GROWERTALKS

Features

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Adding the IRS as a Creditor

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The last bill that anyone should ignore is a tax bill, but that appears to be what many businesses owners are doing. This, despite the many options offered by the IRS, such as payment plans and other tools to help those who may have trouble paying their tax bills.

More recently, the IRS assessed its collection options to provide more relief for taxpayers who owe, but are struggling financially because of the pandemic. The result is a new Taxpayer Relief Initiative.

The Taxpayer Relief Initiative

The revised COVID-19-related collection procedures will be helpful for growers, retailers and individuals, especially those who have a record of filing their returns and paying their taxes on time. Among the highlights of the IRS's new Taxpayer Relief Initiative are:

• Those who qualify for a short-term payment plan option may now have up to 180 days to resolve their tax liabilities instead of the former 120 days.

• The IRS is offering flexibility for some taxpayers who are temporarily unable to meet the payment terms of an already-accepted Offer-in-Compromise.

• For some individuals and so-called “out-of-business” taxpayers, the IRS will automatically add new tax balances to existing Installment Agreements. This taxpayer-friendly approach will occur instead of defaulting the agreement, which can complicate matters for those trying to pay their taxes.

• To reduce burdensome tax balances, certain qualified taxpayers who owe less than $250,000 may set up Installment Agreements without having to provide a financial statement or substantiation so long as their monthly payment proposal is sufficient.

• Some individual taxpayers who only owe for the 2020 tax year, and who owe less than $250,000, may qualify to set up an Installment Agreement without a notice of a federal tax lien being filed by the IRS.

• Additionally, qualified taxpayers with existing Direct Debit Installment Agreements may now use the Online Payment Agreement System to propose lower monthly payment amounts and to change their payment due dates.

The Installment Agreement fine print

The IRS offers both short-term and long-term payment plans and options, including a number of Installment Agreement Options specifically designed for those who cannot fully pay their tax bills, but can pay those balances over time.

You can now make the new Installment Agreement via the IRS's Online Payment Agreement (OPA) system. In general, the OPA system is available to individuals who owe $50,000 or less in combined income tax, penalties and interest or businesses that owe $25,000 or less combined that have filed all tax returns.

Unfortunately, it can take anywhere from 30 days to several months for the IRS to approve or deny an installment agreement request and setting up a payment plan isn't free.

If the request is approved, the IRS will send both the details of the plan and a bill for the setup fee. The fee is $141 to set up a monthly installment agreement. If payment is to be made with automatic withdrawals, which the IRS recommends, the fee is only $31.

Business owners or individuals who do not qualify to use the online payment agreement option or choose not to can apply for a payment plan by phone or by mail by submitting Form 9465, Installment Agreement Request. Again, fees may apply.

In addition to payment plans and Installment Agreements, the IRS offers several tools to assist those who owe taxes. In fact, a business or owner can request a temporary delay of the collection process until their financial situation improves, or they can negotiate with the IRS.

Negotiating with the IRS

Yes, when it comes to tax bills, negotiating is an acceptable practice. An Offer-in-Compromise is, as one example, an IRS program that many businesses and their owners have used to settle their tax debts for a fraction of face value. It cannot, however, be requested beforehand.

Naturally, you must be in compliance, and must have the ability to pay and to borrow. For example, the taxpayer must be current on estimated tax payments or federal income tax withholding, must be making payroll tax deposits on time, and must have filed all tax returns when making an Offer-in-Compromise.

(To help determine eligibility, the IRS's Offer-in-Compromise Pre-Qualifier tool is available at irs.treasury.gov/oic_pre_qualifier.)

Making an offer they can't refuse

Like any creditor, the IRS prefers a partial payment to no payment at all. The IRS might be willing to settle a tax bill for less than the full amount if:

• The owner or business are unable to pay the full amount.

• There's doubt about how much the tax liability is.

• Collection of the liability would create economic hardship.

• Due to exceptional circumstances—such as a medical condition that prevents proper management of financial affairs or reliance on erroneous advice from the IRS—"the IRS's collection of the full liability would be detrimental to the fair and equitable administration of tax laws."

Don't forget the penalties

Not too surprisingly, the IRS is willing to calculate the penalties and interest for all unpaid tax bills. In general, there are three separate penalties:

• Failure to File Penalty

• Failure to Pay Penalty

• Interest

The Failure to File Penalty accrues at the rate of 5% per month or part of a month (to a maximum of 25%, reached after five months) on the amount of tax the return should show as owed. Failure to Pay the taxes by the deadline usually results in a penalty of half of 1% of the unpaid taxes. This penalty applies for each month, or part of a month, after the due date and begins accruing the day after the tax-filing due date.

The rate for a corporate underpayment is the federal short-term rate plus five percentage points. Both penalties begin accruing the day after the filing due date and are in addition to the interest charged for all late payments.

Penalty relief

The IRS has announced that "reasonable cause assistance is available to every taxpayer with failure to file, pay and deposit penalties." First-time penalty abatement relief is also available for the first time a business or individual finds themselves subject to one or more of these tax penalties.

According to the IRS, throughout the coronavirus pandemic, they've continued to adjust operations to help ensure the health and safety of employees and taxpayers. This help included the extensive—and temporary—relief of the IRS People First Initiative's (PFI's) collection relief and procedures that ended mid-July.

Pandemic concessions

Although interest and late payment penalties continue to accrue on any taxes unpaid after July 15, 2020, the penalty for failure to pay taxes has been cut in half while an installment agreement is in effect. The usual penalty rate of 0.5% per month is reduced to 0.25%. For the calendar quarter beginning after July 1, 2020, the interest rate for underpayments is 3%.

Also keep in mind that in today's economy, other payment options, including obtaining a loan to pay the amounts due, might provide relief.

Borrowing to pay taxes

Given the rate at which the above-mentioned penalties and interest grow, many businesses must borrow to pay their taxes. In many situations, the rate of interest paid to a family member, or even to a bank, is less overall than that which would have to be paid to the IRS.

There are a number of advantages to paying taxes by credit card, including the fact that it's convenient. Credit card loans are, however, likely to carry high rates of interest—interest that's usually not tax deductible, except for businesses. Also, it should be kept in mind that not all IRS taxes can be paid with credit or debit cards.

While the IRS doesn't receive or charge any fees for card payments, so-called "convenience" fees are charged by the service providers. While the IRS cannot pay or reimburse any convenience fee to taxpayers, the "convenience fees" charged by providers are a deductible business and individual expense

Serious consequence avoidance

No business or owner should allow an inability to pay their tax liability in full keep them from filing all tax returns properly and on time. It's also important to remember that an extension of time to file tax returns doesn't extend the time to pay the tax bill.

Generally, businesses and/or their owners have several alternatives for resolving unpaid taxes:

• Installment agreements

• Partial-pay installment agreements

• An Offer-in-Compromise

Two other options, filing for bankruptcy or being declared “not currently collectible” by the IRS, are usually less-than-desirable strategies.

Visit IRS.gov/payments to find information about making payments and the options available. The complexity of the tax rules and the many options available to every business and owner unable to pay their tax bills will obviously require professional guidance. **GT**

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