

# Missed Tax Returns? We Got You Covered.

What to do if you haven't filed taxes in years and owe the IRS a lot of money.

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# Haven't Filed Your Income Taxes for Years?

## **It happens to many people at some point along the way.**

Something happens in your life where things get out of control, and one of those things that gets out of control is filing your income tax returns.

Sometimes it's because there's been a death in the family, and with the depression and grief that result, they just can't deal with doing their tax returns when they are due.

Sometimes it's because of financial difficulties and being afraid to file income tax returns because they feel that they may not be able to pay any taxes due.

*"You wind up with more tax returns missed and next thing you know several years go by without a tax return being filed."*

## **Overwhelmed by the Thought of Back Taxes?**

The reasons for failing to file a return vary but have one common theme – people get overwhelmed by the thought of having to deal with more than one year of taxes at a time.

Invariably, what winds up happening is that once you stop filing your tax return for one year, it just seems to snowball under the logic of "I'll do this year's return when I get last year's return done."

You wind up with more tax returns that are not being filed, and the next thing you know, it's been several years since you last filed.

You may be getting IRS notices about non-filed returns and simply sticking them in a pile of unread mail, thinking you will deal with it later when you have the time and energy.





## Substitute for Return or SFR

Frequently taxpayers can go on like this for years. In some cases, the IRS may prepare what they refer to as a “substitute for return” or SFR, but in many cases the IRS simply continues to send notices about not having received a return, which taxpayers continue to ignore.

The SFR is a return prepared by the IRS, but the way they prepare it will result in higher than normal taxes. This is because they will not take into consideration your usual marital status, any dependents you may be able to claim, or allowable deductions.

If the IRS determines you may be due a refund based on what they know about your income and payments, they will not do an SFR and send you the money.

But if taxes are owed, they will assess those by preparing an SFR and start the collections process. With the U.S. having a “voluntary” tax system,” it is up to you to claim any refunds you are due.

**So how do you get back into the routine of filing a tax return?**

### File Your Most Recent Return First

When people ask for advice on how they should deal with this problem, we usually tell them to file the most recent year first.

Not only is this easiest because they usually ask during tax season, but they can also electronically file the return, which most taxpayers find is the easiest way to do a return.

Working from the most recent year backwards is probably the most logical way to work if you don’t have a complicated tax situation.

If you want to itemize your deductions or you are running your own business, however, you may want to start with the oldest year first due to the potential carryovers of losses or the taxability of state tax refunds that might impact the next year.

# Gather Your Tax Documents

It is likely that you will be able to find the documents you need to file an accurate return more easily for the current year. After all, your employer probably sent you your W-2s, and you probably have other documents, such as the amount of interest and dividends earned on your investments and the mortgage interest you paid on your home, still sitting in that pile of mail.

With the availability of most tax documents now online, it's frequently easy to obtain such information as mortgage interest and property taxes paid, and even charitable contributions.

Most online document systems provide tax reporting documents for at least two to three years.

## Not Good About Your Record-Keeping?

What if you haven't been very good about your record-keeping? Or you had the records, but they got lost during a move or divorce in the years you didn't file?

If that's the case, then you'll need to reconstruct your records. A good place to start is to go to the

IRS website and use the "View My Account" tool to obtain copies of the "Wage and income transcript" for the missing years.

To use this tool, you will need to create an account with the IRS website and verify your identity to gain access. Once you have done that, you can access the transcript delivery system.

The Wage and Income Transcript will show you what has been reported to the IRS over the years and is generally available for the last five years. Due to security concerns, the information of the employer or reporter will be partially redacted. If you need to obtain a Wage and Income Transcript for older years that are not available electronically, then you will need to call the IRS to request those be mailed to you.

You can also request the transcript by mailing Form 4506-T, Request for Transcript of Tax Return to the IRS. If you do have to mail in the form, it can take 45 days or more for the IRS to process your request, so this is not the fastest option for obtaining information for back years.



## What if You're Running Your Own Business?

While the Wage and Income Transcript is a good resource for wage earners, what if you're running your own business? Is there a way to reconstruct those records?

It will probably depend on the kind of business you are operating. For example, if you are a consultant or in a service-type of business, you can contact your clients to see if they can provide payment information.

For your expenses, you can frequently look at your credit card statements or bank statements to determine what kind of purchases you were making.

This is much easier to do if you keep a separate bank account for your business rather than using your personal checking account or personal credit cards to pay for your business expenses.

If you are using the same vendors over and over again for supplies or services, another option would be to contact those businesses to find out if they have a record of how much you have purchased from them during the missing years. They may even be able to provide detailed invoices to show what you bought.





## Download Older Tax Forms

Once you have all of your tax information in hand – or as much of it as you can reconstruct – you will need to download the older tax forms from the IRS website. Another option is to obtain tax software for the years you need to file.

You cannot file an older year return using the current year tax forms and instructions. This is because the tax law changes from year to year, and some of the standard amounts, such as the personal exemption amount (for years prior to 2018) and the standard deduction amount, will change every year.

Also, the tax tables are indexed for inflation and you do not want to be using an older tax table to compute your presumably higher income now, as that will result in a higher tax liability.

Likewise, you cannot use a current year tax table to calculate the taxes on an older year because it is likely the taxes will then be understated.

## Next, Prepare the Returns

Once you have the tax forms for each year, you can prepare those returns. If you have the older versions of tax software for the year(s) you need to file on your computer, you can use it to prepare

your returns (make sure you do an update before you start), but you may not be able to electronically file the return. If that's the case, you will need to print the return to mail it.

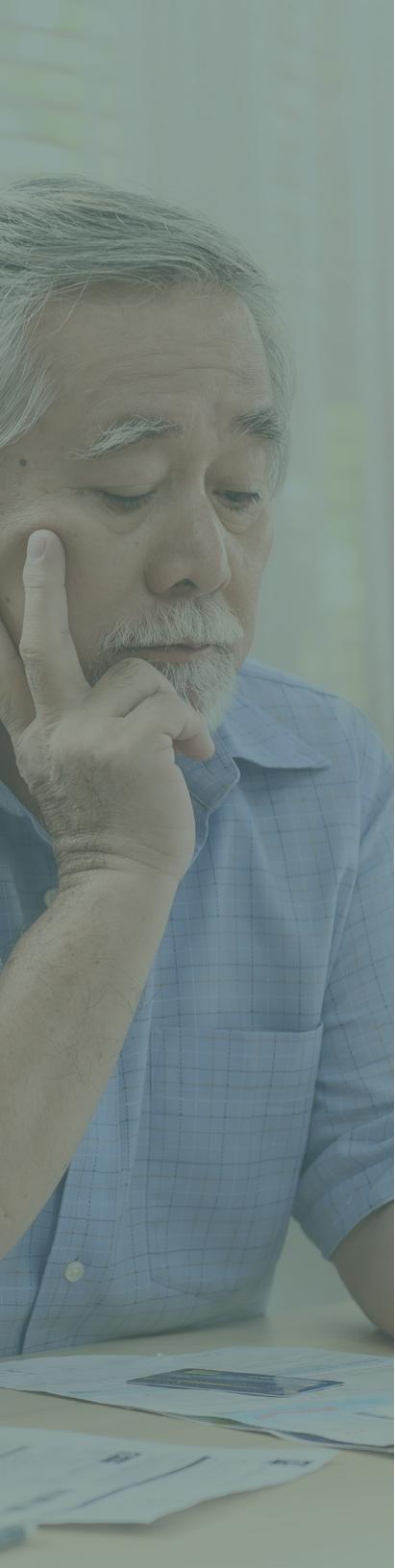
Once you have the forms prepared, sign and mail them to the IRS at the address listed in the Form 1040 instructions. If you have the physical copies of your Forms W-2 or 1099s, you will want to attach copies of those to the tax returns for each year.

## Get Help from a Tax Professional

If your tax situation is complicated and beyond the scope of being able to reconstruct yourself, you may want to consider hiring a forensic accountant or another tax professional such as an Enrolled Agent to help you determine what your income and expenses were for those missing tax years.

Keep in mind that this is an expensive option but may be a better option for someone who is self-employed. If the IRS has prepared a substitute for return on your behalf, you may be receiving collection notices on the taxes that were assessed for those substitute returns which is higher than your actual liability.

No one wants to pay more than they owe. In that case, it might be worth the extra money to hire a professional.



## Know the Filing Limitations

Even if you are a business owner, you may want to consider filing a tax return for the most recent year(s) and then working your way back due to the ease of obtaining the records. If you find that there are carryovers from earlier years that would affect the tax return that you have already filed, you can always amend that tax return. But be aware of the three-year statute of limitations for filing an amended return.

Also, it's important to remember that the timeframe for claiming any refund that you may have had coming to you is limited as well. Filing more recent returns first means that you will receive any refund for that year, as the IRS does not pay out old refunds that are past the statute.

The timeframe for claiming a refund is normally three years after the tax return is filed or two years

after the taxes are paid. For example, if you need to file a 2017 tax return (normally due on April 15, 2018), the last day that you can obtain a refund for your 2017 withholding and other payments is April 15, 2021.

If you've made other payments on 2017's liability to the IRS in that intervening time, those payments are subject to the two-year refund limitation.

If you file a return too late, you will not be paid that refund. On the bright side, if you would get a refund for some older years but you owe taxes for other older years, the IRS will likely apply that older refund to the balances due even though they will not pay you a cash refund. This is at their discretion, however.

***"Penalties will be charged and interest continues to accrue until your taxes are paid in full."***

# Important Pieces To The Puzzle



## Don't Forget About State Taxes

There are other important things to remember when you have not filed a tax return in several years. First of all, if you live in a state with its own income tax system, you will need to file tax returns for the state as well. This is easiest to do when preparing your federal returns.

Even if you don't owe the IRS, it's possible that you may owe money to the state that you live in. And because the IRS transcript system is geared towards federal reporting, it unfortunately means that the state withholding that may have been reported on your W-2 will not be reflected in the IRS Wage and Income Transcript.

In that case, you may need to call your state's tax agency to obtain the information on how much withholding was reported for your wages during the missing tax years. Also keep in mind that some state tax agencies, such as California and New York, are far more aggressive in pursuing non-filing taxpayers than the IRS. Because the states have more resources to pursue non-filers and delinquent taxpayers than the IRS does, I generally recommend that if you owe taxes to both the state and the IRS, pay the state first.

This is because the state's proximity to you physically gives them the advantage over the IRS in pursuing collections. Generally, state liabilities are lower than federal liabilities, so they are easier to pay off in a lump sum.

## If Marriage Has Affected Your Tax Filing Status

Another important thing to remember is that if you were single during those non-filed years and are now married, your spouse's tax payments can be used to pay your liabilities if you are now filing a joint return – and that situation hardly leads to matrimonial bliss.

Your spouse may need to file an Injured Spouse claim when you file your joint returns to ask the IRS to not apply any refund from their tax payments to your tax liabilities.

While tax debt is not reported to the credit reporting agencies, being a non-filer could affect your ability to obtain credit as well, such as for a car loan or purchasing a house, if the IRS or state has a lien in place.

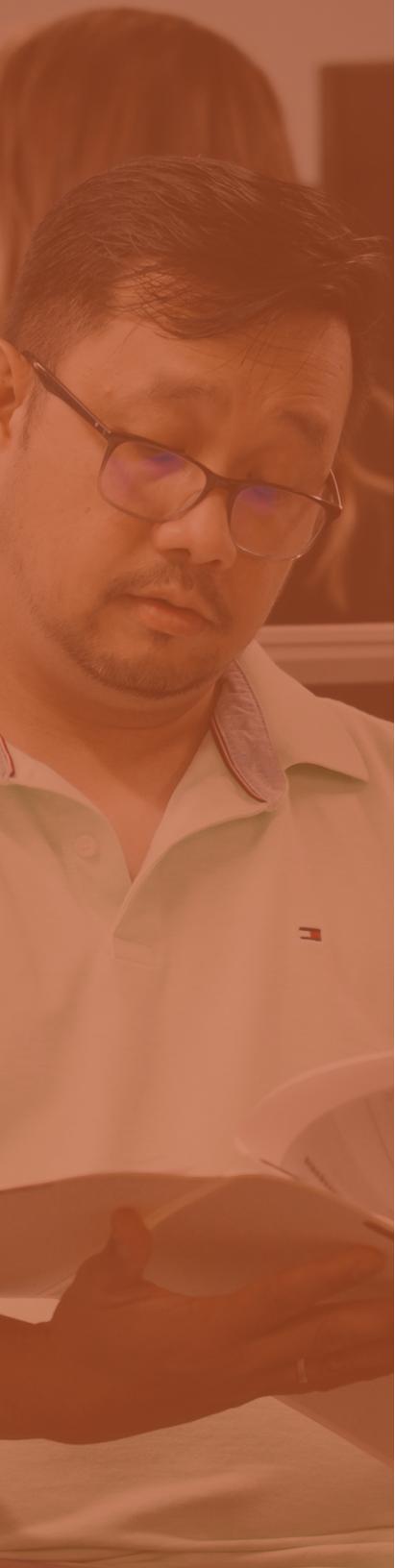


## **Wage Garnishment for Back Taxes**

If you have a federal security clearance at work, which is common in the aerospace industry, outstanding tax debt may impact your clearance. This can also impact some professional licenses such as those issued to stockbrokers and insurance agents, and some state agencies will revoke professional licenses issued by the state as well until your account becomes current.

And, of course, if the IRS has determined a tax liability based on the information they already have, they can garnish your wages or seize money from your bank account based on that tax liability, even though you have not filed a tax return.





### **The Longer You Wait, The More You'll Owe**

Keep in mind that if you owe any additional taxes for prior years, once you file your returns, the IRS is going to assess penalties and interest on top of the balance due. While the late filing penalty and late payment penalty max out after certain time periods, they max out at 25% of the liability, which is steep.

And interest will continue to accrue until the taxes are paid in full.

### **Paying the Taxes Due and Penalties**

If you can pay your taxes due with the late return, include a check with the paper copy of the return when you mail it. The check should be made out to the U.S. Department of the Treasury.

Once the IRS receives your return, it will take several weeks for them to process and notify you of the correct amount of interest and penalties that you owe.

If your lack of filing a tax return was because of extenuating circumstances, such as a severe illness on your part or a member of your immediate family or household, you might qualify for a penalty waiver or abatement, but that will need to be requested once the penalties have been assessed.

*"You may qualify for a penalty waiver, however penalties and interest will continue to accrue until you settle with the IRS."*

## What if You Cannot Afford to Pay the Whole Balance?

If you cannot afford to pay the balances due when you file, you can request a monthly installment agreement from the IRS. The rules for requesting an installment arrangement vary depending on the total amount that you owe the IRS.



# Get Immediate Help with Back Taxes

If you need more information or assistance, our team of caring tax professionals are federally licensed enrolled agents, CPAs or attorneys with years of experience and knowledge to resolve your back tax issues.

Get honest answers, no surprises pricing and personalized attention to your unique tax situation.



Speak to a Tax Relief Pro Now at **866-824-1134**

Go to **[taxaudit.com/relief](http://taxaudit.com/relief)** to learn more.

