

Tax Debt Woes



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Helping households with IRS debt

By Dana Goldstein, staff attorney

Over ten million Americans owe back taxes. That's roughly five percent of our country's adult population. Many of these people live in stress and fear - nervous to open the mail, distrustful of the IRS, unsure where to turn, and wondering just how much this debt could ruin them. Fear of jail is a common worry though unfounded in almost all circumstances. Fortunately, there are good options for low-income households to address their tax debt burdens - but many are unaware of these solutions. Fear and a lack of resources predisposes many to ignore the situation or seek assistance through predatory and illegal schemes.

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There are a multitude of reasons a low-income household may owe debt. Sometimes, taxpayers make good faith mistakes on their tax returns. Take the example of truck drivers who accrue incredibly high expenses for mileage, nights on the road, and equipment rental in the course of operating as independent contractors. It's not uncommon that \$80,000 - \$100,000 of expenses might be deductible on a big job, but without proper records or proper reporting on a tax return, the IRS will tax this sum. In other circumstances, taxpayers may ignore an audit letter from the IRS or fail to provide proper documentation to support a tax benefit. This happens often with the [highly-audited Earned Income Tax Credit \(EITC\)](#). A common EITC hurdle is the requirement to prove residency which is often accomplished with school records. The trick is that the IRS needs to see residency for a tax year, but a year of school only covers part of one tax year. With nothing more than a few overlooked letters from the IRS, this omission could leave taxpayers owing \$6,000 or more. Finally, taxpayers may receive lump sums that trigger an unexpected tax liability. For example, the recently fired employee who cashes out her pension to cover day to day necessities.

When confronted with these obstacles, it's important to face them head on and seek help from trustworthy sources. There are many possible ways out. And scared taxpayers who owe taxes can take comfort knowing that they can't go to jail because of tax debt. (You can, however, go to jail for intentionally lying to the IRS or concealing money and assets.)

There are solutions and there can be a light at the end of the tunnel for many.

First, tax debt and any accrued penalties and interest go away ten years after the tax was first assessed. This IRS provision arose in the middle of the 20th century when the IRS got a negative reputation of taking homes and causing homelessness. This statute of limitations was created to allow low-income families to stay afloat when they truly couldn't pay off these debts. This provision provides relief and hope for many.

Second, taxpayers can claim Hardship Status with the IRS. This status can prevent the IRS from garnishing wages and social security benefits when a tax liability prevents the household from affording basic, reasonable living expenses. Hardship status is generally proved by showing the taxpayer's income is equal to its expenses (not including tax debt). Generally, taxpayers who are low-income or members of the working poor and living at or below 150% of the Federal Poverty Level can easily qualify for Hardship Status. It's important to note Hardship Status may not prevent the attachment of liens by the IRS, but this is irrelevant for most households who live around the poverty level and don't own property.

Another solution is an offer in compromise - an agreement between a taxpayer and the IRS that settles a tax liability for less than the amount owed. We've all seen the ads telling us we can "settle tax debt for pennies on the dollar." Indeed, this can be a legitimate solution (even while every company marketing these services may not!). An offer in compromise is intended to assist people who live in chronic poverty or are on low fixed incomes from sources like social security or retirement. These are taxpayers who are unlikely to ever be able to pay liabilities through an installment agreement or other means. After an agreement is reached, payment discharges the full debt amount. The offer in compromise solution is not without complications. In the past, some businesses preyed on the opportunity by collecting a flat fee from any indebted taxpayer regardless of their likely eligibility. Taxpayers are cautioned to proceed with caution when seeking assistance from an unknown entity in this arena.

In addition to potential scams around offers in compromise, low-income taxpayers should be vigilant of other predatory hazards. As a general rule, the IRS won't call you. If you get a call from the "IRS" asking for money, demanding payment (especially over the phone), threatening deportation, or threatening jail time - it's not the real IRS. This is even true if the caller ID shows up as "IRS." Scammers are getting increasingly sophisticated and have embedded many clever ways to enhance their credibility. Likewise, emails from the "IRS" are not from the real IRS. Mail is the preferred method of contact for the IRS, but IRS mail will never be on colored paper, use colored envelopes, include colored logos or graphics, feature bright stamps, or have words like "DEBT" emblazoned across it.

Individuals facing tax debt are often innocent of wrongdoing. They may feel deeply oppressed by the burden which often weighs on their physical and mental health. This can be made even worse when they fall victims to predators disguised as solutions. [Joe, a former](#) client of Community Legal Aid, has a story that is familiar to many who are burdened by tax debt. By spreading the word about these truths and solutions, we can help ensure this sad story doesn't keep happening over and over again.

This article is part of Legal Aid's ["Big Ideas" series](#).

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