<sup>31</sup> I find that for some of the folks whose case is assigned a Revenue Officer have not set up an agreement because they did not understand the system. If they had been informed about the process (such as you are doing now) they may have done something sooner.

## **Understanding the Role of an IRS Revenue Officer**

As I mentioned earlier, an IRS Revenue Officer is tasked by the IRS with collecting delinquent taxes, and securing unfiled tax returns, if any. Unlike IRS agents working for ACS, Revenue Officers are trained to handle more complex or substantial cases personally. They can visit your business, request detailed financial information, and negotiate settlements. Their goal is to ensure compliance and collect unpaid taxes. In short, to get money and keep you filing and paying your taxes going forward.

I do know of some very good Revenue Officers, but I never lose sight of what the agents are here for. To collect taxes. Their goal is to get the most money in the shortest amount of time. My goal is to advocate for my client and to help manage their cash flow. Paying as much as possible immediately may serve the government's interest but may cause harm to my clients. You can imagine how hard it would be to support a family or continue running a business if all excess funds are given over to the government.

Revenue Officers are there to collect the maximum amount of money. Keep that in mind!

## **Initial Contact**

The first step usually comes in the form of a letter or notice from the IRS informing you that your case has been assigned to a Revenue Officer. This notice will detail the taxes owed or the unfiled returns. It is crucial to respond promptly to avoid further escalation. Time is ticking and you need to act quickly to avoid problems.

When you receive that initial notice, read it carefully to understand what the IRS is requesting and note any deadlines. Start gathering all relevant financial documents like tax returns, bank statements, and proof of income. This is also a good time to consult a tax professional—a tax attorney, CPA, or enrolled agent—who can guide you through the process and represent you if needed.

Do not wait until a week before the IRS Revenue Officer's requested response date as there is no guarantee a tax professional can get more time to respond if you are not fully ready to respond to the IRS.

## Preparing for the First Meeting

Preparation is key when dealing with a Revenue Officer. The first meeting sets the tone for future interactions and can significantly impact your case. Make sure you have a detailed account of your financial situation ready, including income, expenses, assets, and liabilities.

Ensure all of your required tax returns are filed. If you have unfiled returns, either have them filed or prioritize getting them prepared and filed. If you are self-employed, ensure you are making all of your estimated tax payments. Many cases are sunk by failing to keep current on estimated tax payments. If you have no idea what estimated tax payments are, find out now. You can go to [www.irs.gov](http://www.irs.gov) or talk with your accountant.

Finally, have a clear idea of how you plan to address your tax debt, whether through a payment plan, offer in compromise, or another resolution method. Vague explanations you cannot pay is just not going to cut it with the Revenue Officer. Specifics show you are acting in good faith. If you have no idea about what you can afford to pay, get professional help or at a minimum sit down and do a budget.

A great tip is to bring money (if you meet in person) or send in a check to the Revenue Officer. This shows you are trying to work something out and are literally putting money where your mouth is. Obviously, if you do not have funds to pay you can skip this.

## During the Meeting

The initial meeting with a Revenue Officer is your opportunity to present your case and demonstrate your willingness to resolve your tax issues. Be honest and provide accurate information—transparency is critical. Treat the Revenue Officer with respect and try to stay calm, even if the situation feels overwhelming. It is a good idea to take notes on what was discussed, and any agreements or deadlines established during the meeting.

This is your opportunity to show the Revenue Officer that you intend to pay your tax debt and discuss your ability to pay. You will provide the Revenue Officer with bank statements, utility bills, mortgage

statements, etc. to convince them that you are unable to fully pay your tax debt. Once you establish that you can start to discuss what is the best option for getting your IRS problem resolved.

I highly recommend having a tax professional represent you. Just like being interviewed by the police, if you are suspected of committing a crime, anything you say can and will be used against you. I cannot detail all the times an off-hand comment from a client caused me grief down the road. For example, one client said he could pay \$10,000 a month when in fact he could not. The IRS agent took much more convincing that he could in fact only pay around \$4,000.

You have the right to represent yourself but just be aware that if you talk directly to an IRS agent, Revenue Officer or otherwise, that you be careful what you say or do. Be honest, be prepared, and mind what you say!

## After the Meeting

Once you have met (either in-person or by phone) there are several potential outcomes. One common resolution is a payment plan, called in IRS parlance an installment agreement so you to pay your tax debt in monthly installments. You may at this time also be able to get the Revenue Officer to consider whether to abate any penalties.

If you can't pay the full amount, you might be able to negotiate a lower settlement through an Offer in Compromise (OIC), though this will be ultimately processed by the IRS' Centralized Offer Unit rather than the IRS agent. In some cases, if you're unable to pay anything immediately, the IRS may temporarily halt collection efforts, a form of hardship status called currently not collectible status by the IRS.<sup>32</sup>

Just be aware that the IRS agent is generally not going to agree to any payment agreement if you have unfiled tax returns or you are not making enough current tax payments (whether through payroll withholdings or estimated tax payments) to stay current on your taxes. So, you will need to deal with these issues in advance of trying to work something out with the IRS agent.

<sup>32</sup> I will go into more detail on currently not collectible status, but it is worth point out at every opportunity that hardship status does not wipe out the tax debt and interest and penalties continue to accrue. This is a common misunderstanding I find about this resolution option, and I want to keep hitting that point to avoid any "sticker shock" if you find yourself in currently not collectible status.

Often this is the point where your case would be wrapped up. If, however, the Revenue Officer disagrees with your proposal, you can appeal your case to IRS Appeals where you can put your proposal before another IRS agent who may be more willing to listen to your proposal. It is important to keep this in mind. If the Revenue Officer is stubborn about a good faith and reasonable offer, then do not be afraid to put it before someone else. As a warning, do not put forward proposals that are not realistic or which make unreasonable demands of the IRS. For example, if you have \$80,000 in the bank you should not expect the IRS not to demand some of that be paid over.

I actually had a client in this situation. He had a lot of money in his account and refused to part with any of it, even though he made \$200,000 a year in salary. He kept telling me he wasn't making enough money to pay his bills and so needed the funds on hand. It was ridiculous. In spite of his foolishness, I still ended up getting a great agreement, which he refused to sign to still complaining of his "inability to pay". You can lead a horse to water, but you cannot make it drink. I fired him as a client, and it is likely the IRS will levy his bank account taking the money anyways.

You should do your best to negotiate the best deal possible, but you need to be fair to the IRS. So be firm but realistic. Be forceful but not foolish. You get more bees with honey, rather than vinegar.

## **Follow-Up and Compliance**

After reaching a payment agreement with the Revenue Officer, it is essential to comply with the agreed upon terms. If you have any problems, make sure to keep in communication with the Revenue Officer. Ensure all payments are made in time to meet the schedule agreed upon.

On top of that, you need to stay current with all future tax filings (to include tax payments to prevent any new tax debts). A default in either the payment terms or by accruing a new tax debt will default your agreement and will be seen as a lack of good faith by the Revenue Officer (which is why it is so important to get professional help to

determine a sustainable amount to pay). Finally, you need to keep detailed records of all communications and payments made to the IRS as you do not want to be held to have defaulted on the agreement if you in fact did make payment (and the IRS has been known to lose track of payments).

## Chapter Summary

Dealing with an IRS Revenue Officer can be challenging, but not impossible. If you keep in mind that the goal of the Revenue Officer is to collect the most amount of tax in the shortest amount of time. They are, however, bound by the IRS's own rules and, with the right approach, you can get to the best outcome for you, rather than for the IRS agent. The key is to be prepared, provide what is requested by any deadlines, and speak honestly. And, if necessary, getting professional help.

Remember, the overall goal of the Revenue Officer is to secure an agreement that resolves your IRS tax debt, hopefully once and for all. By showing you have a good faith plan to resolve your IRS tax debt will go a long way of satisfying the Revenue Officer.







## CHAPTER 7

### CROSSING THE LINE, CRIMINAL TAX ISSUES

#### **What You Need to Know to Avoid Criminal Tax Problems**

I have talked at great length about all the problems that occur if you owe the IRS. Interest, penalties, tax liens and tax levies are just some of the nasty things the IRS can hit you with just for owing a tax debt. Now let us turn up the heat. If you are accused of a tax crime related to your tax debt, you could be fined and put in jail or put on probation, which is bad enough. You could also lose your ability to work in your profession or career, lose all of your assets, and suffer the shame and indignity of being convicted of a crime.

I suspect you know that being convicted of a tax crime, much less being accused of such a crime, is a bad thing. Still, you may not know what types of acts might trigger a criminal referral, so it is worth a quick dive into tax crimes, so you are better armed to know what to do and what not to do. I will even dive a bit into Wesley Snipes' story and a couple client stories to provide a few cautionary tales to reinforce what I am telling you.

## Understanding Tax Crimes

Tax crimes encompass a range of activities from simple mistakes to deliberate fraud. Common tax crimes include tax evasion, filing false returns, failing to file returns, and underreporting income. Tax evasion is perhaps the most serious, involving the deliberate attempt to avoid paying taxes owed. This can include hiding income, claiming false deductions, or using offshore accounts to conceal assets.

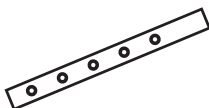
The IRS has sophisticated methods to detect these activities, including data matching and collaboration with financial institutions. When discrepancies are found, the IRS may initiate an audit. If the audit reveals evidence of intentional wrongdoing, it can escalate into a criminal investigation.

Here are just some of the different types of tax crimes, what they mean, and why you definitely want to steer clear of them. Not all of them are specifically tax crimes but they often are charged in conjunction with tax crimes, so it is important to be aware of them.

- **Tax Evasion:** Tax evasion is the affirmative act of deliberately avoiding paying taxes owed. An affirmative act of evasion includes underreporting income, keeping a second set of books, inflating deductions, or hiding money and assets to avoid payment.
- **Filing False Returns:** Filing false returns involves intentionally submitting false or fraudulent information on your tax return, such as false deductions or income claims.
- **Failing to File Returns:** Failing to file returns means you willfully failed to submit a legally required tax return in violation of a known legal duty to do so.
- **Failure to Pay Taxes:** Failure to pay taxes means you willfully failed to pay the full amount of taxes owed by the due date in violation of a known legal duty to do so.
- **Fraudulent Claims for Refunds:** Fraudulent claims for refunds involve submitting false information to claim tax refunds or credits that you are not legally entitled to, such as the child tax credit or earned income tax credit.
- **Offshore Tax Evasion:** Offshore tax evasion is using foreign accounts or entities to hide income and assets from the IRS, think Swiss bank accounts, including not reporting foreign income.
- **Aiding and Abetting Tax Fraud:** Aiding and abetting tax fraud means assisting someone else in committing tax fraud, such as

preparing false returns or providing fake documentation.

- **Money Laundering:** Money laundering related to tax evasion involves concealing the origins of illegally obtained money, often through complex financial transactions or foreign accounts.
- **Structuring:** Structuring is the practice of breaking down large amounts of money into smaller deposits or transactions to avoid reporting requirements. This is often done to evade detection by financial authorities.
- **Obstruction:** Obstruction refers to actions taken to impede or interfere with the proper administration of tax laws. This can include destroying records, tampering with witnesses, or misleading investigators.



## Following the Pied Piper: Wesley Snipes and Tax Protester Arguments

Wesley Snipes, known for his roles in films like "White Men Can't Jump" and the "Blade" trilogy, was accused of failing to file tax returns and pay millions in taxes. In the early 2000s, Hollywood star Wesley Snipes found himself entangled in a legal battle with the IRS that would ultimately lead to his highly publicized trial and a 3-year prison sentence.

The roots of Snipes' tax troubles began in the 1990s when he became involved with a tax protest group known as the "American Rights Litigators" (ARL). The ARL, founded by Eddie Ray Kahn, promoted the idea that the U.S. tax system was illegal and that citizens were not obligated to pay income taxes. Snipes, along with his accountant Douglas Rosile, embraced these views and implemented a strategy of not filing tax returns from 1999 to 2001.

In 2006, Snipes was indicted on multiple charges, including conspiracy to defraud the United States, and making false claims for tax refunds. The prosecution alleged that Snipes owed over \$15 million in back taxes and had filed false amended returns seeking millions in fraudulent refunds.

During the trial, which began in January 2008, the prosecution presented evidence that Snipes had not filed tax returns for several

years, despite earning significant income from his acting career. They also highlighted Snipes' involvement with the ARL and his adoption of their ideology.

Snipes' defense team argued that he was the victim of unscrupulous tax advisors and that he had acted in good faith, believing that he was not required to pay taxes. They portrayed Snipes as a well-intentioned but misguided individual who had been misled by the ARL's theories.

Ultimately, the jury agreed with the defense and acquitted Snipes of the most serious charges. He was, however, found guilty on three misdemeanor counts of willfully failing to file tax returns for which he was sentenced in April 2008 to three years in prison.

Snipes' criminal trial should serve as a cautionary tale to anyone who thinks of embracing tax protester arguments. You should seek out qualified and reputable tax professionals for advice rather than from the internet or fringe groups with their illusory promises of eliminating your tax liability. Do not fall for their siren song!



## **REAL LIFE CLIENT STORY:**

### **A Tale of Two Clients**

I have two clients who I am assisting in their case, both of whom have run afoul of the IRS in different ways. I wanted to quickly point out how their situation shaped the IRS charges. As these clients are under investigation, I apologize but I must be very vague on the details.

Client number 1: was audited by the IRS and during the audit the client produced very little documentation supporting her six figure deductions. The IRS auditor referred the client to IRS Criminal Investigations and now is facing indictment for filing a fraudulent return for two years and an additional charge of obstruction for allegedly submitting false documents during the audit.

Client number 2: was reporting minimal income to their accountant

while allegedly using various means to convert checks to cash without being reported under their business ID or social security number. The IRS caught wind of this and now the client is facing tax evasion charges for five years of filed tax returns. As mentioned earlier, tax evasion requires an affirmative act and in this case the client filed false returns and hid income using various means.

Both clients are not hardened criminals, and both have loving families. I can see how this is impacting both their personal and financial lives. Regardless of the outcome, both will suffer severe repercussions. Being charged with a tax crime is no small thing.

## **THINGS TO AVOID SO YOU CAN STAY ON THE IRS' GOOD SIDE**

So, what are some of the things to avoid that could save you the pain and grief of dealing with an IRS criminal indictment? Here are some things to keep in mind. It is not an exhaustive list (as people's creativity when it comes to tax avoidance and tax evasion is infinite) but it should give you a good idea what to avoid.

### **Frivolous Tax Arguments**

Engaging in frivolous tax arguments, like Wesley Snipes, is sure to land you in hot water. Arguments that you do not need to pay tax due because the 16th Amendment was not properly ratified (it was) or that you do not need to pay your taxes because wages are not "income" (ala Wesley Snipes) are just two such arguments that will land you in legal trouble.

The IRS provides resources such as "The Truth About Frivolous Tax Arguments" on their website, which outlines the misleading nature of frivolous tax arguments and the potential legal consequences they carry.<sup>33</sup> Do not think that merely because an argument is not listed by the IRS that it passes muster, get advice before taking any tax advice that sounds too good to be true.

<sup>33</sup> Link here: <https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-tax-arguments-introduction>.

## **Falsifying Information on Your Tax Return**

Another quick way to get prosecuted is lying on your tax return. This section does not require much discussion. Do not lie on your return and do not omit information (and thus lie by omission). If you are going to owe money, then face it head on using the information in this book. Do not make your situation worse by adding a criminal tax charge on top of a large tax debt.

## **Hiding Assets Domestically or in an Offshore Bank Account**

Like falsifying information, do not hide assets as that is considered an affirmative act of evasion. This includes putting assets in the name of other family, a business (real or a shell), in friend's name or possession, or in a chest on a desert island. Just do not do it. I understand the inclination to protect what you have for fear of being left with nothing but trust me if you are convicted of evasion you will almost certainly have nothing once the taxes are paid along with professional fees (criminal defense attorneys are not cheap!).

## **Mixing Business and Personal Expenses**

A huge problem I encounter when dealing with small business clients is the mixing of personal and business expenses. It can take many forms but most often the business owner has a business account where he or she pays both business and personal expenses. I have also seen other cases where business owners deposit income or pay expenses using both business and personal accounts.

Right now, I have a client who was hit with a civil tax fraud penalty (he narrowly avoided being criminally prosecuted) for depositing his business' income into both his personal and business accounts and not picking up the deposits as income on his business tax return. He says it was a mistake, the IRS agent says otherwise. I believe my client, but he could have avoided this whole mess by keeping things separate!

The best thing you can do is keep strict separation between your business and personal accounts. This is especially true if your business is a corporation. In this way, there is never a question about whether an expense was for your business or personal in nature. Be thorough, be complete, and be careful! Do not end up like my client.

## Review Your Tax Returns Before Filing

You should never just sign a tax return without reviewing it first. I understand the tax law is nothing but gibberish to most people, but you still need to look at the numbers to consider accuracy. I see it time and time again where someone is being investigated by the IRS and the taxpayer says they just looked to see if they owed anything or were getting a refund. They conveniently did not look at whether the amounts of income and expenses made sense, especially if they have a business.

One taxpayer who came to me had a gig job at Lyft and on his Schedule C (where you report your self-employment income) the accountant reported \$32,000 in income and \$60,000 in deductions. The taxpayer said he never checked and so he missed it. Any IRS agent who audits this return is going to have a field day. No answer is a good answer here.

My recommendation to him was to file an amended return as soon as possible and get ahead of it. It does not prevent prosecution (if the IRS were to do so) as the potential crime is committed when the return is filed but it shows that this was akin to a negligent error and not done in bad faith.

A professional will take the time to go over your tax return if you do not understand something. Do not file your return until you feel confident your return is accurate. Otherwise, you risk trouble if the IRS audits your return, or the IRS identifies your preparer as a bad apple tax preparer and your return is swept up in the investigation.

## Chapter Summary

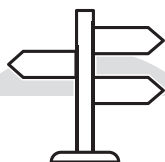
The consequences of being charged with a tax crime can be severe. You can face fines/penalties, imprisonment, probation, and a tarnished reputation. As I mentioned in the beginning of this chapter, beyond the criminal penalties you face being charged with a tax crime can put a huge financial and personal toll on both you and your family.

I hope this chapter serves as a warning about tax crimes and motivates you to steer clear of such crimes and seek legitimate and ethical means of managing your IRS tax debts.









# CHAPTER 8

## DECISIONS, DECISIONS

### What Are My Options?

#### Introduction

I wanted to take a bit more time going over the various options to resolve your IRS tax debt. I know we breezed over the various resolution options in an earlier chapter so in this chapter and the next, we will dig a bit deeper into what options are available to you to resolve your IRS tax debt.

In this chapter, I am going over the options in more detail as I wanted to take some time laying out how each program works and inoculate you against all the misinformation about the program. So, when you hear those TV and radio ads promising you an easy button to settle your IRS tax debt for “pennies on the dollar” you will know the truth about how realistic that is for your case.

## IRS INSTALLMENT AGREEMENTS

Contrary to what you might hear, almost every IRS case is resolved by a payment plan with the IRS, called an installment agreement. I know that may not be what you are hoping for but do not let it dissuade you. There are ways to reduce what is owed through penalty abatement or by disputing an erroneous assessment (if that applies). You might even qualify for what is called a partial-pay-installment agreement where you pay what you can afford to until the debt expires (more on both in a bit).

Under an installment agreement, if you owe back taxes to the IRS and cannot pay the full amount immediately, you may be able to set up an installment agreement to pay the debt over time. I get asked this question a lot about payment plans so let me confront it immediately: **interest and penalties will still be assessed while you are making payments.** Another reason to get a handle early on your tax problems before it gets out of hand.

I know for many people this can be hugely frustrating as it may require you to pay considerably more than the original tax debt. I have words of consolation for you. Interest is required by law to be assessed, the IRS has no say in it, and penalties are necessary to encourage filing and paying on time. If you can pay your taxes late without penalty, it would be foolish to pay on time.<sup>34</sup>

To qualify for an installment agreement, you must meet certain criteria set by the IRS. This includes, potentially, providing financial information to demonstrate your inability to pay the full amount at once, as well as making timely monthly payments. You also need to be current on your tax filings as well as your estimated tax payments. I mentioned these requirements previously.

The IRS has different types of installment agreements and here they are listed out separately:

### Guaranteed Installment Agreements

The guaranteed installment agreement is the simplest type of payment plan offered by the IRS. If you owe \$10,000 or less in taxes (excluding penalties

<sup>34</sup> At the end of the chapter, I will go over penalty abatement so you may at least be able to get out of a portion of what you owe even if you otherwise have to pay your taxes back with interest.

and interest), you might qualify for a guaranteed installment agreement.

Under a guaranteed installment agreement, the IRS will allow you to pay your tax debt over 36 months (three years). As an added bonus, the IRS will not file a Notice of Federal Tax Lien, which can be beneficial as it will not impact your credit score or inhibit you from buying or selling your assets, such as a house or car.

You do, however, need to have filed all required tax returns for the last five years and paid all taxes due on those returns. Additionally, you cannot have entered into an installment agreement for another tax debt during the last five years.

## **Streamlined Installment Agreements**

If you owe \$50,000 or less, you may be eligible for a streamlined installment agreement. A streamlined installment agreement does not require you to provide financial information to the IRS, so you do not need to prove you cannot pay your tax debt in full. If you owe less than \$25,000, you can even avoid a Notice of Federal Tax Lien, similar to a guaranteed installment agreement.

You will also be given a bit more time to pay your IRS tax debt, up to 72 months (six years) to pay your tax debt in full rather than 36 months (three years) under the guaranteed installment agreement.

Again, interest and penalties will continue to accrue on the unpaid portion of your IRS tax debt. So, if you can afford to pay a bit more each month, called a voluntary payment, it could reduce the total amount of interest and penalties you pay similar to making double payments on a mortgage. Just make sure you continue to make all required payments; the IRS system will consider it a default if you miss a payment even if you overpaid your monthly payments in prior months.

## **Non-Streamlined Installment Agreements**

If you owe more than \$50,000, you might still qualify for a non-streamlined installment agreement. If the amount due is under \$250,000 then you may be able to set up an agreement without providing financial information, same as the streamlined agreement. Payments can be stretched out for the remaining collection period, usually 10 years. This can be a bit complicated as to figuring that out

so you would talk with the IRS agent at ACS and find out how much time remains. The catch is that you will need to full pay the IRS tax debt so if you have only a few years left for the IRS to collect you may end up with a very large payment.<sup>35</sup>

If you owe more than \$250,000 then you can still set up a payment plan, but you will need to provide financial information, usually by submitting IRS Form 433-F, Collection Information Statement, to provide details about your income, expenses, and assets. I believe the IRS agent can set up an agreement for tax debts of up to \$2.5 million. Just be aware that under a non-streamlined installment agreement, the IRS will almost certainly file a Notice of Federal Tax Lien. Also, the non-streamlined installment agreement is not available if a Revenue Officer has been assigned to your case. You can still get into a streamlined agreement but that is for a much smaller balance due (\$50,000 or less).

## **Regular Installment Agreement**

If you do not qualify for one of the above agreements, all is not lost. You can still set up an agreement, you just need to show your “ability to pay”. Ability to pay just means what is the amount you can currently afford to pay towards your IRS tax debt.

While this may seem simple it is complicated by the fact that the IRS has a very different idea what “ability to pay” means from you. First, the IRS agent will consider your current liquid assets that can be sold or borrowed against. Second, the IRS will review your current income and expenses through the lens of what are called “allowable expenses”.

Ability to pay is central to not only installment agreements but also for hardship status (currently not collectible) and IRS offers-in-compromise. This one IRS requirement causes a great deal of grief for many taxpayers who believe they can only afford to pay a few hundred dollars only to find that the IRS agent is demanding they pay substantially more. I am going to dig deep to explain why this happens. Without further ado, let us talk about what is “ability to pay”.

<sup>35</sup> We will discuss partial-pay installment agreements so all hope is not lost, you will just need to provide financial information to the IRS.

## Ability to Pay

The IRS has powerful tools to collect as I have mentioned in prior chapters. It also has the power to define the terms under which it will not take more aggressive collection action, to include defining how much you can afford to pay. Ability to pay can be defined as follows:

**Liquid assets + net monthly household income amount =  
taxpayer's "ability to pay"**

As you look at this "formula", for lack of a better term, you can see that the IRS is trying to determine what it can collect upfront and then what it can expect in monthly payments.

The IRS is aiming to extract as much as it can from the taxpayer without reducing him or her to living in poverty. As you can imagine, the IRS is going to expect you to do some belt tightening. I get it, I do. Modern living is tough and at the time I write this it seems inflation is making everything more expensive.

The problem is that the IRS is the collection arm of the government, and it needs to collect taxes so it cannot be overly generous on its repayment terms. So, to put this "belt-tightening" in effect the IRS uses certain "collection financial standards" for what it considers necessary expenses: food and clothing; auto loan payments and operating costs; housing and utilities; and out-of-pocket medical costs.

The IRS then uses statistical information to determine the average an American family spends in each category. This is why the categories are referred to as "allowable expenses". Spending more than is allowed in one of these categories will be disregarded when determining your ability to pay. To put it more simply, if you spend more than the average American for food then the IRS is going to only allow you the average amount when determining how much you can afford to pay.

Here is a quick example to make the point clear. Let us say you pay \$750 a month on your car loan, under the category for automobile "ownership expenses" the average loan or lease payment is \$619 for 2024 so you will be limited to \$619 when calculating your net monthly household income.<sup>36</sup>

<sup>36</sup> You can find the IRS collection financial standards at: <https://www.irs.gov/businesses/small-businesses-self-employed/collection-financial-standards>

So, if your expense falls into one of these categories you are limited to either your actual amount paid or the allowable expense amount, whichever is lower, unless it is out of pocket medical expenses or clothing, meals, and miscellaneous, which you get the full allowable expense amount without proving a thing.

For all other expenses, you need to prove that it is necessary for your reasonable living expenses as well as the amount you pay monthly (usually by showing three months proof of payments). Expenses like current taxes, health insurance, term life insurance, student loan payments, alimony and child support, and state delinquent tax payments fall under this category. This is not an exhaustive list, and you may have other expenses that can be claimed.

Other expenses do not include payments for your children's college expenses, voluntary payments to a retirement plan or individual retirement account, credit card payments<sup>37</sup>, for student loan payments currently in deferment, and payments on a second home or rental<sup>38</sup>. Again, not an exhaustive list. You just need to remember that you generally are allowed to claim the actual amount paid for necessary living expenses of you and your minor dependents (unless they fall under the allowable expense categories).

## Putting it All Together on Ability to Pay

I want to put together a quick illustration to show you how this all works. I am only going to look a few allowable expenses and a few actual expenses to make the concept clear. It is much more complicated than this, just keep that in mind.

Bob has \$10,000 in the bank and he earns \$7,000 a month in wages (gross), and he lives alone in Portland, Maine and he spends \$1,000 on food and other miscellaneous expenses. For housing, he pays \$2,500 in rent a month, all inclusive (such a deal). He lives in the city and

<sup>37</sup> Credit cards are unsecured debts so they are treated by the IRS as a lower priority to your tax debt. You will not be able to claim your credit card payments as a deduction in 99 out of 100 times. I say this as I am sure someone has a good argument why the IRS should allow it and may get it through but for most folks you are out of luck

<sup>38</sup> I actually had a client try to convince me they needed a deduction for a second home they rented as it was closer to his potential clients, and which sat very near to a ski slope. I told him straight out no. I work hard to build trust with the IRS agents and I do not waste my time on frivolous arguments.

bikes to work, so no auto expense. His monthly current taxes are \$750. He pays \$250 a month in health insurance. He also has a storage unit where he has a lot of his unused personal items, which costs him \$250 a month.

Item	Actual	Allowable
Salary	\$7,000	\$7,000
Food, Clothing	\$1,000	\$808
Housing, Utilities	\$2,500	\$2,089
Health Insurance	\$250	\$250
Current Taxes	\$750	\$750
Storage Unit	\$250	\$0
Ability to Pay	\$2,250	\$3,103
Difference	\$853	

What you see here is that his actual expenses were limited in two instances: food/clothing and housing and utilities<sup>39</sup>. Where he spent more, he was limited to the allowable amount. As for the other three expenses, he was allowed only what he actually paid for health insurance and current taxes, which are necessary living expenses. The storage unit would likely be treated as unnecessary and would be disallowed.

Bob may think he would only be required to pay the IRS \$2,250 per month when in fact the IRS is going to demand he pay \$3,103 per month. The IRS may also require him to dip into his \$10,000 savings to pay down his tax debt unless he has a very good reason to have that much saved up (like required dental surgery, for example).

I know this may still be a bit difficult to understand so I will summarize this all by saying, when setting up a payment plan or other resolution

<sup>39</sup> Per the IRS collection financial in 2024 one person is allowed \$808 for food/clothing. For housing and utilities for one person in Cumberland County, Maine the limit is \$2,089. Go to [www.irs.gov](http://www.irs.gov) and type in IRS collection financial standards to find the details.

with the IRS, you may be limited in what you can claim for expenses. So do not rely upon the fact that you have no money at month's end for savings, the IRS may expect you to pay more based on the allowable expense standards.

## **Partial Pay Installment Agreements**

I want to wrap up installment agreements by discussion, partial pay installment agreements (PPIA). A PPIA is not a type of installment agreement per se. It just means that your current ability to pay reflects that you will be unable to pay your IRS tax debt in full by the end of the collection statute. We in the community refer to the PPIA as a “back-door offer” as it acts like an IRS debt settlement as you will not pay everything back in full.

Here is a quick example, let us say you can afford to pay \$250 a month towards your \$300,000 tax debt and you have 60 months left for the IRS to collect. By the end of the 60 months, you will have paid \$15,000; the remaining amount of your tax debt will be written off so you would have effectively settled your tax debt for the \$15,000.

There is a huge catch here. The IRS has discretion to agree to the PPIA so it is more difficult to obtain, and the IRS will set the PPIA for reviews every 24 months (two years). If you later show an ability to pay more than your payment may be increased. Still there can be huge savings here if you qualify and the IRS is less stringent than if you were trying to work out an offer-in-compromise.

## **Installment Agreement Summary**

For most taxpayers, their resolution will be an installment agreement based on their ability to pay. If the taxpayer's tax debt is below certain thresholds, then he or she can get into a streamlined installment agreement (under \$50k) or the weirdly named non-streamlined installment agreement (under \$250k) and avoid the need to produce financial disclosures. You can benefit by not being required to borrow against or liquidate your assets; potentially, you could also avoid the filing of a Notice of Federal Tax Lien. The downside is that you need to full pay your IRS tax debt, including interest and penalties.

If, however, you cannot afford the required payment under the streamlined or non-streamlined agreement or you owe more than the



threshold amount then you can always get into a regular installment agreement. Here the key is determining your ability to pay, which could require you to sell assets or borrow against them. The IRS will also limit your claimed expenses to those which are necessary living expenses.

The IRS will further limit your living expenses using the national and local “allowable expense” standard amounts. The result is that your installment agreement monthly payment amount may be more than you think. Remember my example of Bob who would be expected to pay \$853 more due to the IRS limiting his actual monthly household expenses.

Still, regular installment agreements have an advantage over other agreements if you can only afford to pay a portion of your IRS tax debt before the end of the collection statute. If you qualify for a partial pay installment agreement, you will in effect settle your IRS tax debt for less than what you owe. The only catch is that your case will be reevaluated every two years for a potential increase in payments.

What if you cannot afford to pay your taxes right now. Maybe you are unemployed or suffering a significant drop in your income. We will talk next about hardship status aka currently not collectible which may offer a short-term solution (and potentially a long-term one).

## **Hardship Status aka Currently Not Collectible**

Currently not collectible status is where the IRS voluntarily agrees not to seek to collect if it would impose a financial hardship on you. Your IRS tax debt does not go away, and interest and penalties continue to accrue BUT the IRS halts active collection activities, meaning they won't levy your assets or garnish your wages. This can be a life saver if you are temporarily unemployed or your income has significantly decreased (for example, you have retired).

You are not out of the woods, however. The IRS will still review your financial situation periodically (typically on an annual basis) to see if your financial situation has improved enough to start collections again.

The big benefit of currently not collectible status is that it does not toll (meaning extend) the IRS collection statute so if your situation does not improve you may be able to out last the IRS tax debt. Just keep in

mind that any refunds due you will be seized to pay your back taxes, and the IRS may file a Notice of Federal Tax Lien if you owe over \$10,000.



## **REAL LIFE CLIENT STORY: Hardship Status Prevents Client from Being Victimized Twice**

Pam, who was mentioned in Chapter 1, was the victim of a “phishing” scam. As you will remember she was scammed out of a substantial part of her retirement by an online phishing scheme. She ended up losing several hundred thousand dollars as well as incurring \$60,000 in taxes on the retirement plan distributions.

We reviewed her financial information and realized she was unable to make any payments due to her monthly expenses exceeding her income (even when run through the IRS’ allowable expense limits). Her only asset of value was her home, owned free and clear. At 67, it was unlikely she was going to be able to find another home if she was forced to sell it (and no one was going to let her borrow against the home as she was living on very little)

I convinced the IRS that she was a candidate for currently not collectible and the sympathetic IRS agent agreed. Now Pam can stay in her home which should help her keep her expenses low. Interest and penalties still accrue but if her financial situation does not change then she will be able to outlast her IRS tax debt, which will expire after 10 years.

Pam was certainly upset with the IRS to not have her tax debt forgiven but as will be discussed later under offers-in-compromise, her home had equity in excess of her \$60k tax debt and it was unlikely to be forgiven.<sup>40</sup> I understand her frustration, having to get a tax bill after being victimized but this solution resolves her tax problem.

<sup>40</sup> Pam would have had to file an offer-in-compromise effective tax administration as her equity in assets exceeded her tax debt. My research suggested that across the country, only two dozen such offers are accepted each year. Often the offers that are accepted are for people suffering debilitating diseases or caring for disabled family. On top of that, filing for an offer extends the collection statute which made no sense. Currently not collectible did the job.

To qualify for currently not collectible status, you must demonstrate that paying your tax liability would leave you unable to meet basic, reasonable living expenses (remember the discussion of **ability to pay**). The IRS will review your financial information, including your income, expenses, assets, and ability to obtain loans or other financing. If approved, the IRS will place your account in a non-collectible status until your financial situation improves.

## **Currently Not Collectible Summary**

Currently not collectible status can provide significant relief if paying your IRS tax debt would cause you financial hardship. The IRS will not try to collect your unpaid taxes unless and until your situation improves (though it may file a Notice of Federal Tax Lien). In some cases, you may be able to stay in currently hardship status until the collection statute expires.

Just remember that currently not collectible status is intended to be temporary so the IRS will conduct an annual review of your case. If you show an improved ability to pay, the IRS will restart collection efforts. Additionally, interest and penalties will continue to accrue on your IRS tax debt even while in hardship status. Hardship status provides temporary relief but does not permanently resolve your tax liability.

I use currently not collectible status as either a temporary solution until we can file an offer-in-compromise (discussed next) or get the client into a better financial situation for an installment agreement (hopefully a partial pay installment agreement). In some cases, like Pam's, we can use currently not collectible status to work what we hope is a permanent solution.

## **IRS OFFER-IN-COMPROMISE PROGRAM**

The IRS' offer-in-compromise program is one of the most misunderstood resolution option. As discussed in Chapter 2 about the Fresh Start Initiative, national resolution firms have made it seem like the IRS has set up a generous settlement program. They make it seem like Uncle Sam is sitting at a desk yelling, "Make me a deal!" The truth, as you will see, is that settling with the IRS is harder than it looks.

Here are some facts to back up my claim. In 2023, the IRS agreed to settle roughly 12,000 of about 30,000 offers that were submitted. That is right. Out of the millions of taxpayers who owe the IRS, only about 30,000 offers were made and of those offers only 42% were settled.<sup>41</sup>

More interesting to me, if you divide the total collected, around \$214 million, into the number of offers accepted you get an average settlement of \$16,874.<sup>42</sup> Pennies on the dollar indeed.

The reason for this discrepancy is that the IRS is not in the business of settling tax debts. Why would you (or anyone for that matter) pay your taxes in full if that was the case? And yet I understand the impulse. If you are struggling with a tax debt, then settling with the IRS is like a miracle cure. Wave a wand and voila – no more IRS problems. Easy peasy, lemon squeezy.

But you need to see things from the IRS' perspective (and they are the ones that matter as they make the rules). Imagine someone owes you \$5,000. The person comes up to you one day and says, "Look I can't pay you back, will you take \$2,000 to let me off the hook?" Would you take it?

Some of you might. Most of you would probably want to know if that person can actually pay in full or not. What if he told you that, in fact, he has \$10,000 in the bank. He is keeping it to buy a new car. Would you settle then? If you said yes, God bless you. Most of you I bet said no way, I want all my money back. The IRS is no different.

Now please do not think I am trying to diss people who are trying to settle their tax debts. I am just saying obtaining an offer-in-compromise is not as easy as these national resolution firms make it seem. An offer-in-compromise is essentially a contract between you and the IRS where the IRS agrees to accept less than what is owed in return for you paying what you can afford.

To determine what you can afford you need to provide the IRS with financial information to determine your reasonable collection potential

<sup>41</sup> You can find this information on page 61 of the IRS Data Book for 2023. Link here: <https://www.irs.gov/pub/irs-pdf/p55b.pdf>

<sup>42</sup> You can find this information as well on page 61 of the IRS Data Book for 2023. Link here: <https://www.irs.gov/pub/irs-pdf/p55b.pdf>

(RCP). This RCP is going to be the amount of the offer the IRS will accept to settle your IRS debt. RCP is so important that I will spend some time going over it but we need to go over the three types of offers you can request first (as nothing is simple when dealing with the IRS). Before doing that, let us talk about the elephant in the room – the Fresh Start Initiative.

## **THE OFFER IN COMPROMISE PROGRAM**

Now that I have spent several pages delivering some tough news – IRS settlements are not easy, and the Fresh Start Initiative is a load of bull droppings – here is some good news. The IRS does settle with taxpayers and if you qualify you can resolve your unpaid taxes for much less than what you owe. Let us go through the programs and what you need to show to qualify. The Offer-in-Compromise program actually consists of three different types of offers.

### **Offer-in-Compromise Doubt as to Collectability**

The most common is offer-in-compromise doubt as to collectability (we call it OIC DATC as it is a mouthful). Under this program, the IRS will consider your income, expenses, and assets to determine your reasonable collection potential (more on this in a moment). If it appears that you will be unable to fully pay your tax debts, then the IRS may consider settling.

Notice I said may. Even if you are dead broke, the IRS is not required to accept if it would not be in the government's "best interest". Often this happens if you are a government official, someone famous (or infamous), you engaged in a tax crime or are a tax protester (ala Wesley Snipes). Generally, this is not an issue, but you need to know the risk.

### **Offer-in-Compromise Doubt as to Liability**

The second type of offer is offer-in-compromise doubt as to liability (called an OIC DATL). You can make an offer to settle with the IRS if there is some doubt about the IRS' assessment of tax. Generally, you use this type of offer if you for some reason were unable to challenge an IRS audit or examination. This type of offer is not common when dealing with IRS collections so I will just finish by saying that if you can pay the tax but dispute what is owed then this is the type of offer you would use.

## **Offer-in-Compromise Effective Tax Administration**

The final type of offer is offer-in-compromise effective tax administration (called an ETA offer). When you make this type of offer you are saying that you can fully pay what is owed to the IRS (either immediately or over time) but doing so would create an economic hardship or would be unfair and inequitable. What you are essentially saying to the IRS is that for reasons of public policy it should accept less than the full amount.

Examples of good grounds for such an offer are: 1) you have cancer and you are going to need all or most of your assets for treatments or 2) you have a house that has been set up for a disabled child and it would be impossible to find a house with the same set up if you were forced to sell.

Just be aware that ETA offers are very rarely accepted by the IRS but if you are in a very difficult position due to your health or the health of a dependent (spouse or child) you may qualify.

For the rest of this chapter, I am just going to focus on the offer regarding doubt as to collectibility (OIC DATC) as that is the program most taxpayers will qualify under.

## **HOW AN OFFER-IN-COMPROMISE DOUBT AS TO COLLECTIBILITY WORKS**

### **Reasonable Collection Potential – In General**

Going forward, we will refer to this type of offer as just “offer” to make it easier to read and understand. Just remember we are talking about only the offer-in-compromise doubt as to collectibility, where you can settle your tax debt for less than the full amount owed if you show you are unable to fully pay your tax debt.

To recap, an offer allows you to settle your tax liability for less than the amount you owe, if you can show your reasonable collection potential is less than what you owe in taxes, interest, and penalties. It is not, however, a “pennies on the dollar” solution as often portrayed in the media. The IRS considers your unique financial situation when

determining whether to accept an offer, but it is not a used car salesman. As I will lay out in a moment, the IRS is going to try and get as much as possible out of the deal – maximizing its tax collections.

To that end, the IRS uses a concept called “reasonable collection potential” or RCP (which I will use going forward) to compare your proposed settlement against. It can be expressed as follows:

**Net equity in assets**  
**Plus: Net monthly household income**  
**Equals = RCP**

RCP is an acid test. It is used to determine what is the least amount the IRS could collect if it basically took everything from you and sold it and seized your income for 12 months. Now there are circumstances (appropriately called “special circumstances”) where the IRS will accept less than RCP but for now let’s put that to the side.

## **Net Equity in Assets**

The first piece of RCP, Net Equity in Assets, is the amount of equity in your assets, for example real estate, vehicles, bank accounts, and personal property. Net equity in assets can also be expressed mathematically:

**Fair market value of an assets**  
**Less: Discount for quick sale value (QSV), typically 20%**  
**Less: Mortgages and other encumbrances**  
**Less: Applicable exemptions**  
**Equals = Net equity in an asset**

This probably seems complicated but once you understand it, it turns out to be pretty straightforward. The quick sale value or QSV is an allowance for taxes, selling, and other costs for converting assets into cash. For example, a house is not going to sell for its fair market value as you have to pay commissions and potentially taxes on the sale. This applies to cars, boats, and other similar assets.

Note that cash and funds in the bank do not get a discount as they already are converted to cash or like cash. Retirement funds and investments do get a discount as taxes generally need to be paid before they are turned into cash.

From there, equity in an asset will be further reduced by reducing equity to account for any loans or mortgages that are secured by an asset. Again, turning back to a house, if you own a home with a mortgage, you know that you do not own the property free and clear. Once a sale is complete, you have to pay the mortgage first before you have any claim to equity. If your house is worth \$100,000 and you have a \$60,000 mortgage, your house will first be reduced by the QSV to \$80,000 and then the equity will be further reduced by the \$60,000 mortgage, leaving \$20,000 in equity for offer purposes.

Finally, some assets will qualify for an exemption. A good example is that you can exempt up to \$1,000 in money held in a bank account. There is also an exemption for your car of \$3,450. Similar to quick sale value, you would reduce the asset by the amount of the exemption.

Putting it all together, let's use a car as that is the perfect example to apply all the steps to. You own a car, worth \$20,000. There is a loan on the car for \$12,000.

**Quick sale value:**  $\$20,000 \times 80\% = 16,000$  QSV  
**Less encumbrances:**  $\$16,000 - \$12,000$  loan balance = \$4,000  
**Less exemptions:**  $\$4,000 - \$3,450$  exemption = \$550  
**Net equity in assets for your car = \$550**

Thus, for offer purposes, your car would have a net equity in asset value of \$550. You would then do this analysis for each of your assets to determine your total net equity in assets. Let us use the two examples I laid out. So we had a home with net equity of \$20,000 and a car with net equity of \$550. For offer purposes, our total net equity in assets would be \$20,550. This means the IRS would expect us to offer at least \$20,550 for our assets.

Net equity in assets is not the final piece though. The IRS will also consider net monthly household income. So, let's go to that next.

## **Net Monthly Household Income**

The second piece of RCP is net monthly household income, which is what the IRS projects is your "ability to pay" for either 12 or 24 months (the 12 or 24 months is based on the payment terms of your offer, discussed later). We previously talked about "ability to pay" under the installment agreement. It follows the same rules, but the IRS offer examiner will take a much harder stance.



IRS agents will tend to be very inflexible with applying national and local IRS standard amounts for offer purposes as this is to determine what the offer will be rather than your monthly required payment. The IRS' position is that this is to settle your case once and for all and does not require long-term future payments and so if an offer is accepted then the taxpayer is freed from future payments, so this is not really a burden.

I went over how to determine your ability to pay earlier in this chapter so I will skip right over to how you would calculate your net monthly household income. Let's say your net monthly household income is \$300. For a 12-month future income calculation, you would multiply \$300 by 12, resulting in \$3,600. For a 24-month future income calculation it would be \$7,200.

So why the 12-month versus 24-month multiplier? The reason is simple. If you can pay the offer amount in no more than 5 payments, then you can use the 12-month multiplier. If you need more time then you can spread the offer over 24 months so you use the 24-month multiplier. It's that simple.

## **Putting Reasonable Collection Potential All Together**

Once you have calculated your net equity in assets and net monthly household income you can determine your IRS RCP. Using our prior examples, our RCP would be \$24,150 or \$27,750. My math is as follows:

**If I can pay in no more than 5 payments: \$20,550 net equity in assets plus \$3,600 net monthly household income (or  $\$300 \times 12$ ) = \$24,150 RCP.**

**If I need to pay in more than 5 payments: \$20,550 net equity in assets plus \$7,200 net monthly household income (or  $\$300 \times 24$ ) = \$27,750 RCP.**

Under my examples, I would need to offer at least \$24,150 or \$27,750 (depending on how long I need to pay the offer) for the IRS to consider my offer.

My description of the offer calculation is very general, and for good reason. There are a number of situations that might increase RCP or

maybe justify a decrease. The problem is that going into more detail will make the offer process more confusing than enlightening. My advice is to read IRS Form 656 booklet which lays out a lot of the rules. I cannot promise the IRS makes it entirely clear, but you will certainly get more details if you are interested.

What you may have noticed though is that this is not as simple a process as suggested by those national resolution firm ads. This is not simply you pitch the IRS an amount and see what happens. It is much more mathematical. Let me add that even if you are unable to sell your property (typically your home) that will not reduce the RCP.



### **REAL LIFE CLIENT STORY: \$900k Tax Debt Settled for 13%**

Frank was a hard worker. From a young age, he worked in the woods, hauling logs and cutting trees. He did so good he was able to build a business for himself. Unfortunately, he was a better worker than a business owner. Over time he let his record keeping slip and then one year he stopped filing because all his records were not there. One year multiplied without much effort into six years.

Eventually, the IRS caught up to Frank and he was forced to work with a local accountant to get his returns done and filed. Once his accountant was done, Frank almost had a heart attack. He owed about \$900,000 in taxes, interest and penalties (with interest and penalties making up about a third of what was due). He was floored. How was he going to pay for this?

He and his accountant tried to work with the IRS to get this sorted but as neither had much experience working with the IRS, they did not understand what to do. Eventually, the IRS agent levied Frank's business bank account, leaving him with nothing. Frank was forced to close the business, leaving him with little in the way of income and a bunch of equipment and a home (with a bit of equity).

Frank's wife knew something had to give and she contacted me. We immediately worked out a plan with the IRS to sell his business assets to keep the IRS off his back while he looked for work. Once that was done, we filed an offer for the still substantial tax debt (equipment sales netted around \$60,000).

Frank made very little money from his new job, so his net monthly household income was about zero. His only asset was his house, with about \$53,000 in equity. He lived there with his wife so he was not going to sell it so we were able to get commitments from family to lend them the money. We offered \$500 a month for 23 months and then a balloon payment of the rest on the 24th month.

It was a hard fight with the IRS but eventually they agreed to accept his offer. We then had to meet the terms of the agreement which was also another fight as it is easier to get commitments for money than get the money itself but they both worked hard to beg, borrow, and steal the remainder. The full offer was paid by the 24th month. Frank's \$900,000 tax debt was forgiven.

Frank and his wife are now free from their IRS nightmare. Frank has wisely decided to stick with what he is good at and that is doing the work. His wife for her part is taking care of the records and tax filings now so this does not happen again. This was by far my most favorite case as both of them were wonderful people and so hardworking. I wish them both the very best.

## **RCP and Special Circumstances**

Generally, you need to offer at least your RCP for the IRS to accept your offer. The exception to this is if you can show special circumstances. Special circumstances are for very limited situations. You have to show that payment of the full RCP will result in economic hardship for you. Economic hardship is not mere inconvenience, it means you are unable to pay reasonable basic living expenses. The IRS also considers other factors regarding economic hardship such as:

- Your age and employment status,
- The number, age, and health of your dependents,
- Cost of living in your area, and
- Any other extraordinary circumstances such as special education expenses, a medical catastrophe, or natural disaster.

## **ELIGIBILITY FOR AN OIC**

To qualify for an OIC, you must meet certain criteria:

### **Compliance**

As mentioned, several time already, the IRS will refuse to agree to a payment resolution, to include an offer, if you have not filed all legally required tax returns and it appears you have not paid in enough in withholdings or estimated tax payments to pay your current year taxes in full.

If you are not sure you can keep up with your tax payments, it is almost never a good idea to file for an offer. As will be explained in a bit, by filing an offer you are extending the IRS collection statute. It makes no sense to extend your time to pay if an offer is not going to resolve your IRS tax debt.

### **No Open Bankruptcy Proceedings**

You cannot make an offer if you are currently in bankruptcy. The IRS has made it very clear that if you file an offer during the pendency of a bankruptcy it will be rejected.

### **Future Income Can Full Pay Your Tax Debt**

Not many people are aware of this but if your net monthly household income times the remaining months in the collection statute would result in full payment then the IRS is likely to reject your offer.

Harkening back to our earlier example, where we calculated a \$300 net monthly household income. If our tax debt was \$20,000 and we had 72 months left before our tax debt expired then the IRS could get paid in full so the offer might be rejected ( $\$300 \times 72 = \$21,600$ ). Note I said may. In this case, the IRS might have to wait for the full 72 months to get paid so it might be wiser to get paid something now. If, however, our net monthly household income was \$1,000 then it is almost certain the IRS would reject the offer as it could get paid in full in about 20 months ( $\$1,000 \times 20 = \$20,000$ ).

## Public Policy

There is no constitutional right to settle your IRS tax debt and the IRS may, in its sole discretion, refuse to accept your offer if it is against public policy. There is generally no hard and fast rule as to what the IRS considers as grounds for denying an offer as against public policy but my experience has been that offers will be denied if the person is famous (or infamous), the amount due is as a result of a tax crime, the taxpayer is a tax protester, and the taxpayer has been a habitual offender (as regarding to filing and paying their taxes).



## THE STORY OF WESLEY SNIPES

Now, let's talk about Wesley Snipes, the Hollywood star famous for his roles in movies like "Blade." Snipes found himself in hot water with the IRS when he didn't file tax returns for several years, from 1999 to 2001. He ended up owing millions in back taxes. In 2008, he was convicted of tax evasion and sentenced to three years in prison. After serving his sentence, Snipes still had to deal with the IRS and his massive tax debt.

In 2013, Snipes tried to settle his tax debt through an Offer in Compromise. He offered the IRS around \$842,000, which was significantly less than the \$23.5 million he owed. It was a bold move, hoping the IRS would take what they could get and forgive the rest.

However, the IRS wasn't convinced. They rejected his offer, arguing that Snipes had the potential to pay more, given his earning capacity and asset equity. The IRS wasn't about to let a high-profile case like this off the hook so easily.

This case is a prime example of denying an offer as against public policy in a high-profile case.

## **THE OIC PROCESS**

### **Application**

You must submit the OIC application using IRS Form 656, Offer in Compromise, and include the application fee and initial payment (unless you meet Low-Income Certification guidelines, which waive these requirements). Just be aware that if you are required to pay a filing fee, if you fail to do so then the IRS can reject the offer as being not processable and will keep any payments you make. You do not want that to happen so make sure if you handle your own offer to include the filing fee.

### **Documentation**

You need to provide extensive financial documentation with Form 433-A (OIC) for individuals or Form 433-B (OIC) for businesses. You will be asked to provide bank statements, utility bills, loan statements, investments statements, and other information. The requested information can be quite extensive so be prepared.

### **Offer Terms**

You can propose a lump-sum offer (which must be paid in five or fewer installments) or a periodic payment offer (paid in six or more monthly installments). Under a lump sum offer, you will pay 20% down and then set up 5 or fewer monthly installments. Periodic payment offers do not require 20% down, instead you would make the first of your 24 payments and continue to make the payments while your offer is being considered.

### **IRS Review**

The IRS will review your application and may request additional information. They will assess whether your offer is at least as much as the RCP, unless special circumstances apply. At this point, the IRS agent may accept or reject your offer; in some cases, the IRS agent may do a counteroffer requesting you increase your offer. If you do not agree with the IRS agent, you can appeal.

## **IRS Appeal**

You can appeal a rejected offer to the Independent Office of Appeals where you can have a more experienced IRS agent review your offer. You can sometimes find a more reasonable person to work with at Appeals as many of the regular IRS employees tend to take a very hardline approach (and in some cases they are not really spun up on all the rules regarding offers, which is a problem).

If Appeals accepts your offer, then you deal with Appeals to wrap things up. If Appeals rejects your offer, then you generally are done but there are some cases where you can take an appeal up to US Tax Court.

### **IRS Acceptance**

If the IRS accepts your offer, then there will be a period of time after where you will need to fulfill the terms of the offer. Generally, this is making all the required payments under your lump-sum agreement or periodic payment agreement. Once all payments are made then you will get a letter stating all terms have been met and that the offer is officially complete. Just remember that you still have to remain compliant for five years after acceptance or risk a default which will reinstate the forgiven tax debt.

## **THE PROS AND CONS OF OFFERS IN COMPROMISE**

Let us wrap up this discussion of offers by discussing the pros and cons of an offer.

One of the main advantages is that if your offer is accepted, you pay less than what you owe, which can provide significant financial relief. It can give you a fresh start, allowing you to move forward without the burden of a huge tax debt. If there is an IRS tax lien filed, it will be removed once the offer is accepted, and all terms met.

Additionally, once you submit an offer, the IRS usually pauses collection activities, which can provide immediate relief from the stress of potential liens or wage garnishments.

However, there are significant downsides. Qualifying for an OIC is difficult because the IRS has strict criteria (reasonable collection potential). They're not going to accept an offer if they think you can pay more.

The process is also lengthy; it can take months to get an answer. During this time, you have to provide a lot of personal financial information, which can feel invasive. I call it the equivalent of a financial strip search.

If you fail to stay compliant (both in terms of filing and paying your taxes) for five years after your offer is accepted then your offer will be defaulted and all forgiven taxes, interest, and penalties will be due plus any accrued interest and penalties up to date.

As mentioned earlier, filing an offer stays collections which means it also tolls (meaning extends) the IRS collection period. So, if your offer took 9 months before it was rejected then you added another 9 months on. If you are almost at the end of the collection statute it makes no sense to file an offer and take that chance.

Finally, an offer may cost more than you can afford to pay. Offers to be a good deal must be affordable. If you have assets that cannot be sold (and which are counted for RCP purposes) then you have to come up with money from other sources, which can be tough.

## Chapter Summary

Offers-in-compromise can be a huge benefit to the qualified taxpayer. If your offer is accepted, then you can get immediate relief from your IRS tax debt. The problem is that unscrupulous companies have oversold the program and made it seem like offers are common when in fact 9 out of 10 times the taxpayer will not qualify.

The key to understanding the offer is understanding RCP. If you can offer enough to meet or exceed RCP, then you have a good chance of qualifying. Just remember that there are some situations where even if you qualify your offer may be rejected (similar to Wesley Snipes); also, do not forget that in some cases you can offer less than RCP if special circumstances apply.

Finally, there is a huge string attached to offers. For five years after your offer is accepted you must file and pay your taxes on time. If you fail to do this then all forgiven taxes, interest, and penalties come back into



existence, and you are back at square one.

I highly recommend having a professional assist you if you think you qualify for an offer. You do not want to fall into one of the many traps and either get rejected or fail to meet the terms of an accepted offer. A good tax professional will make sure you qualify first before filing and then advise you along the way to ensure you keep all the terms and conditions.

## **BANKRUPTCY**

No one likes the thought of filing bankruptcy; it seems like a cop out. It is the modern equivalent of wearing the Scarlet Letter in many people's minds. The truth is Bankruptcy is enshrined in the Constitution. It is there to give the honest but unfortunate debtor a fresh start. So, if bankruptcy could give you relief from your overwhelming IRS tax debt, why not consider it?

Having said all that, I know many of you will still think "No way am I filing for bankruptcy!". Famed attorney F. Lee Bailey<sup>43</sup>, known for representing O.J. Simpson as part of the "Dream Team" filed for bankruptcy here in Maine. Bailey had substantial tax debts related to in large part to his theft (politely known as "conversion") of client funds, for which he was disbarred. Bailey was able to discharge about \$5 million dollar tax debt<sup>44</sup>. My pitch to you is this, if the formerly rich and famous use bankruptcy to resolve their IRS tax debts, so can you.

### **Yes, Virginia. Bankruptcy Can Discharge an IRS Tax Debt.**

Keep in mind that in this section I am only discussing the tax aspects of bankruptcy law. If you think bankruptcy might be an option, you should consult with an experienced bankruptcy attorney. While bankruptcy can be very helpful with resolving your IRS tax debts, there are still some nasty surprises for the unwary. Which is why it is important to talk with someone first to understand all that you are getting into.

<sup>43</sup> I was in bankruptcy court on the same day that Bailey was questioned by the trustee assigned to his bankruptcy case. It was an interesting experience. It reminds me of the quote from Ralph Waldo Emerson, "The more he talked of his honor, the faster we counted our spoons."

<sup>44</sup> Online article from ABA "Disbarred lawyer F. Lee Bailey files for bankruptcy" by Debra Cassens Weiss posted June 27, 2016 Link here: <https://www.abajournal.com/news/article/disbarred-lawyer-f-lee-bailey-files-for-bankruptcy>

I knew someone who filed for Chapter 7 bankruptcy to deal with a large tax debt (over \$200,000). The panel trustee was able to force a sale of his home to pay creditors, so he and his family needed to find a new place to live. At the end of the day, he discharged a substantial tax debt, but it was an emotional issue for him and his wife. The point is that bankruptcy works, just make sure you understand any potential trade-offs before you file.

With that warning out of the way, bankruptcy can absolutely discharge certain tax debts, though specific conditions must be met first. Under the Bankruptcy Code, you need to consider: 1) the type of tax, 2) the timing of the tax return filing, 3) the timing of the bankruptcy filing, and 4) consideration of several other factors which can affect whether tax debt can be discharged.

## Conditions for Discharging Tax Debt

To potentially discharge a tax debt in bankruptcy, it must meet the following conditions:

- **Income Tax Debt:** The debt must be for federal income taxes. Other types of taxes, such as payroll or sales tax, cannot be discharged in bankruptcy.
- **Three-Year Rule:** The tax debt must be from a tax return that was due at least three years before filing for bankruptcy, including extensions.
- **Two-Year Rule:** You must have filed the tax return at least two years before filing for bankruptcy.
- **240-Day Rule:** The IRS must have assessed the tax debt at least 240 days before you file your bankruptcy petition.
- **No Fraud or Willful Evasion:** The tax return filed cannot be fraudulent or frivolous. Additionally, you must not be guilty of any intentional act of evading tax laws or IRS collections.

I like to say that tax debts in bankruptcy are like a fine wine, you have to let it age first. If you just filed a return with a tax debt, then you can see from the rules that it will not be dischargeable. If you have unfiled returns, your tax debt will also not be discharged. I want to note that late filed returns may be treated as non-dischargeable in certain circumstances under what is called the 1-day late rule.

The IRS does not hold to that rule but in the First Circuit, where I reside, a return filed one day late is considered a non-dischargeable tax debt. Another great reason to file on time even if you cannot pay. I do want to note that the IRS generally will consider a tax debt dischargeable even if filed late if you file the return before the IRS has to pursue you to file it.

In addition to consideration of whether the tax debt is dischargeable or not, you need to look at which bankruptcy chapter you may qualify for.

## **Types of Bankruptcy**

There two most common types of bankruptcy that individuals use to discharge tax debts are: Chapter 7 and Chapter 13.

In a Chapter 7 Bankruptcy, also known as a "liquidation bankruptcy," you may be able to discharge certain debts entirely. If your tax debt is eligible, Chapter 7 can wipe it out completely. However, you must pass a "means test" to qualify for Chapter 7, demonstrating that your income is below a certain threshold. Chapter 7 bankruptcies take generally six months to a year, so they tend to be done quickly.

The major trade-off of Chapter 7 is that a panel trustee will be assigned to your case to determine if certain assets can be liquidated to pay your creditors. As I mentioned earlier, they have the power to force you to sell property even if you want to keep it. So, you may be forced to sell assets which you might have been able to keep outside of bankruptcy.

In a Chapter 13 Bankruptcy, also known as a "reorganization bankruptcy," you will propose a three- to five-year repayment plan to pay your creditors. Any tax debt not paid off at the end of the repayment period might be discharged if it meets the conditions mentioned earlier. In some cases, a Chapter 13 plan can provide more favorable terms than an IRS installment agreement.

The downside to a Chapter 13 plan is that you are forced to make payments under the terms of this plan and if you miss payments your case can be dismissed leaving you right back where you started, meaning without a discharge. Additionally, tax debts have priorities of

payment (secured, priority and unsecured tax debts) which may make the payments higher than you would expect. For example, priority tax debts must be paid in full through the plan – meaning tax returns which were required to be filed within 3 years of filing bankruptcy.

This is a very brief and oh so general outline of both the rules regarding what tax debts can be discharged and the two major chapters you can file bankruptcy under. Again, if you think your tax debt may qualify you should consult with an experienced bankruptcy attorney.

## **Implications of Filing for Bankruptcy**

While bankruptcy can provide relief from tax debt and other obligations, it has significant consequences. Bankruptcy can severely impact your credit score and stay on your credit report for seven to ten years, making it harder to get credit, buy a home, or sometimes even get a job.

Another issue is that you may be required to surrender assets to the trustee for sale. Think of bankruptcy like a rocket, you can aim it but once fired you cannot control where it goes. For that reason, if you consider filing for bankruptcy you need to be prepared for that contingency.

Finally, while a bankruptcy case is pending, the "automatic stay" provision prevents the IRS from collecting on your tax debts. If the tax debt is nondischargeable, once your bankruptcy case ends, the IRS can start collecting on non-dischargeable tax debts again.

## **Bankruptcy Summary**

Bankruptcy can offer a fresh start and relief from overwhelming tax debt (and maybe from other debts), just make sure you do not take the decision to file lightly. Filing for bankruptcy can have far-reaching and long-lasting consequences. You want to consult with an experienced and knowledgeable bankruptcy attorney.

## PENALTY ABATEMENT

### What is Penalty Abatement?

Penalty abatement is not a resolution option, per se, but it has the ability to remove or reduce tax penalties you may have been assessed along with your unpaid tax debt.<sup>45</sup> Interest on your tax debt, however, cannot be abated except in rare circumstances. The reason for this is that interest is statutory, meaning proscribed by law, meaning the IRS is not allowed to abate interest on taxes even if it wanted to (which it rarely does). Interest on penalties can be abated though but only when the penalty itself is reduced or removed.

### Qualifying for Penalty Abatement

The IRS typically grants penalty abatement in two situations: if you qualify for first-time penalty abatement or you can show reasonable cause. Here is a quick breakdown of each situation.

- **First-Time Penalty Abatement:** This is an administrative waiver offered by the IRS to taxpayers who have a clean compliance history, meaning they have not had been assessed any late-filing or late-payment penalties for the three tax years preceding the tax year in which they received a late-filing or late-payment penalty. This waiver does not apply to other types of penalties, such as the accuracy related penalty so this is a limited waiver.
- **Reasonable Cause:** If the taxpayer can demonstrate that they failed to meet their tax obligations due to circumstances beyond their control then the IRS may reduce or remove the penalty. For example, natural disasters, serious illness, or death in the family are potential grounds to request abatement.

### What is Reasonable Cause?

First-time abatement is pretty straight-forward so I will not go into more detail. Reasonable cause, however, is a much more complicated subject. The IRS does not provide a specific definition of what constitutes a reasonable cause, but it does give some guidelines in the Internal Revenue Manual (IRM).<sup>46</sup> Generally, reasonable cause can be shown through offering

<sup>45</sup> Important to note that the IRS charges interest on top of penalties, so removing or reducing an IRS penalty can also reduce any associated interest.

<sup>46</sup> You can find the IRM by going to [www.irs.gov](http://www.irs.gov) and searching for it. The penalty section is Part 20, more specifically IRM 20.1. The section containing reasonable cause is under IRM 20.1.1.3.2. Link here: [https://www.irs.gov/irm/part20/irm\\_20-001-001r](https://www.irs.gov/irm/part20/irm_20-001-001r)

any sound reason that establishes you used "ordinary business care and prudence" to meet your tax obligations but were nevertheless unable to do so. I forgot or I made a mistake is generally not enough.

Here are some situations that the IRS might consider as constituting reasonable cause (there are many many more):

- Natural disasters that may have destroyed your records.
- Serious illness or incapacitation, either of the taxpayer or an immediate family member.
- Unavoidable absence, such as being deployed overseas with the military, that kept you from handling your tax duties.
- Erroneous advice or reliance on the advice of a tax advisor who failed to make, or advise you to make, a tax payment.

Keep in mind that this is not the only situations where the IRS might find reasonable cause. Just make sure that if you think your situation fits that you provide supporting documentation such as hospital records, court documents, or police reports/insurance claims which support your request. Vague and unsupported statements will be given little weight by the IRS and will probably do more harm than good.

## **Applying for Penalty Abatement**

Penalty abatement can be requested at any time. There is no requirement that you be in a payment arrangement (though that helps) or you be fully compliant with your tax filings or payments. Generally, we submit the request either at the time of making an agreement with the IRS or shortly thereafter. Still, you can request penalty abatement at any time by calling the IRS and requesting it over the phone, by writing a letter requesting abatement and sending it to the IRS, or by filling out IRS Form 843, Claim for Refund and Request for Abatement and mailing it to the IRS per the form's instructions.

Regardless of how you make your request, be sure you prepare a detailed explanation of the facts and circumstances which you believe shows you have reasonable cause for the penalty to be abated. Remember, you need to show that but for some intervening cause you would have filed or paid on time. Forgetting to file or pay is not going to work nor is relying on others, such as a tax preparer.

To assist you, here is a list of the various factors the IRS will consider:

- **Circumstances Beyond Your Control:** The IRS checks whether the taxpayer faced circumstances that were beyond their control, and which prevented them from complying with tax laws. This might include situations such as natural disasters, serious illness, or death in the immediate family.
- **Compliance History:** The IRS will generally look at the taxpayer's tax compliance history for the past three years. If you have a history of timely filing and paying taxes, the IRS may be more likely to consider your claim favorably.
- **Timing of the Event:** The IRS will consider the timing of the event or circumstance in relation to the due date of the tax. An event that occurs around the time of the taxpayer's non-compliance is more likely to be considered a reasonable cause.
- **Steps to Comply:** The IRS considers the effort made by the taxpayer to comply with tax laws. If the taxpayer attempted to meet their tax obligations but was unable to do so due to circumstances beyond their control, the IRS may consider this favorably.
- **Knowledge of the Tax Laws:** The IRS will take into account whether the taxpayer could reasonably be expected to know the tax laws. If you relied on the advice of a tax professional and that advice turned out to be incorrect, the IRS may consider this a reasonable cause.
- **Reliance on Incorrect Written Advice from the IRS:** If you received and relied on incorrect written advice from the IRS, this can be considered a reasonable cause for abatement of penalties that resulted from following that advice.

Thankfully, the IRS evaluates each case individually based on your specific facts and circumstances. This provides you with an opportunity to argue about a wide range of things which show outside forces kept you from meeting your tax obligations as well as who you are as a person which suggests that this is a one-time event.

It is important then to provide as much detailed information and supporting documentation as possible which supports your claim of reasonable cause. Here are some examples of the types of documentation you might need to submit:

- **Medical Records:** If you were seriously ill or hospitalized around the time of your tax non-compliance, medical records, hospital bills, or a letter from your doctor can be used to substantiate your claim.
- **Death Certificates or Obituaries:** If a close family member's death prevented you from complying with tax laws, you can submit a death certificate or obituary.
- **Documentation of Natural Disasters:** If a fire, flood, or other natural disaster caused your non-compliance, you can provide photos, insurance claims, news reports, or statements from local authorities to support your claim.
- **Court Documents:** If you were incarcerated or involved in litigation that affected your ability to comply with tax laws, you can provide court documents as evidence.
- **Records Regarding Bad Advice:** If you received incorrect advice from a tax professional or the IRS itself, provide the written advice, along with evidence that you relied on this advice in good faith.
- **Financial Records:** If you were in a severe financial crisis that prevented you from paying your taxes, you might provide bank statements, unemployment records, or other evidence of financial hardship.
- **Letters or Written Explanations:** A detailed letter explaining your situation, the timeline of events, and how these circumstances prevented you from complying with tax laws can also help your case.

Remember, be truthful and complete when preparing your claim. False statements or trying to make mountains out of molehills will lead to your abatement request being denied and in some cases the IRS may pursue you criminally. As always, be honest, be accurate and complete, and be prepared.

Finally, If the IRS denies your request, you have the right to appeal the decision to IRS Appeals. As I have said previously, you will have a chance to speak to an experienced IRS agent, called a Settlement Officer, who will take a fresh look at your request and who may grant your penalty abatement request either in whole or in part.



## **Penalty Abatement Summary**

Penalty abatement can provide substantial relief to you if you are facing significant tax penalties on top of your tax debt. It is not generally a resolution agreement in and of itself, but it can make a big difference in your case if you qualify. In my experience, I have had cases where penalties make up 25%- 35% of the balance due so this resolution option can have a significant impact on your case.

## **Collection Statute End Date**

This is not a resolution option per se but it is an opportunity to resolve your IRS tax debts. As I have discussed previously, the IRS has 10 years from the date of assessment to collect a tax debt. Once the 10 years passes, without any action by the IRS, the IRS tax debt expires. Taxes, interest, and penalties are written off and no longer collectible, regardless of your ability to pay.

As I mentioned in Chapter 3, assessment is just the recording of a tax debt. Often this occurs some months after a tax return is filed or after a tax audit or examination is finished. As a simple example, let us say you filed your return on April 15th, 2024, if the IRS records the assessment on May 18th, 2024 then this is the start date for the collection statute. For that year, the collection statute end date would be May 18th, 2034.

Before you jump out of your seat and scream, “Eureka!”, you need to understand a few things. First, 10 years is an awfully long time, and the IRS is generally not standing idle. You can expect the IRS to take steps to collect such as liens and levies. Additionally, certain events can toll (meaning extend) the 10-year collection statute such as:

- Filing for bankruptcy
- Filing for a collection due process hearing
- Requesting an IRS installment agreement
- Requesting an IRS offer-in-compromise
- Residing overseas

These are not the only events that can extend the collection statute, but they should give you a good idea of what actions might give the IRS more time to collect.

The IRS can, if it chooses, seek to extend the collection statute by filing a complaint in U.S. Federal District Court, which seeks to reduce the IRS tax debt to a court judgment. The IRS often uses this opportunity to also foreclose its tax lien if the taxpayer has real estate, so this often turns into a double whammy.

Now before you panic, the IRS does not often exercise this right. My experience has been that the IRS will try to reduce a tax debt to judgment where there is a large balance due, the taxpayer has been unwilling to work with the IRS to resolve his or her tax debt, and there are assets that can be liquidated (typically real estate). Still, it is a risk you need to be aware of.

## **Collection Statute End Date Summary**

As I said previously, the collection statute end date is not an option, but it is very useful when analyzing what to do to resolve your IRS tax debt. If you are at the beginning then it makes sense to try and work out a payment plan, offer-in-compromise, or penalty abatement. If you are towards the end, then maybe doing nothing is an option.

Or if the IRS is pressing you to work out some arrangement, then you may be able to work out a partial pay installment agreement or be put in currently not collectible status to try and run out the collection statute (the result being you pay something less than 100% of what you owe.

What I am going to say next is huge. If you hire someone to represent you, they need to research the collection statute end date for each of your IRS tax debts. Nothing could be worse than for your representative to do something that extends the collection statute if you are close to the deadline (e.g. filing an offer-in-compromise). Make sure to get that information, if they do not provide it to you.

## **Chapter Summary**

You have options! As I laid out in this chapter, you have multiple ways to get your IRS tax debt resolved, some better than others, and the IRS out of your life. Which option is best for you depends largely on your ability to pay and your reasonable collection potential. If you have limited assets and a living hand to mouth then an offer-in-compromise or currently not collectible status may work for you.

If you have assets and a good income then while you may not qualify for an offer (though a lot depends on your reasonable collection potential) you can still qualify for an installment agreement and maybe penalty abatement.

Finally, regardless of your situation, if you still owe an IRS tax debt after roughly 10 years then you may be able to outlast it, and any unpaid taxes (to include interest and penalties) will be written off.

In the next chapter, I will be discussing a unique resolution option for taxpayers who owe an IRS tax debt related to a jointly filed tax return. If you owe additional taxes related to omitted income or inflated deductions claimed by your spouse or former spouse, you may be able to get what is called innocent spouse relief.







# CHAPTER 9

## INNOCENT SPOUSE RELIEF

### Protecting Yourself from Your Spouse's Tax Issues

#### Introduction to Innocent Spouse

Innocent spouse relief is a rare issue when dealing with the IRS. Still, I felt this topic was too important not to include in this book. Innocent spouse relief is a remedy if you find yourself in tax trouble solely due to filing a joint return with their spouse. This resolution option is available only if you were unaware of the problem that gave rise to your tax debt and it would be unfair to hold you jointly liable with your spouse or former spouse.

Just a quick aside before going into more detail on innocent spouse relief. You may not realize this but if you are married and filing a joint return, you both are agreeing to be jointly and severally liable for any tax debt. Joint and several liability means that you both liable in equal measures for any tax debt on your joint return. If there is a balance due either when the return is filed or because of an error on your joint return, the IRS can pursue you both, however it wishes, regardless of whose income is the cause of the balance due. In short, if you are not sure if your spouse is on the up and up, consider filing a married filing separately return so you

only end up dealing with your tax debt and not your spouse's.

Now, turning back to innocent spouse relief, you can imagine how unfair it would be if you were held liable for a tax debt of your spouse that you had no idea about and was caused by them? I think we all agree this result would be harsh. To mitigate against this, the IRS has innocent spouse relief to sever liability in certain cases.

Let's say your spouse owns a business and he or she omits (negligently or intentionally) income from your joint tax return. The IRS audits the return several years later and now there is an understatement due to the omitted income. Should you have to pay for your spouse's omission? What if you and your spouse are no longer married at the time the IRS comes to collect. Innocent spouse relief is available then to address some of the unfairness of the situation.

Innocent spouse relief is not automatic, and you are going to have to do more than show your spouse caused the tax debt. You will need to show that it would be unfair to penalize you for your spouse's unpaid tax debt under the circumstances. Before going over the three avenues you can pursue to obtain innocent spouse relief, keep in mind that the subject of innocent spouse relief is very complicated, and I can only provide some general details. If you are considering pursuing relief, I recommend speaking to a tax professional about your case.

## **TYPES OF INNOCENT SPOUSE RELIEF**

### **Traditional Innocent Spouse Relief**

The first avenue of relief is traditional innocent spouse relief, I know that confuses things a bit. Innocent spouse relief is the overall term and one of the avenues of relief. Sorry. From now on I will just call it innocent spouse relief.

Under innocent spouse relief you can be relieved of responsibility for paying your spouse's share of tax, interest, and penalties if your spouse (or former spouse) improperly reported or omitted items on your joint tax return – which are called erroneous items.

To qualify, you must meet a few criteria. One, you must have filed a joint return that contains an understatement of tax due to your spouse's erroneous items. Two, and this is important, you must also need to show that, at the time you signed the joint return, you didn't know — or have reason to know — about the erroneous item that causes the understatement of tax. Three, it would be unfair to hold you liable for the tax understatement considering all the facts and circumstances surrounding the filing of the joint return.

The concept of erroneous items can be a bit confusing so here are some examples, courtesy of the IRS:

- Your spouse earned \$10,000 from the sale of inherited real estate and fails to report it on your joint return.
- Your spouse deducted \$10,000 of advertising expenses on his Form Schedule C, but never paid for any advertising.
- Your spouse claimed a business deduction of \$10,000 for business fines, which are not deductible by law.
- Your spouse claimed a \$4,000 business deduction for “security costs”, which were veterinary and food costs for your family's two dogs.

Additionally, you must also not have any actual knowledge or reason to know of the erroneous item. Otherwise, it would not be unfair to hold you liable in you participated in or benefited from the erroneous item. This knowledge requirement involves proving that you were not aware of or involved in the specific transaction(s) that led to the understatement. Evidence of knowledge might include your lack of access to financial accounts, limited involvement in financial decision-making, or other reasonable explanations for your unawareness.

The final requirement for innocent spouse relief is if holding you liable would be, under all the facts and circumstances of your case, be unfair to hold you responsible for the unpaid taxes. The IRS again provides some examples of what factors it considers:

- Whether you received a significant benefit (defined below), either directly or indirectly, from the understated tax.
- Whether your spouse (or former spouse) deserted you.
- Whether you and your spouse have been divorced or separated.
- Whether you received a benefit on the return from the understated tax.

The last listed factor is significant. I have seen many cases that otherwise seem to deserve relief only to be denied as the taxpayer received a significant benefit from the understatement of tax, such as living a lavish lifestyle while taxes went unpaid, or the spouse received money or property from the other spouse either during the marriage or upon divorce.

## **Innocent Spouse Relief Story: You Are Doing It All Wrong**<sup>47</sup>

As I write this book, there was a noteworthy innocent spouse case. I am including it as it is a good guide as to what not to do.

During the dot.com boom, Dr. Strom's wife, Bernee Strom, was president and COO of InfoSpace. During her tenure she received stock options, which were valued at \$100 million at the time she exercised them in early 2000, right before the internet stock bubble burst. By the end of 2000, things had changed dramatically for the worse and InfoSpace's stock price deflated by 90%, along with all the other internet stocks.

Mrs. Strom now had a big problem - \$40 million dollars in size, representing the taxes due on her stock options (even though the InfoSpace stock price precipitously dropped after exercise). The Stroms sought out tax advice to see what could be done and their advisors came up with a risky gambit: argue that Mrs. Strom's compensation should be deferred to 2001 when the stock price was much lower.

As you can imagine, this is a weak position to take (the fact that the options were exercised in 2000 is a bit hard to get around) and their advisors said as much, cautioning them that the IRS could dispute that position. The Stroms said full speed ahead and filed their joint 2000 tax return, omitting the \$100 million in option income, taking the position that her compensation was earned in 2001 and not 2000. Rather than a balance due, the couple actually received a \$15 million dollar refund.<sup>48</sup>

<sup>47</sup> Facts derived from US Tax Court opinion, *Strom v. Comm'r*, T.C. Memo. 2024-58 and summary found in Forbes article by Matthew Roberts, "Tax Court Denies Roughly \$40 Million Innocent Spouse Relief Claim", published May 20, 2024: <https://www.forbes.com/sites/matthewroberts/2024/05/20/tax-court-denies-roughly-40-million-irs-innocent-spouse-relief-claim/?sh=7a87288018c6>

<sup>48</sup> The IRS is obligated to issue refunds as quickly as possible even if there are positions on the return it may later challenge. This may strike you as backwards but nothing makes taxpayers mad than delayed refunds and they tell their elected representatives about it. As such, the IRS tends to issue refunds first, ask questions later. In this case, the taxpayers ended up owing \$15 million for the improper refund along with the \$40 million on underpaid taxes.



The IRS, slow at the best of times, did eventually catch on to the issue and did an audit on the Stroms' 2000 Form 1040. Unsurprisingly, the IRS disagreed that the \$100 million in option income was taxable in 2001. As a result, the IRS assessed them roughly \$40 million in taxes, interest and penalties for that year – on which both were jointly and severally liable. Dr. Strom and Mrs. Strom filed separate petitions to dispute this assessment, with Dr. Strom claiming innocent spouse relief.<sup>49</sup>

After years of litigation, the US Tax Court denied Dr. Strom's request for innocent spouse relief. Here is some of the court's findings as to why he should be denied innocent spouse relief:

- He was aware of the erroneous item (remember the couple both went to their tax advisors). Strike one.
- Dr. Strom received a significant benefit in the form of an improper refund of \$15 million in 2000, which he used to pay back a \$10 million dollar loan which he was personally liable for. Strike two.
- Finally, the erroneous item was not caused by anything Mrs. Strom personally did wrong on the joint tax return but by the Stroms' mistaken belief regarding how the tax law should be applied. Strike three.

The key takeaways from this story are as follows: innocent spouse relief is only available if you are unaware of your spouse's wrongdoing. Even if you are unaware, you need to be aware that if you obtain a significant benefit from your spouse's erroneous item a request for innocent spouse relief may be denied. Finally, mere error on your spouse's part is not going to get you relief. Your spouse must have omitted income or claimed improper expenses or credits. Later in this chapter, I will discuss some defensive tactics you can use to avoid this result.

## Relief by Separation of Liability

Next, we have relief through separation of liability, which allows for division of the additional taxes due between you and your spouse (or former spouse). To qualify, you must be separated from your spouse for at least 12 months before you file your request for innocent spouse relief. Separated means, in this context, that you are no longer married to, legally separated from, or not living with your spouse with whom you filed the joint.

<sup>49</sup> Both US Tax Court petitions did also claim the tax return position was proper but after years of litigation the IRS position was upheld.

Similar to innocent spouse relief, you must also not have had actual knowledge of the erroneous item that gave rise to the understatement. An interesting quirk is that under separation of liability you can get relief so long as you did not know of the erroneous item, regardless of whether you should have known.

Separation of liability is particularly useful where an allocation of the additional tax due would benefit you based on your items of income, deductions, and credits. Allocation is basically a mathematical exercise, and the IRS will allocate the taxes between you and your spouse or former spouse based on who is the source of the income (e.g. wages will be divided based on who earned it). Similar to traditional innocent spouse relief, The IRS will consider factors like who earned the income, who controlled the finances, and who benefitted from the erroneous items when determining if relief should be granted.

Separation of liability does not wipe out your own tax liability and so if there is still a tax due after relief is granted you will need to pay it, along with any associated interest and penalties.

## **Equitable Relief**

Equitable relief is a catch-all. If you do not otherwise qualify for innocent spouse relief or separation of liability, then equitable relief may be available. To qualify, you must have filed a joint return, and relief should not be available under the other two types of relief. It also needs to be unfair to hold you liable for the understatement or underpayment of tax, considering all the facts and circumstances. Plus, you must not have knowingly participated in the wrongdoing or benefited significantly from it. As you can see, it follows a similar path as innocent spouse relief but is a bit more relaxed on its requirements.

Equitable Relief is the broadest and most flexible form of innocent spouse relief. The IRS is to consider a wide variety of factors to determine fairness, such as:

- Your marital status
- Economic hardship you might suffer without relief
- Whether you knew or had reason to know about your spouse's understated or unpaid tax
- Whether you're legally obligated to pay the tax

- Whether you significantly benefited from not paying tax or underreporting your tax
- Whether you complied in good faith with tax laws after requested
- Your mental and physical health, including if you were a victim of domestic abuse

The IRS will review these and other factors to determine if overall it is unfair to hold you personally liable. I find that the IRS can be a bit fairer here as it is given more latitude to consider the facts and circumstances of your case.

Equitable relief can also apply to underpayments of tax, not just understatements of tax from erroneous items. Under innocent spouse relief and separation of liability relief, if the joint return is otherwise correct and there is a balance due then you are out of luck. Under equitable relief, however, if you reasonably expected your spouse (or former spouse) to pay the tax liability reported on the return. If, however, you knew of your spouse's (or former spouse's) prior financial difficulties (e.g. bankruptcy or issues with IRS or other creditors) or difficulty in paying bills on time then your belief would be unreasonable. Thankfully, in cases of domestic abuse, the IRS will not hold such knowledge against you.



## **EQUITABLE RELIEF STORY:**

### **Did Social Media Posts Doom This Taxpayer's Equitable Relief Claim?<sup>50</sup>**

I am including this story as both a warning about how social media can negatively impact a taxpayer request for relief as well as how the US Tax Court perceives the fairness of granting relief when a taxpayer continues to live a lavish lifestyle while taxes remain unpaid. I cannot say for sure it wrecked this taxpayer's equitable relief claim, but it absolutely did not help.

<sup>50</sup> Facts taken from the US Tax court opinion in *Thomas v. Comm'r*, 160 T.C. No. 4., issued January 30, 2024.

Ms. Thomas' former husband (he died sometime after their joint returns was filed). For three years, 2012 through 2014, the couple filed jointly with a balance due on the return. Mrs. Thomas and then Ms. Thomas tried to request innocent spouse relief on the grounds that she should not be held liable for the taxes due because Mr. Thomas assured her that he would take care of the taxes. At this time, the court noted that Mr. and Mrs. Thomas discussed the couple's troubled finances on several occasions so that was a serious ding against her.

What the court discussed at length though was Ms. Thomas' lavish spending. Here is what the court said:

*In the years following Mr. Thomas's death, Ms. Thomas traveled to New York with one of her daughters to celebrate that daughter's birthday. She also traveled to Rome, Paris, and Florence, to Napa for wine tastings, and to Tahoe for skiing with her daughters. She took out loans to put her daughters through college, gave one daughter \$3,500 for an advanced math class, and paid for her daughters' cell phones and car insurance.*

*During these same years, Ms. Thomas maintained a blog. She blogged about Mr. Thomas, her two daughters, her lifestyle, and Ocean SF. She blogged about her various trips with her daughters and about purchasing her daughter "a gorgeous bottle green Dior bag for her 18th birthday." In the same blog post, she stated that she "own[s] five bags," including a "white Italian Furla," two from Kate Spade, and a "black woven Bottega Veneta."*

The court had more to say on the whole thing, but I think what I provided above should give you a good idea how the court viewed her claim that it would be unfair to hold her liable for the unpaid taxes.

Social media has gotten more than a fair number of people in trouble and this story is no different. Ms. Thomas' case was probably dead-on-arrival due to her awareness of the couple's problematic finances, but the lavish spending afterwards certainly doomed her request for relief, as it occurred while her taxes remained unpaid. I cannot say for sure what impact it had on the final outcome, but it was featured prominently in

the court's opinion, so it was certainly persuasive. Watch out for what you are posting online!

Before requesting relief, you should review your social media accounts and blog postings for any troubling posts like hers. Under no circumstance should you delete or edit those posts as that would be destruction of evidence. You should, however, discuss it with a tax professional before filing for innocent spouse relief if maybe your situation is like Ms. Thomas'.

## **How to Apply for Innocent Spouse Relief**

To apply for any form of innocent spouse relief, you'll need to file Form 8857, Request for Innocent Spouse Relief. Here's a simple guide to getting started:

First, obtain Form 8857. You can download it from the IRS website or request it by mail. Once you have the form, fill it out with all the required personal information. Specify the tax years for which you're seeking relief and answer questions about your tax return, marital status, and the circumstances surrounding the erroneous items.

Next, gather and submit any supporting documentation that will back up your claim. This might include divorce decrees, financial records, or affidavits. Once everything is ready, mail the completed Form 8857 along with the supporting documentation to the address listed in the form's instructions.

The IRS will either grant, in whole or part, the requested relief. If you want to dispute what the IRS decides you have the right to appeal to the Independent Office of Appeals at IRS and potentially up to the US Tax Court.

By following these steps, you can navigate the process of applying for innocent spouse relief more smoothly. If you have any more questions or need further assistance, don't hesitate to seek professional advice.

## **TIPS FOR APPLYING**

### **Document Everything**

When applying for any form of innocent spouse relief, thorough documentation is crucial. Keep detailed records of your financial transactions, your involvement in financial decisions, and any relevant communications with your spouse. This documentation can help substantiate your claims and provide a clearer picture to the IRS.

### **Seek Professional Help**

Given the complexity of tax law and the high stakes involved, it's often beneficial to seek assistance from a tax professional. A CPA, tax attorney, or enrolled agent can help you navigate the application process, gather the necessary documentation, and present a strong case to the IRS.

### **Understand the Time Limits**

There are specific time limits for requesting innocent spouse relief. Generally, you must file Form 8857 no later than two years after the date the IRS first attempted to collect the tax from you if you are seeking innocent spouse relief or separation of liability. Equitable relief has a longer timeline, but it is still important to be aware of potential deadlines and act promptly.

## **PROTECT YOURSELF:**

### **Some Thoughts on Avoiding or Reducing the Need for Innocent Spouse Relief**

I know I talked at length about how to request innocent spouse relief, but I think it is important to discuss what you can do to avoid the need for it altogether.

### **No Requirement to File a Joint Return**

First, be aware that there is no legal requirement that you file a joint return with your spouse. In fact, the law presumes you intend to file a

separate return unless you “elect” to file jointly with your spouse.

I advise numerous clients who are married that if one spouse has a tax problem to forgo the benefits of a joint return and file separately. In that way, each spouse is liable only for his or her own taxes. So, if one spouse has a tax debt, the IRS can only pursue the liable spouse’s income and assets for payment, which protects the other spouse.

If you later decide to file a joint return you can file an amended return to change your status from married filing separate to married filing joint. Just be aware that once you file a joint return you cannot amend to change your status to filing separately.

## **Put Allocation of Tax Debts into the Divorce Judgment**

Second, if you do have the misfortune of filing a joint return together with your soon to be ex-spouse, consider having the divorce judgment state that the other spouse is liable for some or all of the tax debt. How much depends on the respective “fault” of the other spouse so you should talk with a tax professional about such an allocation.

The IRS is not bound by this determination, but it is a consideration in your favor under the equitable relief factors discussed above. In short, an allocation does not guarantee you will not be held responsible for payment of a joint tax liability, but it can be helpful to you if you later request innocent spouse relief.

## **Be Proactive About Confirming Tax Payments**

Finally, if you do feel the need to file a joint return and there is a balance due, consider taking steps to ensure that the balance is paid. Request a payment plan immediately. Get proof of payment by your spouse. Set aside funds into a bank account to satisfy the tax debt. Those are just some of your options. The goal here is to show that you had a reasonable expectation that the taxes were paid in case you need to request equitable relief.

## **Chapter Summary**

Navigating the process of applying for innocent spouse relief can be complex, but understanding the different types of relief and the criteria for each can help you determine the best course of action.

The key takeaways are that if you file a joint tax return with your spouse or former spouse and later there is an audit or examination that results in additional taxes due, through no fault of your own, then you may be able to sever your joint liability. To do that, you will need to show you had no knowledge of the error or omission giving rise to the tax liability, received no benefit or benefits from the tax error or omission, and that it would be unfair to hold you liable under the circumstances. If you can show those three things then you may be relief from your joint tax debt.

Innocent spouse relief is complicated. You really should have a tax professional handle the request. This is not really a do-it-yourself area of dealing with the IRS. You should also strongly consider getting professional help to craft the best possible case for innocent spouse relief. By doing so, you can better protect yourself from unfair tax liabilities and ensure a fair outcome. Do not be penny wise but pound foolish.







# CHAPTER 10

## NON-FILERS : CONSEQUENCES AND SOLUTIONS

### **Are You a Non-filer? What You Need to Know**

In the prior chapters, I have been speaking about dealing with the IRS regarding your unpaid taxes but what if you have not filed for years. Are you out of the woods? No assessment, no IRS collections? Unfortunately, no. As I mentioned earlier in Chapter 2, the IRS can assess taxes if the taxpayer does not file a tax return using a substitute for return or SFR. Once the assessment is made then the IRS can use the regular collection tools as if you had filed a return in the first place.

Being a non-filer (how the IRS' labels such taxpayers) can also lead to possible criminal penalties, as we will see when we talk about Lauryn Hill's conviction for willful failure to file a return. The IRS takes non-filing very seriously. As I write this, the IRS has begun an enforcement campaign against wealthy non-filers.<sup>51</sup> The IRS is pursuing about 125,000 taxpayers who earn \$400,000 or more. You can expect the IRS will pursue taxpayers earning less than \$400,000 at some future point.

<sup>51</sup> IRS news release, "IRS launches new effort aimed at high-income non-filers; 125,000 cases focused on high earners, including millionaires, who failed to file tax returns with financial activity topping \$100 billion", uploaded February 29, 2024 (it was a leap year): <https://www.irs.gov/newsroom/irs-launches-new-effort-aimed-at-high-income-non-filers-125000-cases-focused-on-high-earners-including-millionaires-who-failed-to-file-tax-returns-with-financial-activity-topping-100-billion>

So, if you have not filed a tax return since the last Bush presidency, it is important for you to understand what could happen and what steps you can take to get back on track (and potentially avoid criminal prosecution). So let us start first with the definition of a non-filer.

## **What is a Non-filer**

A non-filer is someone legally required to file a tax return but who has not done so. If you earn too little and are not required to file a return, you are not a “non-filer”. Non-filing can be caused for a variety of reasons: you might think you don’t owe any taxes; you could be overwhelmed by some event in your life (death, divorce, disability, debt), or maybe you simply forgot or were too busy with work/life. Regardless of the reason, failing to file a tax return can trigger a series of actions from the IRS aimed at bringing you back into compliance.

## **Can I Go to Jail for This?**

### **Criminal Prosecution of Non-filers**

Failure to file a return generally does not result in criminal prosecution by the IRS, but it can. You will hear Lauryn Hill’s story soon where she was prosecuted for not filing her tax returns after earning millions in royalties. Still, it is an uncommon occurrence. Usually, the IRS prosecutes more egregious tax crimes, such as filing a fraudulent tax return or engaging in tax evasion.

State revenue departments, however, may be much more inclined to prosecute non-filers. States who are unable to engage in deficit spending have no problem charging taxpayers with misdemeanor failure to file a return (usually paired with misdemeanor failure to pay tax).

I had a client who was working with the IRS and a state revenue department to resolve his high six figures of unpaid taxes as a result of his six years of non-filing. We resolved the IRS tax debt through an offer-in-compromise and that was that for the IRS. No so with the state. The state revenue agency happily worked with my client to work out a payment plan and then subsequently prosecuted him for his six years of non-filing. So be careful.

Still most non-filers will not be prosecuted. I think you are in the danger zone if you are rich or famous (for obvious reasons) or have

many years of unfiled returns (one year unlikely, ten years...well...). The more likely you are to be prosecuted, the more likely you want to consider getting professional assistance to come in from the cold.

## The Curious Case of Lauryn Hill

In researching Lauryn Hill, one thing came through loud and clear: this is a woman who is always reinventing herself. Always changing, every evolving. Hill's rise to fame began in the 90s with the success of the Fugees. Their album, "The Score," was a massive hit, and Hill's distinctive style set her apart. I remember quite well listening to the radio in my car and it wasn't unusual to hear a Fugees song, usually "Killing Me Softly" at least once a day.

When the Fugees broke up and went their separate ways, Hill blew up the music scene with her solo album "The Miseducation of Lauryn Hill." I am a child of the 80s and so my taste in music is different from hers but it is clear from my research that Hill has a great deal of talent and creativity. Here are just a few of her accomplishments:<sup>52</sup>

- When she was younger, she had a recurring role on "As the World Turns" and a featured part in "Sister Act 2: Back in Habit".
- The Fugees second album, "The Score" earned her (and the group) two Grammy awards: best rap album and best R&B performance by a duo or group
- Her solo album, "The Miseducation of Lauryn Hill" earned her five Grammys, three AMAs, a Billboard Award, a Soul Trail Award, and an MTV Music Award – on top of selling 19 million copies.
- She founded an organization called Refugee Camp Youth Project, which sends inner-city children to summer camp.
- Let me not forget to add that on top of that she is a mother of six children.

Hill is undeniably a talented actress, singer, songwriter, philanthropist, and mother.<sup>53</sup> Lauryn Hill was on top of the world in the late 90s and early 00s and she had all the making of a superstar performer. So why did she end up being charged with a tax crime?

<sup>52</sup> I found her accomplishments at Biography.com under its entry for Lauren Hill, last updated August 26, 2019: <https://www.biography.com/musicians/lauryn-hill>

<sup>53</sup> She gets kudos alone for raising six children while maintaining a career, I have one and he keeps me plenty busy. Six must be something else.

Despite her considerable success, Lauryn Hill began to withdraw from the public eye in the early 00s. She retreated from the music industry, citing the pressures of fame and a desire to focus on her personal life and spiritual journey. She was quoted as saying, “I don’t think I ever handled celebrity, for a period of time I had to step away.”<sup>54</sup> It was during this period of self-imposed exile that her personal and legal troubles started.

While Hill may have retreated from the spotlight, she continued to write songs and perform, as well as manage several businesses - earning at least several million dollars from her work, though she never filed a return or paid any taxes on what she earned. And this is where she ran into trouble with the IRS.

In 2012, Hill was charged by the US Government in New Jersey Federal District Court with three counts of willful failure to file a tax return for tax years 2005 through 2008. In the indictment, Hill was charged with failing to file a return to report more than \$1.8 million in income she earned from royalties and other sources.

Hill initially protested her innocence but eventually, likely on the advice of her attorney, she pled guilty to all three counts. She admitted in court that she had not filed returns for the three years in question, acknowledging her responsibility and stating her intention to get caught up on her unpaid taxes. Shortly after pleading guilty, in May 2013 she was sentenced to a three-month prison sentence, followed by three months of home confinement, and a year of supervised release. Hill was also ordered to pay \$60,000 in restitution to the IRS.

I think things could have been considerably worse for Hill. According to legal commentators, she was ably represented by Nathan Hochman Esq. I believe he was instrumental in obtaining the quick resolution to the matter and for the lenient sentence. I also suspect he made it clear to her that she needed to get all her returns filed and all taxes paid, with interest and penalties. All of which was done before sentencing. Good advisors are worth their weight in gold.

## Key Takeaways from Lauryn Hill's Tax Conviction

What can we learn from Lauryn Hill's misfortune? There are a few key takeaways that non-filers should keep in mind. If you want to avoid her fate, here is what you need to know:

- **Filing Is Mandatory:** Regardless of your personal circumstances or beliefs, filing tax returns is a legal requirement and not a suggestion. Ignore your filing requirement at your own risk.
- **Communication Is Crucial:** If you find yourself a recipient of one of the IRS' notices about non-filing, it is essential for you to open a dialogue with the IRS. Being unable to pay is no excuse! You have options to resolve your IRS tax debt, as I described in detail earlier in this book.
- **Get Professional Help:** I get it, tax laws are complicated, and you may have few records or no records to prepare those unfilled returns. You may not even know where to start. A tax professional can help you get your taxes filed and a resolution worked out.
- **No Bad Intent Required:** Hill's personal issues appear to have been the cause of her non-filing rather than a desire to avoid paying taxes. All that is required to be charged with failure to file your return is knowledge of the requirement to file your tax return and a willful failure to do so. Keep that in mind.

So, if you are a non-filer, what do you need to know about your situation and how should you approach getting back into the IRS' good graces? We will start first with the IRS' program for identifying and resolving non-filer cases.

### The IRS Non-filer Program

If you have not filed any required tax returns, the IRS will eventually pick up on it. The IRS has sophisticated tools in place, which review information from employers, banks, and other financial institutions and identify taxpayers who should have filed a return.

Often the IRS starts the process by sending a notice politely "reminding" you of your obligation to file a return, called a CP59 notice. This is a

gentle nudge from the IRS, giving you the opportunity to file your return and avoid any further complications (or consequences).

The CP59 notice states the IRS does not have a return for you on file and provides you with an opportunity to resolve the issue; the CP59 notice also includes information on what to do to next.

If you fail to respond to the IRS, it will follow up with more urgent reminders. These notices will highlight the potential penalties and interest that are accruing on your unpaid taxes. It's important not to disregard these communications, as doing so can lead to more severe consequences.

Failure to respond to your CP59 notice will usually result in additional follow-up notices, encouraging you to file a return. If you continue to do nothing, the IRS may take stronger enforcement measures, usually in the form of a substitute for return.

### **Substitute for Return: the IRS' Secret Weapon**

If you fail to respond and file a tax return, if legally required, the IRS may create a substitute tax return, called a substitute for return or SFR. While you may think, "How nice, the IRS is doing the heavy lifting for me", the truth is that the IRS prepares this SFR based on the income information provided to it (e.g. wages reported to the IRS by employers), with no deductions.

On top of that, the IRS treats you as either single or married filing separately (depending on marital status), with no dependents. As you can imagine, this will result in a larger tax due than would result if you filed a return yourself. Additionally, the IRS will assess penalties and interest on top of any balance due. Ouch.

You will get a chance to dispute this SFR as the IRS will send you a notice, called a statutory notice of deficiency (a Notice CP3219N) or "90-day letter" as it is known to tax professionals. Once you receive that notice, you have 90 days to file your past due tax return or file a petition in US Tax Court.<sup>55</sup> If you do nothing, the IRS will proceed

<sup>55</sup> Filing the return only is a bad idea as the IRS seems to lose or not process the return and now the IRS has an assessment if you fail to file a petition within the 90-day window. File the return and get a petition ready to file. Once you are close to the deadline call up the IRS and confirm if a return was filed or not. If not, file the petition to protect your right to contest the IRS' proposed assessment on the SFR.

with the proposed assessment. As mentioned earlier, once there is an assessment the IRS can begin the collection process.

Now if you find yourself in the unlucky situation where you failed to respond to the 90-day letter all is not lost. You can still file an original return and the IRS may adjust your account to reflect the correct figures (but they are not required to, which is why you want to respond within the 90-day window if you can).

## **What You Can Do About an SFR: Getting Back on Track**

If get one of these notices (either the CP59 or the 90-day letter), the best thing you can do is to start filing your returns as soon as possible. The IRS is generally more lenient with those who take steps to come into compliance rather than those who continue to ignore their obligations.

Start by gathering all your necessary documents, such as W-2s, 1099s, and any other income records. If you're missing some documents, you can request transcripts from the IRS, called wage and income transcripts, which will provide you with a summary of the income reported to the IRS. You would be surprised by what the IRS has, it could be extremely helpful in getting back on track. I recommend getting one in every case we handle.

Once you have as much information as you can get, prepare your tax returns. You might consider seeking help from a tax professional, especially if you have multiple years of unfiled returns or if your tax situation is complex. A tax professional can help ensure that your returns are accurate and that you're taking advantage of any deductions or credits you're eligible for.

I recommend when filing your returns to send the return in with a check, with a different amount for each return. For example, \$5.00, \$10.00, and \$15.00, if you have three years unfiled. You will then have a way to know which returns are processed when the check clears. It also helps if the IRS says it never received the return but cashed the accompanying check. You should still send returns by certified mail, but I like this method as once a check is cashed, I know a real person at the IRS has actually handled the return.

Finally, once your unfiled returns are processed, you will need to address any outstanding tax debt. We have already touched on how to do that in the prior chapters. At this point, your case is handled the same as any other taxpayer. You can set up a payment plan, get into hardship status, or settle it through an offer-in-compromise.



## **REAL LIFE CLIENT STORY:**

### **Long Time Non-Filer Brought in from the Cold**

I was approached by Dave, a contractor, who had not filed since 2005 (and this was in 2020 when I spoke with him). He was sick and tired of being sick and tired worrying about his unfiled tax returns and what the IRS would do to him.

Dave apparently got in over his head with debts and ended up filing for bankruptcy in the early 00s. At that point he was so overwhelmed he just focused on keeping his business afloat and failed to file for one year. One year turned into two years and two years into three years, at which point now he is worried the IRS is going to put him in jail or ruin him financially.

Dave's wife finally convinced him to stop putting off dealing with his unfiled returns and get it sorted out (wives are the best at doing this – God bless them). That's why he finally reached out to me. We discussed his case, and I laid out a game plan on how we could bring him back into compliance and out of the cold.

First, he needed to file his current year tax return and start making estimates. While it was not easy, he did both as we worked on getting his prior year tax information together. We do this so that he is in current compliance (something I discussed in prior chapters). I was then able to find him a very good accountant who helped him put together his unfiled tax returns so we could see what he owed. It turns out he owed about \$60,000 when everything was said and done.



Second, we had to figure out the best way to resolve his IRS tax debt. It turns out that he was not a good offer candidate as he had a lot of real estate with enough equity to exceed his tax debts. We considered doing a payment plan but his cash flow was sporadic so one month he would be flush with cash and broke the next.

So, we came up with a novel solution. We would file returns one after the other. Separately each return was not so much so we would file the return with the IRS and a month or so later we would get a bill. He would then pay it off with the money he saved up (as we knew roughly the tax bill based on the amount due on the tax return). We did this six times and now he is free of the IRS.

He is now back in the IRS' good graces, and he has no tax problems haunting his sleep. It was neither easy nor quick, but it is done. I think he owes his wife a damned good gift for finally persuading him to straighten this all out.

## Hidden Costs of Non-Filing

Before wrapping up this chapter, I would be remiss if I didn't mention two hidden costs of non-filing. They may not apply to you, but you want to be aware of the potential costs.

First, you may not have filed as you figured, "Hey, I always get a refund, why worry?" The problem with that attitude is that you only have about three years to claim a refund (called an RSED or refund statute expiration date). Once the refund statute passes, you will lose your ability to get a refund. Now the money due to you is gone. Poof.

Worse still, let's say you have a few years of unfiled returns. If you have one year with a balance due, you cannot have any refund you would have otherwise received applied to the year with a balance due if the RSED has passed. I have seen this in a few of my clients' cases, you can imagine how upset they were. **Moral: file even if you think you will get a refund!**

Second, if you are self-employed and you do not file your return, you will not get any credit at the Social Security Administration for your earnings. I know many people scoff at the SSA and many joke about

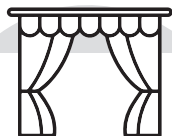
the amount of benefits they will receive but do you really want to find yourself in a situation where any benefits would be a lifesaver and not have any? **Moral: if you are self-employed, file to avoid losing credit for your earnings at the SSA.**

## Chapter Summary

Being a non-filer can lead to serious consequences, but it is never too late to get back on track. The key is to act as soon as possible. Respond to IRS notices, gather your documents, and file your returns. If you owe taxes, work with the IRS to resolve your debt. The IRS is generally more cooperative with those who try to comply.

By taking proactive steps, you can minimize the penalties and interest on your unpaid taxes and avoid more severe actions like a tax levy or worse, criminal prosecution. If you're feeling overwhelmed, don't hesitate to seek help from a tax professional who can help you reconstruct your records and prepare as accurate a return as possible.





# CURTAIN CALL:

## YOU'VE MADE IT TO THE END. MAYBE.

### **Pitfalls to Avoid: 9 Top Traps for the Unwary**

We've reached the end of my book, which I hope was helpful in explaining the dos and don'ts of dealing with the IRS. In this last chapter, I want to lay out the top 9 pitfalls to avoid when dealing with the IRS. I promise this will be short.

This list is a compilation of the top 9 traps I would list off if a client or prospect asked me what are some things that could doom their case or cause more headaches for them.

1. **Ignoring the Problem:** By far, the number one mistake people make is ignoring the IRS, hoping it will go away. Your IRS problem is not a figment of your imagination or a regular everyday problem (laundry or dishes anyone?). With penalties and interest, things are only going to get worse over time. Tax problems do not age like a fine wine. If you can't afford to pay the IRS now, imagine how much harder it will be when the IRS begins garnishing your wages or seizing money from your bank account. Get on your IRS problem now!

2. **Not Keeping Good Records:** Next to ignoring the IRS is failing to keep good records. Poor records are the source of a great many tax problems. Lack of good records is just going to make your job of dealing with IRS Collections so much harder. How are you going to determine what your best option is to resolve your case? How do you know what you can afford to pay the IRS each month? Without records everything is just an educated guess. As an aside, if you do hire a tax professional and you have bad records – expect to pay more for professional services if you have not kept good records.
3. **Trying to Handle Everything Alone:** Tax laws can be incredibly complex (trust me, it is no easier if you study tax law for a living). Attempting to resolve tax debt without professional help can result in missed opportunities for a better payment agreement with the IRS or opportunities to appeal a proposed IRS collection action. Consider getting professional help.
4. **Failing to Communicate with the IRS:** Failing to keep in touch with the IRS can result in an IRS levy or other negative actions on your account. Worse, not responding to IRS notices or calls from the Revenue Officer can also be seen as non-compliance and could lead to criminal penalties. Keep in touch with the IRS!
5. **Not Confirming Your Payment Agreement is Established:** A phone call to the IRS is not a guarantee you are safe from a tax levy. Time and time again, I have seen taxpayers get levied by the IRS while in the process of working on some sort of agreement. Because your agreement is not either finalized or put in pending status you are still at risk of a tax levy. Make sure you confirm with the IRS that your agreement is accepted or being considered. Don't assume that you are safe from levy merely because you are talking to the IRS.
6. **Making Incorrect or False Statements:** If you want to cause more problems for yourself, lie or shade the truth when talking to the IRS. You may find yourself in court or subject to significant penalties. Dealing with the IRS is painful enough when you are honest. Don't make it any harder. Be honest and be truthful with the IRS.
7. **Using Trust Fund Taxes to Operate the Business:** Using money withheld from employee paychecks for taxes (known as trust fund taxes) to cover other business expenses is illegal

and can lead to severe penalties. Do not fail to pay over your employees' withholdings (FICA, Medicare and federal income tax withholdings). The IRS will prosecute if your case is bad enough. Don't do it. Trust fund taxes are your employees' money, not yours to use.

8. **Not Filing or Paying Future Taxes:** A recurring issue in my practice is that clients will rack up a new tax debt after we worked out a deal on the old tax debt. This will be treated as a default on any agreement you have worked out with the IRS. Once you default on an agreement, the IRS may require harsher terms to accept a new agreement. Avoid the pain of doing this all over again. Stay current on filing and paying your taxes – if you are self-employed, pay your estimates!
9. **Not Verifying IRS Calculations:** Do not assume that the IRS is right. The IRS can make mistakes, same as anyone else, and so you should not accept its calculations as gospel without verifying them first. Always double-check the figures to ensure there are no errors.

By being aware of these common mistakes, you can avoid the biggest problems that can hurt your case. Whether you hire a professional or not, keep them in mind or you could find yourself in the same spot as before. Or worse.

Now that I have discussed the final pitfalls to avoid, let's talk about something more useful to you. What I am providing to you in the next chapter is our process for resolving a client's IRS tax debt. I believe this is the most effective way to solve a client's issues and you can use it to guide you on how to resolve your own case. You can also use it if you intend to hire a tax professional to help you to ensure they are covering all the bases when working on your case.







# Our Roadmap to Recovery:

## THE TAX RESOLUTION ACTION PLAN

No client is the same as the next. Each person brings his or her own unique situation into my office. You have met some of them while reading this book. While everyone is different that does not mean we use a different process for each of them. Instead, we approach each case the same.

The phases of the **Tax Resolution Action Plan** are: Investigate, Develop Options, Negotiate, and Appeal (if needed). As that is a bit vague, here is the process broken down into steps:

1. We will thoroughly discuss your tax situation with you. It is important that we have a complete understanding of your unique situation. This in-depth interview will provide us with the background we need to develop the right strategy for solving your IRS problem.
2. We will prepare Form 2848, IRS Power of Attorney, for you to sign. This form lets the IRS know we are representing you. All future phone calls from the IRS will now come to us and not to you. You will still receive letters in the mail but all direct contact by IRS personnel will cease.

3. We will obtain transcripts of your accounts from the IRS.  
Transcripts are what the IRS uses to track the activity for each tax year, such as what you owe, what payments you made, and any adverse actions taken by the IRS (such as the filing of a lien or the assessment of penalties). This allows us to accurately determine what the IRS believes is going on regarding your tax situation.
4. We will develop strategies for solving your IRS problem. You may have several options available to you beyond pay your taxes now and in full. Based on your financial situation, we will develop a strategy to get you the best settlement possible.
5. If you have unfiled tax returns, we will help you find someone to get those returns prepared and filed with the IRS. You may not know this but there are strategies for dealing with unfiled tax returns that can help you resolve your IRS problems and protect your family from being impacted by your unpaid taxes.
6. We will prepare any necessary documents to resolve your IRS matter. Filling out complicated IRS forms is our business. While we still need your help to provide us with answers and documentation, it will be our job to make this process as easy as possible for you.
7. We will negotiate with the IRS to obtain the lowest possible settlement allowed by law. If need be, we will appeal your case up the IRS ladder to get you the best deal possible under the circumstances. We cannot guarantee any outcome, but we do our best to get you as close to your goals as possible.
8. We will not accept any settlement with the IRS unless you approve. We want to ensure that before you are asked to accept or reject a settlement offer that you understand how it will impact you personally, as well as any other options you may have available. We want to make sure you know the pros and cons of any deal you are getting into. If necessary, we will fight your case through IRS Appeals.

Resolving IRS tax issues requires a proactive and organized approach. By following these steps outlined above in the **Tax Resolution Action Plan**, you can take control of your tax problems and work towards a resolution. If you believe you need help in navigating your **Tax Resolution Action Plan**, we are available to help. Please see my offer, which you can find either at the beginning of the book or at the back of the book.





## THANK YOU!

Thank you for reading this book and if you have questions or comments, I can be reached using my contact information shown on the first page of the book. I hope you will use this book as a reference guide to help you understand and possibly deal with your IRS tax problem. Remember the promise I asked you to make! My fervent hope is that you make the decision to put your IRS problem in your rear-view mirror once and for all.

I am going to promise you that in six months to a year you are going to look back and be glad that you stopped worrying about your IRS problem and took the first steps to get it resolved. It will not be easy or without cost but is saving money or avoiding the problem more valuable than waking up without stress, knowing you can focus on what is most important in life: your family and your career or business?

Remember Bob and Marcie, my clients from Chapter 1? As I said, they owed a combined \$350,000. A princely sum for most everyone. Three years later they are free of their IRS tax debt. Now they both can focus on raising their two children and building Bob's successful business.

Let me leave you with this: Can you put a price on peace of mind? IRS problems do not get better with time. Would you rather have memories of the stress and sleepless nights or of time with family or working on building your business or career? Stop living in fear and act now to kick your IRS problem to the curb!





## **Bonus Chapter:**

### **TOP 5 QUESTIONS TO ASK A TAX PROFESSIONAL BEFORE YOU HIRE THEM**

#### **1. What are your qualifications and experience?**

Do you know if the person you are speaking to is qualified to diagnose your case? Is that person an attorney, certified public accountant (CPA), or enrolled agent (EA)?

You need to ask this question as some firms use unlicensed salespeople to close you as a client. The reason for this is simple – some unscrupulous firms have salespeople who will lie or shade the truth to get you as a client. You are nothing more than a number to the firm.

Even if the national resolution firm does not engage in such practices, often their salespeople are not qualified to discuss your case, insofar as what are your possible options to resolve your case. As I said in the beginning, you need to understand your options so you can make an informed decision about what you should do to resolve your case.

Having said that, talking to a salesperson per se is not a problem but only if you can speak with someone qualified (attorney, CPA, or EA) to

discuss what options are available to you so you understand what you are signing up for. Only then should you feel comfortable signing on to work with that firm.

## **2. Can I meet you in person or on Zoom?**

Will the firm you contacted allow you to come to their office or meet by Zoom if you become a client? Are they even in the state you reside in? Your initial consultation often is by phone due to need to get started quickly on your case but once you get started though, your firm should allow you to meet with your representative either in person or by Zoom.

I strongly believe you should have the right to see someone in the flesh to confirm your firm has an office and is a legit business. I have clients who are satisfied I am a real tax attorney and never come to see me, but I am available to meet in person or Zoom if the client requests it. I would be concerned if I could not meet that person at an office or if they do not allow me to talk to them by Zoom. You want to see if this person has what looks like a dedicated office space or if the person is living in his or her car or using a space in their spare bedroom.

Finally, beware of firms that use short-term coworking spaces, like Regus. Several national firms have “locations” in Maine which are nothing more than names on a door. If you can, look at their website and often you will find that the firm is headquartered out of state, usually in California, Florida or Colorado.

## **3. What is your fee structure, and are there any additional costs?**

You want to know how the firm is going to bill you. Ask for either a fee schedule or a contract which details how fees and costs are charged. You also want to review what services are included in your engagement. Is the firm performing only limited services or more comprehensive coverage? Certainly, the larger the fee you are expected to pay you should expect the firm to cover the following services:

- Appealing an adverse IRS action through IRS Appeals
- Negotiation of a resolution, not merely of one specific option.<sup>56</sup>

<sup>56</sup> Unscrupulous firms will often agree to file an offer-in-compromise, regardless of chances of success, and if it gets rejected you must pay for the firm to work out another resolution, so you get double billed. You want a firm to work towards setting up a solid outcome and not one resolution option.

- Removal of any existing levies and prevention of any future levies.<sup>57</sup>
- Representation regarding any state income tax debts or other types of tax debts such as: payroll taxes, excise taxes, and business income taxes.
- Penalty abatement, if your situation warrants it.

If the firm you are working with charges for work on an hourly fee basis, make sure you know what rate is charged on the type of work (secretarial, paraprofessional, and professional), if that rate can change, and how out of pocket costs will be charged (postage, court or IRS fees, copying, etc.).

If, however, the firm charges a flat fee you should review the agreement for what services are covered (as stated above) and for the payment terms. How much upfront and how afterwards? Is there a deadline on this agreement? If yes, will there be a fee to extend the engagement and how much?

#### **4. Will you handle my case personally or delegate it to someone else?**

Delegation is not necessarily a bad thing. I have an assistant, and she assists me with preparing a clients' case. Is the person you are talking to going to be the person representing you? If not, find out who will. The more vague or wishy washy the answer, the more likely you are going to have a hard time working with the firm.

A common tactic is to assign your case to unlicensed people to work up your case. Often, these people have limited training to understand what needs to be done and turnover is high. This is why there are so many complaints against national firms. A common complaint is regarding the constant parade of "representatives" clients have to deal with. You want a dedicated and qualified representative assigned to your case, so you know appropriate decisions are being made and the work is being done correctly.

#### **5. How will you communicate with me throughout the process? What is my responsibility during your representation of me?**

Communications are the largest part of any IRS matter. Talking to the client, the IRS, and other parties takes up most of a firm's time on a

<sup>57</sup> Be aware that no firm can guarantee that it can remove or prevent a levy. Only the IRS can do that. Your goal should be to make sure the firm is engaged to do what it can to remove or prevent future levies. Some things are outside both the firm and your control.

case. You should ask how often the firm will contact you. Will the firm call, email or meet you in person?

How often will the firm be in touch to update you on your case's progress. IRS matters take time, sometimes 6 months to a year in complex cases but that does not mean a firm should not contact you at least once a month, even if just to say nothing new.

You should also ask about what is expected of you. Each firm is different, but you need to know how the firm will work with you to develop your case. Hiring a firm is not the end of your contribution. You are going to need to gather and prepare paperwork, answer questions about your assets, income and expenses, and do final review/approval of forms prepared on your behalf. Will the firm expect you to do the heavy lifting and wait for you or will the firm be communicating with you to get these tasks done?

# Appendices

- **Glossary:** A comprehensive list of tax terms used throughout the book for easy reference.
- **List of Common IRS Notices:** A list of the most common IRS notices and letters issued.
- **FAQs:** A section dedicated to answering the most common questions about IRS dealings, based on the content discussed in the book.

# Glossary

**Assessment:** The formal recording of a taxpayer's tax liability by the IRS.

**Audit:** A review of a taxpayer's financial records and tax returns by the IRS or state tax agencies to verify accuracy and compliance with tax laws.

**Automated Collection System (ACS):** A computerized system used by the IRS to collect unpaid taxes and secure delinquent tax returns.

**Bankruptcy:** A legal process that allows individuals or businesses to seek relief from their debts, including tax debts.

**Collection Appeal Program (CAP):** A program that allows taxpayers to appeal certain IRS collection actions, such as levies or seizures.

**Collection Due Process (CDP) Hearing:** A hearing that allows taxpayers to appeal certain IRS collection actions and propose alternative payment arrangements; in some cases taxpayers are allowed to challenge the assessment of taxes during a CDP Hearing.

**Collection Statute Expiration Date (CSED):** The date by which the IRS must cease collection activities on a specific tax debt, typically 10 years from the date of assessment. Can be tolled (meaning extended) by certain actions by the taxpayer such as filing bankruptcy or filing an offer-in-compromise.

**Currently Not Collectible (CNC) Status:** A designation by the IRS that a taxpayer's account is temporarily uncollectible due to financial hardship.

**Enrolled Agent (EA):** A tax professional licensed by the IRS to represent taxpayers in matters related to collections, audits, and appeals.

**Equivalent Hearing:** A hearing similar to a CDP hearing, but with fewer taxpayer protections and rights.

**Failure to File Penalty:** A penalty assessed when a taxpayer fails to file a required tax return by the due date.



**Failure to Pay Penalty:** A penalty assessed when a taxpayer fails to pay the taxes they owe by the due date.

**First Time Penalty Abatement (FTA):** A one-time removal of certain penalties for taxpayers with a clean compliance history.

**Full Pay Within 180 Days:** An agreement that allows taxpayers to pay their tax debt in full within 120 days without incurring additional penalties or interest.

**Guaranteed Installment Agreement:** An installment agreement with streamlined approval criteria for taxpayers who owe \$10,000 or less.

**Innocent Spouse Relief:** A type of relief that absolves a spouse of responsibility for tax debts incurred by their partner without their knowledge or consent.

**Installment Agreement (IA):** An arrangement that allows taxpayers to pay their tax debt in monthly installments over an agreed-upon period.

**IRS Appeals:** An independent division within the IRS that resolves disputes between taxpayers and the agency.

**IRS Notice:** An official correspondence from the IRS to a taxpayer regarding their tax account, such as a balance due or a request for information.

**Jeopardy Assessment:** An immediate assessment of tax by the IRS when they believe the collection of tax is at risk.

**Levy:** See "Tax Levy."

**Lien:** See "Tax Lien."

**Offer in Compromise (OIC):** An agreement between a taxpayer and the IRS to settle a tax debt for less than the full amount owed.

**Partial Pay Installment Agreement (PPIA):** An installment agreement where the monthly payments do not fully pay the tax debt before the Collection Statute Expiration Date.

**Payroll Tax:** Taxes withheld from employees' wages by an employer, who is responsible for remitting the taxes to the government.

**Penalty Abatement:** The reduction or removal of penalties assessed by the IRS due to reasonable cause or other mitigating factors.

**Power of Attorney (POA):** A legal document that authorizes a tax professional to represent a taxpayer before the IRS.

**Reasonable Cause:** A legitimate excuse for failing to meet tax obligations, such as serious illness or natural disaster, that may justify penalty relief.

**Revenue Officer:** An IRS employee responsible for collecting delinquent taxes and securing delinquent tax returns.

**Statutory Notice of Deficiency (SNOD):** A formal notice from the IRS that outlines the proposed changes to a taxpayer's tax liability and the taxpayer's right to challenge the changes in Tax Court.

**Statute of Limitations:** The time period within which the IRS must assess taxes, collect taxes, or take other specific actions.

**Streamlined Installment Agreement:** An installment agreement with simplified terms for taxpayers who owe \$50,000 or less.

**Substitute for Return (SFR):** A tax return prepared by the IRS on behalf of a non-filing taxpayer based on available information.

**Tax Advocate Service (TAS):** An independent organization within the IRS that helps taxpayers resolve problems with the agency and protects taxpayer rights.

**Tax Court:** The United States Tax Court is a specialized court that hears disputes between taxpayers and the IRS, primarily related to deficiencies and certain collection actions.

**Tax Deficiency:** The difference between the tax reported by the taxpayer and the tax determined by the IRS.

**Tax Levy:** A legal seizure of a taxpayer's property or rights to property to satisfy a tax debt.

**Tax Lien:** A legal claim against a taxpayer's property or rights to property to satisfy a tax debt; a tax lien is not a seizure of property and the IRS cannot foreclose unless it takes steps to seize the property.

**Tax Preparer:** A professional who assists taxpayers in preparing and filing their tax returns.

**Tax Resolution Specialist:** A professional who helps taxpayers resolve their tax debts and disputes with the IRS.

**Taxpayer Advocate:** An employee of the Taxpayer Advocate Service who works on behalf of taxpayers to resolve issues with the IRS.

**Taxpayer Bill of Rights:** A set of fundamental rights that every taxpayer has when dealing with the IRS, as outlined in the Internal Revenue Code.

**Trust Fund Recovery Penalty (TFRP):** A penalty assessed against individuals responsible for withholding and paying employment taxes withheld from employees' paychecks (called trust fund taxes) on behalf of a business.

**Unfiled Returns:** Tax returns that a taxpayer was legally required to file but did not submit to the IRS.

**Voluntary Disclosure:** A program that allows taxpayers to proactively disclose violations of the tax law to the IRS (including state tax agencies) and potentially avoid criminal prosecution.

**Wage Garnishment:** A type of levy that allows the IRS to seize a portion of a taxpayer's wages to satisfy a tax debt.

**Withholding Tax:** The amount of tax withheld from an employee's paycheck by their employer and sent to the government.

**Wrongful Levy:** A levy that is placed on a taxpayer's property in error or in violation of IRS procedures.

# Common IRS Notices and Their Purposes

Below is a list of some common IRS notices, along with their notice numbers and general meanings. You can find the number by looking at the upper right-hand corner of the IRS correspondence. By understanding these common IRS notices and their purpose, you can feel more prepared when you receive one in the mail. As I have said previously, open your IRS letters! None of this will help you if you ignore or neglect to open your mail.

## **Notice CP14 – Balance Due**

Informs you that you owe money on unpaid taxes.

## **Notice CP501 – Reminder Notice, Balance Due**

A reminder that you have a balance due and have not responded to earlier notices.

## **Notice CP503 – Second Reminder Notice, Balance Due**

A second reminder notice that the IRS has not heard from you, and you still have an unpaid balance.

## **Notice CP504 – Final Notice, Balance Due**

Final notice before the IRS takes enforced collection action, indicating they may levy your assets.

## **Notice CP2000 – Notice of Proposed Adjustment for Underpayment/Overpayment**

The IRS has information that doesn't match your tax return, potentially resulting in either more or less tax due.

## **Notice CP3219A – Statutory Notice of Deficiency**

Issued when the IRS proposes a tax adjustment that is more than what was reported on the tax return and the taxpayer did not respond to a CP2000.

## **Letter 1058 or Letter 11 – Final Notice of Intent to Levy and Notice of Your Right to a Hearing**

A final notice that the IRS intends to levy assets and that you have a right to request a hearing.

**Notice CP90 or CP297 – Final Notice - Notice of Intent to Levy and Notice of Your Right to a Hearing**

Like Letter 1058, this is a final notice before the taxpayer's assets are levied.

**Notice CP91/CP298 – Final Notice Before Levy on Social Security Benefits**

Final notice before the IRS levies a taxpayer's Social Security benefits.

**Notice CP503L – Notice of Intent to Levy, Balance Due**

Notice informing non-resident aliens about an intent to levy assets for unpaid taxes.

**Notice CP504B – Notice of Intent to Seize ("Levy") Your Property or Rights to Property**

Informs business entities of unpaid taxes and the IRS's intent to levy.

**Letter 3172 – Notice of Federal Tax Lien Filing and Your Right to a Hearing Under IRC 6320**

The IRS has filed a tax lien against a taxpayer's property and informs the taxpayer they have the right to appeal.

**Notice CP22A – Data Processing Adjustment Notice, Balance Due**

Informs the taxpayer of changes made to their tax return that result in a balance due.

**Notice CP23 – Estimated Tax Discrepancy, Balance Due**

The IRS has found a discrepancy in the estimated tax payments reported on the taxpayer's return.

**Notice CP24 – We Made Changes to Your Return Because We Believe There's a Miscalculation, Balance Due or Overpayment**

The IRS has made changes to a taxpayer's tax return because of a suspected calculation error.

**Form 668(Y)(c) – Notice of Federal Tax Lien**

Form notifying you that a federal tax lien has been filed.

**Form 12153 – Request for a Collection Due Process or Equivalent Hearing**

This form is used to request a Collection Due Process hearing with the IRS Office of Appeals.

**Letter 4223C – Proposed Changes to Form 941/944/943**

Informs businesses of proposed changes to their employment tax return.

# IRS Resolution FAQs

## **Q1: What should I do when I receive an IRS notice?**

A1: First, open it! **And do not panic.** Read the notice carefully to understand the reason it was sent. Look for specific instructions or actions required. Verify the amount of tax owed, if applicable, and check the tax year in question.

Always keep a copy of the notice for your records and note the deadline for your response or payment. If you agree with the notice, simply follow the instructions provided.

If you disagree, prepare to respond with evidence to support your position (keeping a copy of the response for your records). Send a response with tracking, otherwise it could get lost and you will have no record you responded.

## **Q2: How can I tell what type of IRS notice I've received?**

A2: The IRS notice or letter will have a notice number, usually beginning with CP or LT, located at the top or bottom right-hand corner. This number corresponds to a specific issue and you can obtain more information about the notice and how to respond at [www.irs.gov](http://www.irs.gov). Type in the notice number and you should get an explanation.

## **Q3: Is there a deadline for responding to an IRS notice?**

A3: Generally, yes. Most IRS notices include a response deadline, usually 30 days from the date of the notice. It's important to comply with this deadline to minimize additional interest and penalty charges and to preserve your rights, such as the right to appeal or to file in United States Tax Court.

## **Q4: What if I disagree with the information in the notice?**

A4: If you disagree with a notice, respond in writing before the deadline. Include a copy of the notice along with your letter of explanation and any supporting documents. Use the address provided on the notice for correspondence. You can also call the IRS using the phone number on the notice, but it's advisable to have written documentation of all communications.

**Q5: Will the IRS send a notice if I am due a refund?**

A5: Yes, the IRS sends notices if there's a refund that you're entitled to which you haven't claimed, or if the refund amount is different from what was reported on your tax return. The notice will explain the reason for the discrepancy.

**Q6: Can I handle the IRS notice myself, or do I need a tax professional?**

A6: Many IRS notices involve straightforward issues that can be handled independently, such as confirming a change of address or paying a small balance due. However, for more complex issues like audits, large balances, or legal disputes, it's often best to consult with a tax professional who can provide expertise and represent your interests.

**Q7: Can I avoid getting IRS notices if I hire a tax professional?**

A7: No. If you have a tax problem, the IRS is required by law to send you all notices even if you have representation. Just make sure to send copies to your representative as sometimes the IRS forgets to also send a courtesy copy.

**Q8: What is the difference between an IRS notice and an IRS letter?**

A8: An IRS notice typically informs you about a specific issue with your tax return or tax account and requires a specific action. An IRS letter may be sent for a variety of reasons, including to request more information, to notify you of a change to your account, or to confirm an action that you have taken.

**Q9: If I receive a notice of intent to levy, how much time do I have to act?**

A9: Generally, you have 30 days from the date of the notice to act. This may include paying the amount owed, setting up a payment arrangement, or appealing the decision. Acting within this period is critical to prevent the IRS from proceeding with the levy.

**Q10: How can I confirm that an IRS notice is legitimate and not a scam?**

A10: Scammers often imitate IRS communications. To verify authenticity, check for the notice number and cross-reference it on the official IRS website. If still in doubt, contact the IRS directly through the official phone number listed on [www.irs.gov](http://www.irs.gov). Do not use the contact information on a notice that you suspect is fraudulent.

**Q11: What if I can't pay the amount the IRS claims I owe?**

A11: If you can't pay in full, contact the IRS to discuss payment options. You may be able to set up a payment plan, such as an installment agreement, or negotiate an Offer in Compromise to settle the debt for less than the full amount owed, depending on your financial situation. Additionally, you might qualify for penalty abatement or bankruptcy so you should talk with a tax professional to understand your options.

**Q12: Can I request an extension to respond to an IRS notice?**

A12: Generally, no. While the IRS does grant extensions in some circumstances, often it is near impossible to get a real person to speak to about an extension. Often it is easier to respond with as much information as possible and list what is missing from your response and provide it as soon as you can. You can, however, request a collection hold (generally 30 days) if you need time to work out some payment arrangements with the IRS.

**Q13: What happens if I ignore an IRS notice?**

A13: Ignoring an IRS notice can lead to more serious issues, including increased penalties and interest, a lien on your property, wage garnishment, or asset seizure. The IRS may also take legal action in some cases. It's crucial to address any notices you receive from the IRS to prevent these escalations.

**Q14: Can I get help from the IRS to understand a notice I received?**

A14: Yes, you can seek help directly from the IRS. Call the number on the notice for assistance with questions specific to your situation. For broader tax law questions, you can also call the IRS tax law helpline. Additionally, the Taxpayer Advocate Service is an independent organization within the IRS that can assist if you're experiencing financial difficulties or if you've tried to resolve issues through normal IRS channels without success.

**Q15: Where can I find more information about the various IRS notices and what they mean?**

A15: The IRS provides a comprehensive list of notices and letters with explanations on their official website at [www.irs.gov](http://www.irs.gov). You can search by the notice or letter number to find specific information. Additionally, IRS Publication 594, "The IRS Collection Process," provides a detailed explanation of what to expect when you owe taxes.



## About the Author

James “Jim” Wade is a tax attorney and CPA, who focuses on representing individuals and small businesses with complex tax problems before the IRS. He has extensive experience representing taxpayers in IRS audit and collection matters. Prior to becoming an attorney, Jim worked for many years as a tax accountant where he learned to love the tax code. He concedes it is a funny kind of love.

Jim is the owner and senior tax resolution specialist at Beacon Tax Advocates, LLC – a boutique tax relief law firm. Jim’s firm focuses 100% on IRS collection and audit matters. He is one of the only attorneys in Maine who handles IRS controversy matters, which makes his expertise highly sought after. He regularly gives talks to both attorneys and other tax professionals about ethics, dealing with the IRS, and tax law updates.

He lives in Maine with his son, where he spends his free time hiking, listening to true crime podcasts (and a few on Hollywood celebrity gossip – though he will deny it if cornered), and dreaming of the day when he will never have to explain the tax code again.

Finally, not a day goes by that Jim does not miss his beloved wife Katrina and her smile. The world is a smaller place without her.



## My Offer to You

### No-Risk Offer To Readers Of This Book

I understand that if you have a tax problem, you would rather be doing anything else, such as spending time with family or working on building your business. You, however, are doing something to get your IRS situation under control. I want to reward you for taking the time to read this book, a no-risk IRS Resolution Case Review.

### Take The First Step

Stop worrying and start sleeping again. If you fear what the IRS will do to you then you owe it to yourself to schedule a 30-minute consultation with me. We will talk about your situation and determine if we can help you resolve it. You will leave with a report that details my thoughts on your case and what it might cost to resolve it.

Don't wait for the IRS to take everything you own, get answers now! Follow the instructions below to set up your no-risk IRS Resolution Case Review.

### How To Claim Your No-Risk IRS Tax Debt Consult

If you want to schedule your consultation, please visit [www.beacontaxadvocates.com/contact](http://www.beacontaxadvocates.com/contact) and fill out our contact form to request your IRS Resolution Case Review. You will be asked to complete a comprehensive questionnaire. Once that is done, I will schedule an appointment for us to talk by phone or Zoom. You may also call my office at 207-502-7181 if you have questions about this no-risk offer.



