PacificCPE

COURSE

33601A

Managing IRS Collections and Installment Agreements

When a client owes the IRS, knowing how to respond quickly and strategically can make all the difference. This chapter walks tax professionals through the IRS collection process, from ACS contacts and revenue officer interactions to installment agreement options for both income and payroll taxes. You'll also learn about statute of limitations considerations, passport revocation risks, and how to coordinate federal and state tax debt. Practical checklists and defensive strategies help you protect clients while keeping the tax collector at bay.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall the characteristics of the various installment agreements available to taxpayers.

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Chapter 1: WHEN YOU OWE THE IRS: KEEPING THE TAX COLLECTOR AT BAY

Chapter Objective

After completing this chapter, you should be able to:

- Recall the characteristics of the various installment agreements available to taxpayers.

According to the IRS, 15% of all taxpayers owe back taxes. And this figure includes only people who have actually filed tax returns. Many people required to file tax returns haven't.

There are several possible reasons you might owe the IRS back taxes:

- You didn't file a tax return; the IRS prepared a return for you and sent you a bill.
- You didn't pay your income taxes in full when you filed your tax return.
- You believed you paid your taxes in full when you filed your return, but you later received an automated adjustment notice from the IRS. This probably means you forgot to report some item of income.
- After an audit, the IRS found that you owed additional taxes; you signed the audit report in agreement.
- After an audit, the IRS found that you owed additional taxes; you didn't sign the audit report, but you neither appealed nor filed a petition in Tax Court.
- After an audit, the IRS found that you owed additional taxes; you appealed and lost and did not file a petition in Tax Court. The tax bill became final.
- After an audit, the IRS found that you owed additional taxes; you filed a petition in Tax Court and came out still owing something.

No matter which of these categories you fit into, one thing is clear—you have a problem with the IRS. Unlike other creditors, the IRS has no legal obligation to take you to court before seizing your car or paycheck. You can lose your business, your bank accounts, and even your pension. As far as the IRS is concerned, your tax obligation takes priority over all other debts. If the IRS records a notice of tax lien, your credit rating might be ruined for years.

Luckily, this doesn't have to happen to you. If you deal with the IRS—in particular, if you intelligently respond to the IRS collector—chances are good that you'll keep your property and survive the worst of what the IRS throws at you.

The IRS goal is to collect the maximum amount of taxes from you with the minimum amount of effort. The IRS starts by sending you computer-generated notices. Next, the IRS Automated Collection System, or ACS, kicks in, calling and sending you more threatening notices. If the IRS still doesn't get its money, it assigns a human being from its collection division—a revenue officer—to get up close and personal with you. Finally, if none of this works, the IRS may assign your debt to a private debt collection agency for collection.

How Long Does the IRS Have to Collect?

There is a little mercy in the tax code—it's called the "statute of limitations" on the collection of a tax debt. In general, the IRS has 10 years to collect from the date of assessment, called the "23C" date by the IRS. (I.R.C. § 6502.) After 10 years, the debt is wiped out. There are a number of ways the 10-year period can be extended:

- The 10-year period doesn't start to run until you file your return and the IRS officially assesses the tax against you. Not filing a return and hiding for 10 years accomplishes nothing.
- The IRS can extend the 10-year period by suing you in federal court. The IRS rarely does this. If it's getting close to the 10-year period and you don't owe millions, the IRS usually lets the statute of limitations run out, and you're off the hook forever.
- Certain actions on your part can extend the 10 years. For example, if you file an Offer in Compromise, are out of the United States, are in litigation with the IRS, file for bankruptcy, request a Taxpayer Assistance Order, sign a waiver form agreeing to extend, or request a Collection Due Process hearing, the 10-year period is extended until these circumstances are resolved.

These various rules are more complicated than this summary.

Dealing with an IRS Tax Bill You Owe

You have six ways to deal with a tax bill you unquestionably owe:

- Pay in full
- Pay in monthly installments, by agreement with the IRS
- Reduce, eliminate, or pay the debt through bankruptcy
- Reduce the debt and pay it through an IRS Offer in Compromise
- Have the IRS determine that you are temporarily unable to pay and suspend collection, or
- Wait for the statute of limitations on collection to expire.

All of these options are covered in this chapter.

While reducing your bill through an Offer in Compromise, going into bankruptcy, or having the IRS determine you are temporarily unable to pay might be the most attractive options, they are the most difficult to get. Paying in full is the best alternative for most working people with homes and substantial assets. For many taxpayers, however, paying in installments is the only way they can do it. Recently, more than 2.6 million taxpayers were on installment plans, paying collectively in excess of $4.5 billion. Don't jump to the conclusion that paying your IRS debt over time (or paying it at all) is your best option. Read this entire section before making your decision on how to deal with the tax collector.

First, do you really owe all the IRS says you owe?

Before you agree to pay any amount to the IRS, make sure the bill is correct. You're entitled to a full explanation of why you owe any IRS bill. Here are some suggestions for making sure your bill is correct— or for possibly reducing it:

- Review your tax returns or have a tax professional look at them to see if you might have missed any deductions, losses or carryovers, or similar items. If you find any, you can amend your tax return and reduce your bill.
- Review the bill to make sure you have been credited with all payments, including any wage or bank levies and any refunds taken. It is common for the IRS to miss or incorrectly apply payments and credits to your account.

To find out how the IRS calculated your tax bill and credited your payments, request a transcript of your account. Use the IRS Get Transcript Online tool (www.irs.gov/individuals/get-transcript) to obtain a copy by email, or call the IRS Taxpayer Assistance telephone number (800-829-1040) to get it mailed to you. It might take several weeks for the transcript to arrive.

These printouts aren't always easy to understand. You can find definitions of the transaction codes in an IRS document called *Section 8A Master File Codes*, available on the IRS website (www.irs.gov/pub/irs-pia/6209sec8amasterfilecodes.pdf). If you need an explanation, call 800-829-1040, go to your local IRS office, or ask a tax professional for help. Compare your canceled checks, prior tax notices, tax refunds withheld, and bank and wage levies with the IRS printout. If it doesn't match up—perhaps the IRS missed some credits you were due—immediately bring this to the attention of the IRS. Send copies of your proof of payment or other supporting documentation.

Almost all old tax bills include penalties and interest. It might be possible to have some or all of these unwanted additions canceled (or abated). See Chapter 1 of course 33602D to determine whether you qualify and how to go about asking the IRS for an abatement.

The Tax Gap

Despite its fierce image and extraordinary powers, the IRS, by its own admission, is a lousy bill collector. Recently, the amount of income taxes reported owed by almost 12 million people—but uncollected—exceeded $540 billion. The IRS collects only 85.5% of what it says it is owed by taxpayers. Add to that amount the taxes the IRS estimates are owed on unfiled returns and the total is even higher. The government calls this the "tax gap."

WHEN YOU CAN'T PAY WITH YOUR TAX RETURN

If you're coming up on a tax return filing date and owe a balance you can't pay, file anyway. This avoids the hefty late filing penalty (but not the smaller late payment penalty).

If you can pay over time and owe less than $50,000, you can apply for an installment agreement online at www.irs.gov/payments/online-paymentagreement-application. If you establish your installment agreement using the Online Payment Agreement application, the user fee that you pay will be lower than it would be with Form 9465. If you want to apply by mail, complete Form 9465, Installment Agreement Request, attach it to the front of your tax return, and send it to the address shown in your Form 1040 instructions. Get a copy of Form 9465 at the IRS website at www.irs.gov or by calling 800-829-FORM.

Whether you apply online or by filing Form 9465, you must tell the IRS how much you can pay monthly on the balance. If you apply online and qualify, your installment agreement can be approved in as little as 30 minutes.

If you apply by filing Form 9465, the IRS should reply in 30 to 60 days to let you know if a plan has been approved, or to request more financial information from you before making the decision. During the rush of tax season (February to May), it will probably take longer for the IRS to reply. You might even receive a bill. Don't assume that the IRS lost your installment request form. Chances are

the IRS simply hasn't processed it yet. Respond by sending in another copy of your completed Form 9465 along with the IRS bill.

If you owe less than $50,000 and can pay in full in 72 months or less, your request should be granted. The IRS might bump up the amount required to be paid every month. If you're turned down, or you and the IRS can't agree on an amount, you'll have to furnish financial data and negotiate over the phone, via letter, or in person.

The IRS charges interest and a late payment penalty for each month you carry a tax balance. The initial late payment penalty is 0.5% per month, which is reduced to 0.25% if you get a payment plan. The interest rate changes quarterly. Figure an additional 6%–8% average per year to the balance to get the full cost of owing the IRS. The IRS accepts payment by major credit card, but there is a hefty surcharge. Call 800-829-1040 for details or visit www.irs.gov/payments.

GETTING TIME TO PAY AFTER THE TAX BILL COMES

If you didn't pay your taxes or apply online for an installment plan or submit Form 9465—or it was ignored or rejected—buy time by calling the IRS after you receive a tax bill. Request an extension of up to 180 days to pay a bill or a payment plan. Try this without talking to IRS personnel. Call 800-829-7650. It might work if you owe less than $50,000 (including interest and penalties), are an individual or a couple (not a business), and have no other balances due to the IRS.

You can get either an extension of up to 180 days to pay in full or a monthly payment plan. If you choose the payment plan, you'll be asked how much you want to pay each month. Be sure to think about this before you call. If you need just a little time, request a 45-day extension. If you can't pay at the end of the 45 days, you can request a payment plan or another extension. If you don't want to interact with an IRS computer, you can mail in a request for more time or another Form 9465 or call an IRS customer service representative at 800-829-1040.

IRS TAX BILLING PROCESS

The IRS mission is to collect the tax using the least amount of human effort possible. This accounts for the reams of computer-generated tax bill notices you'll get long before ever hearing from a human being. No person is likely to even look at your account until your bill is at least six months overdue—often more like a year. And if you owe less than $1,000, no one may ever look at your account. You simply become a number in the IRS computer and get billed in the mail.

Once a balance due from a tax return has been posted to your account, a Computer Paragraph, or CP, notice is automatically mailed out. Your file is termed a "tax delinquency account," or TDA. Many automated collection notices were paused during the COVID-19 pandemic. However, the IRS began sending them out again in the summer of 2023.

The first notice is a four-page, nonthreatening CP-14, *You Have Unpaid Taxes*. These notices weren't paused during the COVID pandemic. The CP-14 includes a scannable QR code that directs to an IRS landing page for payments. If you don't pay up within 30 days, you'll receive a series of CP notices. Individuals ordinarily receive a total of four collection notices, culminating with a Notice of Intent to Levy, while businesses get two. However, if you have other outstanding tax bills, the IRS may speed up the process. By checking below for the number or type of CP notice you've received, you can figure out how close the IRS is to taking serious action.

Individual income taxes. About five weeks after sending the friendly bill, CP-14, the IRS computer usually sends "500 series" notices, identified by the number following the date in the upper right-hand corner: CP-501, *You Have a Balance Due*; CP-504, *You Have an Amount Due—Intent to Levy*; and CP-503, *Immediate Action Is Required*. In four to eight months, you'll get CP-90, *Final Notice—Intent to Levy and Notice of Your Right to a Hearing*.

CP-90 usually means your case is going to another IRS department. So don't panic just yet, but your time might be running out.

The total cycle, from the first notice to the last computer-generated letter, averages four to six months. This is the cushion before the IRS horror stories start coming true. At some point, the IRS will also send you Publication 594, The IRS Collection Process (available on the IRS's website at www.irs.gov). It describes what the IRS can legally do to collect from you—which is plenty. Read it.

Payroll taxes. If you owe business or payroll taxes, collection on your account may be accelerated. The IRS often shortens the notice cycle to as few as eight weeks, depending on the size of the delinquency.

Special circumstances. If you did not file a return or owe $50,000 or more, the IRS may go straight from the CP-501, *You Have a Balance Due*, to the CP-90, Final Notice. Or, the IRS may stop the notices if it determines that your account is currently uncollectible, or that you are deceased, filing for bankruptcy, or incarcerated.

Delaying the Computerized Notice Cycle

If your goal is simply to buy more time, respond in writing to each IRS notice. Send a letter with the bill and a short paragraph saying that you can't pay right now. You don't need to give an excuse; just ask for 45 more days to pay. This is the maximum time period that can be entered into the IRS computer to suspend the collection notice cycle. When the next CP notice comes, try responding by requesting another 45 days. If you're able, send a small payment with each of your request letters to show that you're trying. This should buy you an unofficial short-term payment plan, which might be all you need.

Sometimes, making 45-day delay requests throws a monkey wrench into the system. Taxpayers have been known not to hear from the IRS again for as long as a year. It all depends on the efficiency of your particular IRS campus and the priority your account is given.

Automatic Refund, Asset, and Wage Seizures

Even if you ignore the first few notices, you can buy some time by responding to the CP series notices. The IRS CP-90, Final Notice, is really not the last notice before the IRS takes action, in spite of its ominous title. The one to pay attention to is the next one: Letter 1058 (find the number in the upper or lower right corner), *Final Notice, Notice of Intent to Levy and Notice of Your Right to a Hearing. Please Respond Immediately.* This letter explains your rights to a hearing and requests an immediate response. If you don't respond after 30 days, the IRS computer may send levy notices to any financial institution suspected of holding funds under your Social Security number or name or to any employer or contractor who filed a W-2 or 1099 form showing they have paid you in the past. Levy notice recipients must then freeze your account or pay the IRS all or a portion of your wages or money owed to you. As discussed later in this chapter, you are entitled to appeal an IRS levy. The IRS could also issue Form CP-49, *Overpaid Tax Applied to Other Taxes You Owe*, and seize tax refunds that you are owed.

IRS AUTOMATED COLLECTION SYSTEM

As mentioned above, if you don't pay during the IRS computerized CP notice series, your file will be sent to the IRS Automated Collection System, or ACS. The ACS has the authority to collect most overdue tax bills, solicit tax returns from people who haven't filed, and levy (seize) assets and wages.

The ACS is a staffed telecommunications system for collecting seriously delinquent accounts. The ACS operates by mail and phone only.

The ACS computer automatically analyzes accounts that require telephone contact and dials and redials your phone number automatically if the IRS gets no answer or a busy signal. When contact is made, an IRS person will come on the line.