

Are Tax Debts Dischargeable in Chapter 7 Bankruptcy?

I am often asked the question of whether tax debts are dischargeable in Chapter 7 bankruptcy? Most clients are surprised to find out that they are, as long as they meet certain criteria. Essentially, your tax debt will be discharged in Chapter 7 bankruptcy if the following conditions are met:

1. The due date for filing a tax return is at least three years ago.
2. The tax return was filed at least two years ago.
3. The tax assessment is at least 240 days old.
4. The tax return was not fraudulent.
5. The taxpayer is not guilty of tax evasion.

Penalties on taxes that are dischargeable are also eligible for discharge. After the discharge of tax liability, a debtor is no longer responsible for paying the taxes and the IRS may not garnish a debtor's wages or bank accounts. In addition, other tax debts, such as sales taxes and similar taxes, may also be dealt with in your bankruptcy case.

On the other hand, there are some tax debts are not eligible for discharge. These include:

1. Tax penalties from a tax debt that is ineligible to be discharged.
2. Tax debts from unfiled tax returns.
3. Trust fund taxes or withholding taxes withheld from an employee's paycheck by the employer

If you find yourself in a position with a nondischargeable tax debt, you will want to contact the IRS about entering into an installment agreement or making an offer in compromise to settle the tax debt for a lesser amount. If you have substantial tax debts and are unsure whether they are dischargeable, you should consult with an experienced bankruptcy lawyer in Tucson, Arizona. Our cheap Tucson bankruptcy lawyers can help you determine the dischargeability of your tax debts for very little cost.