www.powellunited.com

409-692-3882

Partial Pay Installment Agreement

An **IRS Partial Payment Installment Agreement (PPIA)** allows taxpayers with significant tax debt and limited ability to pay in full to settle their debt over time at a reduced amount. This agreement lets the taxpayer pay the IRS in manageable monthly installments for a set period, typically not covering the entire debt, with the remaining balance potentially being forgiven at the end of the term if they remain compliant.

Here's a detailed guide on the PPIA, the application process, and the qualifications:

---

1. Overview of the Partial Payment Installment Agreement (PPIA)

A PPIA is different from a full installment agreement because it acknowledges that the taxpayer **cannot pay the entire amount due within the collection statute period** (usually 10 years from the date of assessment). This option allows qualifying taxpayers to make smaller, regular payments based on their financial capacity, not the total debt amount, with the understanding that part of the debt may remain unpaid by the time the IRS's collection period expires.

Key characteristics of the PPIA include:

- **Reduced Payment Amounts**: Payments are determined based on what the taxpayer can reasonably afford.

- **Expiration of Debt**: Any remaining unpaid balance at the end of the 10-year collection period will generally be forgiven.
- **Financial Documentation**: Requires thorough disclosure of financial information to prove inability to pay in full.

---

2. Qualifications for a Partial Payment Installment Agreement

To qualify for a PPIA, the taxpayer must demonstrate:

- **Inability to Pay in Full**: Taxpayers must show they cannot fully pay their tax debt within the IRS's 10-year collection period.
- **Limited Disposable Income**: After necessary living expenses, there should be little remaining income available to apply toward the tax debt.
- **Detailed Financial Disclosure**: This requires submitting Form 433-A (Collection Information Statement for Wage Earners and Self-Employed Individuals) or Form 433-F (Collection Information Statement), which includes information on income, expenses, assets, and liabilities.

The IRS will review these forms closely and may request proof of expenses and other financial details to confirm that the taxpayer genuinely lacks the ability to pay the full amount.

---

3. How to Apply for a Partial Payment Installment Agreement

Step 1: Gather Financial Documentation

- Collect records of all sources of income, expenses, assets, and liabilities, including:

    - Pay stubs, bank statements, and other income documents.
    - Bills, loan statements, and monthly expenses such as rent, utilities, transportation, and health insurance.
    - Asset documentation, such as the value of properties, retirement accounts, vehicles, and other valuable assets.

Step 2: Complete Form 433-A or Form 433-F

- Complete either **Form 433-A** or **Form 433-F**, depending on your employment status. Form 433-A is for self-employed individuals, while 433-F is a simpler form used for wage earners.
- Include all relevant details, as the IRS uses these forms to evaluate the taxpayer’s financial condition and determine if they qualify for a PPIA.
- Attach supporting documentation, such as copies of bills, statements, and records of living expenses.

Step 3: Submit Form 9465, Installment Agreement Request

- File **Form 9465**, Installment Agreement Request, to request a formal installment agreement with the IRS.
- On Form 9465, specify that you are requesting a Partial Payment Installment Agreement.

Step 4: Determine a Monthly Payment Amount

- Calculate a proposed monthly payment based on disposable income, which is your monthly income after reasonable living expenses.

- The IRS may adjust this amount if it believes you can afford to pay more, so ensure that your calculations align with reasonable monthly expenses per IRS standards.

Step 5: Wait for IRS Review

- After submitting your application, the IRS will review your financial information and may contact you for additional details.
- During this time, the IRS may place a temporary hold on collection actions, allowing the taxpayer to avoid levies and garnishments while the PPIA is under consideration.

Step 6: Comply with All IRS Requirements

- If approved, the taxpayer must continue to make monthly payments and **stay current on future tax obligations**. Failure to make regular payments or falling behind on future taxes may lead to cancellation of the PPIA.
- If denied, taxpayers can pursue other options, such as an Offer in Compromise or appealing the decision.

---

4. Determining Monthly Payment Amounts

The IRS calculates the monthly payment amount based on **Allowable Living Expenses (ALEs)**, which are standardized expenses for housing, utilities, transportation, and food. Taxpayers are expected to submit a monthly payment based on remaining income after ALEs are accounted for. Here's an example of how the IRS might calculate the monthly payment:

- **Total Monthly Income**: $4,500

- **Total Monthly Allowable Expenses**: $3,800
- **Disposable Income**: $700

In this case, the IRS would generally expect a monthly payment close to $700, as this reflects the taxpayer's disposable income after ALEs.

---

5. Conditions and Limitations

- **Financial Review Every Two Years**: The IRS requires a periodic financial review (usually every two years) to ensure the taxpayer still qualifies. If the taxpayer's financial situation improves, the IRS may increase the monthly payment amount or convert the PPIA to a full installment agreement.
- **Collection Statute Expiration**: If the 10-year collection period expires before the debt is paid in full, the IRS will forgive the remaining balance, effectively ending the taxpayer's liability for the unpaid portion.

---

6. Benefits of a PPIA

- **Lower Monthly Payments**: Since payments are based on what the taxpayer can afford, this option provides relief from high monthly payments that are difficult to sustain.
- **Potential for Debt Forgiveness**: Once the collection period expires, any remaining balance on the taxpayer's account may be forgiven.
- **Protection from Collection Actions**: An approved PPIA usually halts active collection actions, such as wage

garnishments or bank levies, as long as the taxpayer remains compliant.

---

7. Potential Drawbacks

- **Regular Financial Disclosure**: The IRS's financial reviews may lead to higher monthly payments if the taxpayer's financial situation improves.
- **Lien Filing**: The IRS often files a federal tax lien on large balances to secure its interest, which can impact credit scores and future loan eligibility.
- **Strict Compliance**: Falling behind on payments or failing to file future taxes can result in the termination of the PPIA, reinstating the IRS's right to pursue full collection of the debt.

---

8. Example Scenario

Let's say a taxpayer owes $150,000 in back taxes and has only five years left in the collection statute period. After submitting Form 433-A and showing an ability to pay only $500 per month, the IRS approves a Partial Payment Installment Agreement.

- **Monthly Payment**: $500
- **Total Payments Over 5 Years**: $500 x 60 months = $30,000
- **Remaining Balance at Collection Period Expiry**: $150,000 - $30,000 = $120,000 (likely forgiven at the end of the statute period)

The taxpayer pays only what they can afford, and the unpaid balance of $120,000 may be forgiven when the collection statute period expires.

Conclusion

A Partial Payment Installment Agreement offers an affordable way to settle tax debt for those who genuinely lack the ability to pay in full. The application process involves thorough financial disclosure and documentation, and requires regular reviews to ensure continued qualification. This option can be valuable for taxpayers with significant debt and limited resources, as long as they remain compliant and up to date with IRS requirements. Working with a tax professional can be especially helpful when dealing with the complexities of a PPIA.

At Powell United we are credentialed Tax Professionals and would be happy to represent you before the IRS in this matter.

Call today or visit our contacts page to set up your free consultation.

409-692-3882

www.powellunited.com

Sincerely,

Matthew Powell

Owner, Powell United Financial Services