



## April or Not—It's Always Tax Time

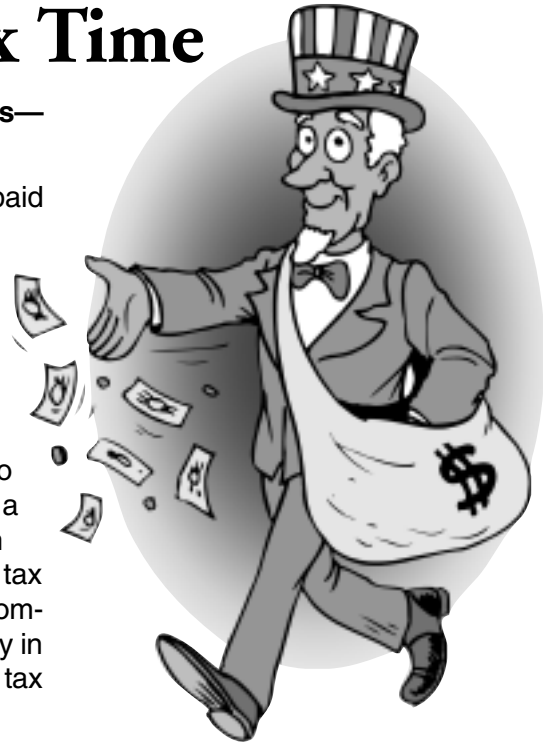
**"I am proud to be paying taxes in the United States. The only thing is—I could be just as proud for half the money." —Arthur Godfrey**

Like it or not, income tax is with us every day. Whether you have just paid your income taxes or you're getting ready to pay them, your daily financial activity is affecting what will be due at the end of your next tax year.

Did you know income tax, as we know it today, has only been with us since 1913? The first Form 1040 had a total of only 19 questions and one page of instructions—much different than the complicated forms and bulky booklets of today.

The concept of income tax was first introduced in America as a way to raise money to help pay for the cost of the Civil War. A law creating a Commissioner of Internal Revenue was signed by President Abraham Lincoln. Wage earners making between \$600 and \$10,000 paid a 3% tax and those making more than \$10,000 paid a 5% tax. After a lot of public complaint about the tax, the rate was reduced in 1867 and repealed completely in 1872. A second attempt was made to collect income taxes in 1894, but the tax was declared unconstitutional just a year later by the Supreme Court.

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## Finding the Right Tax Preparer

Unfortunately, there is the occasional tax preparer who uses clients' vulnerability for his or her own financial gain. Be really careful when you pick someone to trust with your income tax returns. If the IRS finds a problem with your return, you're the one who pays the additional taxes and interest. You may end up paying penalties as well.

In 2005, more than 110 tax preparers were convicted of tax crimes. The IRS provides the following suggestions for choosing your tax preparer:

- Watch out for preparers who claim they can get you a bigger refund than the others.
- Don't use a preparer who charges a percentage of your refund as their fee.
- Use an established tax preparer or company who will sign your return and give you copies of everything.
- Think about whether or not the preparer is likely to be around the next few years to answer questions about your return.
- Read your return carefully and ask your preparer questions about any entry you don't understand.

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# ARTICLES

## It's Always Tax Time

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President Taft suggested an amendment to the Constitution in 1909 that would allow the Federal Government to collect a tax on the income of each citizen based on standard rates across the country. He also recommended that taxes be collected from corporations with incomes greater than \$5,000. Congress started the wheels turning and in 1913

income tax became law.

Tax rates have risen and fallen over the years, affected by Prohibition, the Depression, and most steeply by the World Wars. The Internal

Revenue Service was given its official name and changed to an operation conducted by paid, professional employees in the 1950s. Now, the IRS Commissioner and the Chief Counsel are the only IRS offices appointed by the President and confirmed by the Senate. ■

### Can Anybody Help Me?

**“The hardest thing in the world to understand is the income tax.” —Albert Einstein**

The IRS acknowledges that every citizen has the right to be treated fairly and respectfully when it comes to income taxes. You have the right to have your questions answered, and if you feel like the IRS employee on the other end of the telephone has not been courteous or professional, you have the right to report him or her to the employee's supervisor.

#### **The Taxpayer Advocate Service**

Supposing you have tried to get a problem taken care of with the IRS and not been able to, what then? That's where the Taxpayer Advocate Service comes in. This service is operated independently from the IRS and there is at least one Taxpayer Advocate in every state. The Advocate's job is to see that you have someone representing your interests when trying to resolve issues with the IRS. The Taxpayer Advocate Service cannot, however, change legal judgments that have been made against you by the IRS. An Advocate is most helpful if you are dealing with:

- The possibility of significant financial hardship as a result of taxes owed
- Adverse action being threatened against you
- Costly fees that will be required if you seek other representation
- No resolution from the IRS for more than 30 days
- No resolution from the IRS by a promised date

If you need help, feel free to contact the Taxpayer Advocate Service toll-free at (877) 777-4778. An Advocate will review your case objectively, give you updates on what's happening, provide his or her contact information, and resolve your problem as quickly as possible in a friendly and courteous manner. A list of Taxpayer Advocates can be found in IRS publication 1546 at [www.irs.gov](http://www.irs.gov).

#### **Volunteer Income Tax Assistance**

If what you need is just help filling out the tax forms and figuring out what deductions you can take, but you can't afford to pay a professional tax preparer, try one of the many volunteer groups around the country. These volunteers are trained to handle most basic tax forms and are willing to help those with annual incomes of \$38,000 or less for free. You'll usually find a group at your local library. If not, visit [www.irs.gov](http://www.irs.gov) or your state government website for information.

#### **Tax Counseling for the Elderly**

These volunteers offer free help with income tax forms to those citizens 60 years of age or older. Many of these trained volunteers are retired people themselves who are affiliated with a nonprofit organization receiving grants from the IRS. Check with your state senior citizen services for information about a group near you.

The AARP also provides help to those over 60 years old and to low-income citizens. For information about their services, call toll-free (888) 227-7669 and ask about AARP Tax-Aide. ■

# My Returns Are Ready, But I Can't Pay

When we get the bad news that we owe taxes we hadn't expected to owe, it can create a good deal of stress. But before you do anything drastic, there are a few options for you to consider.

1. If you have your returns ready and file electronically before April 15 but don't have the cash available to pay the money due, you can authorize the IRS to deduct the payment from your bank account on the April due date without any extra fees. It's just like scheduling an online payment for any other bill you have.
2. You can charge the money due to a credit card. The interest rate charged on your credit card may turn out to be better than the interest and penalties you'll have to pay the IRS for late taxes. It may also prevent a negative impact to your credit rating. To pay your taxes by credit card, call (800) 272-9829. The IRS doesn't charge a fee for credit card payments, but most credit card companies charge a processing fee for the transaction.
3. Take a short-term loan from your bank or credit union. This option often has lower interest rates than you can get on your credit card, especially if the amount you need isn't very high.
4. Apply for an installment agreement with the IRS (IRS Form 9465). If possible, pay some of your amount due by the due date. Anything that you pay will help prevent interest and penalties from accruing on the amount paid by April 15th. Interest on your amount due is charged daily and there is also a monthly penalty fee.

If you cannot pay the total amount due, you can apply for an installment agreement with the IRS. This agreement allows you to make monthly payments until your account is paid in full. The payments can be paid by mail or by automatic deduction from your bank account every month. Automatic deduction is the best method, as it will ensure you make on-time payments and do not put your installment agreement at risk with late payments. You must fill out an Installment Agreement Request Form 9465 to apply. You can find this form at [www.irs.gov](http://www.irs.gov) or call your local IRS office for information. The IRS is generally very helpful in setting up this arrangement for you, as they want you to be able to pay your taxes. Understand that an installment agreement does not erase interest and penalties. On the contrary, interest and monthly penalties will accrue just like they do with any other loan. The advantage of an installment agreement is that it is not a lien and will not put your property or financial accounts at risk.

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## Tax Time Tips

If you want to avoid the last-minute stress that you start feeling about the beginning of April, here are some suggestions:



- Fill out your tax forms early. That may sound obvious, but many tax deductions are overlooked and many errors made by people who leave their tax returns until the last minute.
- Spend some time browsing [www.irs.gov](http://www.irs.gov). There is a wealth of information provided by the IRS, but you need to devote a little time to looking through it. You may find tax deductions you didn't know you could take, or, most importantly, updates to the tax laws that will affect your return.
- File electronically. Did you know that you can get your refund in half the time if you file your returns electronically? It's the fastest, easiest, and most accurate way to file. According to the IRS, more than 68 million taxpayers used electronic filing in 2005. ■

*Finding the Right Tax Preparer, Continued from page 1*

- Never sign your return until it is completely filled out. You are ultimately responsible for all the information on it.
- Ask to see the preparer's credentials and find out how current their tax education is.
- If possible, talk to someone who has used the preparer previously and see if they were happy with the service.
- Keep in mind that tax evasion is a felony that can cost you five years in prison and as much as \$250,000 in fines.

If you suspect that someone is attempting to get away with tax fraud, you can fill out Form 3949-A to report him or her to the IRS. The form asks for specific information about your suspicions and can be filled out anonymously if you prefer. You can have the form mailed to you by calling (800) 829-3676 to request it. ■

### My Returns Are Ready, But I Can't Pay

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**Important Note:** If you enter into an installment agreement with the IRS, you must pay all taxes due on time in the following years. You cannot add to your agreement each year. The idea of the agreement is to help taxpayers who have inadvertently not had enough tax withheld, or who find themselves in financial hardship at tax time. Be sure you adjust your withholding so enough tax is paid in the following years. Also, any future tax refunds will not be sent to you but will be used to pay off your debt until you have a zero balance.

If you fail to keep the agreement, the total amount you owe will come due and may result in a lien (see below).

5. If you are facing serious financial problems when your tax is due and find yourself unable to pay any of the monies due, the IRS will consider temporarily deferring payment until you are able to pay. Try to avoid this if at all possible as interest and penalties will continue to accrue the whole time you are not making payments.

6. Members of the Armed Forces who are unable to make tax payments due to the nature of their service may be able to defer income tax payments until a time payment becomes possible. Check out the Armed Forces' Tax Guide at [www.irs.gov](http://www.irs.gov) for information.

7. If none of the above options is open to you, there is one more possibility—an offer in compromise. This is an agreement that is reached between you and the IRS in which the IRS is willing to accept less than what you owe. Just be aware that it's not easy to get the IRS to agree to a compromise. In fact, less than 1% of tax debts are resolved this way. If you're interested in an offer in compromise, go to [www.irs.gov](http://www.irs.gov) for more information.

Don't think that if you ignore your tax bill, no one will notice and it will just go away. Things go much better for you if you contact the IRS and let them know what your circumstances are. If they don't hear from you, they may have to begin the collection process, which can involve things like putting a lien on your property. If this happens, the IRS gets first claim to any monies from the sale of your property if you go into bankruptcy. Should you decide to sell your home because you want to move, you will have to clear the lien before you can sell. The IRS can also levy your financial accounts, which means they can confiscate money from your

paycheck, savings account, Social Security benefits, and your retirement income. They can also take your car and your boat.

**Important Note:** If you don't contact the IRS about your situation and a lien is filed, it is very difficult to get the lien removed before the debt is paid in full. A lien will affect your credit score and make it difficult to obtain financing for new necessities. Bottom line—be sure to contact the IRS if you can't pay your taxes. ■

### Don't Let Anyone Phish for Your Funds

One of the biggest tax scams to watch out for this next tax year is a technique called "phishing." A form of identity theft, phishing is carried out by con artists who pose as the IRS and use the Internet to get unsuspecting citizens to give out their financial information.

If you receive an e-mail that appears to be from the IRS, beware! The IRS will never contact you by e-mail about your tax account. The phishing e-mail will typically announce that you have a refund you have not yet claimed and will tell you to click on a link to a website that looks very official. Once at the website, you will be asked for your social security number and a credit card number.

Another version of phishing will say you are under audit by the IRS and if you provide certain personal financial information, the matter may be resolved. Your information will then be used to access your accounts and credit cards or used to apply for loans.

Remember: The IRS will never contact you by e-mail about your tax returns. If you have questions about the authenticity of a contact you receive, call (800) 829-1040 to inquire about it. ■

#### Family Financial Education Foundation

ACCESS EDUCATION SYSTEMS

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724 Front Street, Suite 340

Evanston, WY 82930

(307) 789-2010, toll-free (888) 292-4333

[www.accesseducation.org](http://www.accesseducation.org)

