



# The Secret: 9 Things to Do to Resolve a Tax Bill

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# **The Secret: 9 Things to Do to Resolve A Tax Bill**

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**VINCENT W. DAVIS  
& ASSOCIATES**  

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*Eliminating Injustice*

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# **CONTENTS**

Introduction.....8

1. Submitting an Offer in Compromise.....9

2. Setting up an Installment Agreement .....13

3. Negotiating a Partial Payment Plan .....17

4. Supplying Documentation to Protest an Audit.....21

5. Qualifying as an Innocent Spouse.....24

6. Lowering Your Liability.....25

7. Hiring a Tax Professional.....26

8. Paying the Full Amount.....27

9. Proving You Don't Have the Means to Pay .....28

The Secret.....31

Summary.....32

Glossary: Types of Tax Professionals.....34



## Introduction

You've received tax bill from the IRS. Don't panic, take a deep breath and know that there are 3 primary things you can do:

- **Challenge the liability**
- **Challenge the amount**
- **Challenge the penalties and interest**

The important thing is you must do something, and you must do it without delay. And the best place to start is speaking with a tax professional, like a tax lawyer, who is experienced in tax resolution matters. This is different than tax preparer or a tax planner. Tax Resolution is a whole new world of IRS expertise.

After reviewing this book, if you'd like an free initial consultation, please give us a call.

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## 1. Submitting an Offer in Compromise

Initially, you need to know if you qualify for this option. Most people that qualify for this program are those with little to no assets, little to no equity in those assets, and are in filing compliance before submitting any offer. Income and assets don't limit everyone from qualifying for an offer, but those with very little of these two items are preferable candidates.

There are other things to consider when considering an Offer in Compromise (OIC). Everyone's finances are different so every offer will be different. There are different situations that may qualify or disqualify someone from being an "offer" candidate. For this reason, it is always best to consult with a tax professional that is knowledgeable in the field of tax resolution. The experience and knowledge that a tax professional can offer is often worth the investment. He/she may be able to negotiate a lower offer with the IRS and, in addition, save you tons of time and stress. It can be difficult and overwhelming to try, on your own, to figure out what is required and not required, and then submit the best possible offer to the IRS.

The professional will gather transcripts from

the IRS detailing the actions that have taken place for any given year. He/she will determine whether you are in filing compliance and where you stand in the collections process. Your balance can be in notice status, with the Automated Collection System (ACS) or with a Revenue Officer. If your account is in Notice Status this means balance due notices and initial collection notices have been issued, but no actual collection activity has taken place. If your account is with ACS, this means your account is with the collection department and levies are imminent. When an account is with a Revenue Officer, all account activity and communication must be handled directly with this individual.

Once the tax professional has determined an Offer in Compromise is appropriate, the next step he/she will take is to gather information/documentation and prepare the necessary forms. You will be asked to provide ALL financial documentation for the last three months. (If an offer is submitted for a business, you are to provide 6 months of documentation). This includes, but is not limited to, income, bank statements, mortgage statements, phone statements, vehicle expenses, health expenses,

etc.

The tax professional will then complete a series of calculations that will determine the amount of your offer. The amount of your offer is based on two main factors. The first is the value of any assets, property, vehicles, retirement accounts, etc. The second is your monthly ability to pay (gross income minus necessary living expenses – disposable income). Once these amounts have been determined, the forms will be prepared.

An Offer in Compromise packet must include a completed Collection Information Statement for Wage Earners and Self-Employed Individuals Form 433-A (OIC) and an IRS Offer in Compromise Form 656-OIC. Along with the forms, you must include proof of income for the last 3 months, pay stubs, pension statements, social security statements, unemployment statements, etc. You must also include bank statements, and proof of ALL necessary living expenses for the last 3 months.

Once the package is prepared it is mailed to the IRS with two checks; one for the processing fee and one for 20% of the offer being proposed.

It is always a good idea to submit the offer packet through certified mail to ensure the IRS receives it - and always make copies of every document you provide to the IRS, including copies of the checks.

Once submitted, and you have confirmation your offer was received, you will get a response from the IRS (by letter) that your offer is going through its initial review process. This letter will usually be sent out anywhere between 3-6 months after you have submitted the offer. During the offer process, you may or may not be asked to provide additional documentation or updated documents.

In some cases, the Offer Examiner (OE) assigned will request to speak directly with the person designated to handle the offer, especially if the OE needs clarification on certain documents. The entire offer process can take a total of 6-10 months depending on IRS case load and rebuttal during the process. In other cases, you will just receive an acceptance letter or denial of the offer. If you are not in agreement with the determination, you have the right to appeal within 30 days from the date of the determination letter.

## 2. Setting up an Installment Agreement

As with the OIC, you would need to know if you qualify for this option. Most people that qualify for this program are those with little to no assets, little to no equity in those assets, and are in filing compliance before submitting an installment agreement request. Everyone's finances are different, so every installment agreement will be for a different amount. There are different situations that may qualify or disqualify someone from being a candidate. For this reason, it is always best to consult with a tax professional that is knowledgeable in the field of tax resolution.

I'm repeating myself, but I feel it is necessary to emphasize that the experience and knowledge that a tax professional can offer is often worth the investment. He/she may be able to negotiate a lower offer with the IRS and, in addition, save you tons of time and stress. It can be difficult and overwhelming to try, on your own, to figure out what is required and not required, and then submit the best possible offer to the IRS.

The professional will gather transcripts from the IRS detailing the actions that have taken place for any given year. They will determine whether you are in filing compliance and where you stand in the collections process. Your balance can be in notice status, with the Automated Collection System (ACS) or with a Revenue Officer. If your account is in Notice Status this means balance due notices and initial collection notices have been issued, but no actual collection activity has taken place. If your account is with ACS, this means your account is with the collection department and levies are imminent. When an account is with a Revenue Officer, all account activity and communication must be handled directly with this individual.

Once the professional has determined an installment agreement is the next step, he/she will gather information/documentation and prepare the necessary forms. You will be asked to provide ALL financial documentation for the last three months. If an installment agreement request is submitted for a business, you are to provide 6 months of documentation. This includes, but is not limited to, income, bank statements, mortgage statements, phone

statements, vehicle expenses, health expenses, etc.

The tax professional will then complete a series of calculations that will determine your monthly payment amount. The amount of your monthly payment is based on two main factors. The first is the value of any assets, property, vehicles, retirement accounts, etc. The second is your monthly ability to pay (gross income minus necessary living expenses – disposable income). A tax professional can assist you in determining if you will still be a candidate, although you have assets with equity. Once these amounts have been determined, the forms will be prepared.

An installment agreement request must include a completed Collection Information Statement for Wage Earners and Self-Employed Individuals Form 433-A and a letter of intent. Along with the forms, you must include proof of income for the last 3 months, pay stubs, pension statements, social security statements, unemployment statements, etc. You must also include bank statements, and proof of ALL necessary living expenses for the last 3 months. It's always a good idea to submit the installment

agreement request through certified mail to ensure the IRS has received it, and always make copies of every document you provide to the IRS. Once submitted, and you have confirmation it was received, you will get a response from the IRS (by letter) that your request is going through its initial review process. During the review process you may or may not be asked to provide additional documentation or updated documents.

Another method for requesting an installment agreement is to call the IRS and provide the information on the forms verbally. During this call, you may be asked to fax the financial documentation for their review. These calls can be very long as you are dealing directly with an IRS agent. They will ask questions regarding the information you are providing, request proof in the form of documentation and verify financial information based on prior wage and income information reported. During this process there may be a disagreement with the amount being proposed. An IRS agent is trained to act in the best interest of the government, a tax professional is experienced in these situations and can negotiate an installment agreement favorable to you.



### 3. Negotiating a Partial Payment Plan

As stated in Items 1 and 2, you need to know if you qualify for this option. Most people that qualify for this program are those with little to no assets, little to no equity in those assets, and are in filing compliance before submitting an partial payment plan request. The Collection Statute Expiration Date (CSED) of each individual balance will determine the total amount you will pay. Everyone's finances are different so every installment agreement will be for a different amount.

There are different situations that may qualify or disqualify someone from being a candidate. For this reason, it is always best to consult with a tax professional that is knowledgeable in the field of tax resolution.

As I've mentioned previously, the experience and knowledge that a tax professional can offer is often worth the investment. He/she may be able to negotiate a lower offer with the IRS and, in addition, save you tons of time and stress. It can be difficult and overwhelming to try, on your own, to figure out what is required and not

required, and then submit the best possible offer to the IRS.

The IRS only has a certain period of time to collect a balance from you. This is known as the Collection Statute Expiration Date (CSED).

Usually, the CSED is 10 years from the assessment date. There are several factors that can add time to the CSED such as, filing for bankruptcy, submitting an offer in compromise, additional assessments, etc. Once the CSED expires, the IRS can no longer collect on that liability. In some circumstances, a taxpayer can make monthly payments to fully pay the balance before the CSED. This is known as a partial pay installment plan.

The professional will gather transcripts from the IRS detailing the actions that have taken place for any given year. They will determine whether you are in filing compliance and where you stand in the collections process. Your balance can be in notice status, with the Automated Collection System (ACS) or with a Revenue Officer. If your account is in Notice Status this means balance due notices and initial collection notices have been issued, but no actual collection activity has taken place. If

your account is with ACS, this means your account is with the collection department and levies are imminent. When an account is with a Revenue Officer, all account activity and communication must be handled directly with this individual.

Once the professional has determined a partial payment plan is the next step he/she will gather information/documentation and prepare the necessary forms. You will be asked to provide ALL financial documentation for the last three months (If an installment agreement request is submitted for a business, you are to provide 6 months of documentation). This includes, but is not limited to, income, bank statements, mortgage statements, phone statements, vehicle expenses, health expenses, etc. The tax professional will then complete a series of calculations that will determine your monthly payment amount. The amount of your monthly payment is based on two main factors. The first is the value of any assets, property, vehicles, retirement accounts, etc. The second is your monthly ability to pay (gross income minus necessary living expenses – disposable income). A tax professional can assist you in determining if you will still be a candidate given the fact that

you have assets with equity. Once these amounts have been determined, the forms will be prepared.

An partial payment request must include a completed Collection Information Statement for Wage Earners and Self-Employed Individuals Form 433-A and a letter of intent. Along with the forms you must include proof of income for the last 3 months, pay stubs, pension statements, social security statements, unemployment statements, etc. You must also include bank statements, and proof of ALL necessary living expenses for the last 3 months.

It's always a good idea to submit the partial payment request through certified mail to ensure the IRS receives it, and always make copies of every document you provide to the IRS. Once submitted, and you have confirmation it was received, you will get a response from the IRS (by letter) that your request is going through its initial review process. During the review process you may or may not be asked to provide additional documentation or updated documents.

Another method to request an a partial

payment plan is to call the IRS and provide the information on the forms verbally. During this call you may be asked to fax the financial documentation for their review. These calls can be very long as you are dealing directly with an IRS agent. They will ask questions regarding the information you are providing, request proof in the form of documentation and verify financial information based on prior wage and income information reported. During this process there may be a disagreement with the amount being proposed. An IRS agent is trained to act in the best interest of the government, a tax professional is experienced in these situations and can negotiate an partial payment plan favorable to you.

Once the monthly payment amount and date of first payment are determined, the tax professional can calculate how much you will actually be paying back to the IRS and how much you will be saving through the partial payment plan.

#### **4. Supplying Documentation to Protest an Audit.**

If you are being audited, understanding what you need to supply is very important. Knowing

what documents are needed can be the difference between clearing up an issue and complicating it more. Sometimes you may have to amend a tax return to clear up an issue, or sometimes you may need to seek guidance to perform a payment plan or settlement with the IRS, sometimes both. Knowing the process, and what documentation will be required, is always crucial to getting the best results possible.

You need to determine if you are liable for the balance due. It can be as simple as going through your records and identifying the issue. If you don't have access to all of your records or cannot determine how to resolve this issue, this can be a difficult task to take on. There are several options to resolving this, but the process and the right guidance can have a tremendous impact on the result.

A tax professional can always help with verifying the issue and even explain the step-by-step process and guide you through resolving this issue. The professional will gather transcripts from the IRS detailing the actions that have taken place for any given year. They will determine whether you are in filing compliance and what you are under examination for. Maintaining good books and

records for all periods and years is always a great support for identifying if you can clear up the issue or not. You may have an accountant that can assist with recordkeeping, but you may also need a tax professional to assist with reviewing these documents.

The process of an audit case can be very lengthy and tedious depending on why you are being audited. The audit can include single or multiple items that the IRS has questioned.

To start off, your tax professional will require that you provide tax return(s) for the year(s)/quarter(s) in question. In addition to the wage and income transcripts he or she will obtain from the IRS, you may also be required to provide documents including, but not limited to, bank statements and ledgers for income and expenses. Even actual receipts may be necessary for the tax professional to review.

The revenue agent will supply his or her examination, detailing items in question and including all calculations used in computing the proposed assessment. All of these items are taken into consideration when reviewing an audit case.

The tax professional then reviews all of these activities with the intent to resolve the case by eliminating/reducing the proposed assessment and proving the examination is incorrect. A tax professional has the knowledge and experience to determine what is/is not required in order to perform a successful audit case.

## **5. Qualifying as an Innocent Spouse**

In an innocent spouse case, there are many facts to consider. A tax professional will ask a series of questions to determine your eligibility. In order to qualify for innocent spouse relief, there are three conditions that must be met. First, the joint return filed has an understatement of tax that is solely attributable to your spouse's erroneous item. This can be anything from an omission of income, incorrect deductions, credits and property basis that are incorrectly reported on the return. Second, you must establish that at the time the return was signed, you were not aware of the erroneous items and had no reason to know. Finally, it would be unfair to hold you accountable for the understatement of the tax.



## 6. Lowering Your Liability

There may come a time where you may not be able to locate all of your supporting documents when it comes time to file your taxes. However, you may later find these supporting documents months or years after. Keep in mind you only have three years to amend a tax return. In this case, you may have the option to amend that return and include any additional items left out in the original tax return. This can potentially lower or eliminate any liability pending. It is always best to consult with your tax preparer to determine if this is an option and if the supporting documents would be substantial to the amendment.

There are times when a tax preparer makes a mistake on your tax return, significant enough to cause a liability. The best way to correct the issue is by amending that return. Providing the correct and adequate information/documentation is always necessary for an amendment of a tax return.

## 7. Hiring a Tax Professional

A tax professional can assist you in determining what are the appropriate steps to take. He/she can assess the situation and provide the right guidance. It is always important to consult a tax professional when you are in collections with the IRS, because the process can be very stressful and time consuming. A tax professional can help you understand the collection process and the options available to you. He/she will communicate with the IRS on your behalf and gather information/documentation that will assist in the resolution process. The tax professional will also ask about your history with the IRS and the circumstances that caused the tax liability.

The tax professional will gather transcripts from the IRS detailing the actions that have taken place for any given year. He/she will determine whether you are in filing compliance and where you stand in the collections process. Your balance can be in notice status, with the Automated Collection System (ACS) or with a Revenue Officer. If your account is in Notice Status this means balance due notices and

initial collection notices have been issued, but no actual collection activity has taken place.

If your account is with ACS, this means your account is with the collection department, and levies are imminent. When an account is with a Revenue Officer, all account activity and communication must be handled directly with this individual. Depending on the Revenue Officer assigned, this can be a very quick and efficient experience but most of the time it is very much the opposite. The professional has the experience and the insight knowledge of handling a resolution case with a Revenue Officer.

## **8. Paying the Full Amount**

If you are looking to get the IRS off your back, the best way is to pay off any debts you may have with them. Full paying your balance is as easy as making your payment directly through the IRS website - paying by phone, or mailing in a check, cashier's check or money order. Sometimes, full paying your balance is your only option if you have the assets and equity in your properties. Even though full paying the balance isn't always favorable to you,

there is sometimes the option for a penalty abatement. It all depends on the reason you incurred the liability and the reason you could not pay the balance at the time you incurred the liability.

## **9. Proving You Don't Have the Means to Pay**

What this means is that you are in a financial position where you cannot make a payment to the IRS, not even for Offer In Compromise, because of an exceptional circumstance. There are two programs that you may qualify for if you find yourself in this position. One is the Currently Non-Collectible (CNC) program and the other is the Exceptional Circumstances /Effective Tax Administration (ETA) program. Both have different results. To qualify for a Currently Not-Collectible program, a tax professional would perform a compliance check, along with a financial analysis, to make sure you are a candidate.

The tax professional will gather transcripts from the IRS detailing the actions that have taken place for any given year. He/she will determine whether you are in filing compliance and where you stand in the collections process.

Your balance can be in notice status, with the Automated Collection System (ACS) or with a Revenue Officer. If your account is in Notice Status this means balance due notices and initial collection notices have been issued, but no actual collection activity has taken place. If your account is with ACS, this means your account is with the collection department and levies are imminent. When an account is with a Revenue Officer, all account activity and communication must be handled directly with this individual.

Once the tax professional has determined a Currently Non-Collectible or Exceptional Circumstances (Effective Tax Administration) case, the next step is for he/she to gather information/documentation and prepare the necessary forms. You will be asked to provide ALL financial documentation for the last three months (for CNC, if a request is submitted for a business, you are to provide 6 months of documentation).

This includes, but is not limited to, income, bank statements, mortgage statements, phone statements, vehicle expenses, health expenses, etc. The tax professional will then complete a

series of calculations that will determine if you are a candidate for one of these options.

CNC is based on two main factors. The first is the value of any assets, property, vehicles, retirement accounts, etc. The second is your monthly ability to pay (gross income minus necessary living expenses – disposable income). This as should be close to \$0 (or negative) every month. If you have assets with equity, a tax professional can assist you in determining if you will still be a candidate.

For an ETA case, a determination is made based on the fact that the taxpayer has a serious illness, and paying the full amount - or the minimum offer amount - may impair the taxpayer's ability to provide for themselves or their family. Once the tax professional has made the determination, he/she will prepare the necessary forms.

For CNC, you have the option of mailing in your documents or calling the IRS directly and going through the process with an IRS agent directly. For an ETA case, all forms and documents are mailed in just like an OIC.

When placed on CNC status, you are removed from collection, but the balance will remain and will continue to incur interest during the life of the balance. You are not obligated to make any payments, but you are encouraged to do so if you have the means. The IRS will, on occasion, ask for an update on your financial status to determine if your finances have bettered and if you are able to make any form of payment. If your finances remain the same or worsen, you will remain on CNC status through the life of the liability. When an ETA is accepted, you are no longer responsible for paying on the debt owed.

## **The Secret**

A big past-due tax bill can ruin your life. The penalties and interest the IRS will add to your bill every month can make it grow uncontrollably until you will never be able to pay it off.

Although each step in this book is “a secret”, the one big take-away is to:

Act fast. Act smart. Get help. A tax professional might seem to be expensive, but their professional services are only a fraction of

the amount you can save by conquering your growing tax bill.

If you continue putting it off, you could end up with a tax lien. Tax liens go on your credit report, and your debt continues to compound rapidly. Tax liens are almost impossible to get rid of – even if you declare bankruptcy. A big tax lien could make it impossible for you to ever buy property, unless you pay it off first.

Don't make these common mistakes when you receive a tax bill:

1. Don't make the mistake of doing nothing
2. Don't assume you have to pay the full amount

**DO negotiate** – you'll pay less almost every time

**DON'T procrastinate** – you'll pay more. It could be much, much more.

## Summary

When you get a tax bill from the IRS, you need to know that the amount and terms on the



bill are not set in stone. The IRS is often willing to lower the amount and to break it up into bite-size chunks. And, sometimes, expert negotiations can make the tax bill go away altogether.

Just as you would not want to wander through the Amazon jungle without an expert guide, it can be stressful and unproductive to wander through the IRS jungle without an expert tax professional. Saving a few dollars by doing it yourself could cost you thousands of dollars in taxes.

## Glossary: Types of Tax Professionals

**Tax Attorney** – tax attorneys can give legal advice, CPA's and enrolled agents can't

**Certified Public Accountant (CPA)** – prepares tax returns; represents you in front of the IRS; can help you when you get letters or notices from the IRS.

**Enrolled Agent** – can do the same thing as a CPA, but they haven't gone to school to get an accounting degree, and they haven't passed the Certified Public Accountant's test. They have taken an "enrolled agents" test.

I have not included an ordinary tax preparer on the list, because their jobs are limited to putting your information on tax forms and filing the forms with the IRS and State tax authorities. They can rarely help you beyond that.

In my experience, an enrolled agent is probably better for tax resolution problems. In this particular realm of tax resolution, an enrolled agent is not necessarily cheaper than a CPA.

However, if you think you need legal advice, your best result will be achieved with a tax attorney.