# News & Updates

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GRIFFING & COMPANY, P.C.

Certified Public Accountants and Consultants

# IRS Collection Notices

### Procedural Guidelines for Addressing IRS Collection Notices


The Internal Revenue Service is kicking it back into gear as we enter the last few months of the year after encountering the same difficulties that we all have been facing throughout this year's pandemic. According to an article on the Accounting Today website, the IRS plans to resume issuing balance-due notices to taxpayers by the end of October. "The IRS understands that many taxpayers face challenges, and we're working hard to help people facing issues paying their tax bills", said IRS Commissioner Chuck Rettig, who was featured in a recently posted Forbes article.

Promptly addressing an IRS notice can help taxpayers avoid many serious issues in the long run. Fortunately, the IRS has a multitude of ways to handle these types of situations. When receiving an IRS collections notice, taxpayers should first, verify if the amount due on the notice is correct. The amount due may reflect interest and penalty accruals. If the taxpayer disagrees with the amount due, the taxpayer may want to dispute the liability by considering one of the following options:

1. **File an amended tax return to correct taxpayer's original tax return**
   Even though the amount due is assessed from the taxpayer's return, the taxpayer can amend their tax return to lower the tax assessment if there are any unclaimed deductions or credits not reported on the initial return.

2. **File an original tax return to replace the Substitute-For-Return**
   When a taxpayer fails to file the tax return timely, the IRS is authorized to prepare and file a tax return for you called a Substitute-For-Return (SFR). The IRS will prepare the return based on the information reported by your employers, banks, and other payors. The assessment from the SFR is generally higher than the taxpayer's own assessment since deductions and credits are limited, if not excluded, in the SFR. For this reason, the taxpayer may want to file original, an original return to take advantage of the deductions and exemptions available.


3. **Request an audit reconsideration to challenge**
   An amount due may be assessed from a previous IRS audit. If the taxpayer obtains additional information after the first audit was closed, he may want to re-open the audit. The IRS may reconsider the additional information and make necessary adjustments to the tax liability, if

approved.

4. **Request an Innocent Spouse Relief / Equitable Relief request**
   In joint 1040 liability cases, the law makes both taxpayers responsible for the entire tax liability. The individual taxpayer may want to seek relief from the joint responsibility if the understated or underpaid tax liability is the spouse obligation (or former spouse).

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# Alternative Collection Options

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If there is no dispute within the underlying liability, the taxpayer should consider alternative collection options. Even if the taxpayer chooses to dispute the liability first, he/she should research their collection alternatives if enforcement action is already in place.

1. **Make a full payment**
   The IRS charges a 3% interest rate per year of any underpaid liability. The interest rate is subject to change but will be added indefinitely until the entire tax liability is paid in full. The IRS also charges 6% per year late payment penalty until it reaches 25% of the unpaid tax amount. If the taxpayer has the sufficient funds to make an immediate full payment, they can avoid these statutory additions.


2. **Installment Agreement**
   If the taxpayer is unable to make full payment but chooses to make monthly payments, an Installment Agreement can be a viable collection alternative. The taxpayer may be qualified for a Guaranteed or Streamlined Installment Agreement procedure if the total tax liability does not exceed $50,000. Usually, if the taxpayer is not qualified or unable to afford the Guaranteed/Streamlined Installment Agreement, the taxpayer would be required to disclose their full financial situation for the IRS to consider other types of Installment Agreement options. The IRS recently began allowing certain eligible taxpayers who owe $250,000 or less to set up a payment plan without providing financial documentation if their monthly payment proposal is sufficient and the taxpayer account is not yet assigned to a Revenue Officer. The IRS is also allowing taxpayers the opportunity to apply online for these payment plan options. Online applications are available for individuals that owe $50,000 or less in combined income tax, penalties and interest or certain businesses that owe $25,000 or less. Short-term plans have no set-up fee but normally must be paid in full within 120 days. The IRS has now extended that to 180 days under the Taxpayer Relief Initiative. Furthermore, the IRS is providing qualified taxpayers who pay by direct debit the opportunity to make changes to their installment agreements online, including proposing lower monthly payments and even changing their payment due date. Last but certainly not least, the IRS will now automatically add certain new tax balances to existing installment agreements to help taxpayers avoid defaulting on their agreement plans.

3. **Currently Non-Collectible (CNC)**
   If the taxpayer has limited income and assets, making any sort of tax payment may cause an economic hardship to the taxpayer. In this case, the IRS will temporarily suspend all collection actions on the taxpayer's account until their situation improves. The taxpayer must request this option, if applicable. Unfortunately, the IRS will still assess interest and penalties to the account and may keep refunds to apply them to any debt. If the taxpayer requests CNC status, the IRS may ask them to furnish financial information to review their income and expenses to decide on an option for payment.

4. **Offer-in-Compromise (Doubt as to Collectability)**

This option allows taxpayers the ability to settle their tax debt for less than the full amount owed. The Offer-in-Compromise (OIC) primarily reviews the taxpayer’s ability to pay. The taxpayer's disposable income for the remaining statutory period and equity in the assets will be added to Reasonable Collection Potential (RCP). If the RCP is smaller than the total tax liability, this indicates a possible Doubt as to Collectability. However, the IRS does not have to accept the OIC unlike an installment agreement or Currently Non-Collectable situation as mentioned above where the IRS is generally required to grant such status when the taxpayer is qualified. The IRS has a right to reject any OIC even if there is Doubt as to Collectability, or if it is determined not in the best interest of the government or against public policy. It is exceptionally important to maintain a good compliance history prior to the OIC filing to increase the chance of acceptance. For taxpayers with existing OIC's who are temporarily unable to meet the payment terms, the IRS says it will be "offering additional flexibility".

5. **Bankruptcy**


Certain taxes may be discharged if the taxpayer meets Chapter 7 bankruptcy criteria. However, a careful review of the discharge-ability is needed prior to the bankruptcy filing. The taxpayer can also file bankruptcy under Chapter 13 to repay the debt within 3 to 5 years. If the taxpayer needs more flexibility in his repayment plan options, a Chapter 11 bankruptcy plan could be needed to resolve the debt.

Overall, the most important thing a taxpayer can do to help themselves resolve any type of collection matter is to not ignore the issue at hand. Dealing with the IRS can be intimidating but ignoring the issue can cause serious problems. If the taxpayer has an outstanding liability for any tax year, they should take immediate action to try and resolve the matter as quickly as possible. According to Darren Guillot, the IRS Small Business/Self-Employed Deputy Commissioner for Collection and Operations Support, recently stated, "We want people to know our IRS employees are committed to continue helping taxpayers wherever possible, including offering many options for those struggling to pay their tax bills."

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Griffing & Company, PC strives to provide our clientele with a variety of services. We would be more than happy to help you in any way that we can to resolve all your tax matters. Please call our office today to speak with one of our knowledgeable staff members.

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