

How to Prepare Your Payment Plan

Levy Lake!!!

Levy Lake, where you will land if you do not respond to IRS letters, is fed by some of the world's hottest hot springs. When you land in Levy Lake, you are in **hot** water. The quickest, surest way out of Levy Lake is through compliance. If, for whatever reason, compliance is just not possible, you should file Form 911 with the Taxpayer Advocate, explain why compliance is impossible, and plead for mercy. For now, however, let's go over what you need to do to get out of Levy Lake and onto the Lifeboat of a Payment Plan.

Officially called an "Installment Agreement", an IRS payment plan may be the only way you can deal with your tax debt, enabling you to move from Levy Lake to Compliance Cove, where you will be safe from levies, wage garnishments and property seizures.

If you do not have a levy or wage garnishment, complete any unfiled returns and your form 433, and ask for a payment plan. If you DO have a levy, it is even more urgent that you get all returns and Form 433 completed. Everyone must complete Form 433A. In addition, anyone running a business must complete Form 433B. When these are completed, you may ask for a Payment Plan.

In the even you have previous years' tax returns that have not been filed, you may need to hire a TaxLand Guide who has the old forms available. By using a Power of Attorney, the Guide can obtain any information the IRS has about your wages and other income and use that to prepare your returns.

The first step is to properly complete Form 433A, and 433B if you run a business. When those forms are complete, you will provide that information to the IRS and ask for the Payment Plan. If you believe you have provided all that information, and the IRS will not set up a payment plan, you will need to either consult the Taxpayer Advocate or hire a TaxLand Guide.

Refer to the Section on 433A for instructions on that form. Once that is complete, study the following information. The Revenue Officer is going to compare Line 34 with Lines 44 and 45. If the second column of Line 45 total is greater than line 34, "Total Income", you should be placed in "uncollectible" status, and not be required to make any payments. However, your tax bill will continue to grow, as you will still be charged interest on all the tax, penalties and interest that has accrued. Therefore, while uncollectible status gets you out of the hot water of Levy Lake, it does nothing to help you in the long term.

The Revenue Officer will also compare your total income to your total actual expenses. Suppose this situation:

You are single and live in Autauga County, Alabama. Your monthly income is \$3,000,

your actual monthly expense is \$3,770, and your allowable expenses are \$3,142 a month. Your allowable expenses are \$142 a month more than your income. Therefore, you should be placed on uncollectible status. However, the Revenue Officer is likely to ask "How can you do this?"

Your actual expenses are \$3,770. Your income is \$3,000 a month. That means you are spending \$770 a month more than you are bringing in. Part of your expense is your \$230 dollar a month secured payment on your Harley Davidson, which is how you spend all your weekends. You are spending \$75 a month on a universal life insurance policy, because your best friend sells them and said you really need it, since you ride motorcycles every weekend. As a single individual making \$3,000 a month, your allowance for food, clothing, etc, is \$554 a month. So even if you claim you work at a restraunt where they furnish all your food and clothes, you are still spending about \$150 a month more than you make.

So, here is how it looks to IRS Special Agent

Income		Actual	Allowed	
24. Wages	\$3000	35. Food	600	554
25. Wages (Spouse)		36 Housing & Util	850	690
27. Interest-Dividends		37 Transportation	760	642
28 Net Rental Income		38 Health Care	250	250
29 Pension /Soc Sec		39 Taxes	730	730
30 Pension/Soc Sec		40 Court ordered	275	275
31 Child Support		41 Child care		
32 Alimony		42 Life Insurance	75	
33 Other		43 Other Secured	230	
34 Total	\$3,000	44 Other Expense		
		45 Total Living	\$3,770	\$314

In this case, perhaps you can explain it by showing how much you owe on credit cards, or how much your family has been helping you. Unless you can truly demonstrate where the extra came from the Revenue Officer may be tempted to think you are not reporting all your tips, or perhaps even that your weekend trips produce revenue you have not talked about...

Now, let's change the situation a little. You are married, and your spouse works, but you still have only one car.

Income		Actual	Allowed	
24. Wages	\$3000	35. Food	830	830
25. Wages (Spouse)	1000	36 Housing & Util	850	690
27. Interest-Dividends		37 Transportation	760	642
28 Net Rental Income		38 Health Care	250	250
29 Pension /Soc Sec		39 Taxes	880	880
30 Pension/Soc Sec		40 Court ordered	275	275
31 Child Support		41 Child care		
32 Alimony		42 Life Insurance	75	

33 Other		43 Other Secured	230	
34 Total	\$4,000	44 Other Expense		
		45 Total Living	\$4,150	\$3,567

Subtracting Allowed expense of \$3,567 from \$4,000 of income, the IRS will require a payment of \$433 a month. This will be difficult to do, since you are already spending \$4,150 a month out of \$4,000

There are at least three possible solutions here. You can set up a payment plan of \$433 a month and eat nothing but spaghetti. Another possibility is to ask for a one year temporary plan during which you could reduce your auto expense and housing expense to the allowable amounts. You would have to move to a less expensive apartment where your total cost would be \$690 a month, reducing your housing cost by \$160 a month. You could refinance your car for a longer period, bringing your car payment down to \$407 a month, reducing your transportation cost down to \$642, a savings of \$118 a month. At that point,

	Income		Actual	Allowed
24. Wages	\$3000	35. Food	830	830
25. Wages (Spouse)	1000	36 Housing & Util	690	690
27. Interest-Dividends		37 Transportation	642	642
28 Net Rental Income		38 Health Care	250	250
29 Pension /Soc Sec		39 Taxes	880	880
30 Pension/Soc Sec		40 Court ordered	275	275
31 Child Support		41 Child care		
32 Alimony		42 Life Insurance	75	
33 Other		43 Other Secured	230	
34 Total	\$4,000	44 Other Expense		
		45 Total Living	\$3,622	\$3,622

This now looks like it is possible— \$4,000 of income, \$3,622 allowable expense, would leave a payment plan amount of \$378 a month, which is possible now that your expenses are down. However, if you were working with a TaxLand Professional, they might well suggest that you start using the Harley for your work transportation, leaving the car for your husband. That would make the Harley payment of \$230 a month an allowable transportation expense, and increase the allowable operational costs from \$235 (one car) to \$289 (two cars), for a total increase in allowable transportation of \$280. Now, your situation looks like this:

	Income		Actual	Allowed
24. Wages	\$3000	35. Food	830	830
25. Wages (Spouse)	1000	36 Housing & Util	690	690
27. Interest-Dividends		37 Transportation	926	926
28 Net Rental Income		38 Health Care	250	250
29 Pension /Soc Sec		39 Taxes	880	880
30 Pension/Soc Sec		40 Court ordered	275	275

31 Child Support		41 Child care		
32 Alimony		42 Life Insurance	75	
33 Other		43 Other Secured		
34 Total	\$4,000	44 Other Expense		
		45 Total Living	\$3,851	\$3,851

Now, Gross Income of \$4,000, minus allowable expenses of \$3,851 gives a payment plan of \$149.

You and your husband decide that you want to have a child, so you both take out term life insurance policies of \$100,000, at a cost of \$25 per month for you, and \$27 per month for him. Now we have:

	Income		Actual	Allowed
24. Wages	\$3000	35. Food	830	830
25, Wages (Spouse)	1000	36 Housing & Util	690	690
27. Interest-Dividends		37 Transportation	926	926
28 Net Rental Income		38 Health Care	250	250
29 Pension /Soc Sec		39 Taxes	880	880
30 Pension/Soc Sec		40 Court ordered	275	275
31 Child Support		41 Child care		
32 Alimony		42 Life Insurance	127	52
33 Other		43 Other Secured		
34 Total	\$4,000	44 Other Expense		
		45 Total Living	\$3,978	\$3,903.

Now, Gross income of \$4,000, minus allowable expenses of \$3,903 gives a payment plan of \$97 per month. Prepare your Form 433A in this manner, with this much thought and preparation, and you are on your way to the Heights. Have a safe journey.

INSTRUCTIONS TO TAXPAYER

If not already completed by an IRS employee, please fill in the information in the spaces provided on the front of this form for:

- Your name (*include spouse's name if a joint return*) and current address; Your social security number and/or employer identification number (*whichever applies to your tax liability*); Your home and work, cell or business telephone numbers;
- The amount you can pay now as a partial payment;
- The amount you can pay each month (*or the amount determined by IRS personnel*); and
- The date you prefer to make this payment (*This must be the same day for each month, from the 1st to the 28th*). We must receive your payment by this date. If you elect the direct debit option, this is the day you want your payment electronically withdrawn from your financial institution account.

Review the terms of this agreement. When you've completed this agreement form, please sign and date it. Then, return Part 1 to IRS at the address on the letter that came with it or the address shown in the "For assistance" box on the front of the form.

Terms of this agreement

By completing and submitting this agreement, you (*the taxpayer*) agree to the following terms:

- This agreement will remain in effect until your liabilities (*including penalties and interest*) are paid in full, the statutory period for collection has expired, or the agreement is terminated. You will receive a notice from us prior to termination of your agreement.
- You will make each payment so that we (*IRS*) receive it by the monthly due date stated on the front of this form. **If you cannot make a scheduled payment, contact us immediately.**
- This agreement is based on your current financial condition. We may modify or terminate the agreement if our information shows that your ability to pay has significantly changed. You must provide updated financial information when requested.
- While this agreement is in effect, you must file all federal tax returns and pay any (*federal*) taxes you owe on time.
- We will apply your federal tax refunds or overpayments (*if any*) to the entire amount you owe, including the shared responsibility payment under the Affordable Care Act, until it is fully paid or the statutory period for collection has expired.
- You must pay a \$225 user fee, which we have authority to deduct from your first payment(s) (\$107 for Direct Debit). For low-income taxpayers (at or below 250% of Federal poverty guidelines), the user fee is reduced to \$43. The reduced user fee will be waived if you agree to make electronic payments through a debit instrument by providing your banking information in the Direct Debit section of this Form. For low-income taxpayers, unable to make electronic payments through a debit instrument, the reduced user fee will be reimbursed upon completion of the installment agreement. See Debit Payment Self-Identifier on page 1 and Form 13844 for qualifications and instructions.
- If you default on your installment agreement, you must pay a \$89 reinstatement fee if we reinstate the agreement. We have the authority to deduct this fee from your first payment(s) after the agreement is reinstated. For low-income taxpayers (at or below 250% of Federal poverty guidelines), the reinstatement fee is reduced to \$43. The reduced reinstatement fee will be waived if you agree to make electronic payments through a debit instrument. For low-income taxpayers, unable to make electronic payments through a debit instrument, the reduced reinstatement fee will be reimbursed upon completion of the installment agreement.
- We will apply all payments on this agreement in the best interests of the United States. Generally we will apply the payment to the oldest collection statute, which is normally the oldest tax year or period.
- **We can terminate your installment agreement if:**
 - You do not make monthly installment payments as agreed. You do not pay any other federal tax debt when due. You do not provide financial information when requested.
- If we terminate your agreement, we may collect the entire amount you owe, EXCEPT the Individual Shared Responsibility Payment under the Affordable Care Act, by levy on your income, bank accounts or other assets, or by seizing your property.
- We may terminate this agreement at any time if we find that collection of the tax is in jeopardy.
- This agreement may require managerial approval. We'll notify you when we approve or don't approve the agreement.
- We may file a Notice of Federal Tax Lien if one has not been filed previously, but we will not file a Notice of Federal Tax Lien with respect to the individual shared responsibility payment under the Affordable Care Act.
- You authorize the IRS to contact third parties and to disclose your tax information to third parties in order to process and administer this agreement over its duration.

HOW TO PAY BY DIRECT DEBIT

Instead of sending us a check, you can pay by direct debit (*electronic withdrawal*) from your checking account at a financial institution (*such as a bank, mutual fund, brokerage firm, or credit union*). To do so, fill in Lines a and b. Contact your financial institution to make sure that a direct debit is allowed and to get the correct routing and account numbers.

Line a. The first two digits of the routing number must be 01 through 12 or 21 through 32. Don't use a deposit slip to verify the number because it may contain internal routing numbers that are not part of the actual routing number.

Line b. The account number can be up to 17 characters. Include hyphens but omit spaces and special symbols. Enter the number from left to right and leave any unused boxes blank.

CHECKLIST FOR MAKING INSTALLMENT PAYMENTS:

1. Write your social security or employer identification number on each payment.
2. Make your check or money order payable to "United States Treasury."
3. Make each payment in an amount at least equal to the amount specified in this agreement.
4. Don't double one payment and skip the next without contacting us first.
5. Enclose a copy of the reminder notice, if you received one, with each payment using the envelope provided. Make a payment even if you do not receive a reminder notice. Write the type of tax, the tax period and "Installment Agreement" on your payment. For example, "1040, 12/31/2021, Installment Agreement". You should choose the oldest unpaid tax period on your agreement. Mail the payment to the IRS address indicated on the front of this form.
6. If you didn't receive an envelope, call the number at the top of Part 1.
7. To make payments electronically, go to www.irs.gov/Payments for payment options.

This agreement will not affect your liability (*if any*) for backup withholding under Public Law 98-67, the Interest and Dividend Compliance Act of 1983

QUESTIONS? — If you have **any** questions, about the direct debit process or completing this form, call the applicable telephone number on your notice or the telephone number at the top of this form for assistance.