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1. For how long should I keep my tax records?

You should keep your tax records for six years after you file your income tax return. The IRS has three years after you file to audit you and six years to audit you if it suspects you have underreported your gross income by at least 25%. For example, if you filed on April 15, 2015, for the 2014 tax year, keep those records until at least April 16, 2021. Also, keep in mind that although rarely done, the IRS has no time limit to audit you if it suspects fraud.

2. What if I haven't filed my past due income tax returns?

First, understand that you are not alone and this problem can be resolved relatively easily. You should make every attempt to comply with the filing requirement, especially if you have been receiving notices from the IRS or the Minnesota Department of Revenue. There are several reasons that filing is so important, including the following:

a. If you owe taxes, the IRS will impose a failure to file penalty, along with interest on the taxes you have not paid. The longer you wait to file, the more your penalty will be.

b. If you have a professional license, it could be revoked until you file your returns and pay the tax owed. This could affect your ability to earn income and pay your taxes.

c. You will not receive a tax refund that may be due to you. The only way to receive your refund is to file a return within three years of the original filing date. After that, the IRS is not required to pay you your refund.

d. The time limit for the IRS to audit you and collect outstanding taxes does not begin to run until you file your return. Generally the IRS has three years to audit your returns and 10 years to collect the taxes. If you do not file, the clock never starts.

3. I received an IRS Audit Letter. What do I do now?

Review the letter carefully. Typically the letter states one of two things. It may tell you that the audit process is just beginning and it will provide information on what to do next. Otherwise, it may tell you the dollar amount the IRS expects you to pay with an explanation of the suspected error. Either way, do not necessarily anticipate the worst and panic. Most importantly, do not ignore the IRS. This makes what could be a non-issue or small problem a very big one. Respond effectively to all IRS communications and keep all deadlines.

For an independent review, consider contacting our firm for assistance in acting as a liaison between you and the IRS. Often times having a tax professional in your corner can short-circuit the issue.

4. I received an IRS Notice of Deficiency. What does this mean?

A Notice of Deficiency is also commonly referred to as a "90 Day Letter" or sometimes a "Ticket to Tax Court." The Notice is the final letter that the IRS must send before it can begin to collect the taxes owed. From the date of the Notice, you have 90 days to file a Petition with the United States Tax Court to dispute the amount the IRS says is owed. We have attorneys specifically admitted to the Tax Court, who you should contact immediately to assist you in preparing your Petition. If you chose not to file a Petition, then the IRS will move forward with its collection efforts.

5. For how long can the IRS collect back taxes from me?

Generally, from the date you file your return or the date the tax is assessed, the IRS has 10 years to collect a tax liability. This time limit will be extended if you file an Offer in Compromise, request a Collection Due Process Hearing, file bankruptcy, or if additional tax is assessed due to an audit.

6. Can the IRS garnish my wages or take (levy) my assets?

The IRS can garnish wages, levy bank accounts, levy social security and disability benefits, among other things. First, the IRS must send you a Final Notice, which gives you 30 days to respond. If you fail to respond, the IRS has authority to take further action such as garnishment and levy. Therefore, it is extremely important that you make some form of contact with the IRS within the time provided to work with them on resolving the matter.

7. I've heard I can settle with the IRS for "pennies on the dollar." Will this work for me?

You may be referring to the IRS' Offer in Compromise program. In certain instances, taxpayers are able to settle their tax debt, including interest and penalties, for a lump sum that is less than the total amount owed. For this to work, you must convince the IRS that it will not be able to collect the entire amount due because of your financial situation, or you must prove you do not owe the tax.

The consideration process is lengthy, typically lasting six months to a year, sometimes longer. You must make a deposit of 20% of the amount offered, plus pay a filing fee, at the time your offer is made. The IRS has no obligation to accept your offer. Therefore, to avoid wasting your valuable time and money, it is very important to evaluate your specific circumstances with a tax professional before making the offer to determine whether you are a good candidate for the program.

If you are not a fit for the Offer in Compromise program, you may still be able to enter into an agreement with the IRS to pay the taxes back in installments. The monthly installment payment is determined based on your income and allowable necessary expenses. It is important to reach an amount that you can consistently make as failure to pay will be a problem in working with the IRS going forward.

In some cases the IRS determines that you are unable to pay anything at the time of making the request and will classify you as "currently not collectible." This does not make the taxes go away and interest and penalties continue to add up; however, the IRS will no longer take collection action against you while your financial situation remains the same.

8. Will the IRS remove (abate) interest or penalties that it has assessed?

Interest will be abated only in the case of an IRS error or delay. This rarely happens.

The IRS will abate penalties in the right circumstances. You may be successful if you can show that the error occurred from "reasonable cause." There are certain criteria that the IRS must consider when assessing your specific situation and a detailed explanation must be provided for the IRS to properly evaluate the request for penalty relief.

9. What is innocent spouse relief?

Married couples filing a joint tax return are jointly and severely liable for the tax owed on that return. In certain instances, an "innocent" spouse may request that the tax burden be shifted from him or her to the responsible spouse. Depending on the level of involvement of the requesting spouse in filing the return, he or she may be eligible for one of three types of relief: Innocent Spouse Relief; Separation of Liability Relief; or Equitable Relief.

Many initial requests are denied due to filing mistakes or because of lack of adequate representation. Please review my article *Divorcing a Tax Cheat: Now What?* for more information on this topic.

10. How much do your services cost?

Our initial consultation with you is free and confidential. We understand you may be under a great deal of financial stress. Therefore, during this first meeting, we can get a better idea of the complexity of your case and give you a quote that is realistic.