Dr. Friday.

TAX & FINANCIAL FIRM, INC.

QUICK CHECKLIST

Can Bankruptcy Eliminate IRS Tax Debt? 10-Minute Checklist

A Quick Check Before You Assume Bankruptcy Will Wipe Out IRS Debt

IRS tax debt can feel impossible when notices, penalties, interest, wage garnishments, bank levies, or tax liens are involved. Bankruptcy may help in some situations, but it does not erase every kind of tax debt.

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TAX YEAR & ADVICE NOTICE

Tax laws and IRS guidance can change and may differ by tax year. This guide provides general educational information, not personalized tax advice. Confirm the rules and deadlines for the tax year of your return, and consult a qualified tax professional about your situation.

Use this checklist to understand the first questions that matter before you talk with a bankruptcy attorney, a tax professional, or the IRS.

Key Takeaway: Some older income tax debts may be dischargeable in bankruptcy, but many tax debts are not. The type of tax, filing history, assessment date, tax lien status, and timing of the bankruptcy filing all matter.

Timing Warning: Filing too early can cause a tax debt that might have qualified later to remain collectible. Do not file bankruptcy based only on a quick date estimate.

Quick Answer

Bankruptcy may eliminate certain older federal income tax debts when strict rules are met. It generally does not eliminate recent income taxes, payroll taxes, trust fund recovery penalties, sales taxes, fraud penalties, or many debts tied to late or missing returns.

Bankruptcy may also pause many collection actions through the automatic stay, but a pause is not the same thing as a permanent discharge.

Educational only. Check rules for your return's tax year.

Who This Checklist Is For

Use this checklist if:

- [ ] You owe IRS income tax from older years.
- [ ] You are receiving collection notices, levy warnings, or wage garnishment threats.
- [ ] You are considering bankruptcy partly because of tax debt.
- [ ] You are comparing bankruptcy with an IRS payment plan or Offer in Compromise.
- [ ] You need to organize the facts before meeting with a bankruptcy attorney or tax professional.

Educational only. Check rules for your return's tax year.

The First Question: What Kind of Tax Debt Is It?

Tax debt type	General bankruptcy concern
Older personal federal income tax	May qualify only if strict timing and filing rules are met
Recent income tax	Usually too new to discharge
Late-filed or missing return	Can create major discharge problems
Payroll tax or trust fund recovery penalty	Generally not dischargeable
Sales tax	Generally high-risk and often not dischargeable
Fraud penalty or willful tax evasion issue	Generally not dischargeable and needs legal review
Tax lien	Personal liability may be affected, but the lien may survive against property

Educational only. Check rules for your return's tax year.

The First Question: What Kind of Tax Debt Is It?

Which IRS Tax Debts Need a Bankruptcy Review?

A quick visual filter before you rely on bankruptcy as the answer.

May qualify for review

- **Older federal income tax**
  Only if timing and filing rules are met.
- **Filed returns**
  Late or missing returns can change the answer.
- **IRS assessment is old enough**
  The 240-day rule may matter.

Usually not eliminated

- **Recent income taxes**
  Often too new to qualify.
- **Payroll or trust fund taxes**
  Usually remain collectible.
- **Sales taxes, fraud penalties, liens**
  These need extra caution before filing.

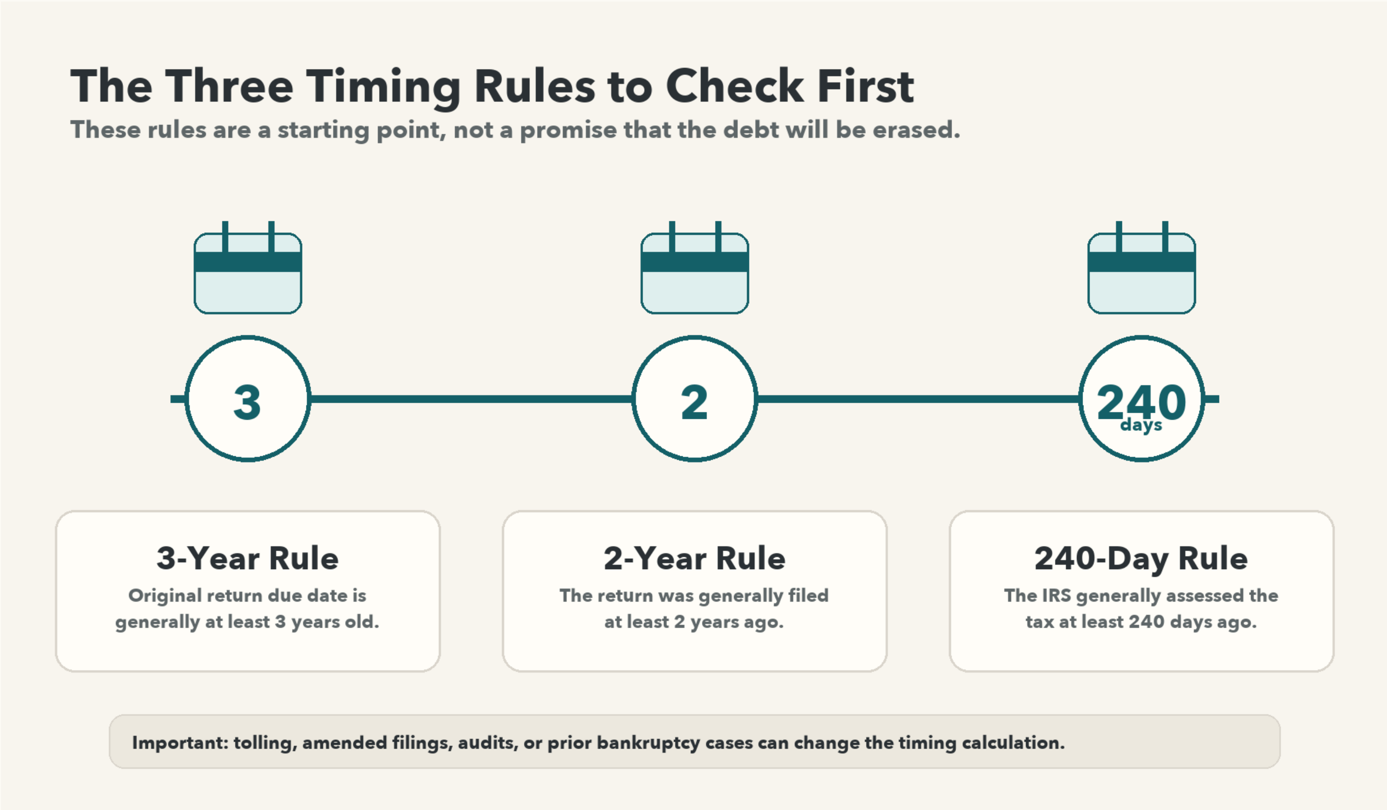
Bottom line: bankruptcy may help with some older income tax debt, but filing too early can leave a balance collectible.

Educational only. Check rules for your return's tax year.

The Three Timing Rules People Hear About

For older income tax debt, people often hear about a "3-year, 2-year, 240-day" timing test. These rules are only a starting point.

- **Three-year idea:** The return due date generally must be more than three years before the bankruptcy filing.
- **Two-year idea:** The return generally must have been filed more than two years before the bankruptcy filing.
- **240-day idea:** The IRS assessment generally must be more than 240 days before the bankruptcy filing.



> **Important:** Extensions, audits, amended returns, offers, prior bankruptcy cases, late returns, substitute returns, and other events can affect the timing analysis.

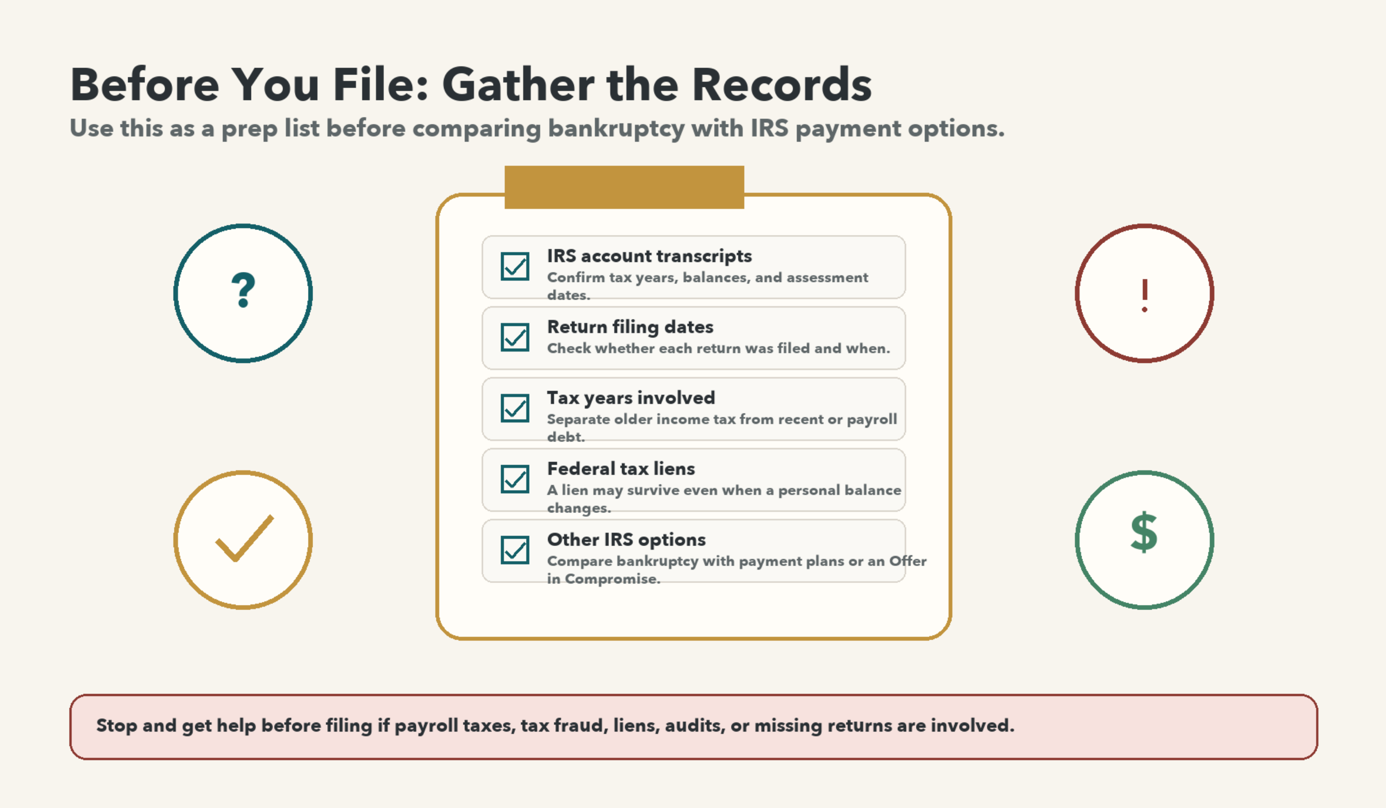
Educational only. Check rules for your return's tax year.

10-Minute Bankruptcy Tax Debt Checklist

- [ ] List each tax year you owe.
- [ ] Identify whether each balance is income tax, payroll tax, trust fund tax, sales tax, penalty, or interest.
- [ ] Confirm whether each tax return was filed.
- [ ] Write down the original due date for each return.
- [ ] Write down the actual filing date for each return.
- [ ] Check whether any return was filed late.
- [ ] Check whether the IRS assessed the tax and when.
- [ ] Check whether the IRS filed a Notice of Federal Tax Lien.
- [ ] Save every IRS notice, especially levy, lien, garnishment, and deadline notices.
- [ ] Get IRS account transcripts before relying on memory.
- [ ] Compare bankruptcy with IRS payment options before choosing a path.
- [ ] Talk with both a bankruptcy attorney and a qualified tax professional before filing.

Educational only. Check rules for your return's tax year.

10-Minute Bankruptcy Tax Debt Checklist



Common Mistakes To Avoid

- Assuming all IRS tax debt disappears in bankruptcy.
- Filing bankruptcy before checking the IRS assessment date.
- Ignoring late-filed return issues.
- Forgetting payroll taxes, trust fund penalties, or sales taxes are different from personal income tax.
- Assuming a tax lien automatically disappears.
- Confusing a temporary collection pause with permanent discharge.
- Calling the IRS or filing bankruptcy without transcripts and notices.

Educational only. Check rules for your return's tax year.

Bankruptcy or an IRS Payment Option?

Option	Plain-English idea	Important caution
Bankruptcy	Court process that may discharge some qualifying tax debts and other debts	Not every tax qualifies, and timing matters
IRS installment agreement	Monthly payments over time	Does not erase the debt
Offer in Compromise	Possible IRS settlement for less than the full balance when strict rules are met	Requires financial review and does not fit everyone
Temporary collection delay	Collection may be delayed when payment would block basic living expenses	Debt may continue to exist and interest may continue

Educational only. Check rules for your return's tax year.

When To Stop and Get Professional Help

Stop and get qualified help before acting if:

- You are close to filing bankruptcy.
- You owe for several tax years.
- Any return was filed late or not filed.
- The IRS filed a tax lien.
- You have payroll tax, trust fund, business tax, or sales tax debt.
- You received a wage garnishment, bank levy, final notice, or collection deadline.
- You have an audit, amended return, fraud concern, or tax evasion allegation.
- You are trying to decide between bankruptcy, an Offer in Compromise, and a payment plan.

> **Ask Before Filing:** A bankruptcy attorney can advise on bankruptcy law, and a tax professional can help verify tax years, transcripts, balances, liens, and IRS collection options. For tax debts, both perspectives matter.

Public Resources

- IRS bankruptcy information: https://www.irs.gov/businesses/small-businesses-self-employed/declaring-bankruptcy
- IRS bankruptcy frequently asked questions: https://www.irs.gov/businesses/small-businesses-self-employed/bankruptcy-frequently-asked-questions
- IRS Publication 908, Bankruptcy Tax Guide: https://www.irs.gov/publications/p908
- IRS transcripts: https://www.irs.gov/individuals/get-transcript
- Bankruptcy Code discharge exceptions, 11 U.S.C. § 523: https://www.law.cornell.edu/uscode/text/11/523

Educational Disclaimer

This resource is for general educational purposes only and is not personalized tax advice, legal advice, or bankruptcy representation. Tax and bankruptcy situations vary. Before acting on information in this guide, consult a qualified bankruptcy attorney and a qualified tax professional about your specific facts and circumstances.

Next Step: Build Your Bankruptcy Tax Debt File

If this checklist helped you see that timing and tax type matter, the next step is to organize the facts for each tax year before making a bankruptcy decision.

The **Bankruptcy and IRS Tax Debt Workbook** helps you list each tax year, gather IRS transcripts, compare the timing rules, flag non-dischargeable debts, prepare questions for your bankruptcy attorney and tax professional, and avoid filing before the tax facts are clear.

It is a good fit if you:

- Owe older IRS income taxes.
- Are not sure whether a tax year is old enough.
- Have late-filed returns or missing returns.
- Have a tax lien, levy, garnishment, or urgent IRS notice.
- Need a tax-year-by-tax-year worksheet before getting professional advice.

For help reviewing IRS tax balances, transcripts, collection notices, payment options, or tax-year records, contact Dr. Friday Tax and Financial Firm, Inc.

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Explore the companion workbook

drfriday.com/resources/bankruptcy-tax-debt/#workbook

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