



\$olving Federal Tax Disputes

Recommendations for
dealing with potential
tax issues.

Federal tax disputes affect United States taxpayers regardless of the income level of the taxpayer. It does not matter whether the income is large or small; frequently the only difference is the amount in dispute and the manner in which it is satisfied. The disputes arise because of (i) underpayment of personal and corporate income taxes, (ii) underpayment of withheld employment taxes, (iii) disallowance of certain deductions, such as when the IRS auditor believes that your favorite side business is a hobby - not a legitimate second business. These are not the only reasons that disputes arise, but are certainly some of the most common.

Disputes with the Internal Revenue Service, unlike fine wines, do not get better with age - only more expensive. Resolution of the disputes can take several forms. For instance, if you are unfortunate enough to have the auditor disallow your second business because it appears more of a hobby than a business, then you must either accept that determination [after an IRS appeal] or litigate the issue in United States Tax Court if the back taxes have not been paid, or in United States District Court for a refund if the taxes have been paid. There are benefits and drawbacks to each approach, so both litigation options must be examined in light of the taxpayers on situation. If the taxpayer does not have the funds to pay the back taxes, penalties and accrued interest then the decision is much easier - litigate in tax court, not district court.

Other situations require different methods to resolve. If the amount of the tax is not in dispute but cash is in short supply to pay the obligation then an installment arrangement may be the ticket to satisfying the obligation. In some instances, an Offer-in-Compromise will be the ticket to freedom. An Offer-in-Compromise in effect lets you settle with the IRS for less than the amount actually owed. These are not easy and are extremely fact specific. Whether a particular taxpayer will qualify requires a detailed review of the taxpayer's financial position.

Under the right circumstances the IRS is allowed to waive penalties that have been or might be assessed. To obtain a waiver of penalties requires a showing of good cause. What constitutes good cause depends on each taxpayer's specific situation, and it is usually a good idea to present a request that the IRS waive the assessment of penalties.

Here are several recommendations for dealing with the IRS and your tax problem:

1. Don't ignore the Internal Revenue Service when they contact you. The IRS has the ability to place liens and seize assets when the circumstances justify that course of action.
2. Treat the IRS representative in a courteous manner - they have a job to do just like everybody else. They don't respond well to bullying tactics and shouting, so just don't do it.
3. Seek prompt, competent help if you are unsure of what to do.
4. Remember that your ability to take certain actions such as filing suit in tax court is subject to certain specific and short time limits.
5. Keep good, well organized records. Planning and preparation is essential to obtaining the best resolution possible when confronted with an IRS dispute.