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What to Do When You Owe the IRS Big Money

ALEXANDRIA, VA, March 6, 2013 – If you're an average taxpayer, you probably fear the Internal Revenue Service (IRS) more than any other government agency. Most people think owing the IRS big bucks means you either hold your wrists out to be cuffed or hire some miracle-promising tax preparer whose reputation you know only from a loud late-night commercial.

Tax liability often starts with an audit by the IRS. Though an audit can involve going face-to-face with an IRS agent, increasingly the IRS is conducting correspondence examinations that require fewer resources. According to information compiled by the National Society of Accountants (NSA), in 2011 the IRS examined 1.2 million returns, almost three-quarters of which were done through correspondence and assessed more than \$7 billion.

But you have an option: the IRS offer in compromise (OIC). An OIC is an agreement between a taxpayer and the IRS to settle a tax liability for payment of less than the full amount owed.

However, despite what you may hear in advertisements, the OIC program is not for everyone. IRS will not accept an offer if you have the ability to pay the debt in full, through installment payments, or by some other means.

When considering an OIC, the IRS looks at a taxpayer's ability to pay, income, expenses, and asset equity. Taxpayers must be current with all filing and payment requirements, and are ineligible if they are in an open bankruptcy proceeding. The online IRS OIC Pre-Qualifier (http://irs.treasury.gov/oic_pre_qualifier/) also helps determine if taxpayers have filed all required federal tax returns, made all required estimated tax payments, and, if self-employed and having employees, submitted all required federal tax deposits.

A Long Process

Most filings for an OIC take 12 to 24 months to be processed, so beware of any tax "professional" who promises quick and inexpensive results. It is critical to have a

qualified tax professional when filing an OIC. Taxpayers should look for a professional who can answer these questions:

Are you admitted to practice before the IRS? (Such professionals would be an attorney, CPA or Enrolled Agent.)

How many OIC filings have you done? (The more the better.)

How many of your OICs have been successful? (Again, the more the better.)

What is your fee? Is it hourly? (See below for average fees.)

Does the fee include document preparation, backup documentation, and negotiating with the IRS? (If it is a set fee, these things should be included.)

Hiring a tax professional for filing an OIC can run \$1,500-\$3,000 or more. Most professionals will charge on an hourly basis. The most recent NSA survey of the average fees for tax professionals from across the nation for this service shows hourly fees from a low of \$126 in the East North Central portion of the United States to a high of \$192 in the Mid-Atlantic region, with the national average hourly fee at \$162. Make sure that the tax professional you hire has experience dealing specifically with OICs.

Don't be disappointed if your filing is rejected: In 2011, only 20,000 of 59,000 (34 percent) of applications for OICs were accepted by the IRS. In 2010, only 14,000 of 57,000 (24 percent) OIC applications were accepted. A true professional will work with you to come up with a back-up plan such as installments or other means of paying your tax debt.

With the right kind of help from a tax professional, you can more easily navigate your way through the stormy waters of tax debt. For more information and to find a qualified tax preparer in your area, visit www.nsacct.org.

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