How to Reduce Your Tax Debt

Owing back taxes that you cannot afford is a frightening proposition. However, many people are living with just such a situation, and they are continuously trying to figure out how to pay off the debt or how to stave off the Internal Revenue Service (IRS) for as long as possible. Fortunately, avenues are available that can be used to reduce your tax debt. The IRS will negotiate the balance and payment terms of back taxes, but it can take a skilled and experienced negotiator to receive the best deal. These negotiations are referred to as tax settlement, and several tax settlement companies are available that can help. As a rule, if you owe the IRS more than $10,000, an attorney or tax professional should always be hired.

Pay in Full

The most obvious way to reduce your tax debt is to pay the balance in full. Of course, this is not possible for everyone, but it does have its advantages. First, the debt will cease to exist, and secondly, the debt will not accrue additional interest or penalties. If you do not have the cash to pay your tax debt in full, the following options are available:

- Sell your assets – If you do not have the cash, consider selling your assets to get the cash.
- Ask family and friends – Family and friends may be able to lend you the money at reasonable terms, but this is only recommended if you believe you will have the money soon. Otherwise, relationships may become strained.
- Take out a loan – If you have good credit, you may be able to take out an unsecured loan from your bank or another lender. If your credit is questionable and you own a home, you can consider a home equity loan. If your debt extends beyond back taxes, a debt consolidation loan could also be

beneficial.

Installment Agreements

Setting up an installment agreement (IA) with the IRS is one of the oldest and most popular forms of tax settlement. Such an agreement allows you to reduce your tax debt by making monthly payments. Most people who owe less than $25,000 have no problems with obtaining an IA, but it should only be agreed upon if you have the ability to make the monthly payments while continuing to pay your standard living expenses. If payments cannot be afforded, several other tax settlement options are still available.

Installment agreements with the IRS come in five basic types:

1. Guaranteed IA – This form of IA is guaranteed to all individuals who meet the following requirements:
    a. You owe less than $10,000 in taxes.
    b. All taxes are fully paid for the five prior years.
    c. You are not currently in bankruptcy.
    d. You can make monthly payments for three years.

You can apply for a guaranteed IA by completing IRS Form 9465 or the Online Payment Agreement (OPA) application on the IRS website.

2. Streamlined IA – The streamlined IA is best if you owe between $10,000 and $25,000 in back taxes. A financial disclosure statement is not required for this IA, but requirements similar to those for the guaranteed IA must be met. Payment terms may be extended from three years to five years unless business taxes are owed. Business tax debt must be paid within two years. Filing for the streamlined IA is also accomplished with IRS Form 9465 or the OPA application.

3. Financial verification IA – This type of IA is helpful if you owe over $25,000 in taxes. To qualify, you must fully disclose your finances by submitting a Collection Information Statement, also known as IRS Form 433. Other requirements include the following:
    a. Your back taxes are not over five years old.
    b. You have no other open IAs with the IRS and have not completed an

IA in the last five years.

c. You are not currently in bankruptcy.

d. You have insufficient assets to pay the taxes and are unable to take out a loan.

4. IA over $100,000 – If you owe more than $100,000 in back taxes, the IRS will consider a more personalized IA with longer payment terms.

5. Partial Payment IA (PPIA) – For many people trying to reduce tax debt, the PPIA is one of the best available options because the final amount paid is less than the total owed. If you can show the IRS that you cannot meet the payment schedule of a standard IA, the IRS can set a lower payment schedule based on your disposable income. You will then be required to make the monthly payments until the statute of limitations expires, thus ending your debt before it is fully paid. As long as you continue to make the monthly payments, the IRS cannot take further action to collect the taxes you owe. However, every two years, your finances will be reevaluated for a possible payment increase or for termination of the agreement. To apply for a PPIA, you need to complete IRS Forms 9465 and 433-A. You will also need to put your request for a PPIA in writing and include documentation for all listed income and expenses.

Offer in Compromise

Although it can be difficult to receive approval, an offer in compromise may provide you with the greatest single reduction in taxes of any other settlement method. It is estimated that only about 25 percent of applications are approved by the IRS. However, this should not be a cause for worry, and it is recommended that anyone who meets the qualifications should apply.

The most difficult aspect of an offer in compromise is that it requires you to set the terms of the offer. The IRS will not accept offers that they do not believe to be reasonable, and most people do not understand the specific criteria the IRS uses to determine which offers are reasonable and which are not. This is when it can be very useful to have an experienced tax attorney or tax specialist on your side. In addition to filing an application, all offers must be accompanied by a payment equal to 20 percent of the offer if proposing a lump sum payment. For offers with monthly terms, the first monthly payment must be included. If the offer is not accepted, the IRS retains the payment and applies it your balance.

One of the following requirements must be met for an offer in compromise to be considered:

• Uncertainty of total liability – If you have reasonable evidence that your tax balance may be incorrect, then an offer in compromise may be filed.
• Inability to pay – If you can make the IRS believe that you will never be able to pay the full amount owed, then they will consider an offer.
• Financial hardship – If you do not dispute the total or your ability to pay, then your final option is to prove that paying would create a situation of undue financial hardship.

To file an offer in compromise, three forms must be completed. IRS Form 656 and 656-A are the offer in compromise and income certification forms. IRS Form 433 is a financial statement used to determine the likelihood of collecting your debt.

Penalty Abatement
If you are like most people owing back taxes, a large chunk of your tax debt is in the form penalties and interest. In some situations, the IRS is able to remove the penalties, leaving only the principal tax amount and the interest. The only problem with applying for penalty abatement is that the IRS then expects you to pay the balance in full. For a penalty abatement to be approved, it is up to you to convince the IRS that you should not be responsible for the penalties. Some options that can help you to do this include the following:

• You were going through a family crisis, such as death, disease or divorce.
• Your financial records were accidentally destroyed or stolen.
• You were incarcerated.
• A financial planner or tax specialist gave you bad advice.
• A natural disaster occurred.

- You were unable to find employment.

To file for abatement, you can pursue one of three options: ask for abatement in a letter, ask for it during an oral interview or file IRS Form 843 to claim a refund on your penalties.

Currently Not Collectible

If your income barely meets the needs for basic living expenses and you have few assets, you may ask the IRS to declare you currently not collectible. Such a declaration will halt the IRS from making collection attempts, but you will still accrue interest and penalties. This will give you time to improve your financial situation, so you can begin reducing your tax debt, or it will allow the 10-year statute of limitations to approach without subjecting you to collection attempts. If a tax debt cannot be collected within 10 years of being assessed, it is reduced to zero. A declaration of currently not collectible is temporary, and you must pass a review each year to keep it in effect. To file for this status, you will be required to submit IRS Form 433 as evidence of your assets.

Getting Help

We have provided a lot of information in this report to get you through any tax problems you may have. If it's all a bit too much to do yourself, there are many Tax Experts who you can consult with and who can help you reduce your tax debt. Visit http://www.cashunclaimed.com/unclaimed-property-blog/tax-relief for more information.