



IRS Tax Collections - An Overview

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Highlights



- **IRS Collection Division - their purpose is to collect unpaid taxes**
- **Summary of the Collections process**
- **Overview of programs available for taxpayers in dealing with Collections**



Minimum Requirements - “Table Stakes”

- **In order for work with the IRS re: collection programs taxpayers are required to be “in compliance”**
- **Compliance means - all outstanding tax returns have been filed or are within the extension period - tax returns are required to be filed for the past six years**
- **Compliance also means that progress is being made towards the current year taxes - through wage withholding and / or payment of estimated taxes**

Tax Assessment Overview



- In order for the Collections process begins the IRS requires that the tax liability be “assessed”
- The U.S. tax system is referred to as a “voluntary tax system” - it relies on taxpayers to prepare and file tax returns and make associated payments
- If a tax return is filed with a balance due the IRS will send a bill to the taxpayer

Tax Assessment Overview



- If the tax obligation remains unpaid for ten days the tax is considered assessed
- The date of assessment begins a ten year period for the IRS to collect amounts owed
- Once a tax has been assessed the IRS can be approached regarding payment / settlement of the debt
- Remember without compliance the IRS will not discuss payment / settlement options

No Return Filed



- If no return is filed the IRS can prepare a tax return - this return is referred to as a “substituted return”
- This process allows for the assessment of tax and for collection activities to begin
- The IRS will use available information to create the return - i.e. W-2s, 1099s, etc
- No deductions are used

IRS Programs Available



- **Installment Agreement - IA** - the tax debt is paid over a period of time in monthly installments
- **Offer In Compromise - OIC** - the IRS may allow for the tax debt to be “compromised” (i.e. reduced) - the taxpayer is required to demonstrate that their assets and future income are insufficient to pay the outstanding tax debt
- **Innocent Spouse Relief** - the liability of a taxpayer that files a joint tax return may be compromised in certain circumstances
- **Currently Not Collectable - CNC** - collection activities are suspended for a period of time

What If I Do Nothing



- Most taxpayers with a tax debt that can't be paid do one of two things: 1) file a tax return but then ignore IRS correspondence about any resulting tax obligation, or 2) do nothing
- Neither approach works out well for the taxpayer
- The IRS has powerful tools available to them for the purpose of collection - the most common of which are liens (taking your property) and levies (taking future income - i.e. wages)
- These tools are used by the IRS after all other efforts have failed - approaching the IRS before these actions have taken place is key to a successful resolution

IA and OIC Overview



- **Most tax debt situations are resolved using Installment Agreements or Offers In Compromise**
- **In most situations in order to propose either alternative the taxpayer is required to submit financial information to the IRS**
 - **a listing of assets owned and an estimate of future net income**
- **Future net income uses projected gross income (i.e. wages) less expenses**

IA and OIC Overview



- **Expense amounts are determined under IRS rules - certain expenses use actual projected expense amounts, other expenses use IRS allowed amounts, and others use a combination of the two (actual expense limited by the IRS allowed amounts)**
- **The total amount available - assets plus future income - is referred to as RCP (Reasonable Collection Potential)**

IA and OIC Overview



- If the RCP exceeds the tax debt (within the 10 year collection period) the IRS will usually allow for the debt to be paid over time with monthly installments - the IA
- If the RCP is less than the tax debt the IRS may allow for the debt to be reduced - through an OIC
- The key to resolving most tax debts is the computation and documentation of RCP

Summary



- **The IRS expects voluntary compliance with the tax system**
- **There are programs available to taxpayers who have complied with the tax return filing requirement but are unable to pay resulting taxes**
- **These programs are an accommodation to the taxpayer - the IRS could legally seize current assets and future income without working with the taxpayer**
- **Accordingly adherence to the IRS rules in this area is key to obtaining relief**