

Sy Accountancy Corporation

Member, American Institute of CPAs

704 Mira Monte Place, Pasadena, California 91101

Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

CALIFORNIA TAX PAYMENT TIPS & UPDATES

By Victor Sy, CPA, MBA

If you filed your State tax return in April but did not pay the balance due on that return, you will soon receive the first collection notice from the Franchise Tax Board (FTB). The FTB has centralized their payment arrangement functions and has set up new procedures to establish a payment plan. The FTB mails notices to delinquent taxpayers into two phases: voluntary and involuntary cycles. The voluntary phase involves four notices, about 30 days apart. The notices become more demanding each time. If you do not fully pay your account within 30 days of the third notice, the State issues a final notice before levy. Do not ignore this letter. If you do, they assess a collection fee, transfer your account to their collection department for enforced collection, and levy on your properties. When this happens, you have just entered their involuntary cycle.

The State may even choose to send you only three notices (instead of four) if they consider you to be “at risk.” You are considered “at risk” if you have a large balance due or have a history of collection problems. How could you tell if the State considers you “at risk?” The third and last notices would be entitled Official Notice of State Tax Due. In this case, do not wait for a fourth notice because there is none. The next correspondence could be from your bank or employer.

At this stage, stop procrastinating and face the problem squarely. Request a payment plan. The State may or may not require you to submit financial information. The financial data involves forms that are difficult to fill out and support. You may not be required to submit financial information if your account can be resolved within 90 days or if all returns have been filed and the balance due is less than \$25,000, the account can be paid in full within 12 months, and you do not have a previous history of non-payments. (See recent developments below). *

The State will require financial information if during the last four years, you filed two or more returns without full payment, have been subject to two or more filing enforcement assessments, had any prior payment arrangements, or have been assigned for collection in the last four years.

Here are some tips in requesting a payment plan with the State:

1. Call the FTB and request them to mail Form FTB 3561 (Financial Statement) and Form FTB 3520 (Power of Attorney) if you need somebody to represent you. Use the telephone stated in the notices that you received. Be very careful though. Try not to answer sensitive questions. If they force you into answering such questions, tell them that this information is with your spouse, that there are people in front of you and that you would rather not talk about personal items at that time. What you tell them can bite you in the rear later on when you find time to analyze questions as you fill out forms.
2. When you receive the forms, complete and mail the forms with a cover letter requesting a telephone contact to set up an installment agreement. Expect a response in about 21 days (usually more).
3. If you did not respond to the earlier notices and receive a final notice before levy, call the Payment Arrangement Group at (916) 845-4470 or (800) 689-4776.
4. If you have a simple case and you feel confident that you can take care of this matter, then handle it yourself. If it gets complicated, it is worth your time and money to call your accountant or get in touch

with an enrolled agent, a CPA, or a tax lawyer to represent you. If the amount involved is less than a \$1,000, consider doing it yourself. Beyond that amount, consider getting help from a representative.

5. Remember that the State grants installment arrangements only in cases where paying in full will create financial hardships.
6. The term financial hardship is closely related to necessary allowable expenses such as house, rent or mortgage payment, food expenses, transportation expenses, utilities, and medical expenses. It could also include prearranged delinquent tax payments of prior State liabilities as well as child support and alimony payments. (Credit card payments are not considered necessary).
7. Be sure to file all required tax returns; otherwise, they will not even speak with you.
8. Once the arrangement is made, do not miss any payment; otherwise, your plan will go into default and the State can come after you for the whole balance.
9. If you chose to ignore their notices, the State could garnish your wages.
10. If you set up an installment plan but were too late to stop a wage garnishment, do not try to call the Franchise Tax Board because it will take you forever to get the garnishment lifted. Go instead to a local office of the Franchise Tax Board and present your collection information, canceled checks, notes on your conversation and other letters to lift the garnishment.

Development 1: The State Franchise Tax Board has a pilot project that relaxes current installment conditions by increasing the threshold for owed taxes from \$10,000 to \$25,000 and the installment period from 36 months to 60 months.

Development 2: You can electronically apply for an installment agreement if you owe a balance of \$10,000 or less, agree to pay in 36 months or less, and file all required personal income tax returns.

Development 3: If you electronically filed returns, you can request the FTB for Form 3567.