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Introduction to Offers in Compromise
(Course #6155B/QAS6155B)

Table of Contents

Chapter 1: Offers in Compromise

Learning Objectives:

Upon completion of this chapter, you will be able to:

- Describe what the IRS Offer in Compromise (OIC) program is.
- Process an Offer in Compromise.
- Make Offer in Compromise determinations.
- Perform financial analysis.
- Explain collateral agreements.
- Outline possible actions on accepted offers.
- Describe how the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) Section 509 affects the OIC program.

I. Offer in Compromise Program

The IRS Offer in Compromise program provides taxpayers who owe the IRS more than they could ever afford to pay, the opportunity to pay a small amount as a full and final settlement.

- This program also allows taxpayers who do not agree that they owe the tax or feel that the tax has been incorrectly calculated a chance to file an Offer in Compromise and have their tax liabilities reconsidered.
- The Offer in Compromise program allows taxpayers to get a fresh start.
- All back tax liabilities are settled with the amount of the Offer in Compromise.
- All federal tax liens are released upon IRS acceptance of an Offer in Compromise and payment of the amount offered.

An Offer in Compromise filed based on the taxpayer's inability to pay the IRS looks at the taxpayer's current financial position and considers the taxpayer's ability to pay as well as the taxpayer's equity in assets. Based on these factors, an offer amount is determined.

- Taxpayers can compromise all types of IRS taxes, penalties and interest.
- Even payroll taxes can be compromised.

If you qualify for the Offer in Compromise program you can save thousands of dollars in taxes, penalties and interest.

A. WHY TAXPAYERS NEED AN EXPERT IN THEIR CORNER

- On October 31, 2004, the Los Angeles Times reported that the IRS National Acceptance rate for Offers in Compromise was less than 20%.
- One month earlier, a letter from the U.S. Senate Committee on Finance authored by Senators Grassley and Baucus to the Secretary of the Treasury raised concerns about the IRS's continued failure to efficiently and effectively administer the Offer in Compromise program.

- We have heard from many practitioners and interested parties that the IRS is more interested in managing Offer in Compromise inventory rather than getting to a resolution of tax debt and giving the taxpayer a fresh start.
- We are also troubled by the apparent failure of the Treasury and the IRS to fully utilize the flexibilities provided in the effective tax administration provision.
- The Chief of Appeals had indicated that 86% of all Offers In Compromise are appealed.
- It is our understanding that the IRS first processes the DATC (Doubt as to Collectibility) component before determining whether the taxpayer actually owes the tax, in whole or in part.
- The IRS calculates the ability to pay, in part by computing the monthly installment payment the taxpayer can pay for the remainder of the statutory collection period, particularly in light of the IRS's policy…that an Offer In Compromise is a viable collection alternative to a protracted Installment Agreement.

B. THE IMPORTANCE OF THE FIRM'S TRACK RECORD

- Due to the complexities of negotiating an Offer in Compromise, the Tax Consulting Firm's track record is your best indicator of how that firm will manage your case.

C. CAN I FILE AN OFFER IN COMPROMISE TO DELAY COLLECTION ACTION?

- Once it is determined an Offer In Compromise was filed solely to hinder and/or delay collection actions, the IRS will return the Offer In Compromise without any further consideration.
- Taxpayers will not be afforded the right to appeal this decision.

D. WHAT IS AN OFFER IN COMPROMISE USER OR APPLICATION FEE?

- Federal agencies are authorized to establish charges for services provided by the agency, called "user fees".
- The U.S. Office of Management and Budget encourages agencies to implement these fees to recover the cost of providing special services to some recipients that others do not use.
- The IRS has established a user fee that will recover part of the cost of processing and reviewing Offer in Compromise requests.
- The IRS has chosen to call it an "application fee" because the fee is required when an Offer in Compromise application is submitted for consideration.

E. HOW MUCH IS THE APPLICATION FEE AND WHEN DOES IT BEGIN?

- The application fee for submitting an Offer in Compromise is $150 and will be required on all offers that are postmarked November 1, 2003, and thereafter.

F. WHO HAS TO PAY THE APPLICATION FEE?

All taxpayers who submit an Offer in Compromise postmarked November 1, 2003, and thereafter, must pay the $150 fee, except in two instances:

- The Offer in Compromise is submitted based solely on "doubt as to liability."
- The taxpayer's total monthly income falls at or below income levels based on the Department of Health and Human Services (DHHS) poverty guidelines.

G. WHAT METHOD OF PAYMENT DOES THE IRS ACCEPT?

- A check or money order made payable to the United States Treasury.

H. CAN I SEND CASH AS PAYMENT FOR THE APPLICATION FEE?

- No. Taxpayers must send a check or money order for $150 made payable to the United States Treasury.

I. CAN I SEND ONE CHECK TO COVER BOTH THE APPLICATION FEE AND OFFER IN COMPROMISE AMOUNT?

- No. Taxpayers must initially pay the application fee.
- After the IRS accepts the Offer in Compromise, the IRS will notify the taxpayer to promptly pay any unpaid amounts that become due under the terms of the Offer in Compromise agreement.

J. CAN A TAX PRACTITIONER WHO REPRESENTS A NUMBER OF CLIENTS AND FILES MULTIPLE OFFERS IN COMPROMISE COMBINE SEVERAL APPLICATION FEES INTO ONE CHECK?

- No. Checks that combine application fees for several offers will not be accepted, and the offers will be returned. Each Offer in Compromise must have a separate check attached.

K. WHAT HAPPENS IF I SUBMIT AN APPLICATION FEE AND FIND THAT I HAVE INSUFFICIENT FUNDS IN MY ACCOUNT TO COVER THE CHECK?

- If the IRS receives notification of insufficient funds, the IRS will immediately stop processing the Offer in Compromise, and the Offer in Compromise will be returned to the taxpayer without any further consideration.

L. WILL PAYMENT OF THE APPLICATION FEE REDUCE THE OFFER IN COMPROMISE AMOUNT?

- The application fee is in addition to the amount listed on the Offer in Compromise.
- However, when the IRS determines the acceptable amount of an Offer in Compromise based on doubt as to collectibility, it considers the value of all of the taxpayer’s assets.
- Because some of the taxpayer’s assets were used to pay the Offer in Compromise application fee, payment of the fee will reduce the acceptable amount of the Offer in Compromise.
- The taxpayer therefore pays no more for an Offer in Compromise with the fee than the taxpayer would have paid without the fee.

M. WILL THE APPLICATION FEE CREATE AN ADDITIONAL FINANCIAL HARDSHIP ON TAXPAYERS WHO ARE ALREADY HAVING PAYMENT PROBLEMS?

- Because payment of the fee reduces the acceptable Offer in Compromise amount, most taxpayers will not experience any additional financial hardship as a result of the fee.
- However, for some taxpayers the $150 fee may exceed their ability to pay.
- In most cases, the IRS exempts taxpayers whose income is at or below the poverty level from paying this fee.

N. WHAT HAPPENS TO MY FEE IF THE OFFER IN COMPROMISE IS NOT CONSIDERED PROCESSABLE?

- The application fee will be returned to the taxpayer if the Offer in Compromise is determined not to be processable.

O. HOW DO I KNOW IF I QUALIFY FOR THE INCOME EXCEPTION?

- The IRS has developed a worksheet to assist taxpayers in determining whether they qualify for the income exception.
- If they determine that they qualify, taxpayers must complete the "Income Certification for Offer in Compromise Application Fee," and attach it along with the worksheet at the time of submission.

P. WHAT DO I NEED TO DO IF THE OFFER IN COMPROMISE APPLICATION FEE WORKSHEET SHOWS THAT I QUALIFY FOR THE INCOME EXCEPTION?

- Taxpayers must sign and date "Income Certification for Offer in Compromise Application Fee."
- If a taxpayer is submitting a joint Offer in Compromise with a spouse, the spouse must also sign the certification.
- The Income Certification must be attached to the Offer in Compromise.

Q. WHAT HAPPENS IF I SUBMIT THE OFFER IN COMPROMISE AND THE IRS LATER SAYS I MADE AN ERROR AND DO NOT QUALIFY FOR THE POVERTY GUIDELINE EXCEPTION?

- The IRS will return the Offer in Compromise to the taxpayer without any further processing.

R. DOES THE POVERTY GUIDELINE EXCEPTION APPLY TO BUSINESSES?

- No. The exception for taxpayers with total monthly incomes falling at or below income levels based on DHHS poverty guidelines only applies to individuals.
- It does not apply to other entities, such as corporations or partnerships.

S. WHAT HAPPENS IF I DO NOT SUBMIT THE OFFER IN COMPROMISE APPLICATION FEE WITH THE OFFER IN COMPROMISE?

- Unless the taxpayer has submitted an Offer in Compromise under the doubt as to liability provision or showing a poverty guideline certification, the IRS will return the Offer in Compromise as not processable.

T. HOW IS THE APPLICATION FEE COLLECTED?

- The application fee is collected when a taxpayer submits an Offer in Compromise.
- The general rule is that the IRS needs as many Offer in Compromises as there are entities seeking to compromise.
- A check or money order in the amount of $150 must be attached to each Offer in Compromise.

This assumes that the taxpayer does not meet one of the exceptions for paying the application fee:

- The Offer in Compromise is filed solely under doubt as to liability.
- The taxpayer’s total monthly income falls at or below income levels based on the DHHS poverty guideline levels.

U. HOW MANY OFFERS IN COMPROMISE MUST I COMPLETE IF MY SPOUSE AND I ARE SUBMITTING ONE OFFER TO COMPROMISE THE SAME JOINT LIABILITY? HOW MANY APPLICATION FEES MUST BE ATTACHED?

- A married couple owing the same joint income tax liability may file only one Offer in Compromise listing the joint liability. One fee of $150 should be attached to the Offer in Compromise.
- A married couple opting to file separate Offers in Compromise for the same joint liability may do so, but two $150 fees will be required.

This assumes that the taxpayer does not meet one of the exceptions for paying the application fee:

- The Offer in Compromise is filed solely under doubt as to liability.
- The taxpayer’s total monthly income falls at or below income levels based on the DHHS poverty guideline levels.

V. WHEN A MARRIED COUPLE OWES A JOINT LIABILITY AND ONE SPOUSE ALSO OWES AN INDIVIDUAL (NON-JOINT) LIABILITY, HOW MANY OFFERS IN COMPROMISE ARE REQUIRED?

- Two Offers in Compromise are needed – one for the joint liability and another one for the individual (non-joint) liability. A check or money order for $150 should accompany each Offer in Compromise.

This assumes that the taxpayer does not meet one of the exceptions for paying the application fee:

- The Offer in Compromise is filed solely under doubt as to liability.
- The taxpayer's total monthly income falls at or below income levels based on the DHHS poverty guideline levels.

W. HOW MANY OFFERS IN COMPROMISE ARE REQUIRED FROM A MARRIED COUPLE WHO OWE JOINT INCOME TAX, PLUS THE HUSBAND OWES AN INDIVIDUAL TAX FOR THE YEAR BEFORE HE WAS MARRIED AND A BUSINESS LIABILITY, AND THE WIFE OWES AN INDIVIDUAL TAX WITH HER PRIOR SPOUSE? HOW MANY APPLICATION FEES WILL BE REQUIRED?

In keeping with the "one fee per entity" rule:

- The husband should file one Offer in Compromise listing the joint income tax, the individual tax for the year he owes before the marriage and his business liability, and attach a $150 application fee to the Offer in Compromise.
- The wife should file an Offer in Compromise listing the joint income tax and the individual tax for the year that she owes with her prior spouse, and attach a $150 application fee to the Offer in Compromise.
- It does not matter that the joint liability will appear on both offers.

This assumes that the taxpayer does not meet one of the exceptions for paying the application fee:

- The Offer in Compromise is filed solely under doubt as to liability.
- The taxpayer's total monthly income falls at or below income levels based on the DHHS poverty guideline levels.

X. HOW MANY OFFERS IN COMPROMISE ARE REQUIRED IF YOU HAVE AN INDIVIDUAL WHO OWES TAX AND WHO ALSO OWES A PARTNERSHIP DEBT AS A GENERAL PARTNER OR CORPORATE DEBT FROM A CLOSELY HELD CORPORATION? HOW MUCH WOULD THE APPLICATION FEE BE?

- In this situation, two Offers In Compromise will be required.
- One for the individual liability, and the other for the partnership or corporate liability.
- A check or money order for $150 must be attached to each Offer in Compromise, for a total of $300.
- The IRS cannot combine individual tax on an Offer in Compromise application with taxes owed by a partnership or corporation.

This assumes that the taxpayer does not meet one of the exceptions for paying the application fee:

- The Offer in Compromise is filed solely under doubt as to liability.
- The taxpayer's total monthly income falls at or below income levels based on the DHHS poverty guideline levels.

Y. WHAT WILL HAPPEN IF THE IRS ACCEPTS AN OFFER IN COMPROMISE FOR PROCESSING, ALONG WITH THE $150 APPLICATION FEE, BUT THEN REQUESTS ADDITIONAL OFFERS IN COMPROMISE BE SUBMITTED WITH ADDITIONAL $150 FEES, AND THE TAXPAYER FAILS TO RESPOND?

- Taxpayers are required to submit one fee for each Offer in Compromise submitted for processing.
- Failure to submit additional Offers in Compromise with the corresponding $150 application fee when requested, will cause the IRS to return the offer without any further consideration.
- The $150 application fee will be retained.

Z. WHAT HAPPENS TO THE OFFER IN COMPROMISE AND THE APPLICATION FEE AFTER I SEND IT TO THE IRS?

The $150 is retained until the IRS determines whether the Offer in Compromise is processable.

AA. ARE THERE ANY INSTANCES WHEN THE APPLICATION FEE WILL BE APPLIED AGAINST THE AMOUNT OF THE OFFER IN COMPROMISE OR REFUNDED TO ME AFTER THE OFFER IN COMPROMISE HAS BEEN ACCEPTED FOR PROCESSING?

Yes. The fee will be applied against the amount of the offer or, if the taxpayer requests, returned to the taxpayer if:

- The IRS accepts an Offer in Compromise based on effective tax administration (ETA).
- The IRS accepts an Offer in Compromise based on a determination of doubt as to collectibility with special circumstances.

BB. IF MY OFFER IN COMPROMISE IS NOT ACCEPTED, WILL THE APPLICATION FEE BE REFUNDED TO ME?

No. The IRS will retain the fee when:

- The taxpayer's initial Offer in Compromise amount is too low - based on the IRS evaluation of the taxpayer's financial condition – and the taxpayer is given the opportunity to increase it.
- If the taxpayer does not increase the Offer in Compromise amount, or show special circumstances, the IRS will reject the Offer in Compromise.
- The taxpayer fails to submit additional financial documents to assist in the IRS review.
- If the taxpayer fails to respond, and/or submit the requested information, the Offer in Compromise will be returned without further consideration.
- The taxpayer chooses to withdraw the Offer in Compromise.

II. Processing Your Offer in Compromise

A. WHAT HAPPENS IF AN OFFER IN COMPROMISE IS SUBMITTED USING THE WRONG FORMS?

- The Offer in Compromise forms and "Collection Information Statements" are necessary to conduct an Offer in Compromise investigation.
- Failure to submit these documents will cause considerable delay in the process.
- Taxpayers wanting to pursue the Offer in Compromise as a way to satisfy their tax liability will have to submit the forms in order to have the Offer in Compromise reconsidered.

B. WILL THE SUBMISSION OF AN INACCURATE OFFER IN COMPROMISE AFFECT THE TIMELY DISPOSITION OF MY CASE?

- Yes. The IRS' procedures require that a taxpayer be contacted in writing and provided a one-time opportunity to correct the error(s), and/or update the financial statement.
- Failure to correct the error(s) and/or respond results in the Offer in Compromise being returned to the taxpayer without any further actions on the part of the IRS.

C. WHAT HAPPENS IF I MISCALCULATE MY OFFER IN COMPROMISE OR DO NOT OFFER AN AMOUNT EQUAL TO MY REASONABLE COLLECTION POTENTIAL?

- This will result in processing delays and could be grounds for the IRS's ultimate decision to reject an Offer in Compromise.
- The IRS is observing a large upsurge of receipts in which the offered amount is clearly much lower than the reasonable collection potential illustrated on the taxpayer's financial statements.
- In a significant number of cases, the taxpayer's financial statements show that the taxpayer has a clear ability to satisfy the liability in full, or via an installment agreement during the course of the collection statute, and the taxpayer cites no special circumstances.
- The IRS reviews Offers in Compromise for fraudulent intent.
- Submitting an Offer in Compromise with false information, or making a false statement to an IRS employee, is considered an indicator of fraud and may subject the taxpayer to civil or criminal penalties.

D. WHAT ARE THE NATIONAL AND LOCAL STANDARDS AND HOW ARE THEY CONSIDERED IN EVALUATING AN OFFER IN COMPROMISE?

- Collection Financial Standards are used to help determine a taxpayer's ability to pay a delinquent tax liability.
- Allowances for food, clothing and other items, known as the National Standards, apply nationwide, except for Alaska and Hawaii, which have their own tables.
- Taxpayers are allowed the total National Standards amount for their family size and income level, without having to supply supporting documentation.
- Maximum allowances for housing and utilities and transportation, known as the Local Standards, vary by location.

Unlike the National Standards, the taxpayer is allowed the lesser of the amount actually spent or the standard.

III. Offer in Compromise Determinations

A. WHAT HAPPENS IF THE IRS ACCEPTS AN OFFER IN COMPROMISE?

If an Offer in Compromise is accepted, the following guidelines apply:

- The taxpayer must pay the Offer in Compromise amount in accordance with the acceptance agreement.
- The IRS will keep any tax refund, including interest due, as the result of an overpayment of any tax or other liability for the tax period extending through the calendar year the IRS accepts the Offer in Compromise.
- A taxpayer may not designate a refund and/or overpayment to be applied to estimated tax payments for the following year. This condition does not apply if the Offer in Compromise is based on Doubt as to Liability only.
- The taxpayer will waive their right to contest in court or otherwise, the amount of the tax liability.
- If a Notice of Federal Tax Lien has been filed against a taxpayer, the IRS will release the lien once all payment terms of the Offer in Compromise are satisfied.
- The taxpayer must remain in compliance with filing and payment of all tax returns for a period of five years from the date the Offer in Compromise is accepted or until the Offer in Compromise is paid in full, whichever is longer.
- Failure to pay the Offer in Compromise on time, and/or to remain in compliance during the five-year period or until the Offer in Compromise is paid in full, whichever is longer, will result in the Offer in Compromise being declared in default.

B. WHAT HAPPENS IF THE IRS DOES NOT ACCEPT AN OFFER IN COMPROMISE?

- Once the IRS determines it cannot accept an Offer in Compromise, the taxpayer will be advised of the reasons behind the decision.
- The taxpayer will be afforded another opportunity to submit additional information that might cause the IRS to reconsider its preliminary decision to reject the offer.
- The exception to this is when the taxpayer has an ability to satisfy the liability in full and has not pointed to special circumstances.

C. HOW MUCH INTEREST AM I GOING TO PAY IF MY OFFER IN COMPROMISE IS ACCEPTED?

- Interest will not accrue on the taxpayer's accepted Offer in Compromise amount from the date of acceptance until the Offer in Compromise is paid.
- Interest and penalties will continue to accrue on the unpaid tax liability while the Offer in Compromise is under consideration.

D. CAN I DESIGNATE ANY PAYMENTS ONCE MY OFFER IN COMPROMISE IS ACCEPTED?

- No. Refunds and overpayments may not be designated as estimated tax payments for the following year.
- This condition does not apply if the Offer in Compromise was accepted under doubt as to liability only.

E. IS A TAX LIEN RELEASED WHEN AN OFFER IN COMPROMISE IS ACCEPTED?

- The IRS releases a Notice of Federal Tax Lien when all of the Offer in Compromise payment terms are satisfied.
- For an immediate release of a lien, a taxpayer can submit payment using a certified check and include a request letter.

F. WHAT HAPPENS IF I DO NOT MEET ALL THE TERMS OF MY ACCEPTED OFFER IN COMPROMISE?

- The IRS may default the Offer in Compromise and reinstate the entire tax liability, less all payments and credits received.

G. WHAT HAPPENS IF I DEFAULT MY OFFER IN COMPROMISE?

The IRS may take the following actions:

- Immediately file suit to collect the entire unpaid balance of the Offer in Compromise.
- Immediately file suit to collect an amount equal to the original amount of the tax liability as liquidating damages, minus any payment already received under the terms of the Offer in Compromise.
- Disregard the amount of the Offer in Compromise and apply all amounts already paid under the Offer in Compromise against the original amount of the tax liability.
- File suit or levy to collect the original amount of the tax liability, without further notice.

The IRS will not default an agreement when taxpayers have filed a joint Offer in Compromise with his or her spouse or ex-spouse, as long as they have kept, or are keeping, all the terms of the agreement, even if the spouse or ex-spouse violates the future compliance provision.

H. WHAT HAPPENS IF I DO NOT FILE MY TAX RETURN OR PAY MY TAXES NEXT YEAR?

The Offer in Compromise will be defaulted.

- An Offer in Compromise requires future compliance for a period of five (5) years from the date of acceptance of the Offer in Compromise, or until the offered amount is paid in full, whichever is longer.
- Compliance is the timely filing and paying of all required returns and taxes.

IV. Financial Analysis

This section provides instructions for analyzing the taxpayer's financial condition to determine reasonable collection potential (RCP). IRM 5.15 Financial Analysis Handbook provides information for the analyzing and verifying of financial information and should be used in conjunction with this section.

A. VERIFICATION

1. A thorough verification of the taxpayer's Collection Information Statement (CIS) involves reviewing information available from internal sources and requesting that the taxpayer provide additional information or documents that are necessary to determine reasonable collection potential (RCP).
2. Collection issues that have been previously addressed during a balance due investigation by field personnel will not be re-examined unless there is convincing evidence that such reinvestigation is absolutely necessary. It is expected that the results of a previous collection investigation will be used and only supplemented when necessary to make a determination on an Offer in Compromise. Investigative actions that are less than 12 months old may be used to evaluate the Offer in Compromise.

   Example:

   If a Revenue Officer has completed a full CIS analysis including verification of assets, income and expenses and has made a determination of Fair Market Value of assets, equity in assets and monthly ability to pay, this information should not be reinvestigated. The Offer Examiner should use the Revenue Officer's (RO) determinations to calculate reasonable collection potential (RCP). If the balance due case file does not provide documentation to indicate the source of the offer amount, the taxpayer will be contacted to determine the source of the offer funds.

B. INTERNAL SOURCES

1. Verify as much of the collection information statement (CIS) as possible through internal sources.
2. When internal locator services are not available, or indicate a discrepancy, request that the taxpayer provide reasonable information necessary to support the Collection Information Statement (CIS).
3. A full credit report should be requested prior to accepting an offer when the current balance due exceeds $100,000.
4. Regardless of the amount of the liability the following information sources may be considered:

Internal Sources	Review
ENMOD and INOLES	Identify cross reference TINs for related business activity not declared on the CIS.
SUMRY, IMFOL and BMFOL	Verify full compliance.
RTVUE (IMF) or copy of the last filed income tax return	• Compare the amount of reported income to that declared on the CIS. • Identify past sources of income: Schedule B – interest and dividends Schedule C – self-employment income Schedule D – capital gains or losses Schedule E – rental or other investment income, net operating loss deduction Schedule F – farm income
IRPTRO and/or copy of older year income tax returns	• Compare real estate tax and mortgage interest deductions to the amounts declared on the CIS. Higher amounts may indicate present or past real property ownership not declared on the CIS. Lower amounts may indicate property has been recently sold or transferred. • Identify accounts not reported on the CIS, such as certificates of deposit or investment accounts. • Verify sources of income, such as employers, bank accounts, and retirement accounts. • Identify recently dissipated assets.
BRTVUE (BMF) or copy of last filed income tax return	• Compare the amount of reported income to that declared on the CIS. • Compare the value of assets and the amount of reported depreciation to the asset values declared on the CIS.
State Motor Vehicle Records	Identify motor vehicles registered to the taxpayer but not declared on the CIS. Also check for ownership in business names.
Real Estate Records	• Identify real property titled to the taxpayer but not declared on the CIS. • Identify property held by transferee, nominee or alter ego. Also check for ownership in business names.
Credit Bureau Report	• Identify past residences and employers. • Verify competing lien holders, balances due and payment history. • Identify property not listed on CIS.

C. TAXPAYER SUBMITTED DOCUMENTS

1. Collection Information Statements (CIS) submitted with an Offer in Compromise should reflect information no older than the prior six months. If during the processing of the offer, the financial information becomes older than 12 months, contact should be made with the taxpayer to update the information. However, in certain situations information may become outdated due to significant processing delays caused by the Service, through no fault of the taxpayer. In those cases, it may be appropriate to rely on the outdated information if there is no indication the taxpayer's overall situation has significantly changed. Judgment should be exercised to determine whether, and to what extent, updated information is necessary. If there is any reason to believe the taxpayer's situation may have significantly changed, secure a new CIS.
2. The IRS guidance indicates that IRS employees are not allowed to make blanket requests for information. They are required to tailor the request to each taxpayer’s specific situation. They should not require the taxpayer to provide information that is available from IRS internal sources.
3. Offers Investigators may receive offers (other than those identified by the "Screen for Obvious Full Pay" process) where the taxpayers have not provided, either proof of payment for certain monthly expenses claimed in Section 9 of Form 433-A, or statements showing current real estate mortgage or motor vehicle loan balance. Often the taxpayers are not actually paying claimed expenses, or they are not allowable under offer program guidelines. For example, taxpayers frequently list their unallowable credit card bills under secured debt or other expenses. While a taxpayer may have a liability for a court ordered judgment that is senior to the Notice of Federal Tax Lien (NFTL), unless they are actually making payments on that liability it is not considered as an allowable monthly expense.
4. If taxpayers do not substantiate claimed expenses for Form 433-A categories of health care expenses, court ordered payments, child/dependent care, life insurance, other secured debt or other expenses, Offers Investigators will complete the Income/Expense Table (IET) assuming that the taxpayer is not making any payments for the particular unsubstantiated expense, except for health care. In those cases, refer to LEM 5.3.1.
5. When computing equity in real estate or allowable motor vehicles, and the taxpayer has not submitted substantiation of loan balances claimed on the Form 433-A, Offers Investigators should rely on credit report loan balance information to determine the current balances of any relevant loans from commercial lenders. If the loan is from a private source, it may be necessary to contact the taxpayer/representative for the information.
6. If not present in the file when assigned for investigation, appropriate documentation from the chart below should be requested to verify the information on the Collection Information Statement (CIS).

Taxpayer Documentation	Review
Wage Earner – wage statements for the prior 3-6 months. A statement with current year-to-date figures is also acceptable.	• Compare average earnings to the income declared on the CIS. • Verify adequate tax withholding. • Identify payroll deductions to ensure the expense is necessary and not claimed again on the CIS. • Identify deductions to savings accounts, credit union accounts or retirement accounts.
Self-employed – proof of gross income (invoices, accounts receivable, commission statements, etc.) for the prior three months.	• Compare average earnings to the income declared on the CIS. • Identify deductions to ensure the expense is necessary and not claimed again on the CIS.
Three (3) current months of bank statements that show the monthly transactions, withdrawals and deposits.	Compare deposit amounts to income reported on the tax return and CIS. Question deposits that exceed reported income and unusual expenses paid. Consider asking for the cancelled checks and deposit items for a specified time frame if questionable items cannot be adequately explained.
Retirement account statements and brochures, brokerage account statements, securities or other investments.	Identify the type, conditions for withdrawal and current market value.
Life insurance policies.	•Identify the type, conditions for borrowing or cancellation and the current loan and cash values. • Verify the amount of the required premiums and ensure payments are being made.
Motor vehicle purchase or lease contracts, statements from the lender indicating the payoff amount.	Verify equity and monthly payment expense.

Real estate warranty deeds, mortgage deeds, HUD closing statements, statements from the lender indicating the pay off amount.	Identify the type of ownership, amount of equity and monthly payment expense.
Homeowners or renters insurance policies and riders.	• Compare the insured value to the value declared on the CIS. • Identify high value personal items such as jewelry, antiques or artwork.
Financial statements recently provided to lending institutions or others.	Compare the financial information on the CIS to those submitted to other lending institutions.
Divorce court orders.	Verify disposition of assets in the property settlement.
Court orders for child support and proof of payment.	Verify responsibility for child support, that the payments are actually being made, and the length of time payments are required to be made.

D. EQUITY IN ASSETS

1. Proper asset valuation is essential to determine reasonable collection potential (RCP).
2. Field calls may be made to locate or personally ascertain the condition of assets.
3. Assets will not be eliminated or valued at zero dollars simply because the Service may choose not to take enforcement action against the asset, even though the net result is rejection of the offer and reporting the case currently not collectible.

E. NET REALIZABLE EQUITY

1. For offer purposes, assets are valued at net realizable equity (NRE). Net realizable equity is defined as quick sale value (QSV) less amounts owed to secured lien holders with priority over the federal tax lien.
2. Quick sale value (QSV) is defined as an estimate of the price a seller could get for the asset in a situation where financial pressures motivate the owner to sell in a short period of time, usually 90 calendar days or less. Generally, QSV is an amount less than fair market value (FMV) but greater than forced sale value (FSV). FSV is defined as no less than 75% of FMV.

3. Normally, quick sale value (QSV) is calculated at 80% of fair market value (FMV). A higher or lower percentage may be applied in determining QSV when appropriate, depending on the type of asset and/or current market conditions. If, based on the current market and area economic conditions it is believed that the property would quickly sell at full FMV, then it may be appropriate to consider QSV to be the same as FMV. This is occasionally found to be true in real estate markets where real estate is selling quickly at or above the listing price. As long as the value chosen represents a fair estimate of the price a seller could get for the asset in a situation where the asset must be sold quickly (usually 90 calendar days or less), then it would be appropriate to use of a percentage other than 80%. Generally, it is the policy of the Service to apply QSV in valuing property for offer purposes.
4. When a particular asset has been sold (or a sale is pending) in order to fund the offer, no reduction for quick sale value (QSV) should be made. Instead, verify the actual sale price, ensuring that the sale is an arm's length transaction, and use that amount as the QSV. A reduction may be made for the costs of the sale and the expected current year tax consequence to arrive at the net realizable equity (NRE) of the asset.

F. JOINTLY HELD ASSETS

When taxpayers submit separate offers but have jointly owned assets, allocate equity in the assets equally between the owners. However:

If…	Then…
The joint owners demonstrate their interest in the property is not equally divided	Allocate the equity based on each owner's contribution to the value of the asset.
The joint owners have joint and individual tax liabilities included in the offer investigation	Apply the equity first to the joint liability and then to the individual liability.

G. INCOME-PRODUCING ASSETS

1. When determining the reasonable collection potential (RCP) for an offer that includes business assets, an analysis is necessary to determine if certain assets are essential for the production of income. When it is determined that an asset or a portion of an asset is necessary for the production of income, it may be appropriate to adjust the income or expense calculation for that taxpayer to account for the loss of income stream if the asset was either liquidated or used as collateral to secure a loan to fund the offer.
2. When valuing income-producing assets:

If…	Then…
There is no equity in the assets	There is no adjustment necessary to the income stream.
There is equity and no available income stream (i.e., profit) produced by those assets	There is no adjustment necessary to the income stream. Consider including the equity in the asset in the RCP.
There are both equity in assets that are determined to be necessary for the production of income and an available income stream produced by those assets	•Compare the value of the income stream produced by the income producing asset(s) to the equity that is available. •Determine if an adjustment to income or expenses is appropriate.
An asset used in the production of income will be liquidated to help fund an offer	Adjusting the income to account for the loss of the asset.
A taxpayer borrows against an asset that is necessary for the production of income, and devotes the proceeds to the payment of the offer	Consider the effect that loan will have on future expenses and the future income stream.
The taxpayer is either unable or unwilling to secure a loan on the equity in income producing assets	Compare the equity in the assets with the income produced by those assets. Determine if an adjustment to the income stream is appropriate to account for the potential loss of the assets.

3. These considerations should be fully documented in the case history. For example:

If…	Then…
A self-employed construction tradesman sells a truck, which he used to haul materials, and devotes the proceeds to the offer	Consider allowing the expected cost of delivery services as a business expense.
A tradesman borrows against the truck instead of selling it and devotes the proceeds to the offer	Consider allowing the loan repayment as a business expense.
A loan cannot be secured and loss of the truck would create an economic hardship	When special circumstances warrant acceptance of less than RCP, document the circumstances and recommend acceptance to the authorized official in Delegation Order 11.
An outside salesman has a luxury car when all that is necessary is a moderate value sedan	The equity should be included in the offer. Consider allowing only a portion of the loan repayment that would be required to purchase a moderate value replacement vehicle.

An outside salesman has a luxury car but no ability to make installment payments for purchase of a moderate value replacement vehicle	The equity should be included in the offer. When special circumstances warrant acceptance of less than the RCP, document the circumstances and recommend acceptance to the authorized official in Delegation Order 11. Determine the acceptable amount of a special circumstances offer by allowing the taxpayer to retain only enough equity to purchase a moderate value replacement vehicle.
A business owns a vacation property, which is used for annual board meetings	The equity should be included in the offer. Do not allow any loan repayment.

H. ASSETS HELD BY OTHERS AS TRANSFEREES, NOMINEES OR ALTER EGOS

1. A critical part of the financial analysis is to determine what degree of control the taxpayer has over assets and income in the possession of others. This is especially true when the offer will be funded by a third party.
2. When these issues arise, apply the principles in IRM 5.17.1, Legal Reference Guide for Revenue Officers or request a counsel opinion.
3. It is not necessary to actually seek or obtain any specific legal remedy in order to address these issues in an offer.
4. If the taxpayer has a beneficial interest in the asset or income stream, then the value should be reflected in the reasonable collection potential (RCP).

I. CASH

1. Review checking account statements over a reasonable period of time, normally 3-6 months.

Note: Determine if there are funds in the account that are not spent on a monthly basis. Generally this would be the amount reflected on each month's statement when the account is at its lowest point. Treat overdrafts as a zero balance. This should represent the amount available in the account each month after all deposits and withdrawals. Average the lowest daily ending balance on each of the three statements and use this amount as the value of the account. This amount will be added to the Asset/Equity Table (AET) as an asset, however, it cannot be valued for less than zero.

2. Determine the taxpayer’s interest in bank accounts by ascertaining the manner in which they are held and applying the principles described in IRM 5.17.1, *Legal Reference Guide for Revenue Officers*.
3. If analysis of the bank statements and/or discussions with the taxpayer reveal that an adjustment to the balance is appropriate based on unusual expenses that are necessary for the production of income or the health and welfare of the taxpayer, consider adjusting the balance. The case file should clearly document these determinations.
4. Analyze the statement for any unusual activity, i.e., deposit in excess of reported income, withdrawals, transfers, or checks for expenses not reflected on the Collection Information Statement (CIS). The Offer Investigator should question these inconsistencies, as appropriate.

5. Review savings accounts statements over a reasonable period of time, normally three months.
   - If the account has little withdrawal activity, use the ending balance on the latest statement as the asset value for the AET.
   - If it is apparent that the account is used for paying monthly living expenses, treat it as a checking account and follow the instructions in paragraphs (1) through (4) above to determine its value.
6. If analysis of the bank statement reveals recently dissipated funds, see 5.8.5.4 for a full discussion of the treatment of dissipated assets.
7. If the taxpayer offers the balances of accounts to fund the offer, allow for any penalty for early withdrawal and the expected current year tax consequence.
8. Verify whether deposits in escrow or trust accounts are actually held for the benefit of others.
9. For funds on deposit with the Offer in Compromise, allow as an encumbrance any amount borrowed under the provision that, if the offer is not accepted, must be repaid.

J. SECURITIES

1. Financial securities are considered an asset and their value should be determined and included in the reasonable collection potential (RCP) when investigating an offer.
2. When the taxpayer will liquidate the investment to fund the offer, allow any penalty for early withdrawal and the current year tax consequence.
3. To determine the value of publicly traded stock, the bid price on the last traded price, or inquire with a broker for the current market price. Then, allow for the estimated costs of the sale to arrive at the quick sale value (QSV).
4. To determine the value of closely held stock that is either not traded publicly or for which there is no established market, consider the following methods of valuing the company and assign a proportion of the company's value to the taxpayer's stock:
   - Secure and verify a Collection Information Statement.
   - Review recent year's annual report to stockholders.
   - Review recent year's corporate income tax returns.
   - Request an appraisal of the business as a going concern by a qualified and impartial appraiser.
5. When a taxpayer holds only a negligible or token interest, has made no investment, and exercises no control over the corporate affairs, it is permissible to assign no value to the stock.

K. LIFE INSURANCE

1. Life insurance as an investment is not considered necessary. However, reasonable premiums for term life policies may be allowed as a necessary expense.
2. When determining the value in a taxpayer’s insurance policy, consider:

If…	Then…
The taxpayer will retain or sell the policy to help fund the offer	Equity is the cash surrender value.
The taxpayer will borrow on the policy to help fund the offer	Equity is the cash loan value less any prior policy loans or automatic premium loans required to keep the contract in force.

L. RETIREMENT OR PROFIT SHARING PLANS

1. Funds held in a retirement or profit sharing plan are considered an asset and must be valued for offer purposes.
2. Contributions to voluntary retirement plans are not a necessary expense. Review of the retirement plan document is generally necessary to determine the taxpayer's benefits and options under the plan.
3. When determining the value of a taxpayer's pension and profit sharing plans, consider:

If…	And…	Then…
The account is an Individual Retirement Account (IRA), 401(k) or Keogh Account	The taxpayer is not retired or close to retirement	Equity is the cash value less any expense for liquidating the account and early withdrawal penalty.
The account is an Individual Retirement Account (IRA), 401(k) or Keogh Account	The taxpayer is retired or close to retirement	Equity is the cash value less any expense for liquidating the account and early withdrawal penalty. The plan may be considered as income, if the income from the plan is necessary to provide for necessary living expenses.
The contribution to a retirement plan is required as a condition of employment	The taxpayer is able to withdraw funds from the account	Equity is the amount the taxpayer can withdraw less any expense associated with the withdrawal.
The contribution to an employer's plan is required as a condition of employment	The taxpayer is unable to withdraw funds from the account but is permitted to borrow on the plan	Equity is the available loan value.
The plan may not be borrowed on or liquidated until separation from employment	The taxpayer is retired, eligible to retire or close to retirement	Equity is the cash value less any expense for liquidating the account and early withdrawal penalty, or consider the plan as income, if the income from the plan is necessary to provide for necessary living expenses.

The plan may not be borrowed on or liquidated until separation from employment	The taxpayer is not eligible to retire until after the period for which we are calculating future income	The plan has no equity.
The plan includes a stock option	The taxpayer is eligible to take the option	Equity is the value of the stock at current market price less any expense to exercise the option.

4. When the taxpayer will liquidate the retirement plan to fund the offer, allow any penalty for early withdrawal and the current year tax consequence.

M. FURNITURE, FIXTURES, AND PERSONAL EFFECTS

1. The taxpayer's declared value of household goods is usually acceptable unless there are articles of extraordinary value, such as antiques, artwork, jewelry, or collector's items. Exercise discretion in determining whether the assets warrant personal inspection.
2. There is a statutory exemption from levy that applies to the taxpayer's furniture and personal effects. This exemption applies only to **individual** taxpayers. This exemption amount is updated on an annual basis.
3. When determining the value, consider the following:

If…	**Then…**
The taxpayer qualifies as head of household, single, or married	Grant a reduction in the value of personal effects for the levy exemption amount.
The property is owned jointly with any person who is not liable for the tax	Determine the value of the taxpayer’s proportionate share of property before allowing the levy exemption.
Some of the furniture or fixtures are used in a business	They are not personal effects, but they may qualify for the levy exemption as tools of a trade.

N. MOTOR VEHICLES, AIRPLANES AND BOATS

1. Equity in motor vehicles, airplanes, and boats must be determined and included in the reasonable collection potential (RCP). The general rule for determining net realizable equity (NRE), as discussed in IRM 5.8.5.3.1, applies when determining equity in these assets. Unusual assets, such as airplanes and boats, may require an appraisal to determine fair market value (FMV), unless the items can be located in a trade association guide. The case file should document how the values were determined.

2. Generally, it is not necessary to personally inspect automobiles used for personal transportation. When it appears reasonable, accept the taxpayers stated value. No further investigation is required except for vehicles that are three years old or newer with no lien. For these vehicles, consult a trade association guide and discount the Fair Market Value (FMV) to 80% to arrive at the quick sale value (QSV).

   Example:

   When investigating an offer in the year 2011, a 2009 model year is 3 years old or newer.

3. When these assets are used for business purposes they may be considered income producing assets. See IRM 5.8.5.3.3 for a full discussion on the treatment of income producing assets.

O. REAL ESTATE

1. Equity in real estate is included when calculating the taxpayer's reasonable collection potential (RCP) and in an acceptable offer amount.
2. When determining equity in real estate, the fair market value (FMV) of the property must be established. FMV is defined as the price a willing buyer will pay for the property, given time to obtain the best and highest possible price. The following methods may be used to establish FMV:
   - Recent purchase price or an existing contract to sell
   - Recent appraisals
   - Real estate tax assessment
   - Market comparable
   - Homeowners insurance replacement cost
3. Once the fair market value (FMV) of real estate is established, a determination regarding a reduction of value for offer purposes must be made. Procedures outlining reduction to quick sale value (QSV) are discussed in IRM 5.8.5.3.1. If the value of real estate is reduced beyond 80% or if FMV is not reduced to QSV, the case file should document the basis for the value used.
4. For real estate and other related property held as tenancies by the entirety, when the tax is owed by only one spouse, the taxpayer's portion is usually 50% of the property's net realizable equity (NRE).

P. ACCOUNTS AND NOTES RECEIVABLE

1. Accounts and notes receivable are considered assets unless a determination is made to treat them as part of the income stream when they are required for the production of income. When it is determined that liquidation of a receivable would be detrimental to the continued operation of an otherwise profitable business, it may be treated as future income.

2. To determine the value of accounts receivable:
   a. Consider discounting the value of accounts that are over 90 calendar days past due.
   b. When the receivables have been sold at a discount or pledged as collateral on a loan, apply the provisions of IRC 6323(c) to determine the lien priority of commercial transactions and financing agreements.
   c. Examine closely accounts of significant value that the taxpayer is not attempting to collect, or that are receivable from officers, stockholders or relatives.
3. To determine the value of a note receivable, consider the following:
   - Whether it is secured and if so by what asset(s).
   - What is collectible from the borrower.
   - If it could be successfully levied upon.

Q. INVENTORY, MACHINERY AND EQUIPMENT

1. Inventory, machinery and equipment may be considered income producing assets. See IRM 5.8.5.3.3 when it is determined that liquidation of these assets would be detrimental to the continued operation of an otherwise profitable business.
2. To determine the value of business assets use the following:
   - For assets commonly used in many businesses such as automobiles and trucks, the value may be easily determined by consulting trade association guides.
   - For specialized machinery and equipment suitable for only certain applications, consult a trade association guide, secure an appraisal from a knowledgeable and impartial dealer, or contact the manufacturer.
   - When the property is unique or difficult to value and no other resource will meet the need, follow local procedure to request the services of an IRS valuation engineer.
   - Consider asking the taxpayer to secure an appraisal from a qualified business appraiser.
3. There is a statutory exemption from levy that applies to an individual taxpayer's tools used in a trade or business. This exemption for tools of the trade generally does not apply to automobiles. The levy exemption amount is updated on an annual basis.

R. BUSINESS AS A GOING CONCERN

1. Evaluation of a business as a going concern is sometimes necessary when determining reasonable collection potential (RCP) of an operating business owned individually or by a corporation, partnership or LLC. This analysis recognizes that a business may be worth more than the sum of its parts when sold as a going concern.
2. To determine the value of a business as a going concern consider the value of assets, future income, and intangible assets such as:
   - Goodwill
   - Ability or reputation of a professional
   - Established customer base
   - Prominent location

- Well known trade name, trademark or telephone number
- Possession of government licenses, copyrights or patents

Generally, the difference between what an ongoing business would realize if sold on the open market as a going concern and the traditional reasonable collection potential (RCP) analysis is attributable to the value of these intangibles.

3. Request the assistance of an IRS valuation engineer when a difficult or complex valuation is necessary.
4. When determining RCP for an individual taxpayer who has an interest in a business entity, flexibility should be used with consideration given to the taxpayer's control over the business.

S. DISSIPATION OF ASSETS

1. During an offer investigation, it may be discovered that assets (liquid or non-liquid) have been sold, gifted, transferred or spent on non-priority items/debts and are no longer available to pay the tax liability. This section discusses treatment of the value of these assets when considering an Offer in Compromise.

Note: The scope of an offer investigation should not be expanded beyond the requirements defined in IRM 5.8.5.4 for the sole purpose of attempting to locate dissipated assets.

2. Once it is determined that a specific asset has been dissipated, the investigation should address whether the value of the asset, or a portion of the value, should be included in an acceptable offer amount.
3. Inclusion of the value of dissipated assets must clearly be justified in the case file. Justification should include an analysis of the following facts:
   - When the asset(s) were dissipated in relation to the offer submission,
   - How the asset was dissipated,
   - If the taxpayer realized any funds from the dissipation of assets,
   - How any funds realized from the dissipation of assets were used,
   - The value of dissipated assets and the taxpayer's interest in those assets.
4. When the taxpayer can show that assets have been dissipated to provide for necessary living expenses, these amounts should not be included in the reasonable collection potential (RCP) calculation.

   For example:
   - Dissolving an IRA account to pay for necessary living expenses during unemployment.
   - Using bank accounts to pay for medical expenses.
   - An asset that was dissipated and the funds were used to purchase another asset that is included in the offer evaluation.

5. If the investigation clearly reveals that assets have been dissipated with a disregard towards the outstanding tax liability, consider including the value in the reasonable collection potential (RCP) calculation.

   For example:

   - Dissolving an IRA account to pay unsecured credit card debt.
   - Sale of real estate and "gifting" the funds from the sale to family members.
   - A recent refinancing of equity in property and using the funds to pay unsecured debt.
6. If the taxpayer cannot or will not provide information showing the disposition of funds from dissipated assets, consider including a portion or all of these values in an acceptable offer amount.

T. FUTURE INCOME

1. Future income is defined as an estimate of the taxpayer's ability to pay based on an analysis of gross income, less necessary living expenses, for a specific number of months into the future. The number of months used depends on the payment terms of the offer.
   a. For cash offers – project for the next 48 months.
   b. For short term deferred offers – project for the next 60 months.
   c. For deferred payment offers – project for the number of months remaining on the statutory period for collection.
2. Detailed instructions for calculating future income are contained in IRM 5.8.5.5.4.
3. Consider the taxpayer's overall general situation including such facts as age, health, marital status, number and age of dependents, highest education or occupational training, and work experience.
4. Retired Debts: A taxpayer's ability to pay in the future may change during the period it is being considered because necessary expenses may increase or decrease. Adjust the amount or number of payments to be included in the future income calculation, based on the expected change in necessary expenses.

   Example:

   The taxpayer may pay off an auto loan 24 months from the date the offer is accepted. This would increase the monthly future income by the amount of the loan payment. Child support payments may stop before the future income period is complete because the child turns a certain age. It is expected that these retired payments would increase the taxpayer's ability to pay.

5. Some situations may warrant placing a different value on future income than current or past income indicates:

If…	Then…
Income will increase or decrease or current necessary expenses will increase or decrease	Adjust the amount or number of payments to what is expected during the appropriate number of months.
A taxpayer is temporarily unemployed or underemployed	Use the level of income expected if the taxpayer were fully employed.
A taxpayer has a sporadic employment history or fluctuating income	Average earnings over several prior years. Usually this is the prior 3 years.
A taxpayer is elderly, in poor health, or both and the ability to continue working is questionable	Adjust the amount or number of payments to the expected earnings during the appropriate number of months.
A taxpayer will file a petition for liquidating bankruptcy	Consider reducing the value of future income. The total value of future income should not be reduced to an amount less than what could be paid toward non-dischargeable periods, or what could be recovered through bankruptcy. When considering a reduction in future income, also consider the intangible value to the taxpayer of avoiding bankruptcy.

6. In some instances, a future income collateral agreement may be used in lieu of including the estimated value of future income in reasonable collection potential (RCP). When investigating an offer where current or past income does not provide an ability to accurately estimate future income, the use of a future income collateral agreement may provide a better means of calculating an acceptable offer amount. Future income collateral agreements should not be used to enable a taxpayer to submit an offer in a lesser amount than the current or past financial condition dictates. However, if the future is uncertain, but it is reasonably expected that the taxpayer will be receiving a substantial increase in income, it may be appropriate.

   Example:

   A taxpayer is currently in medical school and it is anticipated that upon graduation income should increase dramatically. See IRM 5.8.6.3.1 for instructions on completing collateral agreements.

U. ALLOWABLE EXPENSES

1. Allowable expenses as defined in IRM 5.15.1, Financial Analysis Handbook, are those expenses that are necessary for the production of income or for the health and welfare of the taxpayer's family. That handbook also contains national and local standard expense amounts designed to provide accuracy and consistency in determining a taxpayer's basic living expenses. The standards are updated periodically based upon Bureau of Labor Statistics and Census Bureau information.
2. National and local expense standards are guidelines. If it is determined that a standard amount is inadequate to provide for a specific taxpayer's basic living expenses, allow a deviation. Require the taxpayer to provide reasonable substantiation and document in the case file.

   Example:

   A taxpayer with a physical disability or an unusually large family requires a housing cost that is not anticipated by the local standard. Require the taxpayer to provide copies of mortgage or rent payments, utility bills and maintenance costs to verify the necessary amount.

3. Generally, the total number of persons allowed for national standard expenses should be the same as those allowed as dependents on the taxpayer's current year income tax return. There may be reasonable exceptions. Fully document the reasons for any exceptions.

   Example:

   Foster children or children for whom adoption is pending.

4. A deviation from the local standard is not allowed merely because it is inconvenient for the taxpayer to dispose of excessively valued assets. In some situations, taxpayers may be expected to make lifestyle choices that will facilitate collection of the delinquent tax.

V. CONDITIONAL EXPENSES

1. Conditional expenses are defined in IRM 5.15, Financial Analysis Handbook, as those that may be allowed when the tax will be paid in full by an installment agreement. For offer purposes, the full amount of the tax will not be collected; therefore, the rules for conditional expenses are different.
2. The one year rule which allows time for a taxpayer to adjust current expenses to meet the terms of an installment agreement is not allowed for Offers in Compromise.
3. The purchase of discretionary investments is not allowed.

   Example:

   Payroll savings plans, purchase of whole life policies, mutual funds or voluntary retirement plan contributions.

4. Repayment of loans incurred to fund the offer and secured by the taxpayers' assets are allowed when those assets are of reasonable value and necessary to provide for the health and welfare of the taxpayer's family. The same rule applies whether the equity is paid to tax before the offer is submitted or will be paid upon acceptance of the offer. See IRM 5.8.5.3.3, Income-Producing Assets, to determine when to allow repayment of loans on those assets used to fund the offer.
5. Repayment of student loans secured by the federal government is allowed only for the taxpayer's higher education. If student loans are owed but no payments are being made, do not allow them.
6. Education expense is allowed only for the taxpayer and only if it is required as a condition of present employment. Expenses for dependents to attend colleges, universities or private schools are not allowed unless the dependents have special needs that cannot be met by public schools.
7. Child support payments for natural children or legally adopted dependents may be allowed, based on the taxpayer's situation, even when they are not court ordered. Regardless of whether they are court ordered, if no child support payments are being made, do not allow them.
8. Monthly payments to state or local taxing agencies should not be allowed as a necessary expense, even if the state or local taxing agency has a lien that was choate prior to the IRS lien or is collecting funds via a wage attachment or approved installment agreement. State and federal lien (regardless of priority) attach simultaneously to after acquired property. In general, if the federal tax lien attaches to after acquired property simultaneously with a competing perfected lien, the federal tax lien will take priority (see Legal Reference Guide 5.17.2). Since future earnings of the taxpayer are after acquired property, the Service has first right to the earnings. Explain to the taxpayer that although the payment may be allowed in an installment agreement where the tax will be paid in full, it will not be allowed for computation of an acceptable offer amount because the Federal government has priority rights to the funds.

Note: State or local liens may enjoy a priority in fixed payment streams such as annuity payments. If necessary, consult with area counsel to determine lien priorities.

9. Charitable contributions are not allowed.
10. Payments being made to fund or re-pay loans from "voluntary" pension plans will not be allowed. Taxpayers who cannot repay these loans will have a tax consequence in the year that the loan is declared in default and that consequence should be estimated and allowed as an additional tax expense on the IET for the required number of months necessary to cover the additional tax consequence. Request the taxpayer or their representative estimate the tax ramification of the failure to re-pay the loan or the Offers Investigator may request assistance from the Examination function or Customer Service to determine the tax consequences.

W. SHARED EXPENSES

1. This situation can happen one of two ways:
   a. Separate offers are submitted by two or more persons who owe joint liabilities and/or separate liabilities and who share the same household.
   b. An offer is submitted by a taxpayer who shares living expenses with a not liable person.
2. Generally, the assets and income of a not liable person are excluded from the computation of the taxpayer's ability to pay. One notable exception is in community property states. Follow the community property laws in these states to determine what assets and income of the otherwise not liable person are subject to collection of the tax.
3. Regardless of community property laws, the Offers Investigator should secure sufficient information concerning the not liable person to determine the taxpayer's proportionate share of the total household income and expenses. Review the entire household's information and:
   a. Determine the total actual household income and expense.
   b. Determine what percentage of the total household income the taxpayer contributes.
   c. Determine necessary and allowable expense amounts using the rules in this chapter and IRM 5.15, Financial Analysis Handbook.
   d. Determine which expenses are shared and which expenses are the sole responsibility of the taxpayer.
   e. Apply the taxpayer's percentage of income to the shared expenses.
   f. Verify that the taxpayer actually contributes at least this amount to the total household expense.
   g. Do not allow the taxpayer any amount paid toward a not liable person's discretionary expenses.
4. When the taxpayer can provide documentation that income is not commingled (as in the case of roommates who share housing) and responsibility for household expenses are divided equitably between co-habitants (as documented by rental agreements, bank statement analysis, etc.), the total allowable expense should not exceed the total allowable housing standard for the taxpayer. In this situation, it would not be necessary to obtain the income information of the non-liable person(s), however, sufficient financial information must be secured to verify the total household expenses and prove that the taxpayer is paying his/her proportionate share. The investigating employees should exercise sound judgment in these situations to determine which approach is most appropriate, based on the facts of each case.

Note: In the situation where the taxpayer is renting an apartment or room and the owner of the property is the non-liable person, the rental agreement or signed statement from the owner of the property should support the decision to not require the owner to divulge any personal information regarding income or household expenses. In these cases, the investigating employee should accept the information provided by the taxpayer and make a determination based on that information.

If an in-house verification is conducted on the non-liable person, this information cannot be relayed to the taxpayer. This is not an Unauthorized Access (UNAX) violation, but would be considered disclosure if any information is shared with someone other than the non-liable person in question.

X. CALCULATION OF FUTURE INCOME

1. Generally, the amount to be collected from future income is calculated by taking the projected gross monthly income less allowable expenses and multiplying the difference times the number of months remaining on the statutory period for collection.
2. For cash and short term deferred offers, when there are less than 48 or 60 months remaining on the statutory period for collection, use the number of months remaining. To determine the amount collectible from future income on a deferred payment offer through the life of the statutory period for collection, take the following steps:
    a. Subtract allowable expenses from the monthly income to determine the monthly installment amount.
    b. Determine the valid collection statute expiration date (CSED) for each tax period included in the offer.
    c. Sort the tax periods by earliest CSED.
    d. For each tax period, determine the number of months remaining on the statutory period for collection. Begin with the day the offer was determined to be processable and end on the CSED. Round partial months up to the nearest whole month.
    e. For each tax period, determine the number of installments that may be applied before running out available funds. Round partial payments up to the nearest whole payment.
    f. Calculate the number of installments applied to each period. For succeeding periods, do not count months on the CSED that were used for applying installments to prior periods.

    Caution: If the allowed payment terms call for the first installment to begin later than 30 calendar days from acceptance, there will be one less month available to apply payments.

    g. Add the number of installments applied to all the periods and multiply the sum by the monthly installment amount to arrive at the total amount collectible from future income. For examples of situations where the amount that may be applied to a period is limited, see Exhibits 1-1 through 1-3.

Y. PAYMENT TERMS

1. Payment terms are negotiable, but should provide for payment of the offered amount in the least time possible. If a taxpayer is planning to sell asset(s) to fund all or a portion of the offer, the payment terms for the offer should provide for immediate payment of the amounts received from the sale. If the taxpayer is planning to borrow a portion of the money, the Offers Investigator should determine when the loan will be received and the payment terms of the offer

should provide for payment of the borrowed portion at the time the funds are received.

2. For those taxpayers who agree to shorter payment terms, fewer months of future income is required:

Payment Type	Payment Terms	Number of Months Future Income Required
Cash	Within 90 calendar days	48
Short Term Deferred	Within 2 years	60
Deferred Payment	Within time remaining on the statute	Number of months remaining on the statute

3. There are three possibilities for deferred payment terms:
   a. Payment of an amount equal to the net realizable equity (NRE) in assets within 90 calendar days and payment of the future income amount by monthly installments over the time remaining on the statutory period for collection, or
   b. Payment of a portion of the net realizable equity (NRE) in assets within 90 calendar days and payment of the balance of the equity in assets and the future income amount by monthly installments over the time remaining on the statutory period for collection, or
   c. Payment of the entire compromise amount by monthly installments over the time remaining on the statutory period for collection.

Note: A third party source of funds may be required to make the portion of the monthly payment that is greater than is determined the taxpayer can afford from future income.

Exhibit 1-1. Deferred Payments Limited by Short Statute

For example, the taxpayer has accrued the following tax liability:

MFT-Period	CSED	Liability
30-9312	07/20/2005	$29,000
30-9412	07/20/2005	$61,000
30-9512	09/27/2006	$ 8,900
30-9612	09/20/2007	$ 7,400

The offer was determined processable on May 31, 1999. The taxpayer has no equity in assets and can pay $300 per month.

MFT-Period	Months on the statute	Installments Due	Installments Applied
30-9312	74	96	74
30-9412	74	203	0
30-9512	87	29	14
30-9612	99	24	12
Total			100

The amount collectible from future income is: $300 times 100 months = $30,000.

Exhibit 1-2. <u>Deferred Payments Limited by Small Amount Due</u>

For example the taxpayer accrued the following liability:

MFT-Period	CSED	Liability
30-8912	07/20/2000	$100,000
30-9512	09/27/2006	$ 1,200
30-9612	09/20/2007	$ 600

The offer was determined processable on May 31, 1999. The taxpayer has no equity in assets and can pay $300 per month.

MFT-Period	Months on the statute	Installments Due	Installments Applied
30-8912	14	333	14
30-9512	87	4	4
30-9612	99	2	2
Total			20

The amount collectible from future income is $300 times 20 months = $6,000.

Exhibit 1-3. <u>Deferred Payments Limited by Application of Payment From Equity in Assets</u>

For example the taxpayer accrued the following liability:

MFT-Period	CSED	Liability
30-8912	07/20/2000	$30,000
30-9512	09/27/2006	$ 1,200
30-9612	09/20/2007	$ 600

The offer was determined processable on May 31, 1999. The taxpayer has $30,000 equity in assets which he will pay within 90 calendar days and can pay $300 per month which he will begin paying within 30 calendar days.

MFT-Period	Months on the statute	Installments Due	Installments Applied
30-8912	13	0	0
30-9512	87	4	4
30-9612	99	2	2
Total			6

After applying the $30,000 payment for the equity in assets, the amount collectible from future income is $300 times 6 months = $1,800. Reasonable collection potential is $31,800.

V. <u>Collateral Agreements</u>

A collateral agreement enables the government to collect funds in addition to the amount actually secured by the offer or to add additional terms not included in the standard Form 656 agreement, thereby recouping part or all of the difference between the amount of the offer or additional terms of the offer and the liability compromised.

A. CO-OBLIGOR AGREEMENTS

1. When a compromise is accepted from one party to a joint liability, the other party is not released from their several liability. Secure a co-obligor agreement from the taxpayer submitting the offer to clarify the effect of the compromise on the obligations of the other parties.

Note: Trust Fund Recovery Penalty assessments are not joint liability assessments and do not require a co-obligor agreement.

If…	Then…
The taxpayer lives in a state where acceptance of an Offer in Compromise from one party to a joint assessment also releases the other party	Secure the common law co-obligor agreement. (See Exhibit 1-5.)
The taxpayer lives in a state where the right is expressly reserved to proceed against the other taxpayer who is not a party to the compromise	Secure the non-common law co-obligor agreement. (See Exhibit 1-6.)
The taxpayer lives in a state where acceptance of an Offer in Compromise from one party to a joint assessment also releases the other party up to the amount of their proportionate share of the liability	There is no co-obligor agreement available for this case. An acceptable offer should include the reasonable collection potential (RCP) of all the obligors. When it is impossible to investigate all the obligors, there is a risk that the full collection potential will not be collected. Such an offer must meet the criteria for acceptance on the basis of Doubt as to Collectibility with Special Circumstances (DCSC) or Effective Tax Administration (ETA).
Both parties have submitted separate offers which are recommended for acceptance	If appropriate, the parties may submit a joint offer to eliminate the need for co-obligor agreements. Otherwise, secure a co-obligor agreement from each taxpayer.

2. A co-obligor agreement is not warranted in the following instances:
    a. In a proportionate liability state, when the offer amount is equal to or exceeds the non compromising taxpayer's proportionate liability.

b. No possibility exists for collecting from the other obligors.
c. Under state law, no specific reservation of collection rights is required to protect the ability to collect from co-obligors.

B. OTHER COLLATERAL AGREEMENTS

1. Other collateral agreements may be appropriate in certain circumstances. Because all other collateral agreements must be monitored for compliance, they should only be secured when a significant recovery is anticipated. Securing a collateral agreement should be the exception and not the rule.
2. Do not use a collateral agreement to accept an offer amount less than the taxpayer's financial condition indicates.
3. In lieu of a collateral agreement, the taxpayer may increase the amount of the offer equivalent to what the government could reasonably expect to recover from the collateral agreement.
4. A collateral agreement may be appropriate in the following situations:

If the taxpayer…	Then consider securing a…
Anticipates a substantial increase in future income	Future income collateral agreement.
Is compromising the income tax liability of a defunct professional corporation	Future income collateral agreement from the professional to collect from future individual income.
Has real or personal property that is being depreciated	Collateral agreement to reduce the basis of the asset.
Has net operating losses or capital losses arising from prior years available for deduction in future years	A collateral agreement to waive the loss.
Is seeking to compromise a Trust Fund Recovery Penalty (TFRP) and qualifies to take a capital loss benefit from the defunct corporation on the Form 1040	A collateral agreement from the individual taxpayer to waive the capital loss.

C. FUTURE INCOME

1. It is appropriate to consider future collateral agreements for both individuals and corporations when the investigation reveals that a substantial increase in the taxpayer's future income is expected.
2. The use of a future income collateral agreement may be an option when attempting to determine a taxpayer's future income for reasonable collection potential (RCP) purposes. When investigating an offer where the taxpayer's past income does not provide an accurate analysis for what may be earned in the future, the use of a future income collateral agreement (FICA) may be a better option.

Example:

1) *The taxpayer is an engineer, but is currently employed as a salesman earning less than half of his prior salary due to difficulty he has had in obtaining a job in the engineering field at the present time, or*
2) *The taxpayer is a student and is expected to graduate soon and begin earning a significant annual income.*

3. The period of time a future income collateral agreement should cover will be determined by the circumstances identified in the offer investigation based on the taxpayer's financial situation. Generally the period of time the agreement covers should coincide with the future compliance provision.

Example:

- *If the offer terms are for cash payment (paid within 90 days of acceptance) the future income collateral agreement should generally run for a five year period.*
- *If the offer terms are based on deferred payments calculated through the collection statute periods, the future income collateral should generally run through the last full year before the statutory period for collection expires.*
- *The offer file should document the basis for the time frame used for each collateral agreement.*

4. Use the Form 2261 for individual taxpayers or the Form 2261–A for corporate taxpayers. The beginning year is defined as the year following acceptance of the offer. The ending year is defined as the last year for which the collateral agreement will remain in effect. The beginning dollar amount is negotiable but generally should be the amount determined necessary to meet living expenses during the term of the offer. In determining the beginning dollar amount the expected rate of inflation during the term of the agreement should be considered, as well as any additional expenses such as those for an expected additional child or a replacement auto.
5. Offers with future income collateral agreements must be approved by a second level manager. The Territory manager for the field and Department manager for COIC will indicate approval by signing the Form 7249 and the acceptance letter. The Form 2261 may be signed by the authorized official in Delegation Order 42.
6. Do not secure a future income collateral agreement:
    - To collect future income that should be included in the offer amount.
    - Merely on unfounded speculation about an increase in income.
    - To cover statistically improbable events, such as lottery winnings.
    - To attempt collection from a potential inheritance.

Example:

Do not secure a future income collateral agreement when the investigation reveals that the taxpayer is the only child of wealthy parents, and the surviving parent is well advanced in years and in poor health.

7. Future income collateral agreements must be monitored annually for the life of the agreement. The cost of monitoring and the difficulty in tracing income structured through other entities should be considered when deciding whether such an agreement is warranted.

D. ADJUSTED BASIS OF SPECIFIC ASSETS

1. The initial basis of an asset is equal to the cost of acquiring it. Adjustments to the basis are made each year for the cost of improvements and accumulated depreciation. When an asset is sold, the basis is used to determine the amount of capital gain to be taxed.
2. A collateral agreement may be used to reduce the basis after accumulated depreciation, or book value, of a specific asset to a lesser amount or zero. This will have two effects. It will limit or eliminate the amount of deprecation deduction allowed in future years and it will cause a higher capital gain tax to be paid if the asset is later sold for an amount more than the adjusted basis.
3. Use the Form 2261-B. The beginning year is defined as the year after the last filed tax return. Insert the year of the last filed tax return in the phrase "for all taxable years beginning after." Specifically describe each asset. Set the amount of the basis at the reduced or zero value.
4. Adjusted basis collateral agreements must be monitored annually until the asset is ultimately disposed of all value. Consider the cost to monitor the agreement and the difficulty in tracing the sale or exchange of the property when deciding whether such an agreement is warranted.

E. WAIVER OF LOSSES

1. Use the Form 2261-C. The beginning year is defined as the next year after the last filed tax return. Insert the year of the last filed tax return in the phrase "for all taxable years beginning after." Waive net operating losses and capital losses arising from all years prior to and including the last filed tax return.
2. Do not prohibit the deduction of losses that arise in years after the offer is accepted.
3. The waiver of investment credits is obsolete.
4. Waiver of losses collateral agreements must be monitored annually until all the losses are extinguished, potentially for decades. Consider the cost to monitor the agreement and potential for recovery of future tax liabilities when deciding whether such an agreement is warranted.
5. A waiver of losses collateral agreement may be secured to partially waive a loss, if the facts of the case support this determination.

F. NET OPERATING LOSS

1. Net operating loss (NOL) is a loss incurred when expenses exceed the income of a business.
    - The taxpayer must declare the loss on his tax return the year in which the loss is incurred.
    - The loss will be declared on a Schedule E and may be offset against any "other income" on the tax return.

Note: Not all income qualifies to be offset.

- Generally, losses may be carried back no more than three years and forward no more than twelve years or until all the loss is offset against taxable income.
- If the taxpayer wishes to carry the loss forward the taxpayer must elect to do so in the tax year the loss was incurred.
- If the taxpayer has not taken the loss on the tax return for the year in which the loss occurred and the statute of limitations for assessment has passed for that tax year, the taxpayer is no longer entitled to the loss.

2. When the taxpayer has claimed a net operating loss (NOL), determine and verify the exact origin and amount of the loss. If a taxpayer has been associated with more than one business, there may be multiple losses.

When…	**Then…**
Calculating the remainder of the NOL	The loss can be located on the "other income" line on the Form 1040 and should be labeled as Net Operating Loss.
	1. Determine the original loss amount claimed on the tax return.
	2. Subtract any carry backs (up to three years back from the tax year the NOL was established).
	3. Subtract the amounts claimed on subsequent tax returns from the year the NOL was established.

G. CAPITAL LOSS

1. Capital loss is one in which the taxpayer experiences a loss associated with such investments as land, stock, paid in capital, or loans from shareholders. This loss is:
    - Found on a Schedule D,
    - Only offset against income or capital gain in the year in which it is incurred and the remainder carried forward at a limit of $3,000 per year against other income, or
    - Offset against a capital gain in total.

Example:

A taxpayer has a $100,000 loss and a $40,000 gain. The taxpayer may offset $40,000 against the gain and an additional $3,000 loss against other income leaving a $57,000 loss that may be carried forward in future years.

- Individuals may deduct $3,000 each year until the loss is extinguished with no limit on the number of years. Corporations are limited to 10 years.

2. When the taxpayer claims a capital loss, determine and verify the exact origin and amount of the loss.

If…	Then…
The loss is derived from personal investment	The investment can be either loans to the corporation or the individual's capital investment in the corporation. • Verify loans through copies of checks or general journal entries that establish the loan and track repayment. • Verify capital investment through canceled checks or other documents which support the amount of the original loan.
Determining the remaining amount of the loss once you have determined the origin	Trace the loss forward through the tax return copy or RTVUE.*

*RTVUE is an ultra-high speed, high resolution OCT retina scanner used for retina imaging and analysis. RTVUE provides access to the line items transcribed from Forms 1040, 1040A, or 1040EZ, and their accompanying schedules and/or forms as the returns are processed at the service center for returns filed in 1991 and subsequent.

H. PASSIVE LOSS

1. Passive activity loss is one that involves the conduct of any trade or business in which the taxpayer does not materially participate. This loss should not be confused with net operating loss.
   - Any rental activity is a passive activity even if the taxpayer does materially participate.
   - Losses from a passive activity generally cannot be deducted from other types of income (e.g., wages, interest, or dividends).
   - The amount of the taxpayer's allowable loss is subject to the "at-risk" rules. Generally losses are limited to the amount of the taxpayer's cash contribution, adjusted basis of other property which contributes to the activity, and amounts borrowed for use in the activity if the taxpayer has personal liability for the borrowed amounts.
2. Because passive losses are not deducted from earned income, waiving them may have little or no effect. One option is to reduce the basis of the property to zero so that the taxpayer cannot carry the loss over to the tax year in which the property is sold and receive benefit of the loss against a capital gain at that time.

I. MULTIPLE AGREEMENTS

1. When related taxpayers submit more than one offer to compromise different tax liabilities, secure only one collateral agreement. Describe on the collateral agreement all the offers to which it relates.
2. When more than one type of collateral agreement is secured for the same offer, the terms of all the agreements may be incorporated into one Form 2261 or Form 2261-A. The appropriate language may be found on the Forms 2261-B or 2261-C.

Type of Agreement…	Statement…
Adjusted Basis of Assets	″For the purpose of computing income taxes of the taxpayer for all years beginning after ___, the basis for certain assets, under existing law for computing depreciation and the gain or loss upon sale, exchange or other disposition shall be as follows: Name of asset _____ Dollar amount ______ That in no event shall the basis set forth above be in excess of the basis that would otherwise be allowable for tax purposes, except for this agreement.″
Waiver of Net Operating Loss	″For the purpose of computing income taxes of the taxpayer for all years beginning after ___, any net operating losses sustained for the years before __shall not be claimed as net operating loss deductions under the provisions of Section 172 of the Internal Revenue Code.″
Waiver of Capital Losses	″For the purpose of computing income taxes of the taxpayer for all years beginning after ___, any net capital losses sustained for the years before __ shall not be claimed as carryovers or carrybacks under the provisions of Section 172 of the Internal Revenue Code.″

3. If there is insufficient space on the form to insert all the necessary paragraphs simply type the paragraph numbers followed by "See Attached" and fasten a separate sheet containing the added provisions.

J. WAIVER OF REFUNDS

1. Form 656 contains a term which waives refunds and overpayments for all tax years through the year the Offer in Compromise is accepted. This waiver is a standard term, which cannot be altered.
2. When accepting an offer based on doubt as to liability or under the basis of effective tax administration (ETA) based on public policy/equity considerations, the waiver of refunds is not applicable.
3. In order to remove the waiver of refund provision for these types of offers, both the taxpayer and the investigating employee must sign an agreement and include it with the accepted Offer in Compromise. See Exhibit 1-7.

Exhibit 1-4. <u>Co-obligor Agreement Common Law States Pattern Letter P–229 (Rev. 6-90)</u>

Collateral Agreement —Taxpayer Involved in Joint Assessment
(For Use in States Where Common Law Rule Applies)

To: Commissioner of Internal Revenue:

I submitted an offer dated (date) in the amount of $(amount) to compromise unpaid (Kind of tax) tax, plus statutory additions, for the tax period(s) (date(s)).
The purpose of this letter is to amend that offer by adding the following provisions:
The (a) liability, which is the subject of this proposed agreement, is the joint and individual responsibility of myself and my co-obligor(s). I agree to pay the United States $(amount). The United States agrees, in turn, not to:
(1) sue the undersigned for the difference between the amount of the Offer in Compromise and the amount of the liability, or
(2) collect the difference from assets of the undersigned by levy or any other means. If this proposal is accepted, it does not mean that the liability or any part of the liability is settled for myself or the co-obligor(s). The United States still reserves all its rights to collect the liability from the co-obligors.

Taxpayer's Signature

Date

Exhibit 1-5. <u>Co-obligor Agreement Other States Pattern Letter P–230 (Rev. 6-90)</u>

Collateral Agreement — Taxpayer Involved in Joint Assessment
(For Use in States Where Statutes Expressly Reserve Right to Proceed Against Co-obligor)

To: Commissioner of Internal Revenue

I submitted an offer dated (date) in the amount of $(amount), to compromise unpaid (kind of tax) tax, plus statutory additions, for the tax periods (dates).
The purpose of this letter is to amend and clarify that offer by adding the following provision:
Although the liability sought to be compromised is the joint and individual liability of myself and my co-obligors, I am submitting this offer to compromise my individual liability only. If this offer is accepted, it does not release or discharge my co-obligor(s) from liability. The United States still reserves all rights of collection against co-obligors.

Taxpayer's Signature

Date

Exhibit 1-6. Collateral Agreement – Modification of Waiver Provisions of Compromise Agreement

Collateral Agreement — Modification of Waiver Provisions of Compromise Agreement (For Use when offer is being accepted under Detriment to Voluntary Compliance only)

To: Commissioner of Internal Revenue

I submitted an offer dated (date) in the amount of $(amount), to compromise unpaid (kind of tax) tax, plus statutory additions, for the tax periods (dates).
The purpose of this letter is to modify that offer by stating that Items 8(g) and (h) of the agreement, Form 656, governing refunds and overpayments, will not apply to this offer. Acceptance of this offer will in no way alter my rights to refunds of overpayment or my ability to designate an overpayment to estimated tax payments for the following year:

____
Taxpayer's Signature

Date

I accept this modification on behalf of the Internal Revenue Service:
Signature of delegated official — Date

____

Exhibit 1-7. Form 2261-C, Collateral Agreement Waiver of Net Operating Losses, Capital Losses and Unused Investment Credits

This is to help you with the completion of Form 2261-C.

1 — Name and Address of Taxpayer : This must be the same as the name on address that show on the Offer Form 656	7 — Line item 1-first space Earliest loss years which could be carried forward to the year of acceptance
2 — Social Security and Employer Identification Number: Both need to be shown	8 — Line item 1-second space Year offer is to be accepted
3 — In the body of the form- an offer dated: Date the taxpayer signed the offer. If Amended then the date the taxpayer signed the offer being accepted.	9 — Line item 2-space Year following acceptance of the offer
4 — In the body of the form-$ amount This is the amount of the offer in Item 7. If Amended then the amount of the offer being accepted.	10 — Line item 3-first space Earliest year of unused investment credit which could be carried forward to the year of acceptance
5 — In the body of the form-Type of tax and taxable periods Liability identified as to the kind of tax with each year or period involved exactly stated.	11 — Line item 3-second space Year offer is to be accepted
6 — In the body of the form-beginning after ___ Ending date of taxable year preceding the year of acceptance	12 — Signature and Title line Waiver of statute of limitations should be signed at the earliest possible date by the investigation employee

VI. <u>Possible Actions on Accepted Offers</u>

During the time an accepted offer is monitored, a determination to terminate or rescind an existing compromise agreement may need to be made. A determination whether to compromise an existing accepted offer may also be considered. This section addresses the situations which lead to the need for such decisions to be made and the procedures to follow.

A. RESCISSION OF ACCEPTED OFFERS

1. An offer is an agreement which is binding and conclusive on both the government and the proponent, and precludes further inquiry into the matters to which it relates unless fraud or a mutual mistake is identified.
2. An offer may be rescinded or set aside when there was a mutual mistake as it relates to a material fact or a false representation that was made by one party.
3. A "mutual mistake" is defined as an erroneous belief held by both parties about the facts as they exist at the time the contract was entered into. The law in existence at the time of the making of the contract is part of the total state of facts at the time. The parties' mutual mistake with respect to the law, as found in statute, regulations, judicial decisions, or elsewhere, may render the compromise subject to rescission.
4. The mere fact that both parties are mistaken with respect to the same basic assumption about an existing fact, does not, of itself, provide reason for the affected party to void the contract. Rescission is only appropriate where a mistake of both parties has such a material affect on the agreed exchange of performance that it upsets the very basis of the Offer in Compromise.
5. To constitute fraud or false representation, the following must be present:
    a. It must appear that the representations related to material facts were false.
    b. The maker knew the facts to be false.
    c. The facts were made for the purpose of inducing, and did induce the other party to make the contract, and that the latter had the right to rely on them, and did rely on them, thereby sustaining injury.
6. If the offer was accepted by Appeals, the offer should be sent to the appropriate Appeals office to make the determination that the offer should be rescinded.

B. RESCISSION PROCEDURES

1. Rescind an offer in the following manner:
    a. Prepare a letter to the taxpayer identifying the offer by the day it was accepted, and advising that the acceptance of the offer is rescinded and the acceptance letter is revoked.
    b. Include in the letter the grounds for rescission in general terms with a demand for payment of the unpaid tax liability.
    c. All rescission determinations must be reviewed and approved by counsel before a rescission letter is forwarded to the taxpayer.
    d. Document the basis for the decision to rescind and any taxpayer contact on Automated Offer in Compromise (AOIC).
    e. The letter will be signed by the same level of approval that accepted the offer.

C. POTENTIAL DEFAULT CASES

1. An offer can reach a potential default status in one of three ways:
   a. The taxpayer failed to make timely payment of the amount due based on the terms of the offer or a related collateral agreement.
   b. The taxpayer has not adhered to the compliance provisions of the compromise.

      Note: Offers accepted after December 31, 1999 contain a clause relating to the severability of joint offer periods when a joint Form 656 is accepted. The severability clause will be applied to all joint offers, including those accepted prior to 1/1/2000.

   c. The taxpayer failed to return an erroneously issued refund.
2. Campus Monitoring Offer in Compromise (MOIC) units have responsibility and authority to make determinations on potential offer default cases. IRM 5.19.7.3 provides procedures for the MOIC unit employees on potential offer default cases.
3. The MOIC unit will make an attempt to secure compliance. If the taxpayer fails to comply with any requests for delinquent returns and/or payment, the MOIC unit will default the offer. After all appropriate letters have been sent, generate a DEL RET or BAL DUE account, as appropriate and close the case as a default.

D. COMPROMISE OF A COMPROMISE

1. The compromise of a compromise should be rare in light of the investigation completed in connection with the original offer. However, in cases where the taxpayer is unable to pay the balance of an accepted offer and/or the balance of the contingent liability under the terms of a collateral agreement and the investigation reveals that extreme hardship or special circumstances exist that would justify that a default is not in the best interest of the government, the Service has the option to:
   a. Adjust the payment terms of the offer,
   b. Formally compromise the existing compromise, or
   c. Obtain managerial approval to settle the offer for the amount already paid and not default the offer.

E. AUTHORITY TO COMPROMISE UNDER A COMPROMISE CONTRACT

1. The Commissioner is authorized to accept an offer of an accepted offer.
2. A proposal to compromise the balance of an accepted offer must rest on Doubt as to Collectibility (DATC).

F. RECEIPT AND PROCESSING

1. The office of jurisdiction that initially accepted the offer will consider the taxpayer's proposal.
2. No offer form (such as Form 656) is prescribed for use in submitting such a proposal. The proposal should be made in letter format. Upon receipt of the proposal, add a history entry to AOIC indicating that an offer on the offer has

been received and notify the Monitoring Offer in Compromise (MOIC) unit that the offer should not be defaulted until the results of the investigation are known.

Note: For Integrated Collection System (ICS), create an Operating Interest (OI) or Coordinated Issue Paper (CIP) to control the taxpayer's proposal. When closing, be sure to note the results in the AOIC history.

3. The total amount offered to satisfy the balance due under a compromise contract must be fully paid no later than 10 calendar days after a notice of acceptance is issued. The taxpayer may:
    a. Enclose full payment of the proposed amount with the proposal.
    b. Pay part of the proposed amount with the proposal and pay the balance when notice of acceptance is received.
    c. Full pay the proposed amount within 10 calendar days of the date the notice of acceptance is received.
4. The proposal letter should be addressed to the Commissioner of Internal Revenue Service and must conform to pattern Letter 1603(P) as printed in Exhibit 1-7.
5. The taxpayer must submit a current financial statement(s) and all required supporting documentation.

G. CONSIDERATION OF PROPOSAL

1. The consideration of such a proposal will be made by the office of jurisdiction that originally accepted the offer. Acceptance will depend on:
    a. If it is in the best interest of the Government; and
    b. If the same considerations and merits were applied as if it were submitted on a Form 656.
2. The information required to support the proposal should fit the case, such as:
    - Copy of taxpayer's most recent income tax return or Command Code (CC) RTVUE/BRTVU print.
    - Estimate of the remaining liability under the terms of the future income collateral agreement, if applicable.
    - Reasons why the request is being made to compromise the existing agreement.
    - Full compliance check.
    - Statement of current financial condition.
    - Description of future prospects and any other information which might have a bearing upon the acceptability of the offer.
    - Estimated and projected amount of future income over the period covered by the remaining terms of the original Offer in Compromise agreement.
3. Compare the amount of the taxpayer's offer and the amount which is anticipated to be recouped under the remaining terms of the original offer agreement.

H. PROCESSING COMPLETED INVESTIGATIONS

1. When the investigation is complete, the taxpayer's proposal, investigative report, and memorandum containing a complete statement of the facts in the case including the recommendation should be forwarded to the next level of authority for approval.

2. An acceptance or denial letter should be prepared for the delegated official. (See Exhibits 1-9 and 1-10.)

If…	**Then…**
The taxpayer's proposal is acceptable	The procedures for acceptance of original offers will be followed which include an opinion of counsel as set forth in IRM 5.8.8.
The offer is accepted	The acceptance file will contain the following: •Copy of Acceptance Letter •Taxpayer's proposal •Memorandum supporting the compromise of a compromise •Work papers and financial information •Original acceptance recommendation, if available.
The proposal is **not** acceptable	Forward to the delegated official for approval and signature. Include: •Denial Letter (return without appeals) •Taxpayer's proposal •Memorandum supporting the examiners recommendation •Offer case file **Note:** No appeal rights are granted to the taxpayer.

3. Update the AOIC history with the results of the investigation. If the proposal is accepted, include in the AOIC history the amount of the accepted proposal and the terms for payment.
4. Once the decision letter has been signed and mailed, the Other Investigation (OI) or CIP should be closed. There is no open AOIC record. The closed file should be mailed to the appropriate Monitoring Offer in Compromise (MOIC) unit for monitoring, if accepted, or defaulting if it was not accepted.

I. OVERLOOKED PERIODS

1. Occasionally additional periods or years are discovered subsequent to the acceptance of an offer. When such liabilities are discovered, the offer agreement may be modified to include the additional period(s) as long as both the Service and the taxpayer are in agreement. The tax must have been assessed prior to the issuance of the notice of acceptance. Such modification would not require a determination of "mutual mistake of material fact."
2. If the overlooked periods are discovered by the local office, then they should secure the original offer file and have the taxpayer add the omitted period(s) to the original offer. A pen and ink change should be made to the Form 7249 including the additional period(s). The appropriate officials must then initial the recommended changes to the Form 7249. The AOIC history must be

documented indicating the period(s) added. The case file must then be returned to the Monitoring Offers in Compromise (MOIC) unit.

3. If the overlooked periods are discovered by the Monitoring Offer in Compromise (MOIC) unit, then they should send the file back to the original appropriate Area office or COIC site for consideration of whether to include the periods, per (2) above.

Exhibit 1-8. <u>Pattern Letter 1603(P)</u>

Proposal letter to compromise balance due on Offer in Compromise and/or to compromise future income collateral agreement contingent liability. The bolded information is to be added for a collateral agreement.

Commissioner of Internal Revenue

Washington, DC 20224

On [enter date from upper right corner of acceptance letter] you accepted [my/our] Offer in Compromise and the related Form [2261, Collateral Agreement, Future Income –Individual; or 2261–A, Collateral Agreement, Future Income–Corporation]. [I/we] agreed to pay $[enter amount from Form 656, Offer in Compromise; if you amended Form 656, you must take this information from the latest amendment] to compromise the tax liability(s) listed below:

[List type(s) of tax and period(s) from Form 656 or the latest amendment, if applicable.]

Instead of future payments specified in Form [2261; or 2261–A], [I/we] propose to pay [enter amount you are offering to pay] in full settlement of the original offer and the collateral agreement. [Also select one of the following sentences to describe how you will pay the amount you entered in the previous sentence:

[I/we] have enclosed full payment of the proposed amount.

[I/we] will make full payment of the proposed amount when you notify [me/us] [my/our] proposal. that you have accepted

[I/we] have enclosed $[enter amount you are sending with this letter] and will pay the balance when you notify [me/us] that you have accepted [my/our] proposal.]

[If your original offer was submitted on a Form 656, Offer in Compromise, with a revision date of February, 1992, or later, please insert the following sentence:

[I/we] agree to file and pay all taxes as required by the Internal Revenue Code for five years from [enter the date from the upper right corner of the acceptance letter.

[I/we] agree to waive any and all claims to overpayments of tax or other liabilities, including interest on those payments, that I may be entitled to receive under the Internal Revenue Code. This waiver is limited to overpayments which haven't already been refunded to me for any years or tax periods which end before or during the year you accept this proposal.

[I/we] have enclosed a letter with this proposal which contains the detailed reasons for submitting this offer and a completed financial statement showing [my/our] current financial condition.

[Enter your signature and today's date.
Each person who is submitting this proposal must sign here.]

Enclosure:

Exhibit 1-9. **Pattern Letter 1604(P)**

Acceptance letter for proposal to compromise balance due on Offer in Compromise and/or collateral agreement. The bolded information is to be added for a collateral agreement.

Date: Social Security or Employer
Identification Number:
Salutation Person to Contact:

Telephone Number:

We accept your proposal to pay $---- to settle the remaining liability under the Offer in Compromise accepted on Enter Date and/or the related collateral agreement.

Since you have paid the amount proposed, you do not need to take further action. (or: Since you enclosed $---- with your proposal, please send the balance of $---- by Enter Date) (or: Since payment was to be made on notice of acceptance of your proposal, please send $---- by Enter Date.)

Your check or money order should be made payable to the United States Treasury and sent to (service center address Attn.: Collection Offer Unit).

If you receive a refund that you specifically waived under the terms of your proposal, please return it promptly to the service center, to the attention of the Offer Unit.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,

(Signature and title)

Exhibit 1-10. **Pattern Letter 1607(P)**

Denial of proposal to compromise balance due on Offer in Compromise and/ or collateral agreement. The bolded information should be added for a collateral agreement.

Salutation

We are sorry, but we cannot accept your proposal dated ---- to compromise the remaining liability under the Offer in Compromise accepted on Enter Date (and/or related collateral agreement).

(Explain reasons)

We must, therefore, ask you to comply with the terms of the Offer in Compromise including any collateral agreement. If you have any questions, please contact (name, Internal Revenue Service Center, address, telephone number).

Sincerely yours,

(Signature and title)

Exhibit 1-11. **Default Letter**

Failure to Comply with the terms of an accepted Offer in Compromise and/or related collateral agreement. The bolded information should be added for a collateral agreement.

Salutation:

This refers to our letter of [date], accepting your offer of $[amount], in compromise of your [kind of tax] tax liability, plus statutory additions, for [years or tax periods]. Your offer included your agreement to the default provisions, waiver of refunds, payment of interest, and other terms provided on the Form 656.

Also included was a related collateral agreement(s) you submitted as additional consideration for acceptance of your offer.

Under the terms of your offer, $[amount] was to be paid as follows:
[Quote terms of payment shown on Form 656]

The collateral agreement(s) provide that you must file annual income statements and pay graduated percentages of annual income for the years [date] through [date].

Our records show that you did not comply with the terms of the offer and collateral agreement(s) [specify reason for non-compliance], therefore your Offer in Compromise is declared in default and the agreement to compromise the original liability is terminated. All payments on the offer and collateral agreement(s) will be applied to the original liability.

Please contact [name, address, and telephone number] if you have any questions and to discuss payment of the remaining amount of the original liability.

Sincerely yours,

[signature and title]

VII. Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) Section 509

Under the Tax Increase Prevention and Reconciliation Act (TIPRA) of 2005, taxpayers who submit an Offer in Compromise (OIC) on or after July 16, 2006, will face new rules and processing procedures. This Act caused changes in how the OIC program operates and impacts the OIC role in the IRS collection process.

Several major changes are summarized below.

1. Taxpayers will need to begin making payments with their Offer in Compromise. With an OIC, you can choose two payment options: full payment of the offer amount within 90 days of notice that the IRS has accepted your offer, or monthly payments over a period of not more than 24 months from the date your offer is accepted. Under the new Act, taxpayers must pay 20% of the offered amount if they plan to make a lump sum payment. Taxpayers requesting a monthly payment plan must start making their proposed monthly payments immediately, and continue making their payments while the IRS processes their Offer in Compromise. If taxpayers fail to leave a 20% down payment or if they skip any of their monthly payments, the IRS will consider the OIC withdrawn, and taxpayers will need to make alternate arrangements to settle their tax debts.

2. If the IRS does not act within two years of a submitted OIC, then the IRS must accept the OIC.

CHAPTER 1 – REVIEW QUESTIONS

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter. They do not need to be submitted in order to receive CPE credit. They are included as an additional tool to enhance your learning experience.

We recommend that you answer each review question and then compare your response to the suggested solution before answering the final exam questions related to this chapter.

1. Offer in Compromise (OIC) allows taxpayers who owe more than they can afford:

   a) to pay a small amount as a full and final settlement
   b) to settle current tax due but not all back tax liabilities
   c) to compromise all types of IRS taxes but not penalties and interest
   d) to compromise only personal income tax due but not payroll tax

2. An Offer in Compromise may be filed solely to hinder or delay collection action by the IRS.

   a) true
   b) false

3. The poverty guidelines, relative to application-fee waiver requests, apply only to the following:

   a) corporations
   b) partnerships
   c) individuals
   d) limited liability companies

4. In general, the application fee associated with an Offer in Compromise can be paid by credit card after IRS proposal acceptance.

   a) true
   b) false

5. Interest and penalties will continue to accrue on the unpaid tax liability while the Offer in Compromise is under consideration.

   a) true
   b) false

6. Collection Information Statements (CIS) submitted with an Offer in Compromise should reflect information no older than the:

   a) prior six months
   b) prior two years
   c) prior thirteen months
   d) prior three months

7. When calculating an individual taxpayer's ability to repay, the IRS <u>cannot</u> use the taxpayer's full declared value of furniture, fixtures, and personal effects owned.

   a) true
   b) false

8. When you prepare an OIC, generally the IRS defines future income as your monthly income minus necessary living expenses divided by an appropriate number of months.

   a) true
   b) false

9. Allowable expenses are defined as those expenses that are necessary for the production of income or health and welfare of the taxpayer's family, but will <u>not</u> include:

   a) rent payments
   b) utilities
   c) charitable contributions
   d) maintenance costs

10. A proposal to compromise the balance of an accepted offer must rest on "Doubt as to Collectibility (DATC)."

    a) true
    b) false

11. The Office of Jurisdiction that originally accepted an Offer in Compromise will consider a proposal to compromise the balance of an accepted offer if:

    a) there is doubt about the amount of the assessed tax
    b) it is in the best interest of the government
    c) the taxpayer failed to submit reasonable documentation to verify his/her ability to pay the tax due
    d) the taxpayer failed to submit a collection information statement with all the appropriate attachments

CHAPTER 1 – SOLUTIONS AND SUGGESTED RESPONSES

1. **A: Correct.** OICs allow taxpayers to get a fresh start and negotiate a lesser amount than their tax liability.

   B: Incorrect. All back tax liabilities are settled with the Offer in Compromise, including penalties and interest.

   C: Incorrect. Taxpayers are allowed to compromise all personal tax liabilities, penalties, and interest.

   D: Incorrect. Even payroll taxes can be compromised by an Offer in Compromise in some circumstances.

   (See page 1-1 of the course material.)

2. A: True is incorrect. If the offer is filed to hinder or delay collection action, the IRS will return the Offer in Compromise without any further consideration.

   B: False is correct. If an Offer in Compromise is determined to have been filed solely to hinder or delay collection action, taxpayers will not be afforded the right to appeal the decision.

   (See page 1-2 of the course material.)

3. A: Incorrect. Application fee waiver requests, based on poverty guidelines published by the Department of Health and Human Services (DHHS) with respect to poverty guidelines, do not apply to corporations.

   B: Incorrect. An application fee must be paid along with an Offer in Compromise submission by a partnership. Business entities cannot receive a fee waiver.

   C: Correct. Individuals are the only taxpayer entity that can qualify for an application fee waiver. Such a request must be accompanied by a taxpayer signed and dated "Income Certification for Offer in Compromise Application Fee."

   D: Incorrect. Limited liability companies are treated similar to partnerships and therefore not eligible for application fee waivers.

   (See page 1-4 of the course material.)

4. A: True is incorrect. The application fee of $150 must be attached to the Offer in Compromise document at the time of submission and paid by either a check or money order – credit cards are not accepted.

   B: False is correct. Assuming that the taxpayer does not meet one of the payment exceptions (poverty or doubt of liability), the application fee must be paid at the time of submission and be in the form of a check or money order.

   (See page 1-5 of the course material.)

5. **A: True is correct.** Interest and penalties do continue to accrue while the offer is being considered.

   B: False is incorrect. Interest will not accrue on the taxpayer's Offer in Compromise amount from the date of acceptance until it is fully paid.

   (See page 1-9 of the course material.)

6. **A: Correct.** A CIS submitted with an Offer in Compromise should be no older than six months.

   B: Incorrect. If the information becomes outdated due to significant processing delays caused by the IRS, through no fault of the taxpayer, it may be appropriate to rely on the outdated information, if the taxpayer's situation has not significantly changed.

   C: Incorrect. Information older than twelve months should be updated by the taxpayer.

   D: Incorrect. There is no reason to update information unless it is older than six months or significant changes in the taxpayer's situation have occurred.

   (See page 1-13 of the course material.)

7. **A: True is correct.** There is a statutory exemption from levy that applies to the taxpayer's furniture and personal effects. This exemption applies <u>only</u> to individual taxpayers – other tax entities are not exempted.

   B: False is incorrect. In the case of individual taxpayers, the IRS cannot use the full value of a taxpayer's personal effects to determine their ability to repay.

   (See page 1-21 of the course material.)

8. **A: True is correct.** The IRS generally determines the amount that could be collected from future income by subtracting necessary living expenses from monthly income over a set number of months. For lump sum cash payments, short term periodic payments, and deferred periodic payment OIC agreements, varying base-month numbers are used in the payment calculation.

   B: False is incorrect. The provided formula for future income is generally correct.

   (See page 1-25 of the course material.

9. A: Incorrect. Allowable expenses include the local standards of rent or mortgage payments.

   B: Incorrect. Utility bills that are verified to meet local standards are allowable costs.

   C: Correct. Charitable contributions are not considered allowable expenses.

   D: Incorrect. Maintenance costs that fall within the local standards are allowable costs.

   (See pages 1-27 to 1-28 of the course material.)

10. **A: True is correct.** There is no prescribed form in which to compromise an agreed upon offer. The proposal should be made by letter format.

    B: False is incorrect. The office of jurisdiction that initially accepted the offer will consider the taxpayer's proposal when submitted by a written request. The acceptance will depend on if it is in the government's best interest.

    (See page 1-43 of the course material.)

11. A: Incorrect. Doubt about the amount of the assessed tax is not an acceptable reason for a subsequent consideration of a proposal to compromise a compromise. The original compromise agreement between the parties would have confirmed the assessed tax amount prior to the initial compromise agreement.

    B: Correct. An offer of compromise of an originally accepted Offer in Compromise can be approved by the IRS office of jurisdiction when two conditions are met. Specifically, if: 1) the compromise offer is in the best interest of the government, and 2) when the same considerations and merits apply to the new request as they did originally on Form 656.

    C: Incorrect. The taxpayer's ability to pay the original compromise debt would have already been established through the taxpayer's initial submission of reasonable documentation. Otherwise, the IRS would not have accepted the original Offer of Compromise. Subsequent compromise requests of a settled Offer of Compromise are rare and would only be accepted based upon IRS Doubt as to Collectibility (DATC) criteria.

    D: Incorrect. The completion and submission of another Collection Information Statement (CIS) is not one of the established considerations for IRS acceptance of a compromise of an existing Offer in Compromise.

    (See page 1-44 of the course material.)

Chapter 2: How to Complete Form 656 (Offer In Compromise)

Learning Objectives:

Upon completion of this chapter, you will be able to:

- List OIC documentation required.
- Determine if an Offer in Compromise is the right payment option for you.
- Outline step by step completion of OIC forms.
- Illustrate important information you need to know regarding the Offer in Compromise.

This chapter contains step by step information and IRS guidance on what must be done in order to prepare a complete and accurate Offer in Compromise (OIC) (Form 656). The information in this chapter is designed to assist you in determining if an Offer in Compromise is the right payment option for you, as well as guide you through the process of completing a complete Offer in Compromise application package.

I. What Is an OIC Offer?

An Offer in Compromise (offer) is an agreement between you (the taxpayer) and the IRS that settles a tax debt for less than the full amount owed. An Offer in Compromise will *not* be accepted if the reason for filing is that you are attempting to delay or avoid the tax due payment.

The offer program provides eligible taxpayers with a path toward paying off their debt and getting a “fresh start.” The ultimate goal is a compromise that suits the best interest of both the taxpayer and the IRS. To be considered, generally you must make an appropriate offer based on what the IRS considers your true ability to pay. Absent special circumstances, an offer will not be accepted if the IRS believes that the liability can be paid in full as a lump sum or through a payment agreement.

Submitting an offer application does not ensure that the IRS will accept your offer. It begins a process of evaluation and verification by the IRS, taking into consideration any special circumstances that might affect your ability to pay. Generally, the IRS will not accept an offer if you can pay your tax debt in full via an installment agreement or a lump sum. *Note:* Taxpayers should beware of promoters’ claims that tax debts can be settled through the Offer in Compromise program for "pennies on the dollar."

In most cases, the IRS will not accept an OIC unless the amount offered by the taxpayer is equal to or greater than the reasonable collection potential (RCP). The RCP is how the IRS measures the taxpayer’s ability to pay and includes the value that can be realized from the taxpayer’s assets, such as real property, automobiles, bank accounts, and other property. The RCP also includes anticipated future income, less certain amounts allowed for basic living expenses.

II. <u>Three Types of OICs</u>

The IRS may accept an Offer in Compromise based on three grounds:

1. **Doubt as to Collectibility** – Doubt exists that the taxpayer could ever pay the full amount of tax liability owed within the remainder of the statutory period for collection.

Example: A taxpayer owes $20,000 for unpaid tax liabilities and agrees that the tax she owes is correct. The taxpayer's monthly income does not meet her necessary living expenses. She does not own any real property and does not have the ability to fully pay the liability now or through monthly installment payments.

2. **Doubt as to Liability** – A legitimate doubt exists that the assessed tax liability is correct. Possible reasons to submit a doubt as to liability offer include: (1) the examiner made a mistake interpreting the law, (2) the examiner failed to consider the taxpayer's evidence, or (3) the taxpayer has new evidence.

Example: The taxpayer was vice president of a corporation from 2004-2005. In 2006, the corporation accrued unpaid payroll taxes and the taxpayer was assessed a trust fund recovery penalty as a responsible party of the corporation. The taxpayer was no longer a corporate officer and had resigned from the corporation on 12/31/2005. Since the taxpayer had resigned prior to the payroll taxes accruing and was not contacted prior to the assessment, there is legitimate doubt that the assessed tax liability is correct.

If you have a legitimate doubt that you owe part or all of the tax debt, you will need to complete a **Form 656-L, Offer in Compromise (Doubt as to Liability)**. The Form 656-L is not included as part of this package. To submit a Doubt as to Liability offer, you may request a form by calling the toll free number 1-800-829-1040, by visiting a local IRS office, or at <u>www.irs.gov</u>.

3. **Exceptional Circumstances (Effective Tax Administration)** – There is no doubt that the tax is correct and there is potential to collect the full amount of the tax owed, but an exceptional circumstance exists that would allow the IRS to consider an OIC. To be eligible for compromise on this basis, a taxpayer must demonstrate that the collection of the tax would create an economic hardship or would be unfair and inequitable. The IRS understands that there are unplanned events or special circumstances, such as serious illness, where paying the full amount or the minimum offer amount might impair your ability to provide for yourself and your family. If this is the case and you can provide documentation to prove your situation, then your offer may be accepted despite your financial profile. You must describe your situation on Section 3 of Form 656 and attach appropriate documents to this offer application.

Example: Mr. & Mrs. Taxpayer have assets sufficient to satisfy the tax liability and provide full time care and assistance to a dependent child, who has a serious long-term illness. It is expected that Mr. and Mrs. Taxpayer will need to use the equity in assets to provide for adequate basic living expenses and medical care for the child. There is no doubt that the tax is correct.

III. Offer in Compromise Payment Options

OIC Payment Option	Terms	$150 Application Fee Required?	Collection Information Statement [Forms 433-A (OIC) and/or 433-B (OIC)] Required?
Payment Option 1	Must pay 20% of the offered amount when Form 656 is submitted, with the balance to be paid in five or fewer installments from the notice of acceptance.	Yes, unless the individual taxpayer qualifies for Low Income Certification or Doubt as to Liability OIC is submitted.	Yes, with the exception of Doubt as to Liability offers.
Payment Option 2	Must include an initial payment with the offer and regular payments must continue while the offer is being investigated.	Yes, unless the individual taxpayer qualifies for Low Income Certification or Doubt as to Liability OIC is submitted.	Yes, with the exception of Doubt as to Liability offers.

Taxpayers qualifying for a Low Income Certification and checking the Low Income Certification box on Form 656, page 2, Section 4 and taxpayers submitting Doubt as to Liability offers, are exempt from the required 20% payment on a Payment Option 1 offer and all payments required during the investigation of a Payment Option 2 offer.

All required payments are not refundable.

IV. Payments and Application Fees

When filing an Offer in Compromise, two separate remittance documents should be sent, one for the application fee and the other for the required offer payment. All payments should be made by check or money order made payable to the United States Treasury. Practitioners who file multiple OICs at the same time should not combine application fees for multiple clients.

The Form 656-PPV, *Offer in Compromise Payment Voucher*, included in the Form 656, should be completed and attached to any periodic payment(s) that becomes due. Failure to submit any required periodic payments, after the initial payment has been submitted, will result in the offer being declared withdrawn. For offers originally sent to Holtsville, NY, send payments to: P.O. Box 9011, Holtsville, NY 11742. For offers originally sent to Memphis, TN, send payments to: AMC Stop 880, P.O. Box 30834, Memphis, TN 38130-0634.

The OIC application fee reduces the assessed tax or other amounts due. The application fee will be returned if the OIC is deemed not to be processable. Unless the Offer in Compromise has been submitted under doubt as to liability or a completed Form 656-A is included with the Form 656, the $150 application fee must be included with the offer or the IRS will return the offer.

V. <u>Other Important Facts</u>

- Penalties and interest will continue to accrue during the offer evaluation process.
- You cannot submit an offer that is only for a tax year or tax period that has not been assessed.
- The law requires the IRS to make certain information from accepted offers available for public inspection and review. These public inspection files are located in designated IRS Area Offices.
- A Notice of Federal Tax Lien (lien) gives the IRS a legal claim to your property as security for payment of your tax debt. Generally, if a lien is not already filed, a lien will not be filed during the offer evaluation process. If a lien was filed, it will normally not be released until the payment terms of the accepted offer are satisfied, or the tax debt is paid in full, whichever comes first.
- If your business owes trust fund taxes, and responsible individuals may be held liable for the trust fund portion of the tax, you are not eligible to submit an offer unless you pay the trust fund portion of your tax debt first. Trust fund taxes are the money withheld from an employee's wages, such as income tax, Social Security, and Medicare taxes.
- The IRS will keep any refund, including interest, for tax periods extending through the calendar year that the IRS accepts the offer. For example, if your offer is accepted in 2011 and you file your 2011 Form 1040 showing a refund, the IRS will apply your refund to your tax debt.
- The IRS may keep any proceeds from a levy served prior to you submitting an offer. The IRS may levy your assets up to the time that the IRS officially signs and accepts your offer as pending. If your assets are levied after your offer is pending, immediately contact the IRS person whose name and phone number are listed on the levy.
- If you currently have an approved installment agreement with the IRS and are making installment payments, then you may stop making those installment agreement payments when you submit an offer. This will allow you to make your offer payments. If your offer is returned for any reason, your installment agreement with the IRS will be reinstated with no additional fee.

This chapter will lead you through a series of steps to help you calculate an appropriate offer based on your assets, income, expenses, and future earning potential. The application requires you to describe your financial situation in detail, so before you begin, make sure you have the necessary information and documentation.

VI. <u>Are You Eligible?</u>

Before you submit your offer, you must: (1) file all tax returns you are legally required to file, (2) make all estimated tax payments for the current year, and (3) make all required federal tax deposits for the current quarter if you are a business owner with employees.

If you or your business is currently in an open bankruptcy proceeding, you are not eligible to apply for an offer. Any resolution of your outstanding tax debts generally must take place within the context of your bankruptcy proceeding. *Note:* If you are not sure of your bankruptcy status, contact the Centralized Insolvency Operation at 1-800-913-9358. Be prepared to provide your bankruptcy case number and/or Taxpayer Identification Number.

VII. Paying for Your Offer

A. Application Fee

All offers require a $150 application fee.

EXCEPTION: If you are submitting an individual offer and meet the Low Income Certification guidelines (see page 2 of Form 656, Offer in Compromise), you will not be required to send the application fee.

B. PAYMENT OPTIONS

Submitting an offer requires the selection of a payment option as well as sending an initial payment with your application. The amount of the initial payment and subsequent payments will depend on the total amount of your offer and which of the following payment options you choose.

Payment option 1: This option requires 20% of the total offer amount to be paid with the offer and the remaining balance paid in five or fewer payments.

Payment option 2: This option requires the first payment with the offer and the remaining balance paid in accordance with your proposed offer terms. Under this option, **you must continue to make all subsequent payments while the IRS is evaluating your offer. Failure to make these payments will cause your offer to be returned.**

The length of the payment option you choose may affect the amount of the offer the IRS will accept. Generally, an offer paid within five months of acceptance will require a lesser amount. Your offer amount cannot include a refund the IRS owes you.

If you meet the Low Income Certification guidelines, you will not be required to send the initial payment, or make the monthly payments during the evaluation of your offer but you will still need to choose one of the payment options.

If your offer is returned or not accepted, any required payment(s) made with the filing of your offer, and thereafter, will not be refunded. Your payment(s) will be applied to your tax debt.

If you do not have sufficient cash to pay for your offer, you may need to consider borrowing money from a bank, friends, and/or family. Other options may include borrowing against or selling other assets. NOTE: If retirement savings from an IRA or 401k plan are cashed out, there will be future tax liabilities owed as a result. Contact the IRS or your tax advisor before taking this action.

C. FUTURE TAX OBLIGATIONS

If your offer is accepted, you must continue to timely file and pay your tax obligations. If you fail to file and pay your required tax returns, **before your offer is paid in full**, or **for five years after your offer is accepted, whichever is longer,** your offer may be defaulted. If your offer is defaulted, all compromised tax debts will be reinstated.

VIII. <u>How to Apply</u>

A. APPLICATION PROCESS

The application involves filling out Form 433-A (OIC), Collection Information Statement for Wage Earners and Self-Employed Individuals **and/or** Form 433-B (OIC), Collection Information Statement for Businesses, filling out a Form 656 (Offer in Compromise), attaching an initial payment, and attaching a $150 application fee for each offer you send in.

B. IF YOU AND YOUR SPOUSE OWE

If you have joint tax debt(s) with your spouse and also have an individual tax debt(s), you and your spouse will send in one Form 656 with all of the joint tax debt(s) and a second Form 656 with your individual tax debt(s), for a total of two Forms 656.

If you and your spouse have joint tax debt(s) and you are also each responsible for an individual tax debt(s), you will each need to send in a separate Form 656. You will complete one Form 656 for yourself listing all your joint and separate tax debts and your spouse will complete one Form 656 listing all his or her joint and individual tax debts, for a total of two Forms 656.

If you and your spouse/ex-spouse has a joint tax debt and your spouse/ex-spouse does not want to submit a Form 656, you on your own may submit a Form 656 to compromise the joint debt.

Each Form 656 will require the $150 application fee and initial down payment unless your household meets the Low Income Certification guidelines (see page 2 of Form 656, Offer in Compromise).

IX. <u>Completing the Application Package</u>

Step 1 – Gather your information

To calculate an offer amount, you will need to gather information about your financial situation, including cash, investments, available credit, assets, income, and debt.

You will also need to gather information about your average gross monthly household income and expenses. The entire household includes your spouse, significant other, children, and others that reside in the household. This is necessary for the IRS to accurately evaluate your offer. In general, the IRS will not accept expenses for tuition for private schools, college expenses, charitable contributions, credit card payments, and other unsecured debt payments as part of the expenses calculation.

Step 2 – Fill out the Form 433-A (OIC), Collection Information Statement for Wage Earners and Self-Employed Individuals

Fill out the Form 433-A (OIC) if you are an individual wage earner and/or a self-employed individual. This will be used to calculate an appropriate offer amount based on your assets, income, expenses, and future earning potential. You will have the opportunity to provide a written explanation of any special circumstances that affect your financial situation.

Step 3 – Fill out Form 433-B (OIC), Collection Information Statement for Businesses

Fill out the Form 433-B (OIC) if your business is a Corporation, Partnership, Limited Liability Company (LLC) classified as a corporation, single member LLC, or other multi-owner/multi-member LLC. This will be used to calculate an appropriate offer amount based on your business assets, income, expenses, and future earning potential. If you have assets that are used to produce income (for example, a tow truck used in your business for towing vehicles), you may be allowed to exempt the equity in these assets.

Step 4 – Attach required documentation

You will need to attach supporting documentation with Form(s) 433-A (OIC) and 433-B (OIC). A list of the documents required will be found at the end of each form. Include copies of all required attachments, as needed. Do not send original documents.

Step 5 – Fill out Form 656, Offer in Compromise

- Fill out Form 656. The Form 656 identifies the tax years and type of tax you would like to compromise. It also identifies your offer amount and the payment terms.
- The Low Income Certification guidelines are included on Form 656. If you are an individual and meet the guidelines, check the Low Income Certification box in Section 4 on Form 656.

Step 6 – Include initial payment and $150 application fee

- Include a check, cashier's check, or money order for your initial payment based on the payment option you selected (20% of offer amount or first month's installment).
- Include a separate check, cashier's check, or money order for the application fee ($150).
- Make both payments payable to the "United States Treasury."
- If you meet the Low Income Certification guidelines, the initial payment and application fee are not required.

Step 7 – Mail the application package

- Make a copy of your application package and keep it for your records.
- Mail the application package to the appropriate IRS facility. See *Application Checklist* for details.

X. Important Information

After you mail your application, continue to:

- File all federal tax returns you are legally required to file.
- Make all federal estimated tax payments and tax deposits that are due for current taxes.
- Reply to IRS requests for additional information within the timeframe specified. Failure to reply timely to requests for additional information could result in the return of your offer without appeal rights.

Note: If you want a third party to represent you during the offer process, you must include a **Form 2848** or **Form 8821** unless one is already on file.

Form **656**
(Rev. March 2011)

Department of the Treasury — Internal Revenue Service

Offer in Compromise

Attach Application Fee and Payment *(check or money order)* here.

IRS Received Date

Section 1 **Your Contact Information**

Your First Name, Middle Initial, Last Name

If a Joint Offer, Spouse's First Name, Middle Initial, Last Name

Your Physical Home Address *(Street, City, State, ZIP Code)*

Mailing Address *(if different from above or Post Office Box number)*

Business Name

Your Business Address *(Street, City, State, ZIP Code)*

Social Security Number (SSN) *(Primary)*	*(Secondary)*	Employer Identification Number *(EIN)*	*(EIN not included in offer)*
– –	– –	–	–

Section 2 **Tax Periods**

To: Commissioner of Internal Revenue Service

In the following agreement, the pronoun "we" may be assumed in place of "I" when there are joint liabilities and both parties are signing this agreement.

I submit this offer to compromise the tax liabilities plus any interest, penalties, additions to tax, and additional amounts required by law for the tax type and period(s) marked below:

☐ 1040 Income Tax-Year(s) ____________________

☐ 1120 Income Tax-Year(s) ____________________

☐ 941 Employer's Quarterly Federal Tax Return - Quarterly period(s) ____________________

☐ 940 Employer's Annual Federal Unemployment (FUTA) Tax Return - Year(s) ____________________

☐ Trust Fund Recovery Penalty as a responsible person of *(enter corporation name)* ____________________
for failure to pay withholding and Federal Insurance Contributions Act taxes (Social Security taxes), for period(s) ending

☐ Other Federal Tax(es) [specify type(s) and period(s)] ____________________

Note: If you need more space, use attachment and title it "Attachment to Form 656 dated __________." Make sure to sign and date the attachment.

Section 3 **Reason for Offer**

☐ **Doubt as to Collectibility** - I have insufficient assets and income to pay the full amount.

☐ **Exceptional Circumstances (Effective Tax Administration)** - I owe this amount and have sufficient assets to pay the full amount, but due to my exceptional circumstances, requiring full payment would cause an economic hardship or would be unfair and inequitable. I am submitting a written narrative explaining my circumstances.

Section 3 Reason for Offer *(Continued)*

Explanation of Circumstances ***(Add additional pages, if needed)***

The IRS understands that there are unplanned events or special circumstances, such as serious illness, where paying the full amount or the minimum offer amount might impair your ability to provide for yourself and your family. If this is the case and you can provide documentation to prove your situation, then your offer may be accepted despite your financial profile. Describe your situation below and attach appropriate documents to this offer application.

____

____

____

____

____

____

____

Section 4 Low Income Certification *(Individuals Only)*

Do you qualify for Low-Income Certification? You qualify if your gross monthly household income is less than or equal to the amount shown in the chart below based on your family size and where you live. If you qualify, you are not required to submit any payments during the consideration of your offer.

☐ **Check here if you qualify for Low-Income Certification based on the monthly income guidelines below.**

Size of family unit	48 contiguous states and D.C.	Hawaii	Alaska
1	$2,256	$2,596	$2,819
2	$3,035	$3,492	$3,794
3	$3,815	$4,388	$4,769
4	$4,594	$5,283	$5,744
5	$5,373	$6,179	$6,719
6	$6,152	$7,075	$7,694
7	$6,931	$7,971	$8,669
8	$7,710	$8,867	$9,644
For each additional person, add	$ 779	$ 896	$ 975

Section 5 Payment Terms

Enter the amount of your offer $ ______________

Check one of the payment options below to indicate how long it will take you to pay your offer in full:

Payment Option 1

☐ **Check here if you will pay your offer in five or fewer payments:**

Enclose a check for 20% of the offer amount (waived if you are an individual and met the requirements for Low-Income certification) and fill in the amount(s) and date(s) of your future payment(s).

20% of the offer amount is $ ______ leaving a balance of $ ______ to be paid as follows after the acceptance of your offer:

Amount of payment 1 $ ______ date ______

Amount of payment 2 $ ______ date ______

Amount of payment 3 $ ______ date ______

Amount of payment 4 $ ______ date ______

Amount of payment 5 $ ______ date ______

Payment Option 2

☐ **Check here if you will pay your offer in full in more than five months and pay in monthly installments**

Enclose a check for one month's installment (waived if you are an individual and met the requirements for Low-Income certification)

$ ______ is being submitted with the Form 656 and then $______ on the ______ (day) of each month thereafter for a total of ______ months. Total payments must equal the total Offer Amount.

You must continue to make these monthly payments while the IRS is considering the offer. Failure to make regular monthly payments will cause your offer to be returned.

Section 6 Designation of Down Payment and Deposit *(Optional)*

If you want your payment to be applied to a specific tax year and a specific tax debt, please tell us the tax form __________ and Tax Year/Quarter __________ . If you do not designate a preference, we will apply any money you send in to the governments best interest.

If you are paying more than the required payment when you submit your offer and want any part of that payment treated as a deposit, check the box below and insert the amount.

☐ I am making a deposit of $ _______________ with this offer.

Section 7 Source of Funds

Tell us where you will obtain the funds to pay your offer. You may consider borrowing from friends and/or family, taking out a loan, or selling assets.

____

____

Include separate checks for the payment and application fee.

Make payable to the "United States Treasury" and attach to the front of your Form 656, Offer in Compromise. **Do not send cash.** Send a separate application fee with each offer; do not combine it with any other tax payments, as this may delay processing of your offer. Your offer will be returned to you if the application fee and the required payments are not properly remitted, or if your check is returned for insufficient funds.

Section 8 Offer Terms

By submitting this offer, I/we have read, understand and agree to the following terms and conditions:

Terms, Conditions, and Legal Agreement

a) I request that the IRS accept the offer amount listed in this offer application as payment of my outstanding tax debt (including interest, penalties, and any additional amounts required by law) as of the date listed on this form. I authorize the IRS to amend Section 2 on page 1 in the event I failed to list any of my assessed tax debt.

IRS will keep my payments, fees, and some refunds.

b) I voluntarily submit the payments made on this offer and **understand that they are not refundable even if I withdraw the offer or the IRS rejects or returns the offer.** Unless I designated how to apply the required payment (page 3 of this application), the IRS will apply my payment in the best interest of the government, choosing which tax years and tax liabilities to pay off. The IRS will also keep my application fee unless the offer is not accepted for processing.

c) The IRS will keep **any** refund, including interest, that I might be due for tax periods extending through the calendar year in which the IRS accepts my offer. I cannot designate that the refund be applied to estimated tax payments for the following year or the accepted offer amount. If I receive a refund after I submit this offer for any tax period extending through the calendar year in which the IRS accepts my offer, I will return the refund as soon as possible.

d) The IRS will keep any monies it has collected prior to this offer and any payments that I make relating to this offer that I did not designate as a deposit. Only amounts that exceed the mandatory payments can be treated as a deposit. Such a deposit will be refundable if the offer is rejected or returned by the IRS or is withdrawn. I understand that the IRS will not pay interest on any deposit. The IRS may seize ("levy") my assets up to the time that the IRS official signs and accepts my offer as pending.

Pending status of an offer and right to appeal

e) Once an authorized IRS official signs this form, my offer is considered pending as of that signature date and it remains pending until the IRS accepts, rejects, returns, or terminates my offer or I withdraw my offer. An offer will be considered withdrawn when the IRS receives my written notification of withdrawal by personal delivery or certified mail or when I inform the IRS of my withdrawal by other means and the IRS acknowledges in writing my intent to withdraw the offer.

f) I waive the right to an Appeals hearing if I do not request a hearing within 30 days of the date the IRS notifies me of the decision to reject the offer.

I must comply with my future tax obligations and understand I remain liable for the full amount of my tax debt until all terms and conditions of this offer have been met.

g) I will file tax returns and pay required taxes for the five year period beginning with the date of acceptance of this offer, or until my offer is paid in full, whichever is longer. If this is an offer being submitted for joint tax debt, and one of us does not comply with future obligations, only the non-compliant taxpayer will be in default of this agreement.

h) The IRS will not remove the original amount of my tax debt from its records until I have met all the terms and conditions of this offer. Penalty and interest will continue to accrue until all payment terms of the offer have been met. If I file for bankruptcy before the terms are fully met, any claim the IRS files in the bankruptcy proceedings will be a tax claim.

i) Once the IRS accepts my offer in writing, I have no right to contest, in court or otherwise, the amount of the tax debt.

I understand what will happen if I fail to meet the terms of my offer (e.g., default).

j) If I fail to meet any of the terms of this offer, the IRS may levy or sue me to collect any amount ranging from the unpaid balance of the offer to the original amount of the tax debt without further notice of any kind. The IRS will continue to add interest, as Section 6601 of the Internal Revenue Code requires, on the amount the IRS determines is due after default. The IRS will add interest from the date I default until I completely satisfy the amount owed.

I agree to waive time limits provided by law.

k) To have my offer considered, I agree to the extension of the time limit provided by law to assess my tax debt (statutory period of assessment). I agree that the date by which the IRS must assess my tax debt will now be the date by which my debt must currently be assessed plus the period of time my offer is pending plus one additional year if the IRS rejects, returns, or terminates my offer or I withdraw it. (Paragraph (e) of this section defines pending and withdrawal). I understand that I have the right not to waive the statutory period of assessment or to limit the waiver to a certain length or certain periods or issues. I understand, however, that the

Section 8 - *(Continued)*

IRS may not consider my offer if I refuse to waive the statutory period of assessment or if I provide only a limited waiver. I also understand that the statutory period for collecting my tax debt will be suspended during the time my offer is pending with the IRS, for 30 days after any rejection of my offer by the IRS, and during the time that any rejection of my offer is being considered by the Appeals Office.

I understand the IRS may file a Notice of Federal Tax Lien on my property.

l) The IRS may file a Notice of Federal Tax Lien during the offer investigation. Generally, the IRS files a Notice of Federal Tax Lien to protect the Government's interest on offers that will be paid over time. This tax lien will be released when the payment terms of the accepted offer have been satisfied.

I authorize the IRS to contact relevant third parties in order to process my offer

m) By authorizing the IRS to contact third parties including credit bureaus, I understand that I will not be notified of which third parties the IRS contacts as part of the offer application process, as stated in section 7602(c) of the Internal Revenue Code.

I am submitting an offer as an individual for a joint liability

n) I understand if the liability sought to be compromised is the joint and individual liability of myself and my co-obligor(s) and I am submitting this offer to compromise my individual liability only, then if this offer is accepted, it does not release or discharge my co-obligor(s) from liability. The United States still reserves all rights of collection against the co-obligor(s).

Section 9 Signatures

Under penalties of perjury, I declare that I have examined this offer, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

Signature of Taxpayer	Date *(mm/dd/yyyy)*
Signature of Taxpayer	Date *(mm/dd/yyyy)*

Section 10 Paid Preparer Use Only

Signature of Preparer

Name of Paid Preparer	Date *(mm/dd/yyyy)*	Preparer's CAF no. or PTIN

Firm's Name, Address, and ZIP Code

Include a valid, signed Form 2848 or 8821 with this application, if one is not on file.

Section 11 Third Party Designee

Do you want to allow another person to discuss this offer with the IRS? ☐ Yes ☐ No

If yes, provide designee's name	Telephone Number ( )

IRS Use Only

I accept the waiver of the statutory period of limitations on assessment for the Internal Revenue Service, as described in Section 8 (k).

Signature of Authorized Internal Revenue Service Official	Title	Date *(mm/dd/yyyy)*

Privacy Act Statement

We ask for the information on this form to carry out the internal revenue laws of the United States. Our authority to request this information is Section 7801 of the Internal Revenue Code.

Our purpose for requesting the information is to determine if it is in the best interests of the IRS to accept an offer. You are not required to make an offer; however, if you choose to do so, you must provide all of the taxpayer information requested. Failure to provide all of the information may prevent us from processing your request.

If you are a paid preparer and you prepared the Form 656 for the taxpayer submitting an offer, we request that you complete and sign Section 10 on Form 656, and provide identifying information. Providing this information is voluntary. This information will be used to administer and enforce the internal revenue laws of the United States and may be used to regulate practice before the Internal Revenue Service for those persons subject to Treasury Department Circular No. 230, Regulations Governing the Practice of Attorneys, Certified Public Accountants, Enrolled Agents, Enrolled Actuaries, and Appraisers before the Internal Revenue Service. Information on this form may be disclosed to the Department of Justice for civil and criminal litigation.

We may also disclose this information to cities, states and the District of Columbia for use in administering their tax laws and to combat terrorism. Providing false or fraudulent information on this form may subject you to criminal prosecution and penalties.

Form **656-A** (February 2007)	Department of the Treasury — Internal Revenue Service **Income Certification for Offer in Compromise Application Fee and Payment** **(For Individual Taxpayers Only)**

If you are not required to submit the fee or payments based on your income level, you must complete this form and attach both it and the worksheet to the front of your Form 656.

Your Name *(Last, First, Middle initial) (Please Print)*	Social Security Number (SSN) or Taxpayer Identification Number (TIN)
Spouse's Name *(Last, First, Middle initial) (Please Print)*	Social Security Number (SSN) or Taxpayer Identification Number (TIN)

Certification: I/We certify under penalty of perjury that I am not required to submit an Offer in Compromise application fee and payment, based on my family unit size and income.

Your Signature	Date
Spouse's Signature *(if submitting a joint Offer in Compromise)*	Date

Note: If the Internal Revenue Service determines that you were required to pay a fee or payment, your Offer in Compromise will be returned without further consideration.

Form **656-PPV** (March 2009)	Department of the Treasury — Internal Revenue Service # Offer in Compromise - Periodic Payment Voucher

If you filed an offer in compromise and the offered amount is to be paid in 24 months or fewer *(Short Term Periodic Payment Offer)* or monthly installments paid within the statutory period *(Deferred Periodic Payment Offer)* in accordance with the **Tax Increase Prevention and Reconciliation Act of 2005**, you must continue to make the payments during the investigation of the offer until you receive a decision letter *(accepted, rejected, returned, or withdrawn)*. Mail this voucher with your check or money order payable to the "United States Treasury." Write your social security number or employer identification number on the check or money order. Do not send cash. You may designate a specific tax liability to apply the payments. If you choose to do this, please write it in the "Apply to" section of the **Form 656-PPV**.

Enclose your payment with this voucher and mail to:

For those offers originally sent to Holtsville, NY, please send payments to: P.O. Box 9011, Holtsville, NY 11742
For those offers originally sent to Memphis, TN, please send payments to: AMC-Stop 880, PO Box 30834, Memphis, TN 38130-0834

(Please Print or Type)

Taxpayer's First Name and Initial	Taxpayer's Last Name	Your Social Security Number (SSN) or Employer Identification Number (EIN)
Taxpayer's Address *(number, street, and room or suite no., city, state, ZIP code)*		**Amount of Your Payment** *(Dollars)* $ *(Cents)*
Offer Number *(If you are submitting a payment (as described above) and this **Form 656-PPV** with your offer, then please leave this section blank. An offer number will be assigned and sent to you once your offer is processed.)*		Apply Payment to: *(optional)* Form ___________________ Period ___________________

Catalog Number 31131Y www.irs.gov Form **656-PPV** (Rev. 3-2009)

Form **433-A (OIC)**
(March 2011)

Department of the Treasury — Internal Revenue Service

Collection Information Statement for Wage Earners and Self-Employed Individuals

Use this form if you are

- An individual who owes income tax on a Form 1040, U.S. Individual Income Tax Return
- An individual with a personal liability for Excise Tax
- An individual responsible for a Trust Fund Recovery Penalty
- An individual who is personally responsible for a partnership liability
- An individual member of a limited liability company (LLC) that is a disregarded entity
- An individual who is self-employed or has self-employment income. You are considered to be self-employed if you are in business for yourself, or carry on a trade or business.

Wage earners Complete sections 1, 3, 6, and 7 including signature line on page 7.
Self-employed individuals Complete all sections and signature line on page 7

Note: Include attachments if additional space is needed to respond completely to any question.

Section 1 Personal and Household Information

Last Name	First Name	Date of Birth *(mm/dd/yyyy)*	Social Security Number – –

Marital status
☐ Married
☐ Unmarried

Home Address *(Street, City, State, ZIP Code)*

Do you:
☐ Own your home ☐ Rent
☐ Other *(specify e.g., share rent, live with relative, etc.)*

County of Residence

Mailing Address *(if different from above or Post Office Box number)*

Primary Phone ( ) -

Secondary Phone ( ) -

Occupation

Employer's Address *(Street, City, State, ZIP Code)*

Employer's Name

Provide information about your spouse.

Spouse's Last Name	First Name	Date of Birth *(mm/dd/yyyy)*	Social Security Number – –

Occupation

Employer's Address *(Street, City, State, ZIP Code)*

Employer's Name

Provide information for all other persons in the household or claimed as a dependent.

Name	Age	Relationship	Claimed as a dependent on your Form 1040?	Contributes to household income?
			☐ Yes ☐ No	☐ Yes ☐ No
			☐ Yes ☐ No	☐ Yes ☐ No
			☐ Yes ☐ No	☐ Yes ☐ No
			☐ Yes ☐ No	☐ Yes ☐ No

Section 2 Self-employed Information

If you or your spouse is self-employed, complete this section.

Is your business a sole proprietorship *(filing Schedule C)*?
☐ Yes ☐ No

Address of Business *(If other than personal residence)*

Name of Business

Business Telephone Number ( ) -	Employer Identification Number	Business Website		Trade Name or dba
Description of Business	Total Number of Employees	Frequency of Tax Deposits	Average Gross Monthly Payroll $	

Section 2 Self-employed Information - *(Continued)*

Do you or your spouse have any other business interests? ☐ Yes *(Percentage of ownership:)* ☐ No		Business Address *(Street, City, State, ZIP code)*
Business Name		
Business Telephone Number ( ) -	Business Identification Number	

Type of business *(Select one)*

☐ Partnership ☐ Single member LLC ☐ LLC ☐ Corporation ☐ Other

Section 3 Personal Asset Information

If any total below results in a negative number, enter "0".

Cash and Investments (domestic and foreign)

Enter the total amount available for each of the following *(if additional space is needed include attachments).* Use the **most current** statement for each type of account, such as checking, savings, money market and online accounts, stored value cards *(such as, a payroll card from an employer)*, investment and retirement accounts *(IRAs, Keogh, 401(k) plans, stocks, bonds, mutual funds, certificates of deposit)*, life insurance policies that have a cash value, and safe deposit boxes.

Bank Account: ☐ Checking ☐ Savings ☐ Money Market ☐ Online Account ☐ Stored Value Card		
Bank Name	Account Number	(1a) $
Bank Account: ☐ Checking ☐ Savings ☐ Money Market ☐ Online Account ☐ Stored Value Card		
Bank Name	Account Number	(1b) $
Total value of bank accounts from attachment		(1c) $
	Add lines (1a) through (1c) =	**(1) $**
Investment Account: ☐ Stocks ☐ Bonds ☐ Other		
Name of Financial Institution	Account Number	
Current Market Value $________ X .8 = $________	Less Loan Balance – $________ =	(2a) $
Investment Account: ☐ Stocks ☐ Bonds ☐ Other		
Name of Financial Institution	Account Number	
Current Market Value $________ X .8 = $________	Less Loan Balance – $________ =	(2b) $
Total of investment accounts from attachment. [current market value X.8 less loan balance(s)]		(2c) $
	Add lines (2a) through (2c) =	**(2) $**
Retirement Account: ☐ 401k ☐ IRA ☐ Other		
Name of Financial Institution	Account Number	
Current Market Value $________ X .7 = $________	Less Loan Balance – $________ =	(3a) $
Retirement Account: ☐ 401k ☐ IRA ☐ Other		
Name of Financial Institution	Account Number	
Current Market Value $________ X .7 = $________	Less Loan Balance – $________ =	(3b) $
Total of investment accounts from attachment. [current market value X .7 less loan balance(s)]		(3c) $
	Add lines (3a) through (3c) =	**(3) $**

Section 3 Personal Asset Information - *(Continued)*

Cash value of life insurance policies

Name of Insurance Company	Policy Number	
Current Cash Value $ ______	Less Loan Balance – $ ______ =	(4a) $
Total of life insurance policies from attachment. $ ______	Less Any Loan Balance(s) – $ ______ =	(4b) $
	Add lines (4a) through (4b) =	**(4) $**

Real Estate (Enter information about any house, condo, co-op, time share, etc. that you own or are buying)

Property Address *(Street Address, City, State, ZIP Code)*	Primary Residence ☐ Yes ☐ No County and Country	
How is property titled? *(joint tenancy, etc.)*?	Description of Property	
Current Market Value $ ______ X .8 = $ ______	Less Loan Balance *(Mortgages, etc.)* – $ ______ Total Value of Real Estate =	(5a) $
Property Address *(Street Address, City, State, ZIP Code)*	Primary Residence ☐ Yes ☐ No County and Country	
How is property titled? *(joint tenancy, etc.)*?	Description of Property	
Current Market Value $ ______ X .8 = $ ______	Less Loan Balance *(Mortgages, etc.)* – $ ______ Total Value of Real Estate =	(5b) $
Property Address *(Street Address, City, State, ZIP Code)*	Primary Residence ☐ Yes ☐ No County and Country	
How is property titled? *(joint tenancy, etc.)*?	Description of Property	
Current Market Value $ ______ X .8 = $ ______	Less Loan Balance *(Mortgages, etc.)* – $ ______ Total Value of Real Estate =	(5c) $
Total value of property(s) from attachment [current market value X .8 less any loan balance(s)]		(5d) $
	Add lines (5a) through (5d) =	**(5) $**

Vehicles ***(Enter information about any cars, boats, motorcycles, etc. that you own or lease)***

Vehicle Make	Year	Model	Mileage	☐ Lease ☐ Loan	Monthly Lease/Loan Amount $	
Current Market Value $ ______ X .8 = $ ______			Less Loan Balance – $ ______		Total value of vehicle *(if the vehicle is leased, enter 0 as the total value)* =	(6a) $
Vehicle Make	Year	Model	Mileage	☐ Lease ☐ Loan	Monthly Lease/Loan Amount $	
Current Market Value $ ______ X .8 = $ ______			Less Loan Balance – $ ______		Total value of vehicle *(if the vehicle is leased, enter 0 as the total value)* =	(6b) $
Vehicle Make	Year	Model	Mileage	☐ Lease ☐ Loan	Monthly Lease/Loan Amount $	
Current Market Value $ ______ X .8 = $ ______			Less Loan Balance – $ ______		Total value of vehicle *(if the vehicle is leased, enter 0 as the total value)* =	(6c) $

Section 3 Personal Asset Information - *(Continued)*

Total value of vehicles listed from attachment [current market value X .8 less any loan balance(s)]	(6d) $
Add lines (6a) through (6d) =	**(6) $**

Other valuable items ***(artwork, collections, jewelry, items of value in safe deposit boxes, etc).***

Description of asset:	
Current Market Value $______ X .8 = $______ Less Loan Balance – $______ =	(7a) $
Description of asset:	
Current Market Value $______ X .8 = $______ Less Loan Balance – $______ =	(7b) $
Total value of valuable items listed from attachment [current market value X .8 less any loan balance(s)]	(7c) $
Add lines (7a) through (7c) =	**(7) $**

Section 4 Business Asset Information *(for Self-Employed)*

List business assets such as bank accounts, tools, books, machinery, equipment, business vehicles and real property that is owned/leased/rented. If additional space is needed, attach a list of items.

Bank Account: ☐ Checking ☐ Savings ☐ Money Market ☐ Online Account ☐ Stored Value Card		
Bank Name	Account Number	(8a) $
Bank Account: ☐ Checking ☐ Savings ☐ Money Market ☐ Online Account ☐ Stored Value Card		
Bank Name	Account Number	(8b) $
Total value of bank accounts from attachment		(8c) $
Add lines (8a) through (8c) for total bank account(s) =		**(8) $**

Description of asset:	
Current Market Value $______ X .8 = $______ Less Loan Balance – $______ =	(9a) $
Description of asset:	
Current Market Value $______ X .8 = $______ Less Loan Balance – $______ =	(9b) $
Total value of assets listed from attachment [current market value X .8 less any loan balance(s)]	(9c) $
Add lines (9a) through (9c) =	**(9) $**
IRS allowed deduction (2011 allowance) –	(10) $ 4,180
Enter the value of line (9) minus line (10). If less than zero enter zero. =	**(11) $**

Notes Receivable

Do you have notes receivable? ☐ Yes ☐ No

If yes, attach current listing which includes name and amount of note(s) receivable.

Enter the total value of notes receivable from attached listing	**(12) $**
Do not include amount on the lines with a letter beside the number. **Add lines (1) through (8), line (11), and line (12) and enter the amount in Box 1 =**	**Box 1 Total Available Assets** **$**

Section 5 Business Income and Expense Information *(for Self-Employed)*

Note: If you provide a current profit and loss (P&L) statement for the information below, enter the total gross monthly income on line 18 and your monthly expenses on line 29 below. Do not complete lines (13) - (17) and (19) - (29). You may use the amounts claimed for income and expenses on your most recent Schedule C; however, if the amount has changed significantly within the past year, a current P&L should be submitted to substantiate the claim.

Business Income ***(You may average 6-12 months income/receipts to determine your Gross monthly income/receipts.)***

Gross receipts	(13) $
Gross rental income	(14) $
Interest income	(15) $
Dividends	(16) $
Other income	(17) $
Gross Monthly Business Income - Add lines (13) through (17) =	**(18) $**

Business Expenses (*You may average 6-12 months expenses to determine your average expenses.)*

Materials purchased *(e.g., items directly related to the production of a product or service)*	(19) $
Inventory purchased *(e.g., goods bought for resale)*	(20) $
Gross wages and salaries	(21) $
Rent	(22) $
Supplies *(items used to conduct business and used up within one year, e.g., books, office supplies, professional equipment, etc.)*	(23) $
Utilities/telephones	(24) $
Vehicle costs *(gas, oil, repairs, maintenance)*	(25) $
Business Insurance	(26) $
Current Business Taxes *(e.g., Real estate, excise, franchise, occupational, personal property, sales and employer's portion of employment taxes)*	(27) $
Other secured debts *(not credit cards)*	(28) $
Other business expenses *(include a list)*	(29) $
Total Monthly Business Expenses - Add lines (19) through (29) =	**(30) $**
Subtract line (30) from line (18) and enter the amount in Box 2 =	**Box 2 Net Business Income** **$**

Section 6 Monthly Household Income and Expense Information

Enter your household's gross monthly income. The information below is for yourself, your spouse, and anyone else who contributes to your household's income. The entire household includes spouse, significant other, children, and others who contribute to the household. This is necessary for the IRS to accurately evaluate your offer.

Monthly household income

Primary taxpayer Wages $________ + Social Security $________ + Pension(s) $________ = Total primary taxpayer income	(31) $
Spouse/Other contributors to the household Wages $________ + Social Security $________ + Pension(s) $________ = Total spouse/other contributors income	(32) $
Interest and dividends	(33) $
Distributions *(such as, income from partnerships, sub-S Corporations, etc.)*	(34) $
Net rental income	(35) $
Net business income from Box 2	(36) $
Child support received by the household	(37) $
Alimony received by the household	(38) $
Additional household income	(39) $
Add lines (31) through (39) and enter the amount in Box 3 =	**Box 3 Total Household Income** **$**

Section 6 Monthly Household Income and Expense Information

Monthly Household Expenses

Enter your average monthly expenses. ***Note: Expenses may be adjusted based on IRS Collection Financial Standards.***

Food, clothing, and miscellaneous *(e.g., housekeeping supplies, personal care products). A reasonable estimate of these expenses may be used.*	(41) $
Housing and utilities *(e.g., rent or mortgage payment and average monthly cost of property taxes, home insurance, maintenance, dues, fees and utilities including electricity, gas, other fuels, trash collection, water, cable, telephone, and cell phone).*	(42) $
Vehicle loan and/or lease payment(s)	(43) $
Vehicle operating costs *(e.g., average monthly cost of maintenance, repairs, insurance, fuel, registrations, licenses, inspections, parking, tolls, etc.). A reasonable estimate of these expenses may be used.*	(44) $
Public transportation costs *(e.g., average monthly cost of fares for mass transit such as bus, train, ferry, taxi, etc.). A reasonable estimate of these expenses may be used.*	(45) $
Health insurance premiums	(46) $
Out-of-pocket heath care costs *(e.g. average monthly cost of prescription drugs, medical services, and medical supplies like eyeglasses, hearing aids, etc.)*	(47) $
Court-ordered payments *(e.g., monthly cost of any alimony, child support, etc.)*	(48) $
Child/dependent care payments *(e.g., daycare, etc.)*	(49) $
Life insurance premiums	(50) $
Taxes *(e.g., monthly cost of federal, state, and local tax, personal property tax, etc.)*	(51) $
Other secured debts *(e.g., any loan where you pledged an asset as collateral not previously listed)*. Do not include unsecured debt such as credit cards.	(52) $
Add lines (41) through (52) and enter the amount in Box 4 =	**Box 4 Household Expenses** **$**
Subtract Box 4 from Box 3 and enter the amount in Box 5 =	**Box 5 Remaining Monthly Income** **$**

Section 7 Calculate Your Minimum Offer Amount

The next steps calculate your minimum offer amount. The amount of time you take to pay your offer in full will affect your minimum offer amount. Paying over a shorter period of time will result in a smaller minimum offer amount.

If you will pay your offer in 5 months or less *(Payment Option 1)*, multiply "Remaining Monthly Income" *(Box 5)* by 48 to get "Future Remaining Income" *(Box 6)*.

Enter the total from Box 5 here **$**	**X 48 =**	**Box 6 Future Remaining Income** **$**

If you will pay your offer in more than 5 months (Payment Option 2), multiply "Remaining Monthly Income" *(Box 5)* by 60 to get "Future Remaining Income" (Box 7).

Enter the total from Box 5 here **$**	**X 60 =**	**Box 7 Future Remaining Income** **$**

Determine your minimum offer amount by adding the total available assets from Box 1 to amount in either Box 6 or Box 7.

Enter the amount from Box 1 here **$**	**+**	**Enter the amount from either Box 6 or Box 7** **$**	**=**	**Minimum Offer Amount** Must be more than zero **$** ____________

If you have special circumstances that would hinder you from paying this amount, explain them on Form 656, Offer in Compromise, page 2, "Explanation of Circumstances."

Section 7 Other Information

Additional information IRS needs to consider settlement of your tax debt. If you or your business are currently in a bankruptcy proceeding, you are not eligible to apply for an offer.

Are you the beneficiary of a trust, estate, or life insurance policy?
☐ Yes ☐ No

Are you currently in bankruptcy?
☐ Yes ☐ No

Have you filed bankruptcy in the past 10 years?
☐ Yes ☐ No

Discharge/Dismissal Date *(mm/dd/yyyy)*

County Filed

Have you been party to a lawsuit?
☐ Yes ☐ No

If yes, date the lawsuit was resolved: *(mm/dd/yyyy)*

In the past 10 years, have you transferred any assets for less than their full value?
☐ Yes ☐ No

Have you lived outside the U.S. for 6 months or longer in the past 10 years?
☐ Yes ☐ No

Do you have any funds being held in trust by a third party?
☐ Yes ☐ No **If yes**, how much $ Where:

Section 8 Signatures

Under penalties of perjury, I declare that I have examined this offer, including accompanying documents, and to the best of my knowledge it is true, correct, and complete.

Signature of Taxpayer	Date *(mm/dd/yyyy)*
Signature of Taxpayer	Date *(mm/dd/yyyy)*

Remember to include all applicable attachments listed below.

- ☐ Copies of the most recent pay stub, earnings statement, etc., from each employer
- ☐ Copies of bank statements for the three most recent months
- ☐ Copies of the most recent statement, etc., from all other sources of income such as pensions, Social Security, rental income, interest and dividends, court order for child support, alimony, and rent subsidies
- ☐ Copies of the most recent statement for each investment and retirement account
- ☐ Copies of the most recent statement from lender(s) on loans such as mortgages, second mortgages, vehicles, etc., showing monthly payments, loan payoffs, and balances
- ☐ List of Notes Receivable, if applicable
- ☐ Accountant's depreciation schedules, if applicable
- ☐ Documentation to support any special circumstances described in the "Explain special circumstances" section on page 2 of Form 656, if applicable
- ☐ Attach a Form 2848, *Power of Attorney*, if you would like your attorney, CPA, or enrolled agent to represent you and you do not have a current form on file with the IRS.

Form **433-B (OIC)**
(March 2011)

Department of the Treasury — Internal Revenue Service

Collection Information Statement for Businesses

Complete this form if your business is a

- Corporation
- Partnership
- Limited Liability Company (LLC) classified as a corporation
- Other multi-owner/multi-member LLC
- Single member LLC

If your business is a sole proprietorship (filing Schedule C), do not use this form. Instead, complete Form 433-A (OIC) Collection Information Statement for Wage Earners and Self-Employed Individuals.

Include attachments if additional space is needed to respond completely to any question.

Section 1 Business Information

Business Name	Employer Identification Number
Business address *(street, city, state, zip code)*	County of Business Location
	Description of Business and dba or "Trade Name"

Primary Phone ( ) -	Secondary Phone ( ) -	Mailing address *(if different from above or Post Office Box number)*
Business website address		Does the business use a payroll service provider? ☐ Yes ☐ No
Federal Contractor ☐ Yes ☐ No	Total Number of Employees	If yes, list provider name and address *(Street, City, State, ZIP Code)*
Frequency of tax deposits	Average gross monthly payroll $	

Provide information about all partners, officers, LLC members, major shareholders (foreign and domestic), etc., associated with the business. Include attachments if additional space is needed.

Last Name	First Name	Title
Percent of Ownership	Social Security Number – –	Home address *(Street, City, State, ZIP Code)*
Primary Phone ( ) -	Secondary Phone ( ) -	
Last Name	First Name	Title
Percent of Ownership	Social Security Number – –	Home address *(Street, City, State, ZIP Code)*
Primary Phone ( ) -	Secondary Phone ( ) -	
Last Name	First Name	Title
Percent of Ownership	Social Security Number – –	Home address *(Street, City, State, ZIP Code)*
Primary Phone ( ) -	Secondary Phone ( ) -	

Section 2 Business Asset Information

If any total below results in a negative number, enter "0".

Enter the total amount available for each of the following *(if additional space is needed, please include attachments)*. Gather the **most current** statement from banks, lenders on loans, mortgages *(including second mortgages)*, monthly payments, loan balances, and accountant's depreciation schedules, if applicable. Also, include make/model/year/mileage of vehicles and current value of business assets. To estimate the current value, you may consult resources like Kelley Blue Book *(www.kbb.com),* NADA *(www.nada.com)*, local real estate postings of properties similar to yours, and any other websites or publications that show what the business assets would be worth if you were to sell them.

Bank Account: ☐ Checking ☐ Savings ☐ Money Market ☐ Online Account ☐ Stored Value Card		
Bank Name	Account Number	(1a) $
Bank Account: ☐ Checking ☐ Savings ☐ Money Market ☐ Online Account ☐ Stored Value Card		
Bank Name	Account Number	(1b) $
Bank Account: ☐ Checking ☐ Savings ☐ Money Market ☐ Online Account ☐ Stored Value Card		
Bank Name	Account Number	(1c) $
Total value of bank accounts from attachment		(1d) $
	Add lines (1a) through (1d) =	**(1) $**
Investment Account: ☐ Stocks ☐ Bonds ☐ Other		
Name of Financial Institution	Account Number	
Current Market Value $______ X .8 = $______	Less Loan Balance – $______ =	(2a) $
Investment Account: ☐ Stocks ☐ Bonds ☐ Other		
Name of Financial Institution	Account Number	
Current Market Value $______ X .8 = $______	Less Loan Balance – $______ =	(2b) $
Total of investment accounts from attachment. [current market value X.8 less loan balance(s)]		(2c) $
	Add lines (2a) through (2c) =	**(2) $**
Notes receivable - Do you have notes receivable? ☐ Yes ☐ No **If yes**, attach current listing which includes name and amount of note(s) receivable.		
	Total notes receivable from attached listing =	**(3) $**

Section 2 — Business Asset Information - *(Continued)*

If the business owns more properties, vehicles, or equipment than shown in this form, please list on an attachment.

Real Estate *(Buildings, Lots, Commercial Property, etc.)* **If any total below results in a negative number, enter "0".**

Property Address *(Street Address, City, State, ZIP Code)*	Property Description County and Country	
Current Market Value $________ X .8 = $________	Less Loan Balance *(Mortgages, etc.)* – $________ Total Value of Real Estate =	(4a) $
Property Address *(Street Address, City, State, ZIP Code)*	Property Description County and Country	
Current Market Value $________ X .8 = $________	Less Loan Balance *(Mortgages, etc.)* – $________ Total Value of Real Estate =	(4b) $
Total value of property(s) listed from attachment [current market value X .8 less any loan balance(s)]		(4c) $
	Add lines (4a) through (4c) =	**(4) $**

Business Vehicles *(cars, boats, motorcycles, trailers, etc.)*. If additional space is needed, list on an attachment.

Vehicle Make	Year	Model	Mileage or Use Hours	
☐ Lease ☐ Loan	Monthly Lease/Loan Amount $			
Current Market Value $________ X .8 = $________		Less Loan Balance – $________	Total value of vehicle *(if the vehicle is leased, enter 0 as the total value)* =	(5a) $
Vehicle Make	Year	Model	Mileage or Use Hours	
☐ Lease ☐ Loan	Monthly Lease/Loan Amount $			
Current Market Value $________ X .8 = $________		Less Loan Balance – $________	Total value of vehicle *(if the vehicle is leased, enter 0 as the total value)* =	(5b) $
Vehicle Make	Year	Model	Mileage or Use Hours	
☐ Lease ☐ Loan	Monthly Lease/Loan Amount $			
Current Market Value $________ X .8 = $________		Less Loan Balance – $________	Total value of vehicle *(if the vehicle is leased, enter 0 as the total value)* =	(5c) $
Total value of vehicles listed from attachment [current market value X .8 less any loan balance(s)]				(5d) $
			Add lines (5a) through (5d) =	**(5) $**

Other Business Equipment

Current Market Value $________ X .8 = $________	Less Loan Balance – $________	Total value of equipment *(if leased, enter 0 as the total value)* =	(6a) $
Total value of equipment listed from attachment [current market value X .8 less any loan balance(s)]			(6b) $
		IRS allowed exemption -	(6c) $ 4,120
		Total value of all business equipment = If number is less than zero, enter zero.	**(6) $**
		Do not include the amount on lines with a letter beside the number. **Add lines (1) through (6) and enter the amount in Box 1 =**	**Box 1 Total Available Assets** **$**

Section 3 Business Income Information

Enter the **average** gross monthly income of your business. To determine your gross monthly income use the most recent 6-12 months documentation of commissions, invoices, gross receipts from sales/services, etc.; most recent 6-12 months earnings statements, etc., from every other source of income (such as rental income, interest and dividends, or subsidies); or you may use a most recent 6-12 months Profit and Loss (P&L) to provide the information of income and expenses.

Note: If you provide a current profit and loss statement for the information below, enter the total gross monthly income in Box 2 below. Do not complete lines (7) - (11).

Gross receipts	(7) $
Gross rental income	(8) $
Interest income	(9) $
Dividends	(10) $
Other income *(Specify on attachment)*	(11) $
Add lines (7) through (11) and enter the amount in Box 2 =	**Box 2 Total Business Income** **$**

Section 4 Business Expense Information

Enter the average gross monthly expenses for your business using your most recent 6-12 months statements, bills, receipts, or other documents showing monthly recurring expenses.

Note: If you provide a current profit and loss statement for the information below, enter the total monthly expenses in Box 3 below. Do not complete lines (12) - (21).

Materials purchased *(e.g., items directly related to the production of a product or service)*	(12) $
Inventory purchased *(e.g., goods bought for resale)*	(13) $
Gross wages and salaries	(14) $
Rent	(15) $
Supplies *(items used to conduct business and used up within one year, e.g., books, office supplies, professional equipment, etc.)*	(16) $
Utilities/telephones	(17) $
Vehicle costs *(gas, oil, repairs, maintenance)*	(18) $
Insurance *(other than life)*	(19) $
Taxes *(e.g., real estate, state, and local income tax, excise franchise, occupational, personal property, sales and employer's portion of employment taxes, etc.)*	(20) $
Other expenses *(e.g., secured debt payments. Specify on attachment. Do not include credit card payments)*	(21) $
Add lines (12) through (21) and enter the amount in Box 3 =	**Box 3 Total Business Expenses** **$**
Subtract Box 3 from Box 2 and enter the amount in Box 4 = If number is less than zero, enter zero.	**Box 4 Remaining Monthly Income** **$**

Section 5 — Calculate Your Minimum Offer Amount

The next steps calculate your minimum offer amount. The amount of time you take to pay your offer in full will affect your minimum offer amount. Paying over a shorter period of time will result in a smaller minimum offer amount.

If you will pay your offer in 5 months or less *(Payment Option 1)*, multiply "Remaining Monthly Income" (Box 4) by 48 to get "Future Remaining Income."

Enter the amount from Box 4 here			Box 5 Future Remaining Income
$	X 48	=	$

If you will pay your offer in more than 5 months *(Payment Option 2)*, multiply "Remaining Monthly Income" (from Box 4) by 60 to get "Future Remaining Income."

Enter the amount from Box 4 here			Box 6 Future Remaining Income
$	X 60	=	$

Determine your minimum offer amount by adding the total available assets from Box 1 to amount in either Box 5 or Box 6.

Enter the amount from Box 1 here*		Enter the amount from either Box 5 or Box 6		**Minimum Offer Amount** Must be more than zero
$	+	$	=	$ ____________

If you have special circumstances that would hinder you from paying this amount, explain them on Form 656, Offer in Compromise, Page 2, "Explanation of Circumstances."

***You may exclude any equity in income producing assets shown in Section 2 of this form.**

Section 6 — Other Information

Additional information IRS needs to consider settlement of your tax debt. If this business is currently in a bankruptcy proceeding, the business is not eligible to apply for an offer.

Is the business currently in bankruptcy?
☐ Yes ☐ No

Has the business ever filed bankruptcy?
☐ Yes ☐ No

If yes, provide:

Date Filed *(mm/dd/yyyy)* __________ Date Dismissed or Discharged*(mm/dd/yyyy)* __________

Petition No.__________ Location __________

Does this business have other business affiliations *(e.g., subsidiary or parent companies)*?
☐ Yes ☐ No

If yes, list the Name and Employer Identification Number:

Do any related parties *(e.g., partners, officers, employees)* owe money to the business?
☐ Yes ☐ No

Has the business been party to a lawsuit?
☐ Yes ☐ No **If yes**, date the lawsuit was resolved: __________

In the past 10 years, has the business transferred any assets for less than their full value?
☐ Yes ☐ No

Has the business been located outside the U.S. for 6 months or longer in the past 10 years?
☐ Yes ☐ No

Does the business have any funds being held in trust by a third party?
☐ Yes ☐ No **If yes**, how much $ __________ Where: __________

Does the business have any lines of credit?
☐ Yes ☐ No **If yes**, credit limit $ __________ Amount owed $ __________

What property secures the line of credit? __________

Section 7 — Signatures

Under penalties of perjury, I declare that I have examined this offer, including accompanying documents, and to the best of my knowledge it is true, correct, and complete.

Signature of Taxpayer	Title	Date *(mm/dd/yyyy)*

Remember to include all applicable attachments from list below.

- [ ] A current Profit and Loss statement covering at least the most recent 6-12 month period, if appropriate.
- [ ] Copies of the most recent statement for each bank, investment, and retirement account.
- [ ] If an asset is used as collateral on a loan, include copies of the most recent statement from lender(s) on loans, monthly payments, loan payoffs, and balances.
- [ ] Copies of the most recent statement of outstanding notes receivable.
- [ ] Copies of the most recent statements from lenders on loans, mortgages (including second mortgages), monthly payments, loan payoffs, and balances.
- [ ] Copies of accountant's depreciation schedules, if applicable.
- [ ] Copies of relevant supporting documentation of the special circumstances described in the "Explain special circumstances" section on page 2 of Form 656, if applicable.
- [ ] Attach a Form 2848, Power of Attorney, if you would like your attorney, CPA, or enrolled agent to represent you and you do not have a current form on file with the IRS.

APPLICATION CHECKLIST

Review the entire application and verify that it is complete.

Forms 433-A (OIC), 433-B (OIC), and 656

- ☐ Did you complete all fields and sign all forms?
- ☐ Did you make an offer amount that is greater than or equal to the minimum offer calculated on the Form 433-A (OIC) or Form 433-B (OIC)? If not, did you describe the special circumstances that are leading you to offer less than the minimum in the "Explanation of Circumstances" section 3 of Form 656, and did you provide supporting documentation of the special circumstances?
- ☐ Did you select a payment option on Form 656?
- ☐ If you want to allow the IRS to discuss your offer with another person, did you complete the "Third-Party Designee" section on the Form 656?
- ☐ If someone other than you completed the Form 656, did they sign it?
- ☐ Did you sign and attach the Form 433-A (OIC) if applicable?
- ☐ Did you sign and attach the Form 433-B (OIC) if applicable?
- ☐ Did you sign and attach the Form 656?

Supporting documentation and additional forms

- ☐ Did you include photocopies of all required supporting documentation?
- ☐ If you want a third party to represent you during the offer process, did you include a Form 2848 or Form 8821 unless one is already on file?

Payment

- ☐ Did you include a check or money order made payable to the "United States Treasury" for the initial payment? (Waived if you meet Low Income Certification guidelines—see Form 656.)
- ☐ Did you include a separate check or money order made payable to the "United States Treasury" for the $150 application fee? (Waived if you meet Low Income Certification guidelines—see Form 656.)

Mail your application package to the appropriate IRS facility

Mail the Form 656, 433-A (OIC) and/or 433-B (OIC), and related financial document(s) to the appropriate IRS processing office for your state. You may wish to send it by Certified Mail so you have a record of the date it was mailed.

If you reside in:	Mail your application to:
AK, AL, AZ, CA, CO, HI, ID, KY, LA, MS, MT, NV, NM, OR, TN, TX, UT, WA, WI, WY	Memphis IRS Center COIC Unit P.O. Box 30803, AMC Memphis, TN 38130-0803 1-866-790-7117
AR, CT, DE, FL, GA, IA, IL, IN, KS, MA, MD, ME, MI, MN, MO, NC, ND, NE, NH, NJ, NY, OH, OK, PA, RI, SC, SD, VT, VA, WV; DC, PR, or a foreign address	Brookhaven IRS Center COIC Unit P.O. Box 9007 Holtsville, NY 11742-9007 1-866-611-6191

CHAPTER 2 – REVIEW QUESTIONS

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter. They do not need to be submitted in order to receive CPE credit. They are included as an additional tool to enhance your learning experience.

We recommend that you answer each review question and then compare your response to the suggested solution before answering the final exam questions related to this chapter.

1. The ultimate goal of an Offer in Compromise (OIC) is a compromise that suits the best interest of both the taxpayer and the IRS.

   a) true
   b) false

2. To arrive at Reasonable Collection Potential (RCP), the IRS sums the total realizable value of the taxpayer's assets and the taxpayer's future income.

   a) true
   b) false

3. If you have a legitimate doubt that you owe part or all of the tax debt, you will need to complete a:

   a) Form 656-B
   b) Form 656-L
   c) Notice of Federal Tax Lien
   d) Form 656-PPV

4. Which of the following is <u>not</u> true regarding payment of application fees:

   a) payments should be made payable to the United States Treasury
   b) the application fee reduces the assessed tax or other amounts due
   c) the application fee can be combined with the required offer payment
   d) if multiple OICs are filed at the same time, multiple application fees should not be combined

5. If you are currently in an open bankruptcy proceeding, you are not eligible to apply for an offer.

   a) true
   b) false

6. When exploring sourcing options for securing the cash needed to fund your Offer in Compromise with the IRS, which of the following would likely be best:

    a) liquidating assets
    b) obtaining a loan from a lending institution
    c) borrowing from a family member
    d) approach numerous funding sources, including a, b, and c listed above

7. Once the IRS accepts an OIC, the taxpayer must, for the next five years, timely file and pay future taxes in order to avoid defaulting on the original OIC.

    a) true
    b) false

8. Your Offer in Compromise must include a $150 application fee and a current:

    a) tax return that was currently filed
    b) letter requesting an appeal
    c) estimate of required living expenses
    d) Collection Information Statement

9. If you have a joint tax debt(s) with your spouse and also have individual tax debt(s), you will send in ______ Form(s) 656.

    a) one
    b) two
    c) three
    d) none; you do not use Form 656 in this scenario

CHAPTER 2 – SOLUTIONS AND SUGGESTED RESPONSES

1. **A: True is correct.** Generally, you must make an appropriate offer based on what the IRS considers your true ability to pay.

   B: False is incorrect. Absent special circumstances, an offer will not be accepted if the IRS believes that the liability can be paid in full as a lump sum or through a payment agreement.

   (See page 2-1 of the course material.)

2. **A: True is correct.** The IRS may subtract certain amounts allowed for basic living expenses. Generally, the RCP total figure is the minimum offer amount for an OIC.

   B: False is incorrect. The RCP is based on the addition of the taxpayer's realized value of assets owned and his or her future income. This is usually the minimum offer amount made on a taxpayer's Offer in Compromise with the IRS.

   (See page 2-1 of the course material.)

3. A: Incorrect. There is no such form as Form 656-B.

   B: Correct. To file for a legitimate doubt that you owe part or all of the tax debt, you will need to complete a Form 656-L *Offer in Compromise (Doubt as to Liability)*.

   C: Incorrect. A Notice of Federal Tax Lien (lien) gives the IRS a legal claim to your property as security for payment of your tax debt.

   D: Incorrect. The Form 656-PPV, *Offer in Compromise Payment Voucher*, is the form used to make any periodic payment(s) that becomes due.

   (See page 2-2 of the course material.)

4. A: Incorrect. Payments should be made by check or money order.

   B: Incorrect. The application fee will be returned if the OIC is deemed not to be processable.

   C: Correct. Two separate remittances should be sent; one for the application fee, and the other for the required offer payment.

   D: Incorrect. Separate application fees should be prepared for each OIC.

   (See page 2-3 of the course material.)

5. **A: True is correct.** Any resolution of your outstanding tax debts generally must take place within the context of your bankruptcy proceeding.

   B: False is incorrect. Also, before submitting your offer, you must file all tax returns you are legally required to file, and make all estimated tax payments for the current year.

   (See page 2-4 of the course material.)

6. A: Incorrect. Assuming that the IRS would agree with such action, liquidating assets may be satisfactory, but is not likely the best option in all cases.

   B: Incorrect. Depending upon the taxpayer's current credit situation, and existence of liens, etc., this may not be a viable option in all cases.

   C: Incorrect. Borrowing from family members may be a suitable solution, but may not be the best option – especially if the taxpayer is a partnership or corporation.

   D: Correct. Generally, approaching numerous funding sources would most likely be the best course of action to satisfy commitments made to the IRS.

   (See page 2-5 of the course material.)

7. **A: True is correct.** A condition of the OIC agreement states that the taxpayer must remain in compliance with the filing and payment of all required taxes for a period of five (5) years, or until the offered amount paid in full, whichever is longer.

   B: False is incorrect. Failure to comply with this condition will result in the default of the OIC and the reinstatement of the tax liability.

   (See page 2-5 of the course material.)

8. A: Incorrect. The taxpayer's tax return is not the requested attachment to the application fee.

   B: Incorrect. A letter requesting an appeal is not appropriate when initiating the Offer in Compromise process.

   C: Incorrect. An estimate of required living expenses provided alone is not adequate information to process an Offer in Compromise.

   D: Correct. A Collection Information Statement, (Form 433-A or Form 433-B), completely and accurately completed is required along with the application fee and a completed Form 656.

   (See page 2-6 of the course material.)

9. A: Incorrect. You and your spouse will need to file separate Forms 656 for the individual and joint tax debts.

   B: Correct. You will complete one Form 656 for the joint tax debts and another Form 656 for the individual tax debts.

   C: Incorrect. The joint tax debt is filed on one form 656, while the individual tax debt is filed on another Form 656.

   D: Incorrect. You must file Forms 656 in this scenario.

   (See page 2-6 of the course material.)

Glossary

Abatement: A partial or complete cancellation of taxes, penalties or interest owed by a taxpayer.

ACS: See *Automated Collection System.*

Automated collection system (ACS): A computerized collection process for IRS collectors to contact delinquent taxpayers by telephone and mail.

Collateral Agreement: An agreement sometimes secured by the IRS prior to acceptance of an Offer in Compromise when the IRS wants to cover a future, reasonably possible event, such as a significant increase in income.

Collection Division: Tax collectors who work out of the IRS Service Center, Automated Collection or District Office.

Collection Information Statement (IRS Forms 433-A, 433-B, and 433-F): IRS financial statements which require disclosure of personal information, particularly assets, income and expenses.

Correspondence Audit: A correspondence audit is done by mail. The IRS sends you a letter either alleging you forgot some item of income or requests to see the documentation to substantiate a deduction you have taken on your tax return. The most common type is the CP2000 notice, a computer generated notice that you failed to report an item of income. These must be checked closely since the reporting agency, often the Social Security Administration for W2's, can make typographical errors. If you fail to properly dispute these errors the IRS is free to assess and collect the tax it believes is owed. And if ignored long enough, your only recourse is to pay the tax, penalty, and interest and then sue the IRS in court, an expensive proposition.

Current Market Value: The amount you could reasonably expect to be paid for the asset if you sold it today. You can find out the value from realtors, used car dealers, publications, furniture dealers, or other experts on specific types of assets. You are advised to include a copy of any written estimate with your Collection Information Statement.

Delinquent Return: A tax return not filed by the due date (April 15) or by the dates allowed through the IRS extension periods (August 15 and October 15).

Examination: Official IRS term for an audit.

Expenses Not Generally Allowed: Expenses not allowed such as claim tuition for private schools, public or private college expenses, charitable contributions, voluntary retirement contributions, payments on unsecured debts such as credit card bills, cable television charges and other similar expenses as necessary living expenses. These expenses can be allowed when you can prove that they are necessary for the health and welfare of you or your family or for the production of income.

Fair Market Value: The price a willing buyer and seller of property would agree on as fair, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts.

Federally Authorized: Only Enrolled Agents, CPAs, and Attorneys are allowed to represent taxpayers before the IRS. An unenrolled tax preparer can defend a client for whom he prepared a tax return during audit but cannot take it to appeals or represent the taxpayer before the collections division.

Field & Office Audits: Audits are an examination of the tax return you filed with the IRS. The examiner, typically a Revenue Agent, looks for undocumented income and unsubstantiated expenses or deductions. If the audit is performed in the IRS office, it is considered an office audit. These are common for wage earners. If the audit is conducted at the taxpayer's home or place of business, these are field audits.

Freedom of Information Act: A federal law giving citizens the right to see governmental documents, including their IRS files.

Future Income: The amount the IRS could collect from your future income by subtracting necessary living expenses from your monthly income over a set number of months. For a cash offer, you must offer what you could pay in monthly payments over forty-eight months *(or the remainder* of *the ten-year statutory period for collection, whichever is less).* For a short-term deferred offer, you must offer what you could pay in monthly payments over sixty months *(or the remainder* of *the* statutory *period for collection, whichever is less).* For a deferred payment offer, you must offer what you could pay in monthly payments during the remaining time payments could legally be received.

Garnishments: Garnishments are ongoing levies. Most common is the wage garnishment in which the IRS takes all but a pittance of your take home pay. The IRS would serve its garnishment on your employer. The employer is required to leave you a preset amount to live on (although you couldn't live on the amount the IRS authorizes) and send the balance to the IRS toward your tax debt. The garnishment is one of the most effective tools the IRS has to get you to the bargaining table. And most employers hate garnishments since it creates a lot of extra work for their payroll department. Some employers have policies against having unresolved tax debts.

Installment Agreement: The installment agreement is a payment plan between you and the IRS. The IRS has some flexibility regarding the payment amount as long as the debt will be paid off before the statute of limitations expires. If the amount due is small and you are offering large payments, it can be quite simple to get an installment agreement. The agreement comes with some strings attached, such as staying current on the filing and paying of future tax returns for as long as the agreement is in place. Penalties and interest will continue to be charged although the penalty rate is currently reduced during the installment agreement. The IRS charges a nominal fee to setup an installment agreement. For larger debts or those debts involving payroll tax issues, the IRS may elect to assign a Revenue Officer (debt collector) to determine the maximum payment it can get from you.

Jeopardy Assessment: An expedited procedure by which the IRS imposes a tax liability without notifying you first. A jeopardy assessment is rare and used when the IRS believes the taxpayer is about to leave the country or hide assets.

Levies: A levy is the taking of an asset. Most common is the bank levy. The IRS serves a levy notice on your bank for money held in your account. The account is frozen for an amount of money up to the amount owed to the IRS. If there is less in the account than you owe, the whole account is frozen for 21 days. During that time the original amount in the account is locked up. Any new money added is not part of the original levy. At the end of the 21 days, the money is transferred to the IRS unless you have obtained a release from the IRS. Most levies are one-shot deals, but the IRS can continue to get new levies on a daily basis. They generally don't. Part of resolving tax debts is to obtain from the IRS a release of the levy.

Liens: A lien is merely a statement alleging that you owe a tax debt. It is legally created anytime you owe taxes. It can show up on your credit report, and if the IRS locates property you own, it can be filed against the property. The most common example is a lien filed against your home. Once filed, you cannot sell the asset until the lien is paid off. For houses, the payoff is part of closing. And if you don't have sufficient equity to payoff the mortgage(s) and lien, you can only sell your home by bringing your own money to closing.

Liquidation Value: The amount the IRS can get from a distress sale of a taxpayer's assets, usually a public auction (typically 70% of fair market value).

Local Standards: Maximum allowances for housing and utilities known as Local Standards, vary by location. Unlike the National Standards, taxpayers are allowed the amount actually spent, or the standard, whichever is less. There are separate allowance amounts for transportation expenses.

National Standards: Allowances for food, clothing and other items, known as the National Standards, apply nationwide except for Alaska and Hawaii, which have their own tables. Taxpayers are allowed the total National Standards amount for their family size and income level, without questioning amounts actually spent.

Necessary Expenses: The allowable payments you make to support you and your family's health and welfare and/or the production of income. This expense allowance does not apply to business entities. Publication 1854, *How to Prepare a Collection Information Statement (Form 433-A),* explains the National Standard Expenses and gives the allowable amounts. These amounts are derived from the Bureau of Labor Statistics *(BLS)* Consumer Expenditure Survey. Also used is information from the Bureau of the Census to determine local expenses for housing, utilities, and transportation. *Note: If the IRS determines that the facts and circumstances of your situation indicate that using the scheduled allowance of necessary expenses is inadequate, you will be allowed an adequate means for providing basic living expenses. However, you must provide documentation that supports a determination that using national and local expense standards leaves you an inadequate means of providing for basic living expenses.*

Notice of Deficiency: An IRS notice informing a taxpayer he or she owes the IRS the amount listed, which is the excess of the taxpayer's correct tax liability for the taxable year over the amount of taxes already paid for such year.

Offer in Compromise (OIC): The "pennies on the dollar" program allows taxpayers to settle their tax debt for something less than full payment. The criteria is fairly rigid and was designed by Congress, not the IRS. It is a pure business decision. The IRS determines what it could liquidate you for and adds to that what it could collect over the next 48 months and arrives at a minimum amount it might accept. The OIC program is a great program for those who qualify. But don't use it lightly since it stops the running of the statute of limitations on collections. Proper preparation of IRS financial statements is the key to a good OIC. And since the IRS is back-logged with Offers, patience is a virtue. But for those who qualify, this is a great program. Offers can be made with a lump sum payment or payments over time (much like an installment agreement). Acceptance by the IRS of an offer does come with strings attached, such as staying current with filing and paying for five years after the offer is accepted.

Penalties: The IRS assesses two types of penalties on late filed income tax returns. The first and most expensive is the failure to file. Any tax return filed after the due date, including extensions, is considered late. The penalty is based upon the balance due with the tax return. The second penalty is the failure to pay. This is also based upon the amount due with the tax return and is calculated from the due date of the return, without regard to extensions. Some people erroneously believe that since they have a refund they don't need to worry about filing on time. However, if the return is ever audited and the result is a balance due, the penalties will be based upon the due date of the return, even if the audit occurs 2 years later.

Pending Offer: An offer pending starting with the date an authorized IRS official signs Form 656 and accepts your waiver of the statutory period of limitation, and remains pending until an authorized IRS official accepts, rejects or acknowledges withdrawal of the offer in writing.

Petition: A form filed with the U.S. Tax Court requesting a hearing to contest a proposed IRS tax assessment.

Power of Attorney (IRS Form 2848): A form appointing a tax representative to deal with the IRS on your behalf.

Protracted Installment Agreement: An installment agreement that extends beyond the period allowed under IRS issued guidelines.

Quick Sale Value: The amount that can be realized from the sale of a taxpayer's assets when financial and other pressures force the taxpayer to sell quickly – typically in ninety days or less. This amount generally is less than current value, but may be equal to or higher, based on local circumstances – typically 80% of fair market value.

Realizable Value: The quick sale value amount minus what you owe to a secured creditor. The creditor must have priority over a filed Notice of Federal Tax Lien before a subtraction is allowed from the asset's value.

Reasonable Cause: There are a variety of reasons why taxpayers don't file or pay. Divorce, job loss, death of family members, mental or physical diseases, drug and alcohol problems, and dog ate the homework, etc. are many of the reasons why taxpayers fail to file or pay. The law allows for the abatement (removal) of penalties for reasonable cause. Obviously, it is very subjective.

Reasonable Collection Potential (RCP): The total realizable value of your assets plus your future income. The total is generally your minimum offer amount.

Reconsideration: Audit reconsiderations are discretionary on the part of the IRS. Being successful in convincing the IRS to reopen an audit where the taxpayers were poorly represented or new information is now available that was not available at the original audit.

Running Out: The IRS has 10 years to collect on back taxes unless the time period has been extended, either by consent of the taxpayer or by certain actions of the taxpayer. The most common reason for the statute of limitations to collect to have been extended is when the IRS has no ability to collect on the debt. Typically, this is because the taxpayer was out of the country, had made an Offer in Compromise, or was under the bankruptcy court. During the time the IRS could not legally collect the running of the 10-year statute of limitations is stopped (tolled). Knowing what has happened during the 10 years is critical to knowing when the IRS can no longer dun you for the debt. It is not uncommon for a tax debt to be removed because the time to collect has expired. The IRS is allowed to accept payments from you but they can't dun you for any debt that is outside the statute of limitations for collections.

Statute of Limitation: Legal limits imposed on the IRS for assessing and collecting taxes, and on the Justice Department for charging taxpayers with tax crimes. The current statute of limitation for collection is 10 years from the date of assessment. However, the statute can be extended by certain actions of the taxpayer.

Substitute for Return (SFR): The law allows the IRS to take the income reported to it under your social security number and file a tax return for you. If you were single the prior year, they will file you as single. If you were married the prior year, they will file a return for you as married filing separate. They will not take any itemized deductions you might be eligible for nor will they deduct for any dependents you might be entitled. It will be a very basic return designed to produce the highest amount of tax allowed to the IRS. It is rarely in your best interest. And since you didn't file the return yourself, the year remains open (subject to assessment and collection) forever.

Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) Section 509: The Act that applies to taxpayers who submit an Offer in Compromise (OIC) on or after July 16, 2006, who will face new rules and processing procedures. For example, under the Act, taxpayers will need to begin making payments with their Offer in Compromise.

Taxpayer Advocate Service: An IRS program that provides an independent system to assure that unresolved problems are promptly and fairly handled.

Trust Fund Recovery Penalty (formerly called 100-percent Penalty): A penalty incurred by the responsible person(s) of a business for failure to pay Withholding and Federal Insurance Contributions Act Taxes (social security taxes).

Uncollectible: A temporary designation by the IRS meaning a taxpayer does not have significant assets or available income, at the present time, from which to satisfy an IRS debt in part or in full. This designation takes a case out of collection, until a taxpayer has an ability to pay.

Waiver: Voluntarily surrendering a legal right, such as the right to have the IRS collection period on a delinquent tax debt expire at the end of the statutory time period. The IRS may require waivers in exchange for granting installment agreements.

Index