Your MONTHLY MONEY

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When debt is the problem, we are the solution.

Back Taxes: End Your Challenges with Unpaid Tax Debt

What are back taxes?

Back taxes are any taxes you owe that remain unpaid after the year they are due. If you let an entire filing year go by without paying the IRS what you owe, it's considered "back taxes."

It's important to note that even taxes you don't pay within a particular filing year already incur penalties and interest. In fact, penalties and interest are applied even if you file an extension. If you don't pay the IRS on time, they don't wait to act.

Another crucial note is that not filing your taxes is not an effective way to avoid incurring back taxes. The IRS has a system set up known as the Information Returns Processing (IRP) system that flags taxpayers who don't file. The IRP can also be used to assess the amount of taxes you should owe. So if you don't file, you receive notices with this estimated amount and the IRS can file a return on your behalf.

Why it's better to address back taxes sooner, rather than later

Tax debt caused by back taxes you owe are not easy to get away from. The IRS can garnish your wages, place levies on bank accounts and liens on your property. Trying to get far enough "off the grid" to avoid the IRS would be a stretch for most people. That's especially true since you'd have to hide long enough for the 10-year statute of limitations on tax debt to expire.

Since avoidance isn't an option and the financial effects of delay can be immense, it's in your best interest to find a solution as soon as possible. The information below can help you get started.

Unpaid tax debt can lead to wage garnishment, liens, levies and severe credit penalties. Don't wait to get the help you need! Let Debt.com connect you with professional tax debt help today.

5 options for addressing back taxes with the IRS

#1: File for Currently Not Collectible (CNC) status

If you simply don't have the means to pay what you owe, Currently Not Collectible (CNC) status is what you need to file. Instead of trying to avoid the IRS, you tell them up-front that you're not in a position to

pay. They will review your financial situation, so you must provide proof that your household income is only enough to cover basic living expenses.
Once they approve CNC, the IRS stops all attempts to collect. This stops wage garnishment, liens and levies because the IRS officially recognizes you can't afford to pay. The only thing CNC doesn't stop is penalty and interest assessments. In other words, your tax debt will increase while you're on CNC. But you won't be burdened to pay until your situation improves.

#2: Set up an Installment Agreement (IA)
Installment Agreements are the most common way to pay back taxes to the IRS. You can use an IA to pay back one or more years of back taxes in a single payment plan. The total amount of back taxes you owe is divided into monthly payments set over a certain term. You negotiate with the IRS to determine how much you can afford to pay each month.
It's in your best interest to make the payments as big as possible so you can eliminate the back taxes as quickly as possible. Penalties and interest assessments don't stop just because you agree to pay the IRS back. Even as you make payments, new penalties are assessed each month that you have an outstanding balance.
If you owe less than $10,000 you can apply for a simple installment agreement yourself through the IRS website. For those who owe more than $10,000 it's recommended that you work with a tax debt resolution service.

#3: Make an Offer in Compromise (OIC)
An Offer in Compromise is the IRS' version of a tax debt settlement plan. With an IA you repay everything you owe. With an OIC, you pay a portion of what you owe in exchange for a discharge of the remaining balance.
It's important to note that the IRS will require a thorough review of your finances. With a full financial disclosure, they evaluate if they can reasonably expect you to pay the full amount. If not, then they agree to a settlement.
All of the payments for an OIC must be made within two years of the agreement. If you miss a payment or default, additional penalties can be assessed. The IRS is also unlikely to accept another OIC.

#4: Ask for Penalty Abatement
If you had a good reason why you didn't file or didn't pay what you owed when you filed, then you can apply for penalty abatement. This doesn't reduce the back taxes you owe, but it minimizes the penalties applied to that debt. The IRS will either reduce or remove penalties if you're approved for penalty abatement.
In order to be approved, you must prove you had "reasonable cause" not to file or pay on time. Unfortunately simply not having income available does not count. You have to go through a major event, like a natural disaster or death in the family to qualify.

#5: If you're an "Innocent Spouse" you qualify for full forgiveness
Complete tax debt forgiveness is extremely rare. The IRS is not likely to just decide that you don't owe back taxes that were assessed. The only time this really happens is if you can prove you were the spouse of someone who owes back taxes, but that you had no knowledge. Innocent Spouse Relief is the rare allowance by the IRS that you don't owe taxes they initially thought you were on the hook for.
Essentially, you have to be able to show that your spouse filed (or failed to file) without your knowledge. You must have no knowledge of balances due or inaccuracies that occurred in a joint tax return. If you can prove it, you're off the hook completely.

Disclosure: As part of our commitment to providing comprehensive financial education and support, we want to emphasize the importance of seeking professional assistance when dealing with complex tax matters. While our newsletter, "Back Taxes: End Your Challenges with Unpaid Tax Debt," offers valuable insights and practical tips for managing tax debt, we recognize that each individual's financial situation is unique, and some situations may require expert guidance.