

Solving IRS Problems

2nd Edition

Table of Contents

Chapter 1 – IRS Overview and Taxpayer Rights	1
Learning Objectives	1
Introduction.....	1
The Mission of the IRS.....	1
IRS Operating Divisions	1
Areas and Territories	2
Appeals	2
The Office of Chief Counsel	2
Criminal Investigation Division.....	2
Taxpayer Advocate.....	2
The Taxpayer Advocate	2
Taxpayer Assistance Orders	3
Taxpayer Rights	3
Original Taxpayer Bill of Rights	3
Taxpayer Bill of Rights II	3
Taxpayer Bill of Rights III	3
When Is the Confidentiality Privilege Extended to Taxpayer Communications?.....	4
IRS Employee Contacts	4
Listing of Local IRS Telephone Numbers and Addresses	4
Ten Deadly Sins	4
The Practitioner Priority Service.....	4
Freedom of Information Requests	5
Working With the IRS To Resolve the Taxpayer’s Problem	5
Review Questions.....	6
Review Answers	7
 Chapter 2 – Which Option is Best? Alternatives to an Offer in Compromise.....	 8
Learning Objectives	8
Introduction.....	8
Full Pay the Tax Owed.....	8
Filing Unfiled Tax Returns and Replacing Substitute for Returns	8
Dispute the Tax on Technical Grounds.....	9
Currently Not Collectible Status.....	9
Installment Agreements	9
Offers in Compromise	9
Penalty Abatement.....	9
Discharging Taxes in Bankruptcy	10
Innocent Spouse.....	10
Expiration of the Collection Statute.....	10
Review Questions.....	11
Review Answers	12
 Chapter 3 – How to Determine When a Taxpayer Needs Professional Help.....	 13
Learning Objectives	13
Can the Taxpayers Handle Their Own Case?	13
How To Select the Best Tax Consulting Firm	13
Areas of concern.....	14
How to Save on Professional Fees.....	14
Tax Professionals To Consider	14
Attorneys	14
Certified Public Accountants	15
Enrolled Agents	15
Full-Service Tax Resolution Specialists.....	15
How To Find a Tax Professional	15

Table of Contents

Review Questions.....	17
Review Answers	18
Chapter 4 – Statutes of Limitations	19
Learning Objectives	19
Two Perspectives of the Statute of Limitations	19
Three-Year Statute of Limitations	19
Timely Mailing of a Return.....	19
Is There a ‘Bright Line’ Test for Assessment Purposes?.....	19
Special Statute of Limitations Rules	20
Six-Year Statute of Limitations	20
No Statute of Limitations	20
Statute of Limitations on Collection	20
The Date of Assessment.....	20
The IRS Can Use Administrative or Judicial Methods to Collect Delinquent Taxes.....	20
When is the Statute of Limitations on Collections Suspended for an Installment Agreement?	21
When is the Statute of Limitations on Collections Suspended for an Offer in Compromise?	21
When is the Statute of Limitations on Collections Suspended for Bankruptcy ?	21
What is the Authority for Appeals Officers to Resolve the Tax Issue?	21
Collection Appeals Program.....	21
Assessments	21
Summary Assessment and Deficiency Assessment.....	22
Review Questions.....	23
Review Answers	24
Chapter 5 – Liens and Levies.....	25
Learning Objectives	25
Liens and Levies.....	25
IRS Bank Levies	25
Federal Tax Liens	25
Certificate of Release of Paid or Unenforceable Lien.....	26
Levying the Taxpayer’s Property	26
Effect of a Levy.....	26
Notice of Intent to Levy	26
Notice of Seizure	26
Bank Account 21-Day Waiting Period.....	27
Seizure of a Taxpayer’s Residence or Business	27
Wage Garnishments	27
Fair Debt Collection Practices	27
The Collection Information Statement.....	27
Analysis of Taxpayer’s Financial Condition.....	27
Review Questions.....	29
Review Answers	30
Chapter 6 – Filing Unfiled Returns and Replacing Substitute for Returns	32
Learning Objectives	32
Introduction.....	32
Review Questions.....	33
Review Answers	34
Chapter 7 – Installment Agreements	35
Learning Objectives	35
IRS Payment Plans.....	35
Installment Agreements	35
User Fees for Installment Agreements	36
Interest Does Not Stop With an Installment Agreement	36
How Best to Make Timely Installment Payments	37

Table of Contents

Fees to Set up an Installment Agreement.....	37
How to Set up an Installment Agreement.....	37
What Information Do I Need to Use the Online Payment Agreement (OPA)?.....	37
Enforced Collection Actions	38
Payments Should Be Made Timely.....	38
Annual Statements of Balance Due.....	38
Meeting the Terms of an Installment Agreement.....	38
Why an Installment Agreement Will Cost You More.....	38
Review Questions.....	39
Review Answers	40
Chapter 8 – Delayed Collection and Currently Not Collectible Status	41
Learning Objectives	41
Delayed Collection.....	41
Accounts Currently Not Collectible—Stop Collection By Becoming Uncollectible	41
Collection Due Process Hearing (CDP)	43
Review Questions.....	44
Review Answers	45
Chapter 9 – Offers in Compromise	46
Learning Objectives	46
Introduction.....	46
Why the Taxpayer Needs An Expert in Their Corner	46
The Importance of the Firm's Track Record.....	47
Can I File an Offer in Compromise to Delay Collection Action?.....	47
What is an Offer in Compromise User or Application fee?	47
Processing Your Offer in Compromise	50
Offer in Compromise Determinations	51
Financial Analysis.....	52
Verification.....	52
Internal Sources.....	53
Taxpayer Submitted Documents	54
Equity in Assets	55
Net Realizable Equity.....	56
Jointly Held Assets.....	56
Income-Producing Assets	56
Assets Held By Others as Transferees, Nominees or Alter Egos	58
Cash.....	58
Securities.....	58
Life Insurance	59
Retirement or Profit Sharing Plans	59
Furniture, Fixtures, and Personal Effects.....	60
Motor Vehicles, Airplanes and Boats.....	60
Real Estate	61
Accounts and Notes Receivable.....	61
Inventory, Machinery and Equipment	61
Business as a Going Concern.....	62
Dissipation of Assets.....	62
Future Income	63
Allowable Expenses.....	64
Conditional Expenses	64
Shared Expenses	65
Calculation of Future Income	66
Payment Terms	67
Collateral Agreements	68
Co-Obligor Agreements	69
Other Collateral Agreements	69

Table of Contents

Future Income	70
Adjusted Basis of Specific Assets.....	71
Waiver of Losses	71
Net Operating Loss	71
Capital Loss	72
Passive Loss	73
Multiple Agreements	73
Waiver of Refunds	73
Possible Actions on Accepted Offers.....	76
Rescission of Accepted Offers	76
Rescission Procedures	76
Potential Default Cases.....	76
Compromise of a Compromise	77
Authority to Compromise Under a Compromise Contract.....	77
Receipt and Processing	77
Consideration of Proposal.....	77
Processing Completed Investigations.....	78
Overlooked Periods	78
Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) Section 509	81
Review Questions.....	82
Review Answers	83
 Chapter 10 – How to Complete Form 656 (Offer in Compromise)	84
Learning Objectives	84
Introduction.....	84
What is an OIC offer?	84
Three Types of OICs.....	84
Offer in Compromise Payment Options	85
Payments and Application Fees	86
Other Important Facts	86
Are You Eligible?	86
Paying for Your Offer	87
Application fee	87
Payment Options	87
Future tax obligations.....	87
How To Apply	87
Application Process	87
Completing the Application Package.....	88
Important Information.....	89
Review Questions.....	112
Review Answers	113
 Chapter 11 – Innocent Spouse Defense	114
Learning Objectives	114
Introduction.....	114
Innocent Spouse Rules.....	114
Factors for Determining Whether To Grant Equitable Relief	116
Relevant Factors.....	116
Factors Weighing in Favor of Equitable Relief	117
Refunds.....	117
Proof Required.....	118
Refunds Under Equitable Relief	118
Limit on Amount of Refund.....	118
Relief.....	120
Review Questions.....	121
Review Answers	122

Table of Contents

Chapter 12 – Other Options	123
Learning Objectives	123
Bankruptcy	123
Will Bankruptcy End Your Tax Worries?	123
Payroll Tax Problems	124
IRS Audits	124
Penalty Abatement	125
How to Abate Your Penalties or Interest	125
Collection Appeals	126
IRS Appeals	126
Review Questions	127
Review Answers	128
Chapter 13 – Frequently Asked Questions (FAQs)	129
Learning Objectives	129
Introduction	129
Review Questions	141
Review Answers	143
Chapter 14 – Recent IRS Tax Cases	146
Learning Objectives	146
Cases	146
Tax Lien Filed Against Actor Nicholas Cage for \$6 Million Tax Debt Owed to the IRS	146
An Illinois Woman Faces Up To 16 years for Evasion and Embezzlement	146
Louisiana Doctor Guilty of Not Filing Return	146
Mayor Guilty of Tax Evasion and Corruption	146
Massachusetts Businessman Receives 15 Months	147
Computech President Receives 15 Months	147
New Hampshire Man Sentenced To Probation for \$57,000 in Tax Evasion	147
Texas Lawyer Guilty of Not Filing Tax Returns	147
Former Minnesota State Senator Found Guilty	147
Plumbers Indicted for Tax Charges	148
Former Massachusetts Resident Charged with Filing False Tax Returns	148
Denver Man Sentenced for Tax Fraud	148
Massachusetts Man Pleads Guilty to Tax Evasion	148
Georgia Woman Receives 16 Months for Tax Fraud	148
Connecticut Businessman Pleads Guilty to Tax Fraud	149
Massachusetts Man Charged with Filing False Tax Returns	149
Delaware Man Charged with Tax Evasion	149
Baseball Great Pete Rose Owes \$1 Million	149
Sales Executive Gets Prison for Evasion	149
New York Racing Official Sentenced for Tax Evasion	149
Washington, DC, Man Sentenced for Making False Claims to IRS	150
New Jersey Lawyer Charged with Tax Evasion	150
Former Mayor in Arizona Pleads Guilty to Tax Evasion Charges	150
North Carolina Women Sentenced for Roles in Tax Refund Scheme	150
Bookie Pleads Guilty to Gambling, Tax Evasion Charges	150
Tribal Chair Sentenced on Tax Charges	150
Florida Man Gets Jail Time for Evasion	151
Connecticut Executive Punished for Tax Fraud	151
Baltimore Police Commissioner Sentenced for Tax Fraud	151
Alabama Fast-Food Manager Gets Prison for False Returns	151
North Carolina Man Convicted of Two Felony Counts	151
Connecticut Man Receives Probation for Failing to Pay Income Taxes	152
Delaware Man Indicted for Not Reporting \$500,000	152
Tucson Man Receives 189 Days in the Can for Filing False Tax Form	152
Inventor Convicted of Tax Fraud	152

Table of Contents

INS Agent Sentenced on Tax Charges.....	152
Dallas Man Gets 15 Months in Jail	152
Village Official Indicted for Tax Charge.....	153
Delaware Man Pleads Guilty to Tax Evasion	153
Phoenix Man Indicted for False Returns.....	153
Ohio Man Tried to Conceal More Than \$4 Million in Income.....	153
Arizona Man Pleads Guilty to Not Filing Returns	153
Review Questions.....	154
Review Answers	155
Appendix A – Declaration of Taxpayer Rights	157
I. Protection of Your Rights	157
II. Privacy and Confidentiality	157
III. Professional and Courteous Service.....	157
IV. Representation	157
V. Payment of Only the Correct Amount of Tax	157
VI. Help With Unresolved Tax Problems.....	157
VII. Appeals and Judicial Review.....	157
VIII. Relief From Certain Penalties and Interest	157
Examinations, Appeals, Collections, and Refunds.....	158
Examinations (Audits)	158
Appeals	158
Refunds	158
Appendix B – Record of Account Transaction Codes	159
Glossary.....	161
Index	167