



Robert W. Wood

THE TAX LAWYER

TAXES 7/08/2014

Five Stages Of Grief, IRS Version

The thought of facing an IRS audit can feel like a never-ending nightmare. It can be fraught with uncertainty, fear, and even grief. It may seem like a stretch to compare dealing with the IRS to other types of grief.

Yet for many, the negative emotions the IRS provokes are strong and debilitating. This is understandable given the high stakes involved, including the possibility of jail time. With the U.S. government's recent push to expose and penalize every hidden offshore account, IRS-induced grief is becoming even more common.

The five stages of grief are denial, anger, bargaining, depression and acceptance. Swiss-American Psychiatrist [Elisabeth Kübler-Ross](#) wrote about it in her 1969 book, *On Death and Dying*. That's why the five stages of grief are sometimes called the Kübler-Ross model. Dr. Kubler-Ross probably didn't have tax problems in mind when she came up with the five stages, but her model fits surprisingly well.

Consider this progression for a common offshore account problem:



Flower arrangement for funeral (Photo credit: Wikipedia)

1. Denial. My account isn't a problem. The IRS will never find me. I pay lots of taxes. No one told me about this so it isn't my fault. I don't get bank statements, so who'll know? Even though the bank is hounding me about being an American, I'll ignore them and eventually they'll forget about me.

2. Anger. The bank is going to tell the IRS about me. How dare the IRS put me in this position? I'll flee the country. I'll sue my accountant. It's my ex's fault—he/she was the one who opened this account, not me. My family made me American, not me. The IRS is crooked anyway and they'll waste the money I pay them. The government can't do this to me. These penalties are unfair and onerous.

3. Bargaining. OK, I need to pay *something* to the IRS. I can disclose some accounts but not others and save penalties that way. After all, some came from my parents. The big account wasn't really mine. It was more my brother's money, and I was more or less holding it for him. My funds never really made much money so I don't have to list them, right? The bank fees were so high I really lost money, and it's crazy to amend anything for the past.

4. Depression. I give up. This is the worst thing that's ever happened to me. I sent off the papers disclosing my accounts, but maybe I should have just gone AWOL with a backpack. I could have lived off the grid in Jakarta. I'm a sap to be in this spot, writing checks to the IRS.

5. Acceptance. This deal isn't free, but it's not bad either. Whether I did OVDP or Streamlined, at least it is now resolved and I can move on. Besides, even paying a 27.5% penalty didn't use up all the money. It's good that I disclosed when I did. The people that waited too long are facing a 50% penalty or worse. I could never spend the money before, so at least now it's OK to do that. Since there's money left I can spend it without going through all sorts of crazy gyrations.

Not all of these emotions appear in every case, of course. In fact, some people don't go through any of these stages. Yet this progression can happen and isn't as crazy as you may think. In fact, this parallel track can also play out:

1. I don't mind paying *any* amount, as long as I don't go to jail!
2. I don't mind paying taxes, but I shouldn't have to pay big penalties!
3. I already pay more than my fair share of taxes, so I just want to file FBARs and not report any income. They'll never audit me.
4. OK, I'll write the checks for taxes and penalties if I have to.
5. Now that it's done, I should have just ignored it and they never would have caught me. Besides, I was *never* worried about going to jail.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.