Tax Resolution – Partial Payment Installment Agreement

Last week we took an in depth look at the “Installment Agreement” as an option if you owe back income taxes. This week, we review the “Partial Payment Installment Agreement” as another option to resolve your tax problem. This option is relatively new; the IRS implemented it in 2005 for federal taxes. A Partial Payment Installment Agreement is similar to a traditional Installment Agreement, except that the IRS agrees to forgive a portion of your tax debt. The downside is that the IRS demands quite a bit of documentation to consider if you have the ability to pay your tax debt in full, and, if not, how much you can pay. Coming up with an acceptable number requires using a complex formula used to determine your “reasonable collection potential.”

Before you begin your application, your tax attorney will discuss with you how the IRS evaluates installment agreements, what your collections / penalty consequences could be, the time limits for collecting the debt, and other matters that could affect what you owe. Part of this is that you have to be “in compliance.” The IRS cannot accept a Partial Payment Installment Agreement until you are caught up on any late tax returns, any withholding obligation, and your estimated tax payments (if you make them). While some taxpayers are willing to go with a Full Payment Installment Agreement route (usually when the debt is less than $50,000), calculating the Partial Payment Installment Agreement numbers is best suited to professional tax resolution software.

To start you must calculate your “net” monthly income and the value of your assets. The numbers aren’t entirely up to the taxpayer. The IRS gives you certain allowances for what it deems to be reasonable expenses for your area in calculating your net income. Your actual expenses might be higher or lower. You have to know what is “allowable.” Unlike qualified, “streamlined” Full Payment Installment Agreements the IRS is under no obligation to accept your proposed monthly payment.

Then there are a number of steps in putting together your Partial Payment Installment Agreement. You begin by correctly calculating what you owe (refer to last week’s article for more detail). Next, you follow this up by completing IRS form 9465: Installment Agreement Request. You use this form to offer the IRS a monthly tax payment and propose the amount you think should be forgiven. The IRS will also require form 433-A, a personal financial statement with your calculations. While the acceptance process can take awhile, the IRS will usually acknowledge receiving your application within 30 days. It is always a good practice to send things to the IRS via certified mail or UPS, FedEx, etc., so that you have proof of when it was mailed and received.

If you prepare your application carefully, and your offer is accepted, it will be critical to make each monthly tax payment on time. Missing a payment can put you in default and place you in a worse position than when you started since the IRS may not accept a second agreement. The IRS will sometimes reevaluate your agreement every two years to check whether your income picture has changed and whether your monthly payment still reflects your ability to pay more, or less, than your originally agreed amount.

The right tax professional can help you navigate this application and get you the tax relief you need.

- Ari Good, JD LL.M. is the Shareholder of Good Attorneys At Law, P.A. Mr. Good received his BA, With Distinction, from the University of Michigan in 1993, his law degree from the DePaul University College of Law in 1997, and his LL.M. (Masters of Law in Taxation) from the University of Florida in 2005. Ari has defended hundreds of taxpayers before the IRS and the Florida Department of Revenue in audit and collections matters. His solutions include releasing liens and levies, negotiating offers in compromise, installment agreements and representing taxpayers before the Appeals Division. Mr. Good is licensed to practice before the United States Tax Court and stands by his clients from beginning to end.