A Covert Guide to All Effective IRS Programs for Settling Tax Debt

Tax debt can sometimes seem like one of those “It couldn’t happen to me” type of problems. You hear about someone owing tens of thousands of dollars to the IRS, but figure that won’t be you because you’re diligent about paying your tax bills on time and promptly speaking to your tax professional when anything out of the ordinary happens.

But tax debt can happen to anyone, at any time. We’d like to introduce you to our client, Nancy (name changed per our obligation of confidentiality).

Nancy is a hard-working freelance writer in her late fifties.

Like most self-employed people, she's susceptible to facing larger than expected tax bills because of self-employment taxes and not having taxes automatically taken out of her earnings. But Nancy was able to stay on top of them most of her career, until she became incredibly sick with cancer about a decade ago.

Fortunately, she beat cancer. But her tax bills quickly mounted and she wasn't able to beat the IRS, so she asked Tax Shark for assistance. Major illnesses are often a driver for snowballing tax debt. But it turns out that cancer was only the beginning of her financial problems, as you’re about to find out.

What Causes Tax Debt to Snowball?

Of the nearly 154 million tax returns that were filed in 2018, the largest share of them are in the $50,000-$75,000 adjusted gross income bracket regardless of marital status, representing about 21 million taxpayers or 13.9% of all tax returns filed. You’re not rich, you’re not poor, you can keep your bills paid but be one accident or illness away from financial disaster through no fault of your own.

Nancy falls into this category, like millions of other self-employed Americans do. As for this income bracket, about less than 1% will actually be examined-- let alone audited-- by the IRS. However, this statistic doesn't erase the enormous stress (and interest) that comes with carrying tax debt and the awareness that something must be done about it.

After Nancy's cancer treatments were completed, she and her husband, Ben, divorced after two decades of marriage. While tax debt is a gender-neutral issue, the snowballing aspects and overall financial and mental loads tend to disproportionately affect married women more, as they have a 21% chance of their husbands leaving them during or after cancer treatment.

While men tend to suffer a 82% decline in wealth compared to 76% for women post-divorce, men tend to be in a better position financially to begin with due to the circular relationship between pay inequity and cultural norms like women being the first to give up their careers due to childrearing and caregiving responsibilities.

Divorce is another massive life change that has financial implications. In addition to the emotional distress you may be experiencing, you are also undergoing a stressful legal process that can dramatically affect your taxes. Tax benefits are commonly touted as a marital benefit, but they can also cause financial headaches if one spouse is more diligent with money than the other.

Nancy found love again a few years after she and Ben parted ways. But the tides of life struck and she wound up separating from her second husband, Chris, right before the pandemic.

A major illness and divorce can blindside even the most well-prepared, financially literate professional. The cumulative distress that Nancy suffered caused her to have a relapse and become disabled, which affected her ability to work, only compounding her financial issues further. The tax debt became severe enough that she had to contemplate going from freelance work to a W-2 job, a tough proposition when you are old enough to face hiring discrimination but too young to retire. Especially when you need freelance flexibility to manage a chronic illness.

Like many older women, Nancy trusted her ex-husband Ben to manage the household's personal finances, which included filing taxes. Chris filed his taxes separately from hers most of their marriage, because she was intimidated by managing her own finances for the first time and mistakes were made on their first joint return. Subsequently, Nancy is unsure how much of the tax debt she owes is due to her own mistakes as both first-time divorcee and in her second marriage, or how much is applicable to her former husbands.

She never expected to fall into so much tax debt. Constantly opening and closing bank accounts as she married, remarried, separated, and relocated numerous times also only added to the headaches. Does Nancy have any hope of sorting out this mess after being through so much?

What Are Nancy's Options for Tax Resolution?

The good news is that Nancy is likely eligible for a variety of tax resolution programs the IRS offers.

An important thing to bear in mind however is that your IRS account must be in good standing before you apply for any of these programs. This means that timely payments are being made on any existing payment agreements, and all outstanding tax returns have been filed.

Installment Agreement

What is it?

An installment agreement is a payment plan that has a short-term option where the balance will be paid off in 120 days or less, or a long-term plan if you need more time than that.

What are the taxpayer benefits?

Installment agreements give you the predictability of monthly payments for budgeting purposes. Having an active one also proves that you are complying with the law, if you're pursuing other options like back tax settlement. You can also pay off chunks of your balance or pay in full if you're able to, to save on interest.

What are the limitations?

Direct Debit Installment Agreements are required if you owe more than $25,000. There is a $31 setup fee for this type of agreement where payments are automatically withdrawn from your bank account every month. Low-income taxpayers can get this fee waived. The short-term payment plan is free to set up, while the long-term plan incurs fees.

There is a $149 setup fee if you don't want automatic withdrawals, which is reduced to $43 if you are low-income and it can be reimbursed in some cases.

Modifications to existing installment agreements cost $10, unless you are low-income and eligible for reimbursement.

Who is eligible?

Generally, you're eligible for a short-term payment plan if you owe less than $100,000 in combined taxes, penalties, and interest. This amount is reduced to $50,000 for long-term payment plans.

Since Nancy is unable to pay her balance in a few months and has diminished income from her disability, a long-term payment plan would be a better fit than a short-term one. Better yet, she isn't entirely sure what she owes based on the actual amounts, interest and penalty calculations, and determining which portions of the debt belong to her or ex-husbands.

But if Nancy owes *more than* $50,000 in combined interest, penalties, and taxes for all these years, she won't qualify for an long-term installment agreement.

Innocent Spouse Relief

What is it?

Married couples who file taxes jointly are treated as one taxpayer for purposes of the law, and both you and your spouse are responsible for the tax liability on your return. Innocent spouse relief is an IRS remedy if one spouse has been unfairly taxed or penalized.

When a couple files taxes together, they are considered joint and severally liable for the contents of that tax return. Which means that as a couple, you are not only liable for the taxes owed on the current return, but on any additional tax liability the IRS imposes. This is true even if the additional taxes are assessed because of your *spouse's* income, deductions, or other items.

Even in cases of divorce, federal tax law still trumps divorce decrees that state your former spouse bears sole responsibility for paying these taxes.

What are the taxpayer benefits?

Generally, innocent spouse relief will relieve you of the responsibility for taxes, interest, and penalties incurred by your current or former spouse who had improperly entered items on your joint tax return, or omitted them.

What are the limitations?

You are still jointly and individually responsible if the IRS determines these amounts do not qualify for innocent spouse relief.

Married taxpayers are entitled to the following waivers from joint liability:

- Innocent spouse relief
- Separation of liability relief
- Equitable relief

In order to qualify for innocent spouse relief, the following conditions must be met:

- You and your spouse filed a joint tax return
- The tax on the joint return is understated, and due to erroneous items on your current or former spouse's behalf
- You are able to prove that you did not know, or had reason to know, this understatement existed at the time you signed the tax return
- Given the facts and circumstances, it wouldn't be fair to hold you liable for the taxes due for this year

You generally have two years to claim this relief after the IRS attempts to collect the tax from you, but there are exceptions such as the IRS using your tax refund to offset taxes due from a previous joint tax return and you've been informed of your rights to innocent spouse relief.

Who is eligible?

You need to prove that you didn't know, or had reason to know, that your joint taxes were being misstated with omissions or erroneous items and that it isn't fair under the law to hold you liable for the taxes.

Erroneous items would include incorrectly claimed deductions, not reporting income, falsely claiming dependents, and claiming nondeductible expenses. If you had actual knowledge that one of the items your spouse reported was indeed erroneous, you would remain jointly liable. As for having reason to know, the IRS would consider your financial literacy and overall financial situation. You may get partial relief in some cases.

The IRS also considers whether you benefited from the understatement of tax, and if you have been divorced or deserted since the tax return was filed.

To claim innocent spouse relief, you need to file Form 8857: Request for Innocent Spouse Relief once you become aware of a tax liability where you believe only your current or former spouse should be held responsible. Receiving an examination or audit notice is often when people discover this, but in Nancy's case, she discovered the massive underpayments when she began sorting out her finances after the second divorce and her health worsening in her relapse.

Nancy may qualify for innocent spouse relief for certain years. Because cancer treatments tend to make people forgetful and fall behind on finances, plus Ben left her after the treatments ended, this puts the IRS in her favor. It doesn't look good for Ben for those years given that he controlled the finances and earned significantly more than Nancy as a salaried architect while her freelance writing earnings fluctuated, then served her with divorce papers after chemotherapy. The IRS considers these circumstances, and this could shift some of her tax debt onto Ben if it's determined she shouldered an undue burden for his higher earnings.

However, she is not likely to qualify for innocent spouse relief for the years she was married to Chris. The two filed separate tax returns most of their marriage and most of the mistakes on their first joint return were on her part.

If you had a similar situation to Nancy's marriage to Ben, innocent spouse relief might not erase all of your tax debt, but it can certainly take a huge bite out of it.

Offer in Compromise

What is it?

An offer in compromise is an offer to settle your tax debt with the IRS for less than what you owe. It is often considered the “nuclear option” if you have a great deal of tax debt, and do not think you will ever be able to pay off the full amount. A settlement offer is made and the IRS examines your total assets, living expenses, income, and assesses your current and projected ability to pay the current taxes owed.

The offer in compromise program also has a low income certification that will waive the application fee, and does not require an initial payment or monthly payments to be made while the offer is considered.

What are the taxpayer benefits?

Some or even nearly all of your back taxes will be completely written off, and you don’t have to pay them.

What are the limitations?

Usually, all of the other payment options must have been explored first before submitting an offer in compromise: is your tax debt too big for an installment plan? Will your assets satisfy the debt, and would it be tenable to take them from you? What are the facts and circumstances of how you got into this situation?

While an offer in compromise can settle your back taxes for far less than the balance due, you still need to make payments on any existing payment plans and file your tax returns. It doesn’t put your entire account on hold.

Who is eligible?

In order to be eligible for an offer in compromise, you must have filed all required tax returns for the years in question and made your estimated tax payments for the current year. If you are in open bankruptcy proceedings, you also cannot submit an officer in compromise. The IRS has a pre-qualifier tool you can use to determine if this is your best option.

Nancy is in a better position than most taxpayers to qualify for an offer in compromise. Her health issues prove that she had a significant hardship in keeping up with her payments, along with her divorces. She and Ben both had a decent amount of assets when they divorced, but she had significantly fewer assets when she and Chris separated. However, she does own a modest home worth around $100,000 and a car with about $30,000 in equity and a few years of payments to go. She doesn’t have much savings, and is worried that the IRS will take her home.

While these circumstances don’t make Nancy a shoo-in to get an accepted offer, they help. Owning her home and car will work against her, but her age and diminished ability to work prove that the IRS can’t get blood from a stone. The agency is likely to see they are better off settling this massive amount she owes--one too big for a long-term payment plan she can’t afford to keep up with--for a lesser sum.

Statute of Limitations

What is it?

Riding out the statute of limitations on collections sounds like an urban legend, but it’s a real, actual strategy that people use (and should be only attempted with a tax professional’s help).

There is a 10-year statute of limitations on collections. If you owe taxes, the IRS informs you of this fact, and you do not pay it but manage to go 10 years without payments, they can’t attempt to collect any more of the balance.

What are the taxpayer benefits?

You don’t have to pay the taxes due for the period(s) assessed. Not one penny.

What are the limitations?

This is 10 years from the date the IRS assesses you, not the date that you suddenly realize you owe taxes.

Who is eligible?

If you received a formal assessment (an IRS notice) of how much you owe and managed to dodge collection actions all this time, you just might make the 10-year mark. But it’s over the second you get another IRS letter concerning your balance due.

It is extremely rare anyone ever rides out the full 10 years. Thanks to the automated underreporter program, the IRS is quick to send notices of deficiency for unpaid taxes and the escalation process for delinquent tax bills to become liens has also been automated and expedited. You would need to go for an extremely long time without paying your taxes or responding to notices to reach this point of the lien process, and the IRS has likely levied your assets by the time you get close to the 10-year mark.

Nancy has not yet received a formal assessment from the IRS. She believes she will receive one about her general account, or the years she was still married to Ben and racked up huge tax bills. If she attempted to ride out the 10-year statute of limitations, she would likely get a lien against her accounts or home unless the IRS never bothered to examine her records.

Bankruptcy

What is it?

Filing for personal bankruptcy is the do-over that millions of Americans seek every year when they are in dire financial conditions, and just want a chance to start over.

Tax Shark suggests that you consult a bankruptcy attorney if you are considering this path since this is not our area of practice. But for a basic overview, declaring bankruptcy means that your personal debts will be settled because you are unable to pay them.

Chapter 7 bankruptcy stays on your credit record for 10 years and Chapter 13 does for 7 years. Chapter 7 is more common, and its' referred to as a straight bankruptcy or liquidation. A trustee appointed by bankruptcy court sells some of your assets and uses the proceeds to repay some of your creditors. Your home equity, car, clothing and household goods, pensions, and anything you use to make a living (such as the computer Nancy uses to write) are exempt.

What are the taxpayer benefits?

If you have taxable income from debt forgiveness, you can use your bankrupt status to exclude some or all of this amount from your taxable income. Filing for bankruptcy is also used as a consideration factor in audits and Tax Court challenges, primarily your ability to pay your back taxes.

What are the limitations?

Not all debt can be discharged in bankruptcy. Student loans, child support obligations, and most tax obligations are exempt. Since bankruptcy doesn't erase tax debt, it's not likely to be discharged.

A possible workaround is paying your taxes with credit cards, THEN getting the credit card debt discharged in bankruptcy. However, this is only viable if you have a credit limit and balance due that makes this possible and can hold out until your petition is processed.

Declaring bankruptcy also makes you ineligible for an offer in compromise, so this option wouldn't work for Nancy since she'd like to settle her back taxes if possible. She's having a hard time staying afloat, but her debt is primarily federal taxes and associated interest and penalties. She is able to make the minimum payments on her credit card and pay her car note.

Who is eligible?

You will need to file a bankruptcy petition that shows your income, debts, and assets, to prove that you cannot pay your debts and need to start over. Bankruptcy proceedings vary by court district and judges, you would need to prove significant financial hardship and situations that have hobbled your ability to make money, like Nancy's health issues, divorces, and her age.

Generally, it is not advisable to file for bankruptcy if you are able to make the payments on your personal debts or can negotiate better terms with your creditors. Debt consolidation is another attractive alternative to filing for bankruptcy. It ultimately depends on how much debt you have, and what **type** it is. While paying taxes with your credit card is also a workaround, it carries extremely high interest and your bankruptcy is not guaranteed approval.

Since Nancy may qualify for innocent spouse relief for some years, and her tax debt doesn't go on her credit report, bankruptcy proceedings would only cause more problems in her case and she can't afford to gamble on shifting any of her tax debt to her cards.

Currently Not Collectible Status

What is it?

Going into currently not collectible status is done by calling the IRS and requesting that they stop making collection efforts like sending you notices or possibly garnishing your wages or taking your home or car.

What are the taxpayer benefits?

Currently not collectible status is ideal for when you owe taxes but you're experiencing temporary hardship like job loss, illness, or fleeing domestic violence that would otherwise prevent you from paying in full or going on a short-term payment plan.

If you are worried about potential collections or IRS notices being sent to you, becoming currently not collectible can give you peace of mind.

What are the limitations?

The status doesn't erase your tax debt and interest will still accrue on the balance, along with any penalties the IRS has charged. But if you just need more time to pay and/or figure out your options while you are dealing with hardships and the stresses of daily life, currently not collectible status is the way to go.

Who is eligible?

All you need to do is call the IRS and ask.

In some cases, the agent may ask you to complete a Collection Information Statement (Form 433-F) which details your income, assets, and debts. This is often based on the amount due, how much time you think you'll need, and why you are requesting to be temporarily shielded from collection actions. If you are lower or moderate income and describe permanent or temporary disability to the agent on the phone, there's a strong chance they won't ask for this statement.

In Nancy's case, she's going through all of the options available to her but isn't sure which one is ideal. Calling the IRS and requesting that they make her account uncollectible for the time being would ease some of the stress of this situation. After all, she needs time to determine how much of her balance due is because of her past mistakes, or her ex-husbands', and which tax debt remedies to pursue. Because she is moderate-income and disabled, she probably won't be asked to fill out a Collection Information Statement.

Penalty Abatement

What is it?

The IRS charges various penalties for tax administration and late filing or payment. Many people are unaware that some of these penalties can be waived. Failure to file, failure to pay on time, and deposit failure (not paying enough estimated taxes) penalties can be waived. There are other penalties eligible for waiver on a case-by-case basis.

What are the taxpayer benefits?

If you got hit with a penalty for the aforementioned items, you can get a first-time waiver by contacting the IRS provided that you didn't have penalties on the past three years' worth of tax returns or were not legally obligated to file those years, you've paid or arranged to pay your taxes due for those years, and you have filed all outstanding tax returns for those years.

What are the limitations?

Penalty abatement only gets rid of penalties, not the taxes themselves. But since they can be exorbitant, your balance can drastically decrease with this remedy.

Who is eligible?

You'd need to have reasonable cause or a statutory exception for most penalty relief, but there is also a first-time penalty abatement for certain situations. For instance, you can get administrative relief from penalties if you received incorrect advice from the IRS.

In Nancy's case, she may be automatically waived from some penalties if she qualifies for innocent spouse relief in the final years of her marriage to Ben. For the tax years pursuant to her divorce, she had years she was required to file taxes and years that she was not, due to inability to work from cancer treatments. It only takes $400 in net earnings from self-employment to be required to file taxes, but $0 in earnings of any type means you are not required to file. For administrative purposes however, Nancy should still file tax returns for these years to expedite the tax resolution process. She may also qualify for the first-time penalty waiver for the first year she had to take her finances into her own hands, but the subsequent years may be harder to prove.

Given Nancy’s hardships, the IRS may still abate her penalties at their discretion. Upon reducing the penalties, the interest tied to them will also decrease. Penalty relief can help chip away at a balance due and shouldn't be overlooked.

Release of Levy

What is it?

Levies are legal orders issued by the IRS to seize some or all of your assets to satisfy tax debts. Levies can also be used to garnish your wages. Levies are usually what's portrayed in movies and on TV when a character is having tax problems, and the IRS is taking their car or house.

These portrayals are often inaccurate because the IRS can't just take your property without giving you at least 30 days with a written notice of intent to levy after they've billed you, and you didn't pay the bill or take other actions like go on a payment plan or into currently not collectible status.

What are the taxpayer benefits?

Getting a levy released means that the IRS **isn't** going to take your home, car, or the contents of bank and portfolio accounts after they've announced their intent to do just that.

Nancy is worried that the IRS could levy her home, car, or pension account because of her large tax debt. She can definitely ease that worry by going into currently not collectible status, as this means that the IRS can't attempt to collect on her balance-- such as smacking her with a levy. But if it got to that point, releasing the levy means her assets are safe.

What are the limitations?

Getting a levy released just means that your assets or wages are no longer threatened. You still need to pay your taxes.

Who is eligible?

If your taxes go unpaid long enough without additional remedies like payment plans or currently not collectible status, you may get a Final Notice of Intent to Levy. This notice also tells you your rights with respect to getting the levy released and stopping the seizure.

Since Nancy's account has been in arrears for a long time, it's possible she could get a levy notice if she kept refusing to make payments when the IRS sent bills. If she got one, she can request that the levy be released because of financial hardship if the levy would prevent her from paying her medical bills and basic living expenses.

The IRS is required to release levies in this situation. They are also obligated to do so if the value of the property they plan to seize is more than the balance due, and releasing it wouldn't hinder their ability to collect. If you've already paid the taxes owed or are past the statute of limitations, the levy can also be released.

Provided that Nancy's home is worth far more than what she owes the IRS, she could get the levy released. She'll still be required to pay her back taxes even if she got levied then got it released, but at least she won't have to worry about losing her assets. However, her car and pension account are at higher risk which is why going into currently not collectible status while she determines her options is the best route to go.

Release of Lien

What is it?

Federal tax liens get confused with levies. But a levy is the more drastic of the two, when they notify you of intent to seize your property and actually go through with it if you don't appeal for a release or otherwise get your tax debt sorted out.

A lien is simply the federal government making a legal claim against your property if you've failed to pay your back taxes long enough for them to notice, and haven't used any remedies like an installment agreement or making your account temporarily uncollectible.

A federal tax lien is a public document that notifies creditors that the federal government has a legal right to your property and that they get precedence over other parties should you file for bankruptcy.

What are the taxpayer benefits?

Getting the lien released will get your assets out of this status, and creditors will be notified.

Lien release is a major relief because federal tax liens can affect your ability to obtain credit, and even persist after a successful bankruptcy petition. If a lien has been placed on your home or car, selling them will be harder while it's in effect.

Who is eligible?

Taxpayers who can demonstrate they're making a good faith effort to file their taxes on time and arrange payment.

Nancy is at risk for receiving a federal tax lien since she has not paid all of her taxes. The best way to avoid liens is by filing your tax returns on time and paying in full whenever possible, then going on payment plans and communicating with the IRS regarding your ability to pay if you can't afford your tax bills.

If Nancy does get a lien, she can get it withdrawn by being current on her last three years' worth of tax returns plus estimated tax payments. If she's having trouble making those tax deposits, she could also get it withdrawn on the grounds that the balance is $25,000 or less and/or her direct debit installment agreement covers the full amount owed within the earlier of 5 years or prior to the statute of limitations on collections running out.

File Unfiled Returns to Replace Substitute for Returns (SFR's)

What is it?

Substitute tax returns are information returns that the IRS files containing bare bones information, such as amounts from Forms W-2 and 1099, without taking any of the deductions and credits you may be entitled to.

If you've gone for a year or more without filing taxes, the IRS will send a letter saying that they didn't receive your tax return and are proposing a tax bill based on the assessment from the substitute return they've filed. It also gives you 30 days notice to file your personal income tax return, sign a consent to assessment and collection based on the substitute return's contents, or a letter that you're not actually obligated to file taxes for that year.

What are the taxpayer benefits?

Substitute returns don't take any benefits into account, they are filed when you have not filed tax returns for the years in question, and definitely don't work in your favor. Filing your own returns is always more beneficial since it ensures you're not forgoing significant tax savings.

What are the limitations?

Replacing substitute tax returns is crucial for correctly assessing how much tax you actually owe. In some cases, it could even eliminate your tax bills. But in most cases, it ultimately means that the information is being sorted out, it's not actually paying the taxes.

Who is eligible?

Everyone must file a tax return, although there's situations where you're not legally required to. But even if you meet those conditions, here's why you should still file taxes for those open years anyway.

Since Nancy has some years where she had very little or no income because of her health issues, she'd be able to use the gross income filing requirement for her filing status to prove she didn't need to file taxes. This requirement hinges on age and filing status, but there's some exceptions to the gross income filing requirement--namely, self-employment.

Since Nancy is under 65 and not blind, her gross income filing requirement is automatically a little lower than it would be otherwise. However, she has tax years where she was married, divorced and filing as single, and now she is separated from her second husband but still married. The gross income filing requirement, regardless of age and blindness, is only $5 for taxpayers who are married filing separately.

If Nancy has unfiled tax returns from the years she was supposed to file as a single, it would be $12,400 for the 2020 tax year. However, there are situations where you must file a tax return regardless of your gross income and filing status. Common reasons for people experiencing financial hardship would include taking out distributions from retirement assets like IRAs and owing additional taxes as a result.

If you also have at least $400 in net earnings from self-employment, you are obligated to file a return and pay your share of self-employment taxes even if this was your only income. So if Nancy wrote two articles for $200 each and didn't have any expenses to claim before she was too sick to work, she'd still need to file a tax return since she has self-employment income. But if her records show that she had sufficient business expenses to get her net self-employment income below $400, then she wouldn't need to file a tax return.

Even if Nancy isn't obligated to do so, it's still a good idea for her to file tax returns for those years because it not only keeps her records straight, she may also qualify for benefits like the Earned Income Tax Credit.

Tax Shark is also here to help you file your past due tax returns to get your tax liabilities straightened out if you're in a similar situation to Nancy.

Dispute Taxes on Technical Grounds

What is it?

Disputing tax laws on technical grounds involves filing an appeal within the IRS. If your situation seems unclear, it can be escalated to Tax Court.

Appeals are made within the scope of tax law, unlike some infamous "tax protestors" who've used religious or political beliefs as well as incredibly loose interpretation of constitutional law to buck their tax bills. Any appeal made to the IRS is only within the scope of U.S. Code Section 26, the Internal Revenue Code.

What are the taxpayer benefits?

Filing an appeal can help clarify tax laws that have incredibly unclear interpretation, and you have the option to escalate to Tax Court if you disagree with the interpretation. Appeals officers also have more power than Revenue Officers and Agents, so if you agree with their findings, it can expedite getting up to speed on your tax matters.

What are the limitations?

There are two forms of appeals: small case requests and formal written protests. Small case requests can only be made if the total combined taxes, penalties, and interest for each tax period involved is $25,000 or less. The proposed increase or decrease must also be factored into this threshold. If the combined total exceeds this amount, only a formal written protest can be made.

Formal written protests are longer letters that are sent to the IRS outlining the tax years involved plus a statement that you want to appeal the outcome of prior IRS notices or examinations. The letter needs to clearly outline which changes you disagree with and which sections of the tax code back up your assertion, and all under the penalty of perjury.

Appeals don't have a guaranteed outcome and can take an incredibly long time to process. While they can reduce or even eliminate balances in some cases, they require deeper knowledge of the tax code than other remedies do.

Who is eligible?

Anyone can file an appeal of IRS findings, all taxpayers have the right to.

However, filing an appeal usually only makes sense when the application of a tax code provision is unclear, there is no known precedent, or the situation is a complete aberration from the precedent. If you can provide enough records and other proof that your deductions have merit, and back it up with the tax code, you could appeal some or even all of your balance due.

In Nancy's case, filing an appeal would only make sense for her if the IRS sent letters saying that they were disallowing various deductions or other benefits that they don't believe she qualified for. Because she's unclear as to how much of her balance belongs to her or her ex-husbands, she needs to try other remedies like innocent spouse relief first.

Pay in Full

What is it?

Paying in full is the most obvious answer, and the one that most people would just do if they were both certain of the amount owed and had the financial means to do so.

What are the taxpayer benefits?

No more stress with having to think about it! You don't need to apply for payment plans, the interest accrual stops, and you're considered compliant with all other tax matters. No more liens or levies.

What are the limitations?

When most people think of overpaying taxes, they think of getting a tax refund in April. It's why there's an entire retail cycle around springtime and getting an average cash injection of $1,265.

But overpaying taxes can actually be chalked up to more complex nuances of the tax code like not knowing which deductions and benefits you qualify for, and the post-assessment remedies Nancy is navigating like determining if she qualifies for penalty abatement and innocent spouse relief.

Paying in full without question could cause you miss out on tax savings, so think carefully before doing so if you have the means.

Who is eligible?

Anyone and everyone. If you have the financial means to pay your balance in full, it will definitely make your life easier. The IRS can be paid online, by check or money order to your regional office, the IRS2Go mobile app, and through approved credit card providers. Up to $10 million can be paid by direct deposit, $100,000 by credit card.

You can also pay in full by raising the funds. Once you've determined how much of your balance can be reduced with various remedies, you might opt for selling off assets, asking family to pitch in, or turning to crowdfunding to help with your tax bills. If you need an extremely large amount of cash, a stressor like tax debt could lead to opportunity: we wouldn't have had the *Fresh Prince of Bel-Air* if it hadn't been for Will Smith's delinquent taxes.

Pro Tips: Who to Contact

If you're having trouble figuring out the "why" of your balance due the way that Nancy has on her journey in straightening out her finances, there are various arms of the IRS you can contact before you consider professional help like Tax Shark.

Taxpayer Advocate Service

The Taxpayer Advocate Service is a division of the IRS devoted to upholding taxpayer rights. If you're having trouble with your taxes and IRS agents have not been able to help you, the Taxpayer Advocate Service is usually the first step in addressing these problems. Their website also provides free guidance for what to do with common IRS notices, as well as help with issues like filing past due tax returns and determining which branch of the IRS you need to contact.

If you have also had any adverse experiences dealing with IRS staff, you can report the employee by name and/or badge number to the Taxpayer Advocate Service to open an investigation and raise your tax issues to the next level if need be.

Local IRS Office

The IRS has multiple regional and local offices to serve taxpayers across America, as well as the International Taxpayer Service Call Center for nonresidents and expats.

Going to your local IRS office can end up saving time because the main IRS circuit board is frequently flooded with calls from people around the country, and there are not enough agents to deal with them. If you need to escalate your case, your local office may have Revenue Officers who can handle your concerns more promptly in person by appointment.

Appeals

If you have an issue that is beyond your local IRS office and doesn't seem like a fit for the Taxpayer Advocate Service, taking your case to appeals is the next best bet. You can make it to appeals if you've exhausted all these other channels and still have not yet solved the problem because of systemic issues with administration or unclear interpretation of tax laws.

This is because appeals officers have the authority to take action immediately, and often in the taxpayer's favor if you just want to get this case done with and ease that mental load.

As for Nancy, she decided the first order of business was to go into currently not collectible status. They quickly approved it because of her health issues and financial hardships. Doing so gave her peace of mind while she pursued her options with us, which included first-time penalty abatement to help chip away at the balance while she awaits her innocent spouse relief for the last two years she was married to Ben. Since Nancy still owes more than $50,000 in spite of this relief, a long-term payment plan isn't allowed--but an offer in compromise is, and it looks optimistic for her since her age and worsening health proves that the IRS will have a hard time collecting the balance.

Seemingly insurmountable tax debt can happen to anyone at any time. It does not discriminate, and all it takes is one accident, illness, or heartbreak to go from staying on top of your payments to collapsing into financial disrepair. If you have years of unfiled taxes, Tax Shark is here to help you detangle them and get on the path to recovery.