TRI Tax Resolution Institute

Installment Agreement Case Study

CLIENT B is a mid 50's wealth manager married with two children. His wife is a homemaker. CLIENT B services several accounts and is paid either annually, semi-annually or quarterly depending on which product he sold. A large portion of his compensation is based upon how the market performs. CLIENT B is considered an independent contractor by the firm at which he works. CLIENT B is paid as such and therefore receives payments throughout the year in which no taxes are withheld. CLIENT B receives a 1099 at the end of each tax year stating how much he made. He bases his gross income on the amount set forth in the 1099. Based upon the amount of tax CLIENT B owes each year, he is expected by the IRS and the State to make quarterly estimated tax payments.

Given the economic climate between 2007 and 2011 CLIENT B's commissions dropped significantly. CLIENT B receiving payments sporadically and for various diminishing amounts was not only unable to pay his taxes come April 15th, he also did not make any quarterly estimates. His inability to pay his taxes resulted in an outstanding liability of approximately $85,000

CLIENT B's situation progressed in a downward spiral at which time he was receiving notices of tax due, as well as increasingly threatening notices of lien and subsequently intents to levy his bank account and commission payments. It is not unusual for the IRS to freeze and subsequently take all of the funds in a delinquent taxpayer's bank account. It is also not unusual for a delinquent taxpayer who is self-employed like CLIENT B, to have their entire commission checks taken by the IRS. This is called a third-party levy.

CLIENT B contacted us upon receiving a final notice of intent to levy. Upon receiving a notice such as this, the taxpayer has about 28 days to contact the government and resolve their tax matter in order to keep the levy from occurring.

CLIENT B contacted the Tax Resolution Institute with about 2 weeks to spare with regard to the levy. Once retained, we contacted the IRS to gauge CLIENT B's status. We determined that the current year and prior year's tax returns had not been filed. In this case the taxpayer had filed the majority of his own returns, and it turns out had prepared but not filed the earlier year's return. Upon reviewing the return we notice several inconsistencies and pointed them out to CLIENT B. CLIENT B then acknowledged that when he prepared and subsequently filed previous returns, the majority of them resulted in an adjustment by the IRS. Per his request we submitted CLIENT B's return as it was prepared and per our instance, we prepared the current year's return. By preparing CLIENT B's current year tax return, we were able to ensure that the additional liability stemming from said return was included in our negotiations. In lieu of mailing in the return and waiting for the liability to post, we filed the return with the Revenue Officer assigned to CLIENT B's case so that we did not have to wait.

Having prepared the return, it was now time to address CLIENT B's ability to pay his outstanding liability of $85,000. CLIENT B's liability exceeded the amount the IRS allows to consider a streamlined installment agreement. A Streamlined Installment agreement is a program that the IRS and various States offer in which they allow a taxpayer to full-pay their liability over an extended period of time. The IRS' program allows a taxpayer owing up to $25,000 to full-pay their liability over 60 months (5 years). In addition, the IRS has implemented a temporary "Fresh Start" program in which they allow taxpayers to full pay a liability of up to $50,000 over 72 months (6 years). These programs are a valuable asset for someone that hit a "bump in the road" prior, but are now in a better financial position. They typically do not work for taxpayers that have ongoing financial issues due to the substantial monthly amounts the

programs require the taxpayers to pay. Assuming the IRS would allow it, CLIENT B would have been unable to maintain the $1,400+ monthly payment that he would have been required to continuously pay for 5 years.

Based upon CLIENT B's financial condition, it appeared that he had the ability to correct his situation and earn much higher amounts in the future. This combined with the fact that CLIENT B had a few assets, precluded him from being considered for an Offer in Compromise. CLIENT B's best option was a low dollar installment agreement. This type of installment agreement is based not upon how much one owes but rather their ability to pay. It takes into account the taxpayer's "take-home" income and subtracts out necessary and reasonable living expenses. The amount left over is what the IRS considers to be "Disposable" income.

Upon filling out a draft version of the Collection Information Statement form the IRS requires an individual prepare when considering an installment agreement, CLIENT B was concerned that his disposable income was too high. We reviewed CLIENT B's version of the form and noticed that he had no provision for current year's estimated tax payments. We then explained that both the IRS and State considers these estimated tax payments as an allowable expense. CLIENT B was assuming he would have to pay the IRS and State installment payment and that they would not allow him to keep current on his taxes. We explained that it is in his best interest to make estimated tax payments, pay his outstanding currently year liability, and only then pay what he has left over to the IRS and State as installment payments. It is most important to correct one's situation moving forward and the government understands this.

By including CLIENT B's estimated tax payments as an expense, we were able to take CLIENT B's $1,700 in pre-tax disposable income and break it up as follows: CLIENT B paid $1,450 each month toward his $4,350 estimated tax payment and the remaining $250 was negotiated as a monthly installment amount to the IRS. CLIENT B was placed in Currently Non Collectable status ("CNC") with the State. Because this monthly payment will not full-pay the liability within the 10-year statute, the IRS will revisit CLIENT B's situation to determine if he is in a better position to make a higher monthly payment in the future. If he is able to pay more he will. If not he will either continue to make $250 payments or possibly pay less if his situation worsens. In any case CLIENT B will be in good shape moving forward as long as he continues to pay his quarterly estimates, file his returns timely and pay his outstanding liability if one exists come tax time.