

THIS MONTH:

- Should I Panic if I Receive an IRS Notice?
- Record Keeping
- Is Cancellation of Debt Income Always Taxable?
- What If I Can't Pay My Taxes?

Should I Panic if I Receive an IRS Notice?

NO!!! Each year, the IRS sends millions of letters and notices to taxpayers for a variety of reasons. Many can be dealt with simply and painlessly. Here are some tips:

1. Notices may request payment of taxes, notify you of changes to your account, or request additional information. The notice will likely cover a specific issue about your account or tax return and provide specific instructions on what you are asked to do to satisfy the inquiry.
2. If you receive a correction notice, you should review the correspondence and compare it with the information on your return. If you agree with the correction, then usually no reply is necessary unless a payment is due or the notice directs otherwise.
3. If you do not agree with the correction the IRS made, it is important that you respond as requested. You should send a written explanation of why you disagree and include any documents and information you want the IRS to consider, along with the bottom tear-off portion of the notice. Mail the information to the IRS address shown in the upper left-hand corner of the notice. Allow at least 30 days for a response.
4. Most correspondence can be handled without calling or visiting an IRS office. However, if you have questions, call the telephone number in the upper right-hand corner of the notice. Have a copy of your tax return and the correspondence available when you call to help them respond to your inquiry.

Record Keeping

After you file your taxes, you will have many records that may help document items on your tax return. You will need these documents should the IRS select your return for examination. Generally, this means you must keep records that support items shown on your return until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund or the IRS can assess additional tax. Returns filed before the due date are treated as being filed on the due date.

	IF you...	THEN the period is...
1	Owe additional tax and (2), (3), and (4) do not apply to you	3 years
2	Do not report income that you should and it is more than 25% of the gross income shown on your return	6 years
3	File a fraudulent return	No limit
4	Do not file a return	No limit
5	File a claim for credit or refund after you filed your return	The later of 3 years or 2 years after tax was paid.
6	File a claim for a loss from worthless securities	7 years



Is Cancellation of Debt Income Always Taxable?

Canceled debt is *generally* taxable to you, but there are exceptions. The most common situations when cancellation of debt income is not taxable involve:

- **Qualified Principal Residence Indebtedness:** This is the exception created by the Mortgage Debt Relief Act of 2007 and applies to most homeowners.
- **Bankruptcy:** Debts discharged through bankruptcy are not considered taxable.
- **Insolvency:** If you are insolvent when the debt is cancelled, some or all of the cancelled debt may not be taxable to you. You are insolvent when your total debts are more than the fair market value of your total assets.
- **Certain Farm Debts:** If you incurred the debt directly in operation of a farm, more than half your income from the prior three years was from farming, and the loan was owed to a person or agency regularly engaged in lending, your cancelled debt is generally not considered taxable income.

Non-recourse loans: A non-recourse loan is a loan for which the lender's only remedy in case of default is to repossess the property being financed or used as collateral. That is, the lender cannot pursue you personally in case of default. Forgiveness of a non-recourse loan resulting from a foreclosure does not result in cancellation of debt income.

What If I Can't Pay My Taxes?

Don't panic you are not alone! Many taxpayers have found themselves in financial distress. If you cannot pay the full amount of taxes you owe, you should still file your return (or extension) by the deadline and pay as much as you can to avoid penalties and interest. You also should contact the IRS to discuss your payment options, such as a **short-term extension to pay**, an **installment agreement** or an **offer in compromise**. In some cases, the agency may be able to waive penalties. But remember, no matter what option you choose, don't ignore your tax obligations. They won't go away but will likely get worse, resulting in tax liens or garnishment of wages. Keep in mind, the IRS is far more willing to work with you if they believe you are making an effort to resolve the issues on your end!

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