

T. Dennis Connally Consultant, P.C. – newsletter for June 7<sup>th</sup> deadline.

## **BILLIONS IN ECONOMIC STIMULUS PAYMENTS ALREADY DISTRIBUTED**

Economic stimulus payments continue to arrive in taxpayers' bank accounts and mail boxes. For the week ending May 23, the Treasury Department has reported that the government has distributed electronically and via mail an estimated 6.2 million economic stimulus payments totaling \$4.9 billion. According to Treasury, these numbers represent the near completion of all direct deposits, with the continued mailing of paper checks. While the government started mailing paper checks on May 8, it does not anticipate finishing paper distribution until mid-summer.

### **Improper deposits**

The IRS has reported that in a few instances, taxpayers informed the agency that their stimulus payments were not deposited to the proper bank account. The IRS is working with taxpayers on a case-by-case basis to resolve these issues as quickly as possible.

### **Missing child payments**

Approximately 350,000 taxpayers have not received the child payment portion of their economic stimulus payment, despite qualifying for the payment. According to the IRS, these taxpayers did not check the proper box on their returns to trigger the \$300 payment, or the tax preparation software they used failed to capture the proper information needed for issuing the child stimulus payments. The IRS indicated that it will send separate checks, starting in July, to cover the qualifying children payments.

### **Economic stimulus payments**

Married couples may receive up to a \$1,200 stimulus payment, and qualifying individuals up to \$600. Each qualifying child entitles the caretaker to an additional \$300. Rebates begin to phase-out at \$75,000 of adjusted gross income (AGI) for individuals and \$150,000 of AGI for married couples filing jointly. The combined basic and child rebates phase-out at five percent of the amount exceeding these applicable AGI thresholds.

For tax returns processed by the IRS by April 15, households are receiving their payments according to the last two digits of the Social Security number on their tax return. On a joint return, the first number listed will determine when a stimulus payment will be sent. However, individuals who had e-file or tax preparation fees deducted from their refunds will receive paper checks, the IRS indicated.

### **How to pay off your tax debt**

Often, individuals end up with an unexpected tax liability on April 15. There are several options available to pay off your tax debt, stop accruing penalties and interest and secure peace of mind. Each payment method has its advantages and disadvantages depending on your financial and personal circumstances, and each option should be discussed with a tax professional prior to

making a decision. Our office would be glad to answer any questions you have about each payment method.

### **Stop accruing interest and penalties**

Remember, if you filed on time but were unable to pay the entire amount, or any amount, showing as due on your return when you filed, and you have an outstanding balance with Uncle Sam, you are incurring interest and a "failure to pay" penalty imposed by the IRS. The failure to pay penalty is one-half of one percent (0.5%) owed for each month, or part of a month, that your tax remains unpaid after the due date. The late payment penalty can climb to a maximum of 25 percent on the amount actually shown as due on the return, even if you paid some of the tax debt off when you filed your return. This is the reason why it is imperative that you pay off your tax debt as quickly as possible, under a plan that avoids this steep penalty.

Here are some of the most common payment options available to taxpayers who still have an outstanding balance with the IRS:

***Pay by credit card.*** Depending on your situation, paying the balance of your tax liability with a credit card (or by another form of personal loan) may be the best option in order to stop accruing interest and penalties for failing to pay the entire amount due. If this is an option, make sure you use a card with the lowest interest rate and the lowest account balance. The IRS has contracted with two private, third-party servicers that process credit card tax payments, and both (Official Payments Corporation and Link2Gov Corporation) accept most major credit cards such as American Express, Visa, and MasterCard. Additionally, you can use a credit card regardless of whether you filed your return electronically or by mail. Finally, be mindful that interest on a credit card or other personal loan to pay off your taxes is non-deductible.

***Apply for an installment plan.*** The IRS offers taxpayers the ability to apply for an installment agreement plan. There are many requirements and rules regarding the installment plan method, which a tax professional can discuss with you. A request for an installment plan is made by filing Form 9465 with the IRS. Although there is a fee to apply for the agreement of approximately \$105, this amount is deducted from your first payment upon approval of your request. However, even if your request is granted, you will continue to be charged interest on any tax not paid by the due date. But, the late payment penalty will generally be half the usual rate (i.e. 2 percent, instead of 4 percent per month).

***Offer in compromise.*** In some situations, the IRS may allow you to strike a deal by accepting an offer-in-compromise (OIC). In general, an OIC allows you to make a one-time lump sum payment to the IRS that is less than the total amount of the taxes you owe. However, if your tax debt can be fully paid through an installment agreement or by other means, in most cases you may not be eligible for an OIC. Additionally, the amount of tax you propose to pay must reasonably reflect the liability you actually owe to have any success of being accepted by the IRS. You must include a \$150 application fee with your OIC request, which is made on Form 656. If the IRS accepts your offer, this amount goes towards reducing your tax liability.

*These are only some of the common options available to taxpayers who remain saddled with*

*unpaid tax debt. Each available payment option should be discussed with a tax professional. Our office can help you understand your options and choose a payment method that is best for you, personally and financially.*

**Tax Briefs:**

***Bankruptcy.*** A Chapter 13 debtor who obtained an extension of time to file her tax return was not required to file her return before the first scheduled meeting of creditors or face dismissal or conversion. *In re Cushing, BC-DC Mass., 2008-1.*

A general discharge in an individual's Chapter 7 bankruptcy case did not relieve him of his federal income tax debt because the taxes remained assessable after his bankruptcy case was filed. The limitations period was suspended because the debtor filed a petition for redetermination before he filed for bankruptcy. *In the Matter of Hosack, CA-5, 2008-1.*

***Innocent Spouse Relief.*** An individual was not entitled to innocent spouse relief from joint liability for tax deficiencies that were sustained in prior proceedings in which she meaningfully participated. *Huynh, CA-9,2008-1*