

# **2017 IRS Nationwide Tax Forum**

## **Representing Taxpayers in Collection Matters Before the IRS**

# Learning Objectives

- Understand collection notices issued by the IRS to collect past-due taxes
- Learn the steps taken in response to each notice to minimize enforced collection,
  - such as the filing of liens, the issuance of levies, and garnishments of wages and Social Security benefits

# Topics

- IRS collection enforcement update
- Collection notices
- Strategies to respond to collection notices
- Collection notice redesign efforts

# The Rise in Delinquent Accounts

<b>Taxpayer Delinquent Accounts</b>	<b>2015</b>	<b>2016</b>
Beginning inventory	12,410,000	13,371,000
New accounts in collection	8,121,000	7,652,000
Numbers of accounts in collection closed	7,159,000	7,018,000
Ending inventory	13,371,000	14,005,000
Balance of assessed tax, penalties & interest	\$137,278,819,000	\$138,232,446,000

Source: IRS, 2016 Data Book, p. 41 (2016)

# IRS Collection Enforcement Activity

<b>Collection Activity</b>	<b>2015</b>	<b>2016</b>
Number of Notices of Federal Tax Liens filed	515,247	470,602
Number of levy notices requested on third parties	1,464,026	869,196
Number of seizures	426	436

Source: IRS, 2016 Data Book, p. 41 (2016)

# Overview of Collection Notices

- Within 60 days of the IRS making an assessment against a taxpayer, the IRS begins issuing collection notices
- The notices taxpayers typically receive include:
  - Notice and demand for tax (Notice CP14 or CP161);
  - Reminder Balance Due (Notice CP501);
  - Important 2nd Notice Balance Due (Notice CP503);
  - Urgent Final Notice Balance Due (Notice CP504); and
  - Final Notice of Intent to Levy and Notice of Your Right to a Hearing (Notice LT11, Letter 1058 or Letter 3172).
- Each notice requires a different response
  - Responses can vary based on the taxpayer's response or request

# The First Notice – The Notice and Demand for Tax

- The first notice is required by I.R.C. § 6303
  - Must be issued within 60 days after an assessment
  - Prerequisite for issuing a levy under I.R.C. § 6331
  - Prerequisite for the I.R.C. § 6321 lien arising and filing Notices of Federal Tax Lien (NFTL) under I.R.C. § 6323
- Notice numbers of the first notice
  - CP14 and CP161
- The notice advises the taxpayer there is tax due, and it states the amount of tax, interest, and penalties
- The notice demands payment within 21 days

# Sample Notice CP14 and CP161



Department of the Treasury  
Internal Revenue Service

Notice CP14  
Tax Year 2015  
Notice date February 20, 2017  
Social Security number [REDACTED]  
To contact us 1-800-829-3374  
Year Caller ID [REDACTED]  
Page 1 of 5

You have a balance due for 2015  
**Amount due: \$** [REDACTED]

Our records show you have unpaid taxes and/or penalties and interest on your December 31, 2015 Form 1040.  
If you already have an installment or payment agreement in place for this tax year, then continue with that agreement.

Billing Summary	
Tax you owed	[REDACTED]
Payments and credits	[REDACTED]
Failure-to-file penalty	[REDACTED]
Failure-to-pay penalty	[REDACTED]
Interest charges	[REDACTED]
<b>Amount due by March 13, 2017</b>	[REDACTED]

**What you need to do immediately**

If you are a debtor in a bankruptcy case, this notice is for your information only and is not intended to seek payment outside of the bankruptcy process of taxes due before you filed your petition. You will not receive another notice of the balance due while the automatic stay remains in effect.

Continued on back...

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INTERNAL REVENUE SERVICE

Notice CP14  
Notice date February 20, 2017  
Social Security number [REDACTED]

**Payment**

- Make your check or money order payable to the United States Treasury.
- Write your Social Security number [REDACTED] the tax year (2015), and the form number (1040) on your payment and any correspondence.

**Amount due by March 13, 2017** [REDACTED]



Department of the Treasury  
Internal Revenue Service

Notice CP161  
Tax period August 1, 2016  
Notice date February 20, 2017  
Employer ID number [REDACTED]  
To contact us Phone 1-800-829-0115  
Page 1 of 5

You have an unpaid balance for August 1, 2016  
**Amount due: \$** [REDACTED]

Our records show you have an unpaid balance for the tax period beginning on August 1, 2016 (Form 2290).

Billing Summary	
Tax you owed	[REDACTED]
Payments you made	[REDACTED]
Failure-to-file penalty	[REDACTED]
Failure-to-pay penalty	[REDACTED]
Interest charges	[REDACTED]
<b>Amount due by March 13, 2017</b>	[REDACTED]

**What you need to do immediately**

**Pay immediately**

- You must pay the full balance you owe by March 13, 2017, to avoid additional interest charges.

Continued on back...

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INTERNAL REVENUE SERVICE

Notice CP161  
Notice date February 20, 2017  
Employer ID number [REDACTED]

**Payment**

- Make your check or money order payable to the United States Treasury.
- Write your Employer ID number [REDACTED] the tax period (August 1, 2016), and the form number (2290) on your payment and any correspondence.

**Amount due by March 13, 2017** [REDACTED]

# Responding to the First Notice – Notice and Demand for Tax

- In response to the notice and demand for tax:
  - Prepare Form 2848, *Power of Attorney and Declaration of Representative*, and file it with the IRS CAF Unit
  - Request and review IRS transcripts
    - Wage & income
    - Account
    - Tax return
  - Verify each assessment to be collected
    - Review the tax return or the notice of deficiency if the assessment is for more than the tax shown on the return (see I.R.C. § 6212)
    - Confirm the period of limitations on assessment has not expired (see I.R.C. § 6501)
    - Confirm the period of limitations on collection has not expired (see I.R.C. § 6502)
    - Verify contacts for non-suspension of interest (see I.R.C. § 6404(g))
      - If assessment is valid, pay the tax or evaluate collection alternatives
  - Confirm with the IRS that the taxpayer is in current compliance
    - If not, help the taxpayer come back into compliance for future payments and filings
  - File a request under the Freedom of Information Act, I.R.C. § 6103, and the Privacy Act
    - Specifically request documents demonstrating compliance with I.R.C. § 6751(b)(1) if a non-automatic penalty is to be collected

# The Second Notice – CP501

- The CP501 is issued around five weeks after the CP14/CP161 notice, unless the taxpayer has paid or contacted the IRS
- The notice advises the taxpayer there is tax due, and it states the amount of tax, interest, and penalties
- The notice demands payment within 10 days

# Sample Notice CP501

 <p>Department of the Treasury Internal Revenue Service</p>	<p>Notice CP501 Tax Year [REDACTED] Notice date January 23, 2017 Social Security number [REDACTED] To contact us phone 1-800-329-8374 Your Call ID [REDACTED] Page 1 of 4</p>
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You have unpaid taxes for 2015  
**Amount due:** [REDACTED]

Our records show you have unpaid taxes for the tax year ended December 31, 2015 (Form 1040).  
If you already paid your balance in full within the last 21 days or made payment arrangements, please disregard this notice.  
If you already have an installment or payment agreement in place for this tax year, then continue with that agreement.

<p><b>Billing Summary</b></p> <p>Amount you owed [REDACTED] Interest charges [REDACTED] <b>Amount due by February 2, 2017</b> [REDACTED]</p>	<p>If you are a debtor in a bankruptcy case, this notice is for your information only and is not intended to seek payment outside of the bankruptcy process of taxes due before you filed your petition. You will not receive another notice of the balance due while the automatic stay remains in effect.</p>
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Continued on back.

 <p>INTERNAL REVENUE SERVICE</p>	<p>Make your check or money order payable to the United States Treasury. Write your Social Security number [REDACTED], the tax year (2015), and the form number (1040) on your payment and any correspondence.</p> <p><b>Payment</b></p> <p>Amount due by February 2, 2017 [REDACTED]</p>
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# Responding to the Second Notice – CP501

- In response to the Notice CP501:
  - Perform all steps in response to the notice and demand for payment if you have not done so already
  - Request from the taxpayer information to complete a Form 433-A, *Collection Information Statement for Individuals*, and Form 433-B, *Collection Information Statement for Businesses*
  - Confirm with the IRS that the taxpayer is in current compliance
    - If not, help the taxpayer come back into compliance for future payments and filings
  - Send a letter to the IRS:
    - Providing a copy of the Form 2848 if the Notice CP501 was not sent to the representative;
    - Attempting to establish a connection at the IRS with whom to resolve the collection issues; and
    - Requesting that the IRS not file a Notice of Federal Tax Lien (NFTL) without first holding a hearing (to preserve CAP rights).
  - Begin evaluating collection alternatives, including:
    - Offer in compromise;
    - Installment agreement;
    - Currently not collectible; and
    - Relief from joint and several liability.

# The Third Notice – CP503

- The Notice CP503 is sent around five weeks after the CP501 notice. It is issued only to IMF taxpayers.
- The notice reminds the taxpayer there is tax due, and it states the amount of tax, interest, and penalties
- The notice demands payment within 10 days

# Sample Notice CP503

 Department of the Treasury Internal Revenue Service	Notice CP503 Tax Year [REDACTED] Notice date January 23, 2017 Social Security number [REDACTED] To contact us [REDACTED] Your Caller ID [REDACTED] Page 1 of 6
[REDACTED]	
Second reminder: You have unpaid taxes for 2014 <b>Amount due:</b> [REDACTED]	
As we notified you before, our records show you have unpaid taxes for the tax year ended December 31, 2014 (Form 1040). If you don't pay [REDACTED] by February 2, 2017, the amount of interest will increase and additional penalties may apply. If you already have an installment or payment agreement in place for this tax year, then continue with that agreement.	<b>Billing Summary</b> Amount you owed [REDACTED] Failure-to-pay penalty [REDACTED] Interest charges [REDACTED] <b>Amount due by February 2, 2017</b> [REDACTED]
Continued on back...	
 [REDACTED]	Notice CP503 Notice date January 23, 2017 Social Security number [REDACTED]
<b>Payment</b>	Make your check or money order payable to the United States Treasury. Write your Social Security number [REDACTED], the tax year (2014), and the form number (1040) on your payment and any correspondence.
<b>Amount due by February 2, 2017</b> [REDACTED]	[REDACTED]
INTERNAL REVENUE SERVICE [REDACTED] [REDACTED]	

# Responding to the Third Notice – CP503

- In response to the Notice CP503:
  - Perform all steps in response to the notice and demand for payment and Notice CP501 if you have not done so already
  - Renew your request from the taxpayer for information to complete a Form 433-A or Form 433-B
  - Confirm with the IRS that the taxpayer is in current compliance
    - If not, help the taxpayer come back into compliance for future payments and filings
  - Send a letter to the IRS:
    - Providing a copy of the Form 2848 if the Notice CP503 was not sent to the representative;
    - Again attempting to establish a connection at the IRS with whom to resolve the collection issues; and
    - Again requesting that the IRS not file a NFTL without first holding a hearing (to preserve CAP rights).
  - Continue evaluating collection alternatives and begin solidifying a plan to resolve the unpaid liabilities

# The Fourth Notice – CP504

- The Notice CP504 is required by IRC § 6331(d) and is sent by certified mail
- This notice is the fourth notice for IMF taxpayers but the third for BMF taxpayers.
- This notice also has a 10 day pay by date.
- The notice advises the taxpayer that the IRS intends to levy the taxpayer's State tax refund or other property
  - The notice reminds the taxpayer there is tax due, and it states the amount of tax, interest, and penalties



# Responding to the Fourth Notice – CP504

- In response to the Notice CP504:
  - Perform all steps in response to the earlier notices if you have not done so already
  - Confirm with the IRS that the taxpayer is in current compliance
    - If not, help the taxpayer come back into compliance for future payments and filings
  - Finalize a collection alternative and submit it to the IRS
    - If you cannot submit a collection alternative, due to lack of information or otherwise, consider requesting a collection appeal hearing (CAP) or waiting for a final notice to exercise collection due process (CDP) rights
    - If you wait for the final notice, be sure to request financial information from the taxpayer to submit a collection alternative in response to the final notice
  - Send a letter to the IRS requesting that the IRS not file a NFTL without first holding a hearing (to preserve CAP rights)

# The Collection Due Process Hearing Notices

## Notice LT11, Letter 1058, and Letter 3172

- After five weeks from the issuance of the Notice CP504, if no action has been taken to resolve the matter, the ACS office or the revenue officer, after attempting to contact the taxpayer, may:
  - Issue Notice LT11 (Notice of Intent to Levy and Notice of your Right to a Hearing);
  - Issue Letter 1058 (Final Notice – Notice of Intent to Levy and Notice of your Right to a Hearing); or
  - File a Notice of Federal Tax Lien and issue Letter 3172 (Notice of Federal Tax Lien Filing and your Right to a Hearing under IRC § 6320).

# Sample Notice LT11 and Letter 1058

 Department of the Treasury  
Internal Revenue Service

Notice LT11  
Notice Date January 20, 2017  
Taxpayer ID number [REDACTED]  
Case reference number [REDACTED]  
To contact us 1-800-829-7650  
Page 1 of 5

Notice of intent to levy and notice of your right to a hearing  
**Intent to seize your property or rights to property**  
**Amount due immediately:** [REDACTED]

We haven't received a payment despite sending you several notices about your overdue taxes. The IRS may seize (levy) your property or your rights to property on or after February 19, 2017.

Property includes:

- Wages and other income
- Bank accounts
- Business assets
- Personal assets (including your car and home)
- Alaska Permanent Fund Dividend and state tax refund
- Social Security benefits

**Billing Summary**

Amount you owed [REDACTED]  
Additional penalty charges [REDACTED]  
Additional interest charges [REDACTED]  
**Amount due immediately** [REDACTED]

Continued on back...

 Department of the Treasury  
Internal Revenue Service

Notice LT11  
Notice date January 20, 2017  
Taxpayer ID number [REDACTED]  
Case reference number [REDACTED]

- Make your check or money order payable to the United States Treasury.
- Write your Taxpayer ID number [REDACTED] and the tax period(s) on your payment and any correspondence.

**Payment**

**Amount due immediately** [REDACTED]

INTERNAL REVENUE SERVICE

 Department of the Treasury  
Internal Revenue Service  
OPERATING DIVISION

Date: 07/03/2017  
Taxpayer ID number: (last 4 digits): [REDACTED]  
Person to contact: [REDACTED]  
Contact telephone number: [REDACTED]  
Contact fax number: [REDACTED]  
Employee ID number: [REDACTED]

**Certified Mail - Return Receipt**

**Final Notice**  
**Notice of Intent to Levy and Notice of Your Right to a Hearing**  
*Please Respond Immediately*

Dear: [REDACTED]

**Why we are sending you this letter**  
Your federal tax is still unpaid. We asked you to pay the tax, but we still haven't received your payment. This letter is your notice of our intent to levy (under Internal Revenue Code (IRC) Section 6331) and your right to request a Collection Due Process hearing or an Equivalent Hearing with Appeals (under IRC Section 6330(a)).

**What you must do**  
Please send us a full payment today to prevent additional collection action. Make your check or money order payable to the "United States Treasury." Write your taxpayer identification number on your payment. Send your payment to the address at the top of this letter, along with a copy of this letter.

The amount you owe through [insert date] is \$ [amount due]. Additional interest charges will be due if you pay after this date.

If you want to request an Appeals hearing, complete the enclosed Form 12153, *Request for a Collection Due Process or Equivalent Hearing*, and send it to us by [date]. You must complete, sign, and return this form to the above address by [date] to preserve your right to contest an Appeals decision in the U.S. Tax Court. We will consider the verified postmark, meter date, or fax transmission date to be the receipt date. If you send the letter after [date], you may still be entitled to a hearing; however, you will forfeit your rights to contest an Appeals decision in Tax Court. Refer to the enclosed Publication 1660, *Collection Appeals Rights*, for more information.

**What we're going to do**  
We may file a Notice of Federal Tax Lien at any time to protect the government's interest. A lien is a public notice to your creditors that the government has a right to your current assets, including any assets you acquire after we file the lien. Please note that we can file a lien even if you request a hearing.

Letter 1058 (Rev. 1-2017)  
Catalog Number 404605

# Notification on Notice LT11, p. 2

[Redacted]	
Notice LT11	
Notice date January 20, 2017	
Taxpayer ID number [Redacted]	
Case reference number [Redacted]	
Page 2 of 5	

**What you need to do immediately**

**Pay immediately**

- Send us the amount due of [Redacted] or we may seize (levy) your property on or after **February 19, 2017**.
- If you can't pay the amount due, pay as much as you can now and make payment arrangements that allow you to pay off the rest over time. Visit [www.irs.gov/payments](http://www.irs.gov/payments) for more information about:
  - Installment and payment agreements — download required forms or save time and money by applying online if you qualify
  - Automatic deductions from your bank account
  - Payroll deductions
  - Credit card paymentsOr, call us at 1-800-829-7650 to discuss your options.
- If you've already paid your balance in full or think we haven't credited a payment to your account, please send proof of that payment.

**Right to request a Collection Due Process hearing**

If you wish to appeal this proposed levy action, complete and mail the enclosed Form 12153, Request for a Collection Due Process or Equivalent Hearing, by **February 19, 2017**. Send the form to us at the address listed at the top of page 1. Be sure to include the reason you are requesting a hearing (see section 8 of, and the instructions to, Form 12153) as well as other information requested by the form. If you don't file Form 12153 by **February 19, 2017**, you will lose the ability to contest Appeals' decision in the U.S. Tax Court.

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 [Redacted]

Notice LT11

Notice date January 20, 2017

Taxpayer ID number [Redacted]

Case reference number [Redacted]

If your address has changed, please call 1-800-829-0922 or visit [www.irs.gov](http://www.irs.gov).

Please check here if you've included any correspondence. Write your Taxpayer ID number [Redacted] and the tax period(s) on any correspondence.

**Contact information**

INTERNAL REVENUE SERVICE

[Redacted]

[Redacted]

[Redacted]

Primary phone [Redacted] See time to call  a.m.  p.m.

Secondary phone [Redacted] See time to call  a.m.  p.m.

## Right to request a Collection Due Process hearing

If you wish to appeal this proposed levy action, complete and mail the enclosed Form 12153, Request for a Collection Due Process or Equivalent Hearing, by **February 19, 2017**. Send the form to us at the address listed at the top of page 1. Be sure to include the reason you are requesting a hearing (see section 8 of, and the instructions to, Form 12153) as well as other information requested by the form. If you don't file Form 12153 by **February 19, 2017**, you will lose the ability to contest Appeals' decision in the U.S. Tax Court.

# Sample Notice Letter 3172



Department of the Treasury  
Internal Revenue Service  
[Operating Division / Program Name]

[Redacted Address]

Date: 07/03/2017

Taxpayer ID number (last 4 digits): [Redacted]

Person to contact: [Redacted]

Contact telephone number: [Redacted]

Contact fax number: [Redacted]

Employee ID number: [Redacted]

**We filed a Notice of Federal Tax Lien against you and you have a right to a hearing under Internal Revenue Code Section 6320**

We filed a Form 668(Y)(c), *Notice of Federal Tax Lien* (copy attached), on [date] [Redacted], for the tax liabilities shown below.

You have the right to a hearing with us to appeal this collection action and to discuss your payment options.

**What you need to do immediately**  
Pay your outstanding tax debt. Please note additional interest and penalties may increase the amount shown below. Contact the person identified at the top of this notice for the full amount due or if you have questions.

Review the enclosed Publication 594, *The IRS Collection Process*, and Publication 1660, *Collection Appeal Rights*. These explain how we collect taxes and the different collection appeals procedures available to you.

**Notice of lien on your tax debt**

Tax type	Tax period	Assessment date	Unpaid balance of assessment
			\$0.00
			\$0.00
			\$0.00
			\$0.00
			\$0.00
<b>Total unpaid balance:</b>			<b>\$0.00</b>

**Next steps**  
If you want to appeal this collection action, you must request your hearing by [date] [Redacted].

Complete the enclosed Form 12153, *Request for a Collection Due Process or Equivalent Hearing*, and mail it to:  
[enter Mailing Address] [Redacted]

Letter 3172 (Rev. 3-2017)  
Catalog Number 287671

# Responding to Collection Due Process – LT11, Letters 1058 or Letter 3172

- In response to the Notice LT11 and the Letters 1058 and 3172:
  - Perform all steps in response to the earlier notices if you have not done so already
  - Confirm with the IRS that the taxpayer is in current compliance
    - If not, help the taxpayer come back into compliance for future payments and filings
  - File Form 12153 within 30 days of the date on the Notice LT11, Letter 1058 or Letter 3172

# Responding to Collection Due Process – LT11, Letter 1058 or Letter 3172

- Items to address when filing Form 12153:
  - Verification that the requirements of any applicable law or administrative procedure have been met;
  - Any relevant issue relating to the unpaid tax, the lien, or the proposed levy, including but not limited to:
    - Challenges to the underlying liability, but only if the taxpayer did not receive a notice of deficiency or otherwise have an opportunity to dispute the tax;
    - Appropriateness of the collection action;
    - Collection alternatives (*e.g.*, offer in compromise, installment agreement, currently not collectible, substitution of other assets); and
    - Spousal defenses; and
  - Whether the collection action balances the need for the efficient collection of taxes with the taxpayer's legitimate concern that any collection action be no more intrusive than necessary

# Ongoing Notice Redesign Efforts at the IRS

- Enhancing Collection notices is a potentially high-impact initiative that aligns well to the Service-wide Future State vision
- Notices are the lowest-cost, most scalable Collection treatment
- Specific notices were chosen for redesign based on distribution volume and potential impact; starting with:
  - CP14 (IMF initial Balance Due notice)
  - LT16 (Request for taxpayer to contact ACS)
    - Can follow CP504 or LT11
- Test pilots are currently underway to evaluate the performance of the redesigned prototypes for both notices

# Objective of Collection Notice Redesign

- The objective of notice redesign testing is to improve the effectiveness of IRS notices in encouraging TP compliance, via self-service channels where possible
- Notice redesign has four main desired outcomes:
  - Increase use of self-service tools
  - Increase taxpayer compliance
  - Decrease IRS costs
  - Decrease TP burden

# Stakeholder Input for Prototype Design

- The design of notice prototypes combined input from internal IRS stakeholders, feedback from taxpayers, and external best practices
  - Involved a wide range of stakeholders on the design team such as Office of Taxpayer Correspondence (OTC) and Taxpayer Advocate Service (TAS)
  - Engaged the Taxpayer Advocacy Panel (TAP), a group of citizen volunteers, to provide feedback on current notices and potential test prototypes
  - Applied behavioral economics principles to notice messaging to help prompt taxpayers to take desired actions

# Notice Redesign Elements

- Examples of the redesign elements that are in the test pilot include:
  - Emphasized Uniform Resource Locators (URL) and payments options instead of phone numbers
  - Strengthened language
  - Prominent due date
  - Highlighted balance due
  - Consistent explanations in the main body
  - List of penalties and interest
  - Use of images (for example, icons to differentiate payment options)
  - Alternative payment amounts proposed

# Test Pilot Status

- The LT16 prototypes were sent in February and March 2017
- Results are being collected and analyzed to determine the impact of the letters on taxpayer behavior
- The CP14 pilot will begin testing in mid July 2017