

# I OWE A TAX DEBT

## WHAT ARE MY PAYMENT ALTERNATIVES?

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### ➔ Option 1: Installment Agreement

*"I cannot afford to pay the full amount but I can make monthly payments."*

There is a \$105 fee to set up a monthly payment plan. If you agree to let the IRS take the monthly payments directly out of your bank account each month, then the fee is reduced to \$52. You may only have to pay a \$43 set up fee if your income is below a certain level. Fill out IRS Form 9465 to request an installment agreement. You can also apply online at <http://www.irs.gov/Individuals/Online-Payment-Agreement-Application> if your outstanding balance (including penalties and interest) is less than \$50,000.

### ➔ Option 2: Currently-Not-Collectible (CNC) Status

*"I cannot afford to pay at all."*

If you do not have enough income to make monthly payments, you can ask the IRS to place your tax accounts into "currently-not-collectible" (CNC) status until you are able to make monthly payments.

*How do I request CNC status?*

CNC status is only available to taxpayers who cannot afford to make monthly payments. First, you must have filed all required tax returns. If you are not sure whether you had a filing requirement, you can call the IRS at (800) 829-1040. Second, you will need to provide the IRS with support of your income and expense information, such as:

- Copies of most recent paycheck stubs for each job;
- Copies of recent statements from all other income such as Social Security benefits, pension or retirement income, child support, etc.;
- Copies of recent utility bills;
- Copies of your lease or mortgage statement showing how much you pay each month;
- Copies of credit card and bank statements;
- Proof of any other monthly expenses you may have; and
- Proof of all assets you own, such as a car, investments, real property, etc.

If you are married and living with your spouse, you must provide income and expense information for both spouses. You can provide this information to the IRS either over the phone or you can fill out IRS Form 433-F and send it to the IRS with a letter requesting CNC status.

*My tax accounts are in CNC status. What does this mean for future years?*

Although the IRS will continue to add penalties and interest to the amount due, it will not try to collect the unpaid tax from you. The IRS will review your accounts once each year to see if you are able to start making payments – if you are still unable to do so, your account will stay in CNC status. You will receive one statement each year reminding you that you have an outstanding tax balance. You must continue to file your tax returns each year, and if you are due a refund, the IRS will keep the refund and apply it to your tax debt. Based on your income, it is possible that your account will stay in CNC status for several years – and, after a specified time, the IRS by law will no longer be able to collect this money from you.

### ➔ Option 3: Offer in Compromise

*"I cannot afford to pay the full amount, but I offer to pay a smaller amount in satisfaction of my total tax debt."*

An offer in compromise is a collection option available to taxpayers who cannot afford to pay their tax liability in full. When you file an offer in compromise, you offer to make a lump sum payment or a few payments to the IRS in satisfaction of the total outstanding tax debt.

1. **Doubt as to liability:** If you do not agree that you owe the tax, or if you do not agree that the amount of the tax is correct, you can submit an offer in compromise on the basis of doubt as to liability. You will need to tell the IRS exactly why you do not believe that you owe the tax, or why the amount the IRS claims you owe is incorrect.

2. **Doubt as to collectability:** If you do not have the income and/or assets to pay the tax you owe in full, you can ask the IRS to consider your offer on the ground of doubt as to collectability. You will need to provide the IRS with information that shows you are financially unable to pay the tax in full. The IRS will also consider any special circumstances that affect your ability to pay, such as unexpected medical expenses.
3. **Effective tax administration:** Even if you have the income and/or assets to pay the tax, you may qualify for an offer in compromise on the grounds of effective tax administration. Generally, this option is only available for taxpayers who would suffer an economic hardship if the tax were collected (such as those with medical problems, disabilities, or other situations). For example, if you have a house, but selling the house to pay your tax debt would leave you unable meet basic living expenses, then collection of the tax debt would cause economic hardship, and you can make an offer based on effective tax administration.

#### *How do I file an offer in compromise?*

To file an offer, you will need to complete IRS Form 656, Offer in Compromise, and IRS Form 433-A (OIC), Collection Information Statement for Wage Earners and Self-Employed Individuals. These forms are available on [www.irs.gov](http://www.irs.gov). Form 433-A (OIC) asks questions about your income and monthly expenses so the IRS can verify your inability to pay the full amount of tax. It also requires that you send documentation to the IRS with your offer to verify your monthly income and expenses.

Additionally, you must file all required Federal income tax returns before you request an offer in compromise, and you must to file them while the IRS considers your offer. If the IRS rejects your offer, you will have 30 days to appeal the rejection in writing. Your case will then be assigned to an independent IRS Appeals Officer, who will reconsider your offer.

*Our Tax Clinic may be able to assist you with gathering the documentation necessary to file an offer in compromise, qualify for currently-not-collectible status, or arrange an installment agreement.*



The Center for Economic Progress (CEP) helps low-income individuals and families move from financial uncertainty to financial security.

[www.economicprogress.org](http://www.economicprogress.org)

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