

How to Avoid Owing Back Taxes



Normal people don't save money each month so they can pay their tax bill in April, right? I mean really, who does that? I sure don't.

I've recently read that in 2009, a spokesperson for the U.S. Internal Revenue Service estimated that 8.2 million Americans owed over \$83 billion in [back taxes](#), penalties and interest (approximately \$10,000 per person).

(source: <https://www.investopedia.com/articles/personal-finance/021214/why-do-so-many-people-fall-behind-their-taxes.asp>)

That said, there are some pretty scary consequences for not coming up with a better plan. I mean, I once had my lawyer garnish my ex-husband's paycheck for not paying child support. And I was just one pissed off ex-wife! Can you imagine what the Federal Government can do to you when you keep their money?

First know that yes, they can come after your paycheck (aka, garnish your wages). And they can take as much as they want out of each one regardless of that causing you to miss a few cell phone bills, car payments, house payments, or not being able to buy groceries. Can you just imagine how embarrassing that is to have your employer know that you're a deadbeat and didn't pay your fair share? It may have been by accident, but that's not what your boss will think.

Here are a few other things the government can do to you if owe back taxes:

(source: <http://cleanslatetax.com/problems/unpaid-taxes>)

- **[Tax Lien](#)**: A tax lien is the government's claim on your (the taxpayer's) property. The existence of the lien ensures that they get first rights to your property over other creditors. Good luck getting a home equity loan or even doing a refinance on your house at a lower interest rate!
- **[Bank Levy](#)**: The tax authorities will contact your bank and demand a hold be put on the funds that are in the account and then seize the funds to cover the unpaid tax liability. They really don't care that your outstanding checks may bounce or that the auto-pay for your electric bill is no longer covered.
- **Property Seizure**: The tax authorities may seize assets such as your car, boat, house or other asset of value that can be sold to cover the unpaid tax liability. Enough said!



- **Jail time:** Incarceration is possible but very unlikely. Depending on the circumstances, taxing authorities can have a taxpayer arrested and put in jail.

I don't care what anybody says, but, in my opinion, all of these scenarios SUCK!

Are You Safe?

Maybe, maybe not. Here's how most every-day people get into this type of situation and how you can avoid it yourself.

Not Filing Income Taxes

A lot of people fall into one of these categories:

1. They don't know how to file taxes,
2. They don't know when to file taxes, or,
3. **They don't believe they have to** for a couple of (incorrect) reasons:
 - They are too young,
 - They are single,
 - They are in the military, or,
 - They don't think they make enough money,

So they just don't do it. Bad idea.

News Flash!

Every citizen of the United States who earns money is required to file Federal Income Tax Returns. And most states also have a requirement for its citizens to file State Income Tax Returns.

Think you can fly under the radar? Think again.

Did you know that your social security number is the government's original GPS for tracking people? The minute you get a job, your employer asks for this number and reports it back to every single government agency out there. Any time you see a doctor, apply for a credit card or a car loan, same thing. And everything is cross-checked six ways to Sunday! Hey, they're all just covering their butts!

So file your income tax returns every year to avoid a problem; it's a simple as that.



Errors on Tax Returns

This happens to everybody at least once in their lifetime. It's not a bad thing and no one is going to judge you for it. To avoid it as much as possible, work with a qualified tax professional or a reliable online application such as Turbo Tax or H&R Block.

When it does happen, you will know because the IRS is pretty darn quick to let *you* know via a notice in the US Mail. **By the way, they will NOT do any of the following:**

1. Call you on the phone (Don't give out any personal info over the phone!).
2. Come to your house.
3. Contact you at work.
4. Contact your employer.

They only start doing all this stuff if you ignore them by not correcting your returns and not paying what you owe.

Can you tell that this happened to me? Well, it did. I filed in March of 2016 and received a notice in the mail about two weeks later. Wow! That was fast and it scared me to death!

No worries though. I just got on the phone with Turbo Tax and they helped me to figure out what I did wrong (it was an error on an entry I made regarding my health insurance) and how to fix it. Then I printed it all out and sent a hard copy (required) of the corrected return to the IRS along with a copy of the original notice. It's all good.

So as you can see, the solution is pretty easy to take care of...as long as you take care of it! **Don't ignore the notices and do not procrastinate on correcting the error.**

Lying on Tax Returns/ Deliberately Not Filing

Rather than launch into a whole 'nother lecture on how important your taxes are and everything they pay for in this country (roads, emergency services, medical care, military, to name a few), I'll just say this about that:

That is just wrong on so many levels! I don't have any sympathy for anyone who does this and I pretty much think that they deserve what they get! 'Nuff said!



The W4 Form

Now that I've covered some of the less complicated reasons for the average person to owe back taxes, I'd say one of the next most common explanations is that you might not have filled out your W4 form [at work], or, you didn't fill it out *correctly*.

Employers are not legally allowed to give you tax advice (aka, advice on how to fill out this form) so most times the payroll clerk just gives you the form, tells you to fill it out and return it to them as soon as possible. But sometimes some bookkeeper, or your friend, will think they're passing on a great tip by telling you that the bigger the number you put on that form for deductions, the more money you'll get in your paycheck. Well, who wouldn't go for that? As a former single mom, I was all over that plan! Ha! Again, bad idea.

The main reason that could be a bad idea is that you might accidentally NOT have enough taxes taken out for your income bracket. Check out the following example.

Example

Again, I'm not a tax professional and I do not know all the tax brackets and percentages; this example is just to show you how the process works.

Say your salary is \$30,000 per year.

And your tax bracket requires you pay 5% in Federal Income Taxes or, \$1,500 per year.

Withholding number on the W4 form	\$ withheld for the year	Difference
0	\$2,000	Refund \$500
1	\$1,550	Refund \$50
2	\$1,400	You owe \$100

The tricky thing is that we are not really sure in February, for instance, what our tax bracket will be at the end of the year, what with all the other deductions we might claim (child care, mortgage interest, property taxes, business and medical expenses, etc.) and the government constantly talking about making changes. So like you, I take a guess...but I've been known to guess wrong.

The other tricky thing here is that I was looking for the 2017 tax tables (for tax brackets) on the IRS.gov site, and as of today (Jan. 8, 2018) all I could find was a "draft" for 2017. The only "carved in stone" tables I found were for 2016. Seriously! Sighhhh, they are no help at all.



Now, I'm not a tax person, so don't look to me for advice on your particular situation. But what I would say is do what I do: **Go visit your local H & R Block office or anyone who does taxes for a living and ask for help.** They will give you better advice than your friends or coworkers, and many of them do it for free.

New Home Owner & Property Taxes

The next scenario is that you bought your first house and the lender, real estate agent, escrow company, or whoever, didn't say a word to you about property taxes or impound accounts. Or, what they did say was so confusing that all you got out of it was that if you set up an impound account, your house payment will be higher. Being that you're a first-time homeowner, that lower house payment looks pretty attractive. And besides, only rich people pay all those extra taxes, right? Wrong! Every homeowner or condo owner for that matter, is required to pay property taxes. No exceptions.

My advice here is to bite the bullet and avoid the problem altogether: Set up the impound account with the mortgage company and pay the higher house payment each month. (If you don't think you can afford it, then buy a cheaper house.)

That "higher" amount, in reality, is a certain amount per month (usually a few hundred dollars depending upon where you live), going into a savings, aka impound, account (with the mortgage company) for your property taxes. They even do the homework for you to find out how much that needs to be.

The biggest bonus (in my opinion) is that the mortgage company pays the bill for you automatically so you don't have to try to save up \$3,000 to \$6,000 per year on your own. (Like any normal person, I'd see the extra \$\$\$ in my account and spend it all at Christmas!) And a copy of the tax bill goes to you too so you can list it on your tax return as a nice big tax write off: No need to hunt it down. Sweet!

Home Businesses

Another option is that you've decided to start your own little home business like Avon, Tupperware or Mary Kay. It's only a "small" business right? So no need to worry about keeping track of money going in and out of your account...mostly "IN" if you're any good at your business.



So, before you do this, remember that bit about your social security number being the government's original form of GPS? Any one of those companies I mentioned will ask for that number as soon as you sign up, and you can bet they share it with the IRS because, hey, you have just become one of Mary Kay's tax write-offs!

Bottom line, be honest and keep track of your business income and expenses. The tax write-offs may be well worth it.

Working "Under the Table"

The last situation I can think of is that you've always worked strictly for cash, aka, "under the table" and therefore, theoretically, there's no record of your getting paid by anyone.

Well, here's an example of where your luck might run out: Let's say you're going to do the handyman thing. You should be aware that although some customers will pay you in cash, they might still list your bill/name/company name as one of *their* tax/business expense write offs. Hey, it saves them tax dollars at the end of the year, so why not? All they really need in order to do this, in many cases, is your name. I wouldn't ever be surprised if the IRS could hunt you down with just that. Don't ever assume you can hide forever.

Similar to the home business situation previously mentioned, be honest and keep track of your business' income and expenses. Besides, your tax write offs may be well worth it.

How Some People Get Tax Refunds

I used to get these. But that was back in the days when I didn't mind the government using my money, interest-free, for the entire year. You remember those days, right; single, no kids, minimum wage job?

How did I do it? Well, I would always claim 0 (zero) dependents and "single" as my status (versus married) on my W4 form (*review example on p. 4*). This told my employers to withhold the maximum amount of income tax from my paycheck for taxes...as if I was in the highest possible tax bracket. Ha! What a joke! It seems like they were withholding at least 40% back then, but who knows what it really was. That was so long ago, I can't remember.



Either way, when I filed my returns in April the next year, yes, I was still probably single, but my salary was probably in the lowest possible tax bracket ever, so the IRS had to send me back the difference between what I was really obligated to pay, and what I had already paid. Sweet!

If you can afford to do this, I'd say go for it. Nothing beats getting a "bonus" check in May.

As I say though, I don't much like having the government hold onto my money for a year without paying interest. So now I **look up the most recent tax tables each year and get an idea of what bracket I'll be in.** With that, I can then figure out how many dependents I can claim throughout the year to make sure I'll at least break even at the end of the year. Sometimes it's a pain to do this because I've made mistakes. But I'm quite aware that if I screw it up, I may have to pay the bill in April. Sigh...

Filing Taxes: Deadlines

To find out for sure what your state requires, be sure to talk to a local tax professional.

Property Taxes: These deadlines vary from state to state, but most are twice a year. Usually once around April 1st, then next around December 1st.

***Federal Income Taxes:** April 15th

***State Income Taxes:** April 15th

Keep in mind that not all states require you to pay state income taxes. The seven that I know of that do not require it are**:

Alaska	Florida	Nevada
South Dakota	Texas	Washington
Wyoming		

From what I understand New Hampshire and Tennessee only require taxes be paid on earned dividends (from investments) and interest.

**Your employer is required by law to get your W2s (statement of income) in the mail to you by January 31st. Once you have that, you can file your income taxes as soon as February 1st. Many people who believe they will get a refund will do this so they can get their money sooner.*



***That's why retirees move to some of these states.*

To find out for sure what your state requires, be sure to talk to a local tax professional.

Income Tax Resources

Now you know that any average, everyday person can make mistakes and end up in a situation where they owe back taxes. If that's not bad enough, as I mentioned in the W4 section, sometimes the IRS itself isn't much help. But honestly, they are the ones to look to for guidance because they make the rules, as confusing as they can be.

Which means, for an interpretation of the rules, talk with a tax professional. Not your neighbor, not your best friend, not your coworker, and not the schmuck at the next table in the coffee shop. While they all have your best interest at heart (except maybe the schmuck in the coffee shop), they are not experts. Tax professionals are required to learn all the new tax laws every year so they can help people like you and me. They do it so they can keep their license and so you keep coming back to them every year for help: Talk to them!

A couple of tax companies I've used are:

- H & R Block
- TurboTax.com – They are an on-line only company, but you can always call for help.

That said, it never hurts to do some homework and be prepared. The most current and accurate tax tables, forms and instructions are always found on the official IRS site:

<https://www.irs.gov/>

Do a search for: Instructions 1040 tax tables

As far as tax tables for 2017, I couldn't find anything. All this site brought up was info for 2016.

Although I found a draft of the tables for 2017 here so I figured it's a good start for next year:

<https://www.irs.gov/pub/irs-dft/i1040tt--dft.pdf>



I hope this information serves you well and you never find yourself in the position of owing a ton of back taxes. When in doubt, always consult with a tax professional. Many of them will answer your questions for free.

Sincerely,

Janet M. Nast

