

When You Can't Pay Your Taxes

by Quenda Behler Story

Occasionally I run into people who have not filed an income tax return for a number of years — some have never filed one. Most of these people are not what I think of as tax evaders, they're simply intimidated by the process — the forms scare them, or they're afraid they'll make a mistake and go to jail. If you find yourself in this group, a good solution is to hire a professional tax preparer or, if that's too expensive, ask for help from volunteer groups. Churches, union halls, Chambers of Commerce, and professional trade organizations can all put you in touch with free tax help. But if you end up filling out your own tax forms and you make a mistake, don't worry about it. Mistakes are not crimes; you may pay interest if you underpaid taxes, but jail isn't in your future. (Of course, claiming your dog as a dependent is a crime — but that's not really a mistake, is it?)

There's another group of people who don't file a return because they don't have the money to pay their taxes. Bad idea. Even if you owe the government a gazillion dollars in back taxes, nobody can put you in jail for not paying. But they can put you in jail for not filing. If you don't have the money to pay your taxes, file the forms anyway.

Payment Plan

If you file but don't pay, the IRS will not show up on your doorstep and grab your car, television set, and saleable children — at least not right away. The exception is when you owe more than \$100,000 dollars — then you will get

immediate and personal attention from the IRS. In that case, if you have any assets at all, you'd better get in touch with your lawyer right away.

But if you owe a more modest amount, the IRS will first send letters asking when you intend to pay the money you owe them. If you ignore the letters, someone from the IRS will eventually start phoning you. You can't ignore them forever, but you do have a number of options.

One thing you can do is ask the IRS to let you pay the money off in installments. IRS policy is that if you owe less than \$10,000, they will let you take 36 months to pay it off. You have to ask them, though, and you have to fill out the proper form (use Form 9465, "Installment Agreement"). With the IRS, you do everything with forms.


You should always request an installment plan. The IRS won't file a tax lien on your property or your other assets while your request is pending, even if they eventually refuse your installment request and insist on another plan.

If you need more than 36 months or owe more than \$10,000, you can propose a different installment plan. You will also have to file a financial statement with your proposed installment plan. For this, use Form 433-A, if you're self-employed.

Partial payment. Suppose the problem is that you can pay some of what you owe, but not all of it. You should make what's called an "Offer in Compromise." To do this, use Form 656 and supply a financial statement on Form 433-A with your offer of partial

payment. This plan isn't as easy as it sounds, because your financial statement will be audited. But if what you say is correct, the IRS will accept your offer.

If you just plain can't pay at all, you don't have any saleable assets and no way to borrow the money, once again, the IRS is ready with a form. This time it's Form 53, called "Report of Taxes Currently Not Collectible." On the form, you list your income and expenses. If it shows that you genuinely cannot pay, you'll be off the hook for a while. Of course, you'll hear from the IRS at least once a year, asking if you can pay yet. If ten years go by without your being able to pay, the debt simply expires under the statute of limitations.

Let me add a note of caution here: Everything I've mentioned applies to personal income taxes. If you're not filing or not paying your employees' withholding taxes, you have a very different problem. You should get legal help immediately, because you are in serious legal trouble. 

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