MODERN CPA

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Options for an Outstanding Tax Balance

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Michelle: We are modern CPA. Our purpose is to provide valuable information to small business owners on our podcast, Profit Points. We discuss business how tos, give tax tips and dig into real life experiences in the crazy world of running your own business. If you find this podcast helpful, then like subscribe and follow us on social media. Hey everyone. Thank you for joining us on the Profit Points podcast today, where small business owners, professionals and industry leaders discuss the things that they see in the crazy world of running your own business. And today, Shawn and I will be talking about payments to the IRS or states when you owe taxes now that you've filed your tax return. So welcome, Shawn.

Shawn: Hi, Michelle. How are you?

Michelle: Good, good. So we...As a business owner, we finally have filed our tax returns and we may have owed taxes with this last tax return. And sometimes people will pay those. A lot of times people will pay those upfront. Right. Right. When the tax return is due. But there are instances when those taxes can't be paid at that time. And so what we want to do is kind of help our small business owners understand what options they have when they're not able to make those payments.

Shawn: Yeah. You know, the best piece of advice is to try to pay those taxes as soon as possible because, you know, you filed your tax return. You're now, we're now past the due date and interest and penalties on those balances that are due will accrue until you get those paid off. So option one is, you know, pay it as soon as possible along with the interest and penalties. Yeah. You know, there's you may be able to get out of some of the interest and penalties if there is some sort of, you know, real good reason, like a medical reason or something like that. But, you know, it's difficult a lot of times to get out those penalties. So. Yeah.

Michelle: And sometimes people when I hear and talk with some of my clients that are not able to make the tax payment immediately, they get upset about the fact that they have to pay interest and penalties. But if you were to go to a bank or if you were to put it on a credit card, both of those entities would charge you some sort of interest. So although no one likes to pay taxes, it's the same concept. It's right. You're not making payments and they're entitled to interest, basically.

Shawn: Yeah, exactly. And, you know, it's unfortunate because it does increase the cost of what you know, these taxes are, you know, are due. And, you know, no one likes to pay taxes and no one likes to have a balance due at the return. But yeah, there are instances where it happens and, you know, cash flow issues or whatever could lead you to actually not being able to pay on time. So yeah. So.

Michelle: So let's get into some of the options that people have if they are not able to make full payment on their taxes. And one of the things I do want to mention before we get into what those options are, is we always suggest that the client make as much of a payment as they can to help reduce the amount of interest and penalties that are accruing. So even if you are not able to make full payment on whatever taxes are due, go ahead and make what you absolutely can, because that will help you over the long term.

Shawn: Right, exactly. Yeah. Reducing those interests and penalties is key. And getting payments in as soon as possible is also key, too, because it also, you know, once you start making payments, it kind of stops some of the more aggressive collection efforts by the IRS or, you know, state or local government agencies. Right. Starting to make payments as soon as you can. You know, it helps in those efforts as well.

Michelle: Okay. So what's an option that someone has in order to try and fulfill the tax liability?

Shawn: Yes. So, you know, you filed your tax return. There's a balance due and you paid as much as you can at the time and now you still owe. So the first option in that scenario is an informal payment arrangement where you just send in payments monthly or whatever time period you have, just not more than monthly. I wouldn't suggest waiting like every other month or every three months, but some sort of monthly payment. And then in that sense, you know, we would suggest you do that, if you're going to be able to pay it off over the next three, four or five months.

Michelle: Pretty quickly. Short term.

Shawn: Yeah, we're not talking more than a year or so. So informal arrangements can work in a shorter term where, you know, you're just basically paying it off over three or four months.

Michelle: Now, there's probably some more aggressive collections that are going to start coming in that time period. So it becomes a little more challenging with the IRS.

Shawn: Yeah, I mean, the IRS especially, you know, you have, you know, once you file the return and you haven't paid on time, they'll start sending notices out, you know, that, that you owe money. And then after so much time goes by and they're not paid in full, you know, they could, you know, they'll start sending notices, the nasty notices of they're going to lien your bank accounts, they're going to garnish your wages. Those types of notices start coming out. So at that point, you know, all along this process, you should be, you know, talking with your professional and making sure that you're giving them those notices so, you know, they can be addressed if need be. But once you get to a point where they're wanting to garnish your wages and put a lien on, then contact with the IRS is required to, you know, basically put a hold on the account so that you're not, you know, the they don't they don't.

Michelle: Seize assets.

Shawn: Yeah they actually do those things. Yeah. And usually when you get a hold on account, it's usually like six weeks. So you've now received multiple notices. It's multiple months down the line.

Michelle: Many months down the line. Yeah.

Shawn: Now you have an additional six weeks, so this is where you say, okay, you're in that four, five, six months range. You could have paid out under an informal arrangement. Okay. So now the IRS hasn't liened anything or anything like that. So you've met those requirements, you've paid your interest in penalties, and they're not going to touch your wages or your bank accounts or anything like that. And the IRS has that you know, that process state and local governments have similar processes. You know, some are more aggressive or less aggressive, depending on the rules.

Michelle: On the state.

Shawn: What they have in place. Right. So you just have to watch out and, you know, make sure you're in communication with your professional. And if you're doing it on your own, making sure you're contacting these governmental agencies and, you know, letting them know that there's payments coming and that you're going to do it. Yeah. So that's the informal arrangement where you don't really have to file a form or contact the government to do that. You're just sending in payments, right? The other option is the formal payment arrangement. This is where, you know, you need longer than, you know, the short term amount for six months. You need to spread this out over a year or two years.

Michelle: Or longer, depending on longer, whether. Yeah.

Shawn: Yeah. So in that sense, you know, we'll talk about the federal government, the IRS. You need to have you could do this online. You can go on your own and go online and fill out a form, but it's not necessarily a form. But they did if it was paper, it would be a form, but it's a process.

Michelle: It walks you through that. Yeah. Yeah.

Shawn: And if it's, if it's under $50,000, there's a, there's a streamlined form where you don't have to put a lot of information in, you know, just just the basic information. How much is due, name, Social Security numbers, all that stuff. And then you tell them how much you can pay per month, up to 72 months, so you could stretch it out over 72 months. Again, interest and penalties are going to accrue that whole time. Yeah.

Michelle: So one thing to note on the streamlined method that you go through with that is, they have an option in the other installment agreements where they could deny the installment agreement. But in the streamline it is automatic that they will accept you. You still have to go through the application process or that online process that can be found at the IRS.gov website. But it is an automatic acceptance. As long as you fill out all the information and you provide a bank account, auto draft is what they will want for payment. So it does make it nice and easy to get into the installment agreement. And you know, if the installment agreement is needed for a liability that is more than 50,000, that's where different things need to come into play. And I don't know if you want to talk about yeah.

Shawn: It gets much more complicated when it's over $50,000. So we recommend, if it is over 50,000 to make a payment to get you under the 50,000 to be able to get in this streamline.

Michelle: Yeah. Especially if you're at that cost. If you're like 51...52 and you're really close, then we suggest trying to make a payment to bring that liability down, to get under the streamline.

Shawn: Right. If you can't, then you know the process it requires you have to fill out financials, basically. So they're they want to know all your bank accounts, all your retirement accounts, all the assets that you own, real estate, cars, what debts you have on the real estate, values of all these things, how much you make through your business, through your wages, interest, dividends, what your expenses per month are for or whatever period it is for living expenses. So it's a much, much more in-depth process and requires a lot of backup documentation, you have to provide statements and all kinds of information.

Michelle: So one of the things I do want to mention is that if your business is pretty much the reason that you're having taxes due, but your business is considered what is considered a pass through entity, meaning you pick up all that activity on your personal return and pay the taxes on the personal level. Then when you file the installment agreement, it will be under the personal, your personal name, even if the business is what generated all of that tax. Right. So even if you let's say you're married and you have a spouse, your spouse has got to get into that as well if a joint return is filed. So all of this would be done under the personal Social Security numbers. Your spouse would be included if a joint return was filed. And so you would be completing everything for the business as well as the personal all together. Yeah, something interesting to note. I just want to make sure people are aware of that.

Shawn: Yeah. What the IRS is looking for with all that information is, is there an ability for you to borrow from any of these sources if there is equity in your real estate or equity in your autos, if there are retirement accounts, the ability to pull money out of your retirement accounts to pay these liabilities.

Michelle: Yeah. They want their money first.

Shawn: Yeah, right. Yeah. The IRS doesn't want to be the bank. They want you to go out and do this on your own with, you know, through your banks or through your own personal assets. So, you know, that's why, you know, once you're over that 50,000, it.....

Michelle: Becomes more difficult.

Shawn: Much more difficult. Yeah, yeah, yeah. And there are fees involved with debt arrangements once, you know, at different levels. So you will...

Michelle: And depending on the tax liability, the IRS has the option of placing liens property as well so they can and have done that. Right.

Shawn: So yeah. So it's you know, trying to get it paid off as quickly as possible, as as streamlined as possible is the, you know, the best option for, you know, for your sanity for one thing and just your overall, you know, just the overall financial impact?

Michelle: Yeah, exactly. So we talked about the IRS having the installment agreement. And one of the rules that I know is very important to the IRS is if you get into an installment agreement, they want to see and they've cracked down on this a little bit more now in the recent years, is they want to see you stay current with your taxes. And I don't mean the installment agreement taxes, I mean the most recent tax years. So are you adjusting and having the proper withholding or are you making your estimated tax payments for the current period so that you're not continuously behind the eight ball and having to add to your installment agreement every single year? So I know that that's a big deal for the IRS in the more recent years they've cracked down on that.

Shawn: Yeah, that's one of the one of the things that they believe it's in the installment agreement that you're agreeing to stay current on your taxes for you know, the years following.

Michelle: I just haven't seen them really enforce that as much as they have. I think they're trying to do that more often now.

Shawn: Right. Right. Yeah. And if you don't stay current, they can, you know, negate the installment agreement and require payment upfront. So yeah. So it's important to stay current with your taxes. So, you know, getting your withholdings right, paying estimated taxes, you know, you may owe, because of a one time event. And it might not....

Michelle: Be an issue.

Shawn: Be an issue. But if it is, you know, something that's going to continue, then you need to address that. So, yes, making sure you get current on this year's taxes is important. Yeah. Yeah.

Michelle: So the last thing I want to mention is about states, right? So you could have a liability for federal and not for state. I guess there's instances where that can actually happen, but in the event that there are some state liabilities, what do you think the best, some of the best options are out there or what would you suggest someone do?

Shawn: There are some states or, you know, every state and local government is going to have their own rules. And as to what they allow as far as payment arrangements. Some are more strict, some are more lenient. So you really just have to look at the rules to whatever government agency you owe and see what is out there and what's available. If it's a matter of, you know, let's say you owe federal, you owe state and you owe local. So let's say the state is the most aggressive and doesn't have as good of a payment arrangement. Then maybe you want to pay that one first, as opposed to and then you enter into the more lenient arrangements with the IRS or local. So kind of, you know, taking, taking in all of the different pieces that you may owe on and kind of seeing what is the best option in each of those scenarios and paying off the one with the least options first.

Michelle: Sometimes I know some clients will since they can get into an installment agreement with the IRS, they may pay off, let's say, their local taxes if they're if that jurisdiction had one. They may. And it's typically a smaller amount, too. So they may be able to put more and just pay that off and done with it and then focus on paying down the installment agreement, which leads us to the ability to pay the installment agreements. Most of the time, you're able to make full payment at any point. So once you get into an installment agreement, whether it's the IRS or some sort of state, the ability to make payment, they're always willing to take whatever you can give them.

Shawn: So yeah they won't....

Michelle: Paying is good.

Shawn: Yeah, they won't bark. They won't bark at getting their money sooner. That's for sure. So yeah. Yeah, that's always an option too. You can, you know, as you said, you know, the IRS, maybe you'll be able to stretch it out longer just to kind of give you some financial freedom, some, some some cash flow freedom. And then, you know, with the intention of paying it off earlier as, you know, things kind of settle down for you or get a little bit better.

Michelle: Mm hmm.

Shawn: Yeah.

Michelle: That's an option. So any other tips that we should be kind of communicating with our small business community here?

Shawn: Just, you know, make sure you're cluing in your professional with what's happening. Don't ignore notices. You know, once they come in, you know, it's hard to, you know, it's sometimes stressful. We get a lot of panicked calls and emails, do I get this notice? But, you know, don't panic, but address it right away and get your professionals involved. If you're doing it yourself, make sure you start getting that ball rolling of getting those taxes paid off. Yeah. Well, the last thing you want is to have your bank account seized or.

Michelle: Yeah. That's bad news.

Shawn: Or your employer's being notified that they're going to garnish your wages. It's not something you want to deal with.

Michelle: Yeah. Yeah. So catch it upfront. That's good.

Shawn: Yeah, exactly.

Michelle: Awesome. Well, thank you for joining me today. And I'm so glad that we were able to have a conversation about this and I think it is a lot of useful information.

Shawn: Yep, I agree.

Michelle: Thank you. All right. Bye bye. Bye. If you find this podcast helpful, then like subscribe and follow us on social media.