

Are You a Non-Filer? Ready to Escalate Problems with the IRS?

Article Highlights:

- Non-Filers
- IRS Information Reporting
- IRS Prepared Substitute Return
- Notice of Deficiency
- Tax Court Appeal
- Liens and Levies

There are millions of individuals who do not file a tax return each year, many of them simply because their income is below the filing threshold levels for the year based upon their filing status.

Still others simply procrastinate and risk forfeiting their rightful refunds, including earned income tax credits, child tax credits, tuition credits and excess withholding.

Then there are others who believe they owe, whether they actually do or not, and don't file because they think they can't pay what they owe. Not filing on time and owing money can result in a 5% per month (maximum 25%) failure-to-file penalty, plus failure-to-pay penalties and statutory interest in addition to what is owed. It does not make sense to incur unnecessary penalties, especially when the IRS has payment options and, in certain hardship situations, compromise options that may apply.

If you are in the situation just described and think the IRS is not aware of you, think again. The IRS information reporting system knows a lot more about you than you might imagine. Here is just a short list of items that get reported to the IRS's computer and added to your file:

- W-2s for wages filed by employers.
- W-2Gs for wagering winnings from racetracks, casinos, poker parlors, etc.
- 1099-MISC forms from businesses you have contracted with.
- 1099-INT and 1099-DIV showing interest and dividends earned from financial accounts.
- 1099-B forms showing the gross proceeds from the sales of securities.
- 1099-K forms showing the credit card transactions for your business.
- 1099-S forms reporting the gross proceeds from sales of real estate.
- K-1s from businesses and trusts you are connected with.
- Form 8300 transaction forms from banks showing large transactions.
- The list goes on and on.

So what does the IRS do with all this information when you haven't filed a return? Well, if the gross income is enough that they believe you have a filing requirement, the IRS will prepare a substitute return for you based upon the information they have.

This is when things can get really nasty, because the substitute return is based solely on the income reported to the IRS without the benefit of exemptions, itemized deductions, any of the many credits to which you may be entitled, or cost basis for any property or assets sold. In addition, the substitute return will treat you as married filing separate (the filing status for which the higher tax rates kick in quicker).

Along with the substitute return, you will generally receive a notice of statutory deficiency (commonly referred to as a 90-day letter), which will give you 90 days to file an appeal with the Tax Court. At this point things really get expensive because you will need a tax attorney to handle the appeal. If you ignore the 90-day letter or the 90 days run out, the tax assessment becomes final and the IRS can institute liens and levies. Then life really gets miserable. Your credit rating will take a nosedive, liens will be put on your property, and wages and refunds will be attached.

Although there are further remedies, they are increasingly expensive in terms of legal costs. Don't let things escalate to this point; give this office a call so we can get your past returns filed before you start receiving notices from the IRS. If you've already received notices and have been ignoring them, gather them up in chronological order and bring them to the office so we can figure out the next steps required. If you have lost or misplaced past years' records, we can order a transcript from the IRS that includes the information reported from various sources for each unfiled year. There are even ways to get penalties waived.