



FAQs about resolving small business tax issues

Tax problems can happen to even the most organized small business owners. A cash flow crunch, an unexpected tax notice, a missed filing deadline or a payroll tax oversight can be stressful — especially when penalties and interest begin to add up. Fortunately, businesses can get back on track by addressing tax issues promptly and strategically.

What should I do if I receive a tax notice?

If you or your business receives a tax notice from the IRS or a state agency, don't ignore it. Start by reviewing the notice carefully. It may relate to:

- A balance due,
- A missing tax return,
- A proposed tax adjustment,
- A payroll tax deposit issue, or
- A request for documentation.

Be aware that tax notices typically include response deadlines — and missing them can limit your options and lead to additional penalties and interest. Tax authorities may eventually pursue collection measures (such as liens or levies) on unpaid amounts. A *lien* is a legal claim against property, which can affect your ability to secure credit or

complete financial transactions. A *levy* allows the tax agency to seize assets to satisfy the debt.

Before making a payment or sending a response, confirm that the notice is accurate. We can help you compare the notice with your business records, gather supporting documentation and prepare an appropriate response.

How far back can I file unfiled tax returns?

If you have unfiled tax returns, it's important to address them as soon as possible. In many cases, you'll need to file past-due returns before you can qualify for certain resolution options, such as a payment plan or settlement program.

How far back you need to file depends on your circumstances, the type of return involved and the tax agency's requirements. There generally isn't a simple time limit that makes an unfiled return "go away."

For federal income taxes, the statute of limitations for the IRS to assess additional tax for a particular tax year generally starts only after a valid return is filed. It's typically three years, but it's six years if you understate your gross income by more than 25%. If you fail to file a return (or you file a false or fraudulent return), the IRS has an unlimited amount of time to assess tax for the tax year.

So filing past-due returns can help reduce the risk of penalties, interest and collection activity — as well as the risk that the taxing authority could create a "substitute for return" for you. (This is generally undesirable because the return likely will include your income but not all the deductions, credits and other tax breaks you may be eligible for.)

If you're owed a refund, filing promptly is especially important because you may lose the ability to receive an otherwise valid refund if you wait too long. Federal income tax refunds and credits generally must be claimed by the later of three years from the date you filed the return or two years from the date you paid the tax.

What are my options if I owe back taxes?

Some business owners who owe tax can't immediately pay the full balance due. If you owe back taxes, you may have several options depending on the amount owed, the type of tax involved and your financial situation. Ways to manage tax debt may include:

- Making a payment,
- Asking for a temporary delay in collection due to financial hardship,
- Participating in a settlement program (see below), and

- Setting up an installment agreement or payment plan.

An installment agreement or payment plan may give qualifying taxpayers extra breathing room to pay the balance over time. However, you must generally stay current with future tax filings and payments. Falling behind again can cause you to default on your payment plan and potentially lead to additional collection actions.

Can I settle my tax debt for less than the full amount owed?

Some tax agencies offer settlement programs that allow eligible taxpayers to settle tax debt for less than the full amount owed. For federal tax debt, the offer in compromise (OIC) program may be available in limited circumstances.

However, an OIC isn't available to all taxpayers and may not be the best option in every situation. The IRS reviews income, expenses, asset equity and ability to pay when determining whether to approve an OIC request. Before applying, you'll generally need to have all required tax returns filed. You also must be current with ongoing tax obligations, including estimated tax payments and federal tax deposits.

Can tax penalties be reduced or removed?

Penalty relief may be available in certain circumstances. Depending on the penalty and the facts involved, you may qualify for administrative relief, such as an automatic exemption from penalty, first-time penalty abatement or relief based on reasonable cause.

Reasonable cause may apply when you made a good-faith effort to meet your tax obligations but were unable to do so because of circumstances beyond your control, such as:

- A serious illness,
- A death in your immediate family,
- A natural disaster, or
- Loss of records.

Penalty abatement isn't automatic. You must follow the instructions in the notice. You might need to call the IRS or submit a written request with a clear explanation and supporting documentation. Even if penalties are reduced, interest may still apply, so it's advisable to respond as soon as possible.

Why are payroll tax-withholding problems so serious?

Payroll tax-withholding problems are among the most urgent tax issues small business owners can face. If you have employees on your payroll, you're responsible for withholding federal income tax, state income tax (if applicable), Social Security tax and Medicare tax from their wages and remitting those amounts to the government. Tax agencies closely monitor these tax remittances because you're withholding money on behalf of your employees and holding it in trust until you deposit it with the taxing authority.

In some cases, business owners or other responsible individuals may be held personally liable for unremitted taxes through the Trust Fund Recovery Penalty. The penalty can apply to individuals who are responsible for collecting, accounting for or depositing the taxes and who willfully fail to do so. If your business falls behind on these tax deposits, professional guidance is critical.

How can I avoid future tax problems?

For small business owners, preventing future tax issues starts with strong accounting systems, accurate bookkeeping and timely tax filings. You should also engage in proactive tax planning by reviewing financial reports regularly, setting aside funds for taxes, and making estimated income tax payments and depositing withheld taxes by the required deadlines.

If you're facing tax resolution issues, contact us. We can help you understand your options, communicate with tax authorities and create a plan to keep your business moving full speed ahead.