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How the IRS Collection Process Works

Dealing with the IRS collection process can feel overwhelming and intimidating, especially if you're unfamiliar with how it works. Whether you owe back taxes or have received a notice from the IRS, understanding the steps in the collection process can help you make informed decisions. This blog will break down the process, explain what to expect, and highlight some ways to resolve tax issues before they escalate.

Step 1: The IRS Notice

The IRS collection process begins when the agency identifies that you owe taxes. They will send a written notice, often referred to as a "CP" notice, explaining the amount owed, the tax year in question, and any applicable penalties and interest. The notice will also provide a deadline for payment or response.

It is crucial to read this notice carefully and respond promptly. Ignoring IRS notices will not make the problem go away; instead, it may lead to more severe consequences, such as additional penalties or enforcement actions.

Key Takeaway: Always open and read letters from the IRS. Ignoring them will only worsen your situation.

Step 2: IRS Billing Notices

If you don't respond to the initial notice, the IRS will send additional billing notices. These notices will outline the increasing balance due, including interest and penalties. Typically, you will receive three to four notices over several months before the IRS escalates collection efforts.

The final billing notice, known as a "Final Notice of Intent to Levy," is particularly critical. This notice informs you that the IRS intends to seize your assets if you do not take action. The IRS is required to provide you with 30 days to appeal or resolve the issue before moving forward with enforcement actions.

Pro Tip: If you receive a Final Notice of Intent to Levy, don't wait. Contact a tax resolution expert immediately to explore your options.

Step 3: Collection Actions Begin

Once the IRS determines that the debt is unresolved, they may initiate collection actions. Here are some of the most common methods:

1. **Tax Liens:** A tax lien is a legal claim against your property (real estate, personal property, or financial assets). While it doesn't involve immediate seizure, it can harm your credit score and make it difficult to sell or refinance property.
1. **Wage Garnishment:** The IRS can contact your employer and require them to withhold a portion of your paycheck to satisfy your tax debt. This is often referred to as a "wage levy."
1. **Bank Levies:** A bank levy allows the IRS to seize funds directly from your bank account. Once the levy is issued, the bank freezes your account and forwards the funds to the IRS after 21 days unless you resolve the debt.
1. **Seizure of Assets:** In rare cases, the IRS may seize physical assets, such as your home, car, or other valuables, to satisfy unpaid tax debt.

Important Note: The IRS's ability to collect through liens, levies, and asset seizures is powerful, but you have rights and options to protect yourself.

Step 4: Options for Resolving Tax Debt

Fortunately, the IRS offers several programs to help taxpayers resolve their debts. Here are some of the most common solutions:

Installment Agreements

An installment agreement allows you to pay your tax debt in monthly installments over time. This can help make large tax bills more manageable. Depending on your situation, you may qualify for a streamlined agreement that requires minimal financial documentation.

Offer in Compromise (OIC)

An Offer in Compromise allows you to settle your tax debt for less than the full amount owed. To qualify, you must demonstrate that paying the full amount would create a financial hardship. The IRS considers factors such as income, expenses, and asset equity when evaluating OIC applications.

Currently Not Collectible (CNC) Status

If you can't afford to pay your tax debt due to financial hardship, you may qualify for "Currently Not Collectible" status. While in CNC status, the IRS temporarily suspends collection efforts. However, penalties and interest will continue to accrue on your balance.

Innocent Spouse Relief

If your tax debt is the result of errors or omissions made by your spouse (or former spouse) on a joint tax return, you may qualify for innocent spouse relief. This program can relieve you of responsibility for the tax debt associated with your spouse's mistakes.

Tip: Each of these options requires specific qualifications and documentation. Working with a tax resolution professional can help ensure your application is accurate and complete.

Step 5: Your Rights as a Taxpayer

The IRS must follow strict rules when collecting taxes, and you have rights throughout the process. These include:

1. **The Right to Be Informed:** The IRS must provide clear explanations of your tax obligations and any actions they intend to take.

1. **The Right to Challenge the IRS:** You have the right to appeal IRS decisions, such as liens or levies, if you believe they are incorrect or unfair.
1. **The Right to Retain Representation:** You have the right to work with a tax professional to help resolve your case.
1. **The Right to a Fair and Just Tax System:** The IRS must consider your financial situation and ability to pay when taking collection actions.

Why You Should Act Now

Ignoring tax debt won't make it disappear. In fact, delays can lead to increased penalties, interest, and enforcement actions. By addressing the issue early, you can explore options to reduce your debt, prevent aggressive collection actions, and regain financial stability.

If you're unsure where to start, don't worry. **Mercy Tax Solutions** specializes in helping individuals and businesses resolve their tax issues quickly and efficiently. Contact us at (423) 825-8104 or visit our contact page at info@MercyTaxSolutions.com to schedule a consultation today.

Final Thoughts

The IRS collection process can be stressful, but understanding how it works is the first step toward resolving your tax issues. From responding to notices to exploring resolution options, taking proactive steps can help you avoid unnecessary financial strain and protect your assets.

Remember, you don't have to navigate this process alone. With the right help and guidance, you can overcome your tax challenges and achieve peace of mind.