

Don't Even Think Of Ducking The IRS

BY NANCY TREJOS

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WASHINGTON—

Lee Tanner's troubles with the Internal Revenue Service began with a common mistake. While working for a dot-com, he earned money from the sale of stock options in addition to his salary and didn't have the proper amount of taxes taken out.

"I didn't know any better to correct the problem," said Tanner, 40, of Ashburn, Va.

After three years of not paying enough in taxes, in June 2004 he received a bill from the IRS for \$764,000, swollen by interest and penalties.

He didn't have the money. His accountant urged him to fight the bill. He did for more than two years, during which the penalties and interest kept adding up. "I was just completely lost," he said.

Most Americans will receive tax refunds this year. But for those who get tax bills instead, figuring out how to deal with the IRS can be stressful and sometimes scary.

Local tax lawyers, accountants and financial planners said avoidance is a common reaction among people who owe the IRS and don't have the cash to pay.

"If you don't file, a number of things can happen, and all of them are bad, and often we see clients who don't file because they don't have the money to pay what they owe," said Burton Haynes, a Virginia tax attorney.

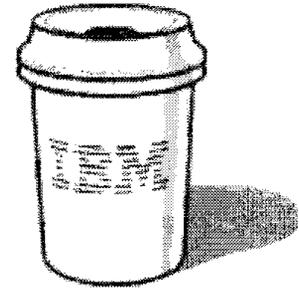
For one thing, you incur penalties for not filing a return, anywhere from 5 percent for each month of lateness to 25 percent of the amount due.

The IRS can also determine your tax liability on its own in what is called a "substitute for return." Haynes said these estimates of what you owe are almost always "way too high."

Even worse, you can be prosecuted for willful failure to file.

If you do file a return and have a tax liability, financial planners and other experts said you should do what you can to cobble together the money.

"Clearly, you find a way to pay the IRS and to pay the state because they're not your favorite creditors," said Barbara Ames, a certified public accountant in Rockville, Md.



If you own a home, you can also try to get a home equity line of credit. Or you can apply for some other kind of consumer loan. Many other taxpayers end up using their credit cards to pay their tax bills. The IRS will accept payments through third-party credit-card processors that it has designated, but that mode of payment typically comes with a 2.5 percent service fee.

Ames said getting a cash advance from your credit card might be a better option than directly using the card to pay the IRS because you can typically get the money at a lower rate. When it comes down to it, Ames said, it is better to owe your credit card company than the IRS.

"The IRS, they can come after you or come after your wages if you don't fulfill an agreement, vs. dealing with Visa, where all you have to do is make a minimum payment."

You might also consider borrowing against your 401(k) retirement plan, but that, too, can come with tax liabilities and other fees.

"I always kind of recommend that as one of those last resort items," said Dave Strege, a certified financial planner at Syverson Strege in Des Moines, Iowa.

If none of those options works, and you can't pay the full amount you owe the IRS, financial advisers and accountants said you should offer the IRS a portion of it. That would also save you in penalties and interest because those are based on your balance.

From there, you can try to work out an installment agreement.

"The next step is really on you as the taxpayer," said Mark Johannessen, a certified financial planner at Harris SBSB in McLean, Va., and president of the Financial Planning Association. "The burden is on you to be proactive and communicate with the IRS. Don't wait on them because they will find you."

Sometimes, though, the IRS will determine that you simply cannot afford to pay the bill. Once the IRS declares a taxpayer "currently not collectible," all wage garnishments are suspended, but a reminder will be sent every year that the debt is still there. "It's a good place to be for a lot of taxpayers," said Gerald Kelly, a tax attorney in Columbia, Md.

The agency will periodically review your financial condition, and if your income increases or you come into money some other way, you could once again end up with a bill.