



**THE ULTIMATE GUIDE
TO AN OFFER IN
COMPROMISE**



BROTMAN LAW



INTRODUCTION

Are you facing a staggering IRS debt? Even worse, you have no way to pay it. What are you going to do?

Before you go into a full-blown panic and start fearing the worst, like the IRS is going to seize your house or other property, take a step back. The IRS says they are not in the banking business and most likely, they do not want to be in the real estate business.

But, the IRS wants its money and wants as much as they can get as soon as possible. Realizing the expense and futility of trying to chase down collections or bankrupt taxpayers, the IRS has repayment options, including the Offer in Compromise. These options allow the IRS to get its money without financially depleting taxpayers.

An Offer in Compromise is a type of agreement between both the taxpayer and the IRS outlining and settling the taxpayer's tax liabilities for less than the current balance due. If the taxpayer's liabilities can be fully paid through the utilization of an installment agreement or any other related means, then the taxpayer would not ordinarily be eligible for an OIC.

To be eligible for the OIC program, the taxpayer must have already filed all tax returns, made the required estimated tax payments for the current year and made all required federal tax deposits for the current quarter (See IRS.gov, "Topic 204 – Offers in Compromise). Federal tax deposits are specific to business owners with employees.

I will be straight with you. Applying for an OIC is not an easy process and frankly, there is a very low percentage of OIC requests that the

IRS actually accepts. Read this chapter to learn more about the process, how to qualify and how to apply. I will also lay out the pros and cons, so you can make the best informed decision about applying.

If you have any questions, reach out to me. I have represented clients in presenting offer in compromises to the IRS and have a high success rate. We can talk and assess your situation then decide on the best route for you to take.

The Offer in Compromise Process

Taxpayers currently in an open bankruptcy proceeding are usually not eligible for an offer in compromise. The bankruptcy process will resolve any tax liabilities and other financial debts. If you do not fall under this category, then the IRS will accept an OIC on three grounds.

First, if you have genuine "doubt" regarding your tax liability, then you will need to complete [Form 656-L](#), Offer in Compromise. Second, acceptance of an offer in compromise will be permitted if it is determined that the amount you owe is fully collectible.



Lastly, an offer “may be accepted based on effective tax administration when there is no doubt that the tax is legally owed and that the full amount owed can be collected but requiring payment in full would either create an economic hardship or would be unfair and inequitable because of exceptional circumstances” (See Topic 204 above). In addition to submitting Form 656-L, taxpayers must also complete and submit Form [433-B](#) (OIC), Collection Information Statement for Businesses.

It is important to note that penalties and interest will continue to accrue during the evaluation process. You must only submit an offer for tax years that have been assessed by the IRS. The taxpayer must submit all required forms and fees as part of the application process. The IRS offers guidance that provides insight into the process as well as application materials.

Pros and Cons of an Offer in Compromise

You must weigh the pros and cons of offer in compromise considering the other options available to you. When deliberating whether to choose this option, you must also consider the advantages and disadvantages. The OIC allows you the opportunity to reduce your tax liability relative to your current financial situation.

However, settling with the IRS by way of offer in compromise might be the second-best option. For example, the requirements for accepting an OIC are stringent. Taxpayers are required to have low monthly income

and practically no assets. You may end up wasting time and money on trying to settle when that effort could have been applied toward a better resolution.

In addition, keep in mind that the IRS cannot collect on your federal tax liability forever. [The Collection Statute Expiration Date](#) (CSED) prevents the IRS from collecting taxes after 10 years. When the IRS considers an offer in compromise, it tolls it, basically freezing it while your submission is under review. Therefore, if you have an older liability, pursuing an OIC instead of letting it expire may not be your best course of action.

A possible advantage of choosing an OIC is that it may be worthwhile in terms of reducing your tax liability. You may find a saving by getting a deal to pay to a level that is consistent with your current ability to repay. The OIC will put the activities of collectors on hold, therefore, ongoing collection activities such as wage garnishments begin before you file the offer in compromise. They may also continue after the filing.

Choosing OIC is essentially requesting non-collectible status and allowing you to be taken out of collections without the fear of levy or garnishment. This decision may sound good and may be an optimal choice in terms of reducing your tax liability, but you still must remember that the IRS can file a federal tax lien against you at any time. If the IRS determines that you have an ability to pay, then the status of non-collectible may be removed, and you will undoubtedly be required to begin paying at your current or assumed income level.



IRS Financial Analysis

IRS financial analysis is conducted by the IRS to both analyze and verify financial information. When conducting an IRS financial analysis, the IRS evaluates the income and expenses of the taxpayer to calculate for disposable income.

Disposable income is defined as gross income less all allowable expenses. During their financial analysis, the IRS will analyze assets to resolve balance due accounts. To do this, the IRS will request that the taxpayer makes full, immediate payment if their cash on hand is equal to the total liability.

In addition, the IRS will identify key sources of funds, “liquid assets which can be pledged as security or readily converted to cash” (Part 5. Collecting Process, Chapter 15 - Financial Analysis, Section 1, [Financial Analysis Handbook](#)). Identification of key sources of funds is also extended to considering unencumbered assets, interests in estates and trusts, and lines of credit (Section 1, [Financial Analysis Handbook](#)). When analyzing assets to resolve balance due accounts, the IRS will also determine the priority of the Notice of Federal Tax Lien.

Under this category, the taxpayer may qualify for the six-year rule. This rule is most applicable to taxpayers unable to pay in full their federal tax liability. It also applies to those taxpayers who do not qualify for a streamlined installment agreement. Within this context, taxpayers must provide financial information but do not have to substantiate reasonable expenses. “All expenses may be allowed if the taxpayer establishes that he or she can stay current with all paying and filing

requirements, the tax liability... can be fully paid within six years and within the CSED, and expense amounts are reasonable” (See Section 1, [Financial Analysis Handbook](#)). The six-year rule is not applicable to corporations, partnerships, LLCs, and business expenses.

As part of the IRS financial analysis process, the IRS will also verify financial information by conducting interviews, asking pertinent questions, and documenting the results.

The IRS will ask questions about the generation of income, the nature of the business process, the main products and services, major suppliers, assets held in the name of the taxpayer, and type of internet presence. The IRS will also “observe and document the physical layout of the business, the number of employees, the type and location of equipment, machinery, vehicles and inventory” (Section 1, [Financial Analysis Handbook](#)). The IRS will also verify previous collection issues addressed by field personnel to determine if reinvestigation is necessary.

Net Realizable Equity in Assets

The net realizable equity in assets is defined as a calculation of the fair market value of the property multiplied by the quick sale discount factor, or 80 percent, subtracted by the balance of any loans secured by the property. The net realizable value of your assets is specific to cars, real estate, and personal property.



The Asset/Equity Table

The asset/equity table (AET) is defined as a table that lists all the taxpayer's assets, encumbrances, and exemptions. The table calculates "the equity which is included in the reasonable collection potential (RCP) calculation" (See [Part 5. Collecting Process, Chapter 8. Offer in Compromise, Section 4. Investigation](#)).

The major headings of the asset/equity table include the following: assets, fair market value, quick sale reduction percentage, quick sale value, encumbrances or exemptions, and net realizable equity. Under each major category, the taxpayer lists information concerning different types of assets. References to assets include cash/bank accounts, offer deposit, loan value life insurance, pensions/IRA/401k, real estate, furniture/personal effects, vehicles, accounts receivables and tools/equipment.

On the table, the taxpayer calculates the amounts and lists the future income value. The IRS allows exemptions based upon the total dollar amount of the assets. Regarding cash/bank accounts, net equity should not be less than zero.

Conclusion

An Offer in Compromise is an alternative if a taxpayer is unable to pay their full tax debt to the IRS when it is due. You can propose paying a lesser amount and it is up to the IRS to accept, return or reject your request. It is a good option for you to pay your tax debt but still be able to maintain a reasonable standard of living.

Applying for an OIC is not necessarily a cut-and-dried process. The IRS wants for you to substantiate your eligibility. This means they will scrutinize your income and expenses, which they compare to national and regional standards of average costs for housing, food, transportation, etc. The expectation is that you will make adjustments in order to live within your means as you pay the tax debt.

While that approach may be difficult to swallow, it will get IRS collections off your back and you can make a fresh start. If you want to explore whether an OIC is the best option for relieving yourself of tax burden, call me. I have successfully negotiated OIC for other clients and can review your situation to see if the OIC is the most sound option.



CHAPTER SUMMARIES

01 What Conditions Are Required To Get An Offer In Compromise?

In this chapter, we will review the stringent requirements for applying for and getting approval for an Offer In Compromise.

To begin with, you must have exhausted all other means of repaying the debt and you cannot have filed bankruptcy.

The IRS must doubt its ability to collect the entire amount, the accuracy of the amount owed and whether the acceptance of the OIC fosters effective tax administration.

02 How to Apply for an Offer in Compromise

Applying for an OIC is not an easy process but well worth the time if you are serious about reducing your tax debt.

There are very specific guidelines the taxpayer must meet in order to qualify for an OIC, which I have outlined in this chapter.

I will also go over the process in greater detail so you can see the various stages, and what the IRS looks for at each stage, including after they have received your offer.

03 What Forms Are Needed for an IRS Offer in Compromise?

In this chapter, I am going to walk you through the various forms and schedules you need to apply for an OIC.

We will hone in on specific questions and sections on the forms where you need to pay close to attention to how you answer them.

It will truly make a substantial difference in the IRS' decision to accept or deny your request.

04 What Are IRS Allowable Living Expenses?

In this chapter, I have explained how the IRS defines allowable living expenses and provided links to the IRS website which will give you more information.

This will give you a better understanding of the basis of the IRS' decisions. As always, if you have any questions after you have read this, give me a call.



05 How to Appeal the IRS When Your Offer in Compromise Is Rejected

In this chapter, I will walk you through the rejection/return process and spell out the differences between the two.

I will present your options for appealing the IRS decision and how to go about it. Lastly, I will give you some exclusive tips which have worked beautifully for my clients, to get your OIC approved the first time around.

06 How Much Should I Offer?

I wrote this chapter so you will have an overview of the different payment options available through the IRS.

I will go into more depth about the offer in compromise process so you will have a better understanding of how this works and if it really is your best option.

If you are still trying to decide, feel free to give me a call and we can talk through your options.

07 What Happens When An Offer In Compromise Is Received By The IRS?

In this chapter, I will explain what actually does happen when the IRS receives your request for an OIC.

My hope is that you will have a much clearer picture of the process and the rationale behind the IRS' decision to accept, return or reject your OIC.

Thank you in advance for reading
"The Ultimate Guide to
An Offer in Compromise."

It was a labor of love and our law firm welcomes all questions, comments, concerns, and feedback that you may have about this free resource.

Questions? Speak with us today at
lawoffice@sambrotman.com
or (619) 378-3138.



01 What Conditions Are Required To Get An Offer In Compromise?

INTRODUCTION

If you are in debt up to your eyeballs with the IRS with no end in sight, then you might want to consider an Offer in Compromise (OIC). An OIC is a repayment plan with the IRS where the taxpayer can propose paying a lesser amount and the IRS will forgive the remainder.

This all sounds great in theory and like a sterling silver lining, but step back for a moment. There are very stringent requirements for applying for an OIC. For starters, you have to have exhausted all other means of repaying the debt and you cannot have filed bankruptcy.

The IRS will agree to an Offer in Compromise when:

- ▶ There is a doubt that the IRS can collect the entire amount (doubt as to collectibility offers)

- ▶ There is a genuine doubt as to the accuracy of the amount owed (doubt as to liability offers)
- ▶ It fosters effective tax administration

The objective of the Offer in Compromise is to reach a settlement that is in the best interest of both the government and the taxpayer. The taxpayer is given a fresh start, and an opportunity to voluntarily comply with any future obligations. For the IRS, compromise presents an alternative to declaring the amount uncollectible or to otherwise engage in a lengthy installment agreement. (See [Reg. §301.7122-1\(b\)](#)).

In this chapter, I go into depth about what conditions need to be met in order to be eligible for an OIC. I will also caution you at the onset that this is not an easy process and the percentage of OICs that actually get accepted by the IRS is pretty low.

If after reading this chapter, you believe that you are a good candidate for an



OIC, I encourage you to give me a call. I have been highly successful in getting OIC approved by the IRS for taxpayers and I would be happy to help you assess your odds.

Offer in Compromise Objectives

Here are the goals that the IRS seeks to accomplish when they accept an offer in Compromise:

- ▶ Collect what can be practicably collected at the earliest possible time and at the least cost to the government
- ▶ Reach a settlement in the best interest of both the government and the individual taxpayer
- ▶ Afford the taxpayer a fresh start so that they may voluntarily comply with all future tax requirements
- ▶ Attain revenue that may not be collected by any other means

See [IRM 5.8.1.1 \(12-26-19\)](#).

Extent and Finality of an Offer-in-Compromise

An accepted offer applies to all tax, penalties, and interest for the years or periods which are included in the offer. Once the IRS accepts your offer, it is settled for good. Unless there was falsification of information or documents; concealment of assets or your ability to pay; or some other important factual misunderstanding, the case cannot be reopened. See [Reg. §301.7122-1\(e\)\(5\)](#); [IRM 5.8.1.9.1 \(12-26-19\)](#).

Requirements

As indicated above, the IRS is only authorized to agree to an offer only if at least one of the following bases for compromise exists: doubt as to collectibility, doubt as to liability, or the compromise fosters effective tax administration. The latter of which is only considered under exceptional circumstances, or if the taxpayer would otherwise become exposed to economic hardship. Lastly, the offer can only be accepted if the IRS has assessed the tax liability, although this does not preclude the IRS from considering an offer in compromise prior to assessment. See [Reg. §301.7122-1\(a\)](#).

Doubt as to Liability

A doubt as to liability refers to a case where there is a legitimate dispute about the amount or existence of a tax liability under the law. Consequently, a doubt as to liability would not exist if the liability has been affirmed by a final judgement. Otherwise, there must be sufficient evidence provided to the IRS which supports a determination that the amount assessed warrants doubt as to liability. The minimum offer the IRS will accept varies under the circumstances; depending on the level of doubt raised.

Doubt as to Collectibility

This category deals with an inability to pay. Naturally, an inability to pay the assessed tax liability raises doubt as to collectibility. In these cases, the IRS will accept an offer which reflects reasonable collection potential (RCP). The IRS determines RCP by assessing whether the taxpayer's assets and income (present and future) will amount to less than the amount owed. In this calculation, the IRS



will also set aside the amount needed by the taxpayer to pay basic living expenses.

In their review of the taxpayer's assets, the IRS considers whether there are assets available to the taxpayer by transfer; but are out of the government's reach or otherwise insulated from collection due to state laws on marital property. In considering the adequacy of an offer, the IRS generally only considers the assets and income of a non-liable spouse under circumstances where that property is vulnerable to IRS collection anyway.

These circumstances include:

- ▶ Property which was conveyed to defraud creditors
- ▶ Property which is governed by state laws that allow collection of the taxpayer's liability from the assets and income of the non-liable spouse (e.g., states with community property laws)

Under these circumstances, the assets and income of both the taxpayer and the non-liable spouse will be factored into the offer decision. The assets and income will be considered up to the extent that the taxpayer and non-liable spouse can demonstrate that any further amount would have a material and adverse effect on the standard living on them and their dependents.

The IRS allows for a certain amount that the taxpayer must retain for basic living expenses. This amount is based on two things:

- ▶ the National and Local Living expense standards
- ▶ an evaluation of the specific facts and circumstances of the taxpayer

See [Reg. §301.7122-1\(c\)\(2\)\(ii\)](#).

Effective Tax Administration

Under circumstances where grounds do not exist to justify compromise based on doubt as to liability or doubt as to collectibility, the IRS may accept an offer to compromise in order to support effective tax administration when:

The entire liability can be collected, but would create an economic hardship.

Exceptional circumstances exist which cause a detriment to the taxpayer's ability to voluntarily comply, and compromise would not allow taxpayers to undermine compliance with tax laws

See [Reg. §301.7122-1\(b\)\(3\)](#).

When contemplating an offer in compromise with a basis in effective tax administration, please note that the IRS will consider all of the facts and circumstances of the case; this includes the taxpayer's complete record of compliance with tax laws.

Economic Hardship

The agency considers the following factors when evaluating economic hardship:

- ▶ The taxpayer is incapable of earning a living because of a long-term illness, medical condition, or disability, and it is reasonably foreseeable that taxpayer's financial resources will be exhausted providing for care and support during the course of the condition
- ▶ Although the taxpayer has certain monthly income, that income is exhausted each month in providing



for the care of dependents with no other means of support

- ▶ Although the taxpayer has certain assets, the taxpayer is unable to borrow against the equity in those assets and liquidation of those assets to pay outstanding tax liabilities would render the taxpayer unable to meet basic living expenses

See [Reg. §301.7122-1\(c\)\(3\)\(i\)](#).

Examples

Here are a few hypotheticals to help illustrate what circumstances would constitute an economic hardship:

Long-term Illness

The taxpayer has assets sufficient to satisfy the tax liability. The taxpayer provides full time care and assistance to her dependent child, who has a serious long-term illness. It is expected that the taxpayer will need to use the equity in his assets to provide for adequate basic living expenses and medical care for his child. The taxpayer's overall compliance history does not weigh against compromise.

Liquidation of Assets

The taxpayer is retired and his only income is from a pension. The taxpayer's only asset is a retirement account, and the funds in the account are sufficient to satisfy the liability. Liquidation of the retirement account would leave the taxpayer without an adequate means to provide for basic living expenses. The taxpayer's overall compliance history does not weigh against compromise.

Disability and Fixed Income

The taxpayer is disabled and lives on a fixed income that will not, after allowance of basic living expenses, permit full payment of his liability under an installment agreement. The taxpayer also owns a modest house that has been specially equipped to accommodate his disability. The taxpayer's equity in the house is sufficient to permit payment of the liability he owes.

However, because of his disability and limited earning potential, the taxpayer is unable to obtain a mortgage or otherwise borrow against this equity. In addition, because the taxpayer's home has been specially equipped to accommodate his disability, forced sale of the taxpayer's residence would create severe adverse consequences for the taxpayer. The taxpayer's overall compliance history does not weigh against compromise.

See [Reg. §301.7122-1\(c\)\(3\)\(iii\)](#).

Exceptional Circumstances

The IRS considers the following factors to decide whether a compromise would undermine taxpayer compliance with tax laws:

The taxpayer's history of compliance with filing and payment obligations required by the tax code

Taxpayer's deliberate tax avoidance efforts

Whether the taxpayer has encouraged others to refuse compliance with the tax laws

See [Reg. §301.7122-1\(c\)\(3\)\(ii\)](#).



Examples

For a clearer understanding of how taxpayer compliance factors into exceptional circumstances, take a look at these two examples:

Example 1

In October of 1986, the taxpayer developed a serious illness that resulted in almost continuous hospitalizations for a number of years. The taxpayer's medical condition was such that during this period the taxpayer was unable to manage any of his financial affairs. The taxpayer has not filed tax returns since that time.

The taxpayer's health has now improved and they have promptly begun to attend to their tax affairs. They discover that the IRS prepared a substitute for return for the 1986 tax year on the basis of information returns it had received and had assessed a tax deficiency. When the taxpayer discovered the liability, with penalties and interest, the tax bill is more than three times the original tax liability. The taxpayer's overall compliance history does not weigh against compromise.

Example 2

The taxpayer is a salaried sales manager at a department store who has been able to place \$2,000 in a tax-deductible IRA account for each of the last two years. The taxpayer learns that they can earn a higher rate of interest on their IRA savings by moving those savings from a money management account to a certificate of deposit at a different financial institution.

Prior to transferring their savings, the taxpayer submits an email inquiry to the IRS

at its webpage, requesting information about the steps they must take to preserve the tax benefits they have enjoyed and to avoid penalties. The IRS responds in an answering email that the taxpayer may withdraw his IRA savings from their neighborhood bank, but they must redeposit those savings in a new IRA account within 90 days. The taxpayer withdraws the funds and redeposits them in a new IRA account 63 days later.

Upon audit, the taxpayer learns that they have been misinformed about the required rollover period and that they are liable for additional taxes, penalties and additions to tax for not having redeposited the amount within 60 days. Had it not been for the erroneous advice that is reflected in the taxpayer's retained copy of the IRS email response to their inquiry, the taxpayer would have redeposited the amount within the required 60-day period. The taxpayer's overall compliance history does not weigh against compromise.

CONCLUSION

An offer in compromise is a sound solution if you are in debt to the IRS and have no way to pay it in full. However, in order to apply, there are specific conditions that you must meet, as outlined in this chapter.

The main argument that taxpayers make is that paying their tax debt will create a financial hardship. Well, the IRS has heard that excuse forever, so you need to make a very convincing case and I have presented what conditions constitute financial hardship.

But, the IRS would rather receive something instead of nothing, so they will assess the



potential collectibility of your tax debt. If it looks like the probability is high, then they might be more willing to work with you.

Just keep in mind that the majority of OICs get either rejected or returned. If you want to increase the odds that your offer will be approved the first time you submit it, I urge you to call me. I have successfully drafted OICs for other clients and would welcome the opportunity to help you with yours.



02 How to Apply for an Offer in Compromise

INTRODUCTION

An Offer in Compromise (OIC) is a payment option that the IRS makes available to taxpayers. It allows you to pay your tax debt without “breaking the bank.” In other words, you will be able to comfortably pay your debt without losing your house or your business or any other property you need for daily living. Hopefully, knowing this will alleviate some of your anxiety.

Applying for an OIC is not an easy process but well worth the time if you are serious about reducing your tax debt. There are very specific guidelines the taxpayer must meet in order to qualify for an OIC, which I have outlined in this chapter.

I will also go over the process in greater detail so you can see the various stages, and what the IRS looks for at each stage, including after they have received your offer.

Like all creditors, the government must contend with debtor inability to pay. They must also decide how to settle accounts when reasonable minds might differ on the amount owed. Businesses resolve their account receivable challenges with the standard procedure of negotiation and compromise.

The government also acknowledges the utility of this process; it promotes an equitable and efficient result for both the IRS and the taxpayer alike. Accordingly, the government has authorized the IRS to negotiate and settle taxpayer liability through the program of Offer in Compromise.

If you are considering an offer in compromise, it would not hurt to give me a call. I have worked with clients over the years to put together their OIC requests and have a good track record of success. Let me see if I could help raise the stakes in your situation.



Offer in Compromise: The Process for Making an Offer

Background

In most cases, the IRS will suggest the offer in compromise option with a delinquent taxpayer when:

- ▶ Criminal proceedings are not contemplated
- ▶ An analysis of the taxpayer's assets, liabilities, income, and expenses shows that payment of the entire tax liability is unlikely (this second factor does not apply to doubt as to liability cases).

Once the IRS has determined these two things, the IRS will bring the offer-in-compromise option to the taxpayer's attention. The representative will discuss the benefits of an accepted offer and which forms must be filled out. The IRS directs its employees to provide the taxpayer with:

- ▶ Form 656 (Offer in Compromise)
- ▶ Publications 1 and 594

You may also find additional guidance for Form 656 in [Form 656-B](#), also known as the Offer in Compromise Booklet.

Other important information which should be considered when contemplating an Offer-in-Compromise submission include the following:

- ▶ Taxes can not abated or tax liens released until the amount offered is paid in entirety

- ▶ The taxpayer must remain compliant with filing and payment requirements for five years after the IRS accepts the offer or until the amount offered is paid off, whichever is longer
- ▶ All refunds and credits available to the taxpayer before or during the year that the offer is accepted are waived

The IRS will not advise the taxpayer on the amount which might be offered; it is up to the taxpayer to initiate the first proposal. That said, the IRS warns taxpayers that the offer must be made in good faith. The IRS discourages the taxpayer from using the offer in compromise process as a fishing expedition or as a tactic to delay payment.

As a show of good faith, the taxpayer may submit some amount of payment with the completed Form 656. Once received, the IRS will treat this amount as a deposit. This amount will only apply to the liability once the offer has been accepted; unless the taxpayer gives written authorization to apply the payment irrespective of whether the offer is accepted.

Offer Terms and Partial Payment Requirement

A taxpayer may be eligible to offer one of the following payment options:

- ▶ Payment in lump sum
- ▶ Payment in installments

While the offer is considered by the IRS, the taxpayer is required to make partial payments as according to IRS Regulation [§7122\(c\)](#). The amount of partial payment required depends on the type of offer proposed by the taxpayer.



For the purpose of an offer in compromise, a lump sum cash offer includes single payments as well as amounts paid in five or fewer installments within a five-month period. If the taxpayer chooses to make a lump-sum offer, 20 percent of the offer must be submitted along with the application.

Alternatively, a taxpayer may elect an offer with payments made in installments. This is also referred to as a periodic payment offer. An installment plan refers to all offers where the payment schedule exceeds five monthly payments. However, all installment offers that the IRS accepts must be paid back within 24 months of the offer acceptance.

If the taxpayer selects an installment plan offer, the first installment payment is also required to be sent in with the offer. It is very important that the taxpayer complies with the terms of the self-imposed payment plan while the offer is under consideration. Otherwise, the IRS will treat the offer as withdrawn. See IRS Reg. [§7122\(c\)\(1\)\(B\)](#).

In either case, the advance payment will be applied against the offer if it is accepted, however it will not be refunded should the offer be rejected. Non-compliance with the above-stated requirements for either option will lead to a determination that the offer cannot be processed. Subsequently, the offer will be returned to the taxpayer and the IRS will be permitted to pursue immediate enforcement action. See IRS [Reg. §7122\(d\)\(3\)\(C\)](#).

Certain taxpayer's may not be required to submit partial payment. These individuals include:

- ▶ Low-income taxpayers

- ▶ Taxpayers who have submitted offers based on doubt as to liability

Low-income earners are completely exempt from the partial payment requirement. For Offer-in-Compromise purposes, a low-income taxpayer is an individual with an adjusted gross income that is less than 250% of the applicable poverty line. See IRS Reg. [§7122\(c\)\(3\)](#).

With regard to taxpayers who have submitted an offer based on doubt as to liability, the partial payment requirement is only available to those who have submitted solely on this ground. These are optional waivers which are left to the discretion of the IRS. See IRS Reg. [§7122\(c\)\(2\)\(c\)](#) and [§7122\(d\)\(3\)](#).

Offers in Compromise Before Bankruptcy.

This section only applies to those who are considering bankruptcy. If the taxpayer states that they will file a petition for bankruptcy during the offer investigation, the IRS must determine the likelihood that bankruptcy will be filed and what impact the possible filing would have on their ability to collect. In deciding whether the offer is reasonable, the IRS will consider whether the taxpayer has previously engaged in a bankruptcy proceeding or if any tax liabilities can possibly be discharged. Unless there are special circumstances which exist, the IRS will not accept less than the amount they anticipate recovering from a Chapter 7 bankruptcy.

Instructions for Form 656

The taxpayer submits an offer-in-compromise on Form 656 or an acceptable printed photocopy of the form. The taxpayer must provide his:



- ▶ Full name
- ▶ Address
- ▶ Social security or employee identification number

If the offer is for a joint liability, both taxpayer's name and numbers must be added to Form 656. If more than one taxpayer jointly owes the same liability, they may (but are not required to) submit one form. However, those who owe both joint and individual liabilities must submit two offers. Taxpayers with substantial business interests may also be required to submit a Form 433-B for the business. [IRM 5.8.3.5 \(05-25-18\)](#).

Who Can File an Offer

For the majority of cases, either the taxpayer or a designated representative can file the offer in compromise. See CCA 200115031. However, in cases involving decedents or their estates, an authorized executor must file the offer along with evidence of their authority to do so. With regard to an offer-in-compromise filed for an affiliated group which files a consolidated return, any offer executed in these cases is considered to have been executed by each group member. Lastly, it is usually the person who is authorized to file a refund claim on behalf of the taxpayer who would also have the authority to file an offer-in-compromise for the taxpayer.

Where to Submit Your Offer

Depending on the state of the taxpayer's residence, the taxpayer will submit to one of the following two process centers listed below.

IF YOU RESIDE IN:

AZ, CA, CO, HI, ID, KY, MS, NM, NV, OK, OR, TN, TX, UT, WA

MAIL YOUR APPLICATION TO:

Memphis IRS Center COIC Unit P.O. Box 30803, AMC Memphis, TN 38130-0803
1-844-398-5025

IF YOU RESIDE IN:

AK, AL, AR, CT, DC, DE, FL, GA, IA, IL, IN, KS, LA, MA, MD, ME, MI, MN, MO, MT, NC, ND, NE, NH, NJ, NY, OH, PA, PR, RI, SC, SD, VA, VT, WI, WV, WY, or a foreign address

MAIL YOUR APPLICATION TO:

Brookhaven IRS Center COIC Unit P.O. Box 9007, Holtsville, NY 11742-9007
1-844-805-4980

Total Liability

As briefly touched on earlier, Form 656 requires that the taxpayer indicate all unpaid taxes that the compromise offer should apply to. The taxpayer must check off the square according to the correct populated description which indicates the type of tax and the period or year that the liability arose. If you have mistakenly left out an outstanding liability, you can still make an amendment to include it. However, the amendment must be made before the IRS accepts the offer.

Amount of the Offer

The total amount that the taxpayer would like to offer must be indicated on Form 656. This is the entire amount that the taxpayer offers in settlement of his tax liability. If the taxpayer would like an amount submitted to be paid either on or sometime after notice of acceptance, the taxpayer must clearly indicate the following:



- ▶ The amount of any deposit
- ▶ The amount of any prior deposit which is to be applied to the offer
- ▶ The amount of any subsequent payment
- ▶ The date on which each payment should be paid

The amount sent in with the offer to cover the initial payment and application fee cannot be labeled a “deposit.” This is significant because this will result in a return of the offer without a right to appeal. The amount must appropriately indicate on Form 656 that it is to be used toward the taxpayer’s liability. The amount offered cannot include refunds owed to the taxpayer, an amount previously paid, or funds attached by a Notice of Levy. See [IRM 5.8.1.15.3 \(03-16-10\)](#).

As mentioned above, the taxpayer must submit a partial payment to the IRS while their offer-in-compromise is considered. See [IRS Reg. §7122\(c\)](#). Here are the partial amounts depending on the offer term selected:

- ▶ 20 percent of the amount proposed for lump-sum offers
- ▶ The first installment for those who have made installment offers

For more information on this, please see the Terms and Partial Payment section above.

Terms of Payment

The taxpayer must select the terms of the offer proposal on Form 656. As previously stated, there are two payment options to choose from: a lump-some cash offer or a periodic payment offer. Please see the

section above titled Terms and Partial Payments for more information.

Basis for the Offer

The taxpayer must indicate on Form 656 the facts and reasons why the IRS should accept the offer. As discussed in detail above, the facts and circumstances must convince the IRS that one of the following circumstances apply to your case:

- ▶ Existence of a doubt as to liability
- ▶ Existence of a doubt as to collectibility
- ▶ Effective tax administration

If the taxpayer would like to make an offer with a basis in doubt as to collectibility or effective tax administration must also submit either of the following, depending on their applicability to the taxpayer:

- ▶ Form 433-A Financial Statement for Individuals
- ▶ Form 433-B Collection Information Statement for Businesses.

Be sure to check the national and local schedules that indicate the allowances that the IRS provides taxpayers. Again, the IRS also considers the facts and circumstances of the particular case.

User Fee

The taxpayer must also submit the application fee along with the offer, otherwise it will not be processed. For all offers submitted after April 27, 2020, the user fee is \$205. The IRS will take this fee into consideration when determining whether or not the offer is adequate. If the taxpayer attaches a partial payment with the offer, the fee will be applied toward the tax liability. §7122(c)



Similar to the partial payment exception, this fee is inapplicable to offers made by certain low-income earners and individuals who submit their offer based solely on doubt as to liability. §7122(c)(3). For guidelines on who might qualify for the low-income exception, please see the section above labeled Terms and Partial Payments.

Signature

The signature(s) required for Form 656 will vary with the parties involved:

- ▶ Corporations— the corporation's name should be printed on the first line and the authorized officer's signature and title should be written on the second line
- ▶ Spouses with joint liability— both spouses are required to sign
- ▶ Decedent's Estate— a qualified fiduciary of the estate may submit the offer

Implications of Form 656

Waiver of Taxpayer's Claims for Refunds or Credits

When a taxpayer makes an offer-in-compromise, he essentially agrees to waive any refunds or credits he would receive as part of the settlement. Included in this waiver is the taxpayer's right to any overpayments of tax, interest and penalties from previous periods up to the end of the year in which the offer is accepted.

Forfeiture of Option to File a Joint Return

A taxpayer who is married and files a separate return forfeits the option of filing a joint return with his spouse once the IRS has agreed to his compromise offer.

Bankruptcy

Under Bankruptcy law, some tax liabilities are dischargeable while others are not. If a tax liability was assessed within 240 days before the date on which the bankruptcy petition is filed, the liability is non-dischargeable.

The 240 days is extended even further if the taxpayer makes an offer-in-compromise before filing a bankruptcy petition. The extension makes any tax assessed within 270 days plus the time during which the offer is pending, non-dischargeable. See [11 U.S.C. §507\(a\)\(8\)](#). As a result, if the taxpayer is considering bankruptcy they should first take this into consideration.

Deemed Acceptance Rule

As long as a taxpayer submits partial payment with the offer, the IRS will be deemed to have accepted the offer if they do not reject it before the date that is 24 months after the date of the offer's submission. However, this 24-month rule is suspended for any period in which the liability is litigated in court.



CONCLUSION

An offer in compromise is a workable solution for the taxpayer who is unable to pay their tax liability in full. You have the opportunity to pay a reduced amount to the IRS in either a lump sum or periodic payments and they will waive the rest of the debt.

Having your OIC accepted is pretty high stakes; I would not be transparent if I did not put this out there at the onset. The percentage of OICs that get accepted by the IRS is pretty low — with about 80 percent returned to the client or rejected.

If you want to propose an offer in compromise to the IRS, call me. I have helped clients successfully negotiate with the IRS so they can pay their taxes and remain financially solvent. It is well worth the investment to make sure that your request is meticulously prepared so you have the best chance of the IRS declaring it processible, which is the most difficult part. Once you get in the door, so to speak, you move on to agreeing on an amount.



03 What Forms Are Needed for an IRS Offer in Compromise?

INTRODUCTION

You know how the IRS likes its paperwork, and it is no different when you apply for an Offer in Compromise (OIC). Face it, IRS forms are onerous and the instructions they provide usually shed little light.

In this chapter, I am going to walk you through the various forms and schedules you need to apply for an OIC. We will hone in on specific questions and sections on the forms where you need to pay close attention to how you answer them. It will truly make a substantial difference in the IRS' decision to accept or deny your request.

As you read through this chapter, if you have any questions, make note of them. I have provided links to the IRS website where you can find the forms in their entirety along with the instructions. I also explain the national and local standards that the IRS uses to determine your reasonable living expenses. These calculations determine how much you can be expected to pay towards your tax

debt. Your future potential income is also factored into the final determination.

If you have questions or need help in interpreting and completing the forms, give us a call. Our team has years of experience in assisting clients with preparing their OIC applications packages and have a proven track record of success to back us up.

So, we will start at the beginning ...

IRS Form 433-A OIC Breakdown

[IRS Form 433-A](#), Collection Information Statement for Wage Earners and Self-Employed Individuals is used to collect financial information about the taxpayer and the taxpayer's ability to repay a current tax liability.

Major Sections of the IRS Form 433-A OIC:

- ▶ Section 1: Personal Information
- ▶ Section 2: Employment Information for Wage Earners



- ▶ Section 3: Other Financial Information
- ▶ Section 4: Personal Asset Information for All Individuals
- ▶ Section 5: Monthly Income and Expenses
- ▶ Section 6: Business Information
- ▶ Section 7: Sole Proprietorship Information

Section one of the IRS Form 433-A OIC requests general information specific to the taxpayer. Request for information includes full name, marital status, address, and phone numbers.

Section two also requests general information with regard to the taxpayer's employment status. In this section, the taxpayer will be asked about how many withholding allowances claimed on Form W-4, pay period, and occupation.

Questions located in section three of the IRS Form 433-A OIC focus on other types of non-wage-earning information. For example, a taxpayer will be expected to disclose information about current lawsuits; bankruptcy filings; foreign residency status; beneficiary of trust, estate, or life insurance policy, safe deposit boxes and recent asset transfers.

In section four, taxpayers must disclose information with regard to current cash on hand in terms of personal bank accounts, investments, available credit on bank issued credit cards, real property, personal vehicles leased and/or purchased, personal assets, and total equity.

In section five, the taxpayer must disclose wages, salaries, pensions, social security,

net income from business, net rental income, other income (i.e., unemployment compensation, gambling income, oil credits, and subsidies), expenses not generally allowed specific to private school, public/private college expenses, charitable contributions, voluntary retirement contributions, or payments on unsecured debts.

Other items that must be disclosed include food, clothing, and other miscellaneous expenses. Other expenses, housing costs, utilities, vehicle ownership costs, vehicle operating costs, public transportation, out of pocket health care costs, and current year taxes are also included.

Sections six and seven are to be completed by taxpayers who are self-employed. In section six, taxpayers must disclose their type of business, payment processing tools, credit cards accepted by the business, business bank accounts, accounts/notes receivables and business assets.

Section seven requests information about the current accounting method used, total monthly business income and total monthly business expenses. Taxpayers must know their company's net business income.

IRS National Standards

The IRS has developed IRS national standards as guides for taxpayers responsible for resolving their tax liabilities. The IRS national standards, which come from the [IRS Collection Financial Standards](#), are defined as five categories of necessary expenses developed and used by the IRS to calculate a taxpayer's payment potential.



The standards are used for the purpose of calculating repayment of federal tax liability. The national standards have been [established](#) for five necessary expenses: food, housekeeping supplies, apparel and services, personal care products and services and miscellaneous.

For example, under the category of food, the IRS allows for calculations of both food at home and food away from home. The IRS treats “food at home” as referring to the total expenditures for food from grocery stores or other food stores. “Food away from home” is treated as including all meals and snacks, including tips, at fast-food, take out, delivery and full-service restaurants.

The IRS defines housekeeping supplies as those items necessary for carrying on daily life. They include stationery supplies, postage, delivery services, miscellaneous household products and lawn and garden supplies.

Apparel and services include clothing, footwear, watches and jewelry. They also include the material for making clothes, supplies for alterations and repairs, and dry cleaning.

Personal care products and services include a list of items used in the hair, oral hygiene products and shaving needs. They are also extended to cosmetic and bath products and related personal care products, which also include electronic personal care appliances.

The miscellaneous allowance includes credit card payments, bank fees and charges, school supplies, and reading material.

The IRS allows taxpayers to calculate their respective IRS national standards by family size. However, if the amount claimed is more than the total allowed by the National Standards for food, housekeeping supplies, apparel and services and personal care products and services, the taxpayer must provide documentation to substantiate that those expenses are necessary living expenses.

The total number of persons considered in terms of National Standards should figuratively represent the same number allowed as exemptions on the taxpayer’s income tax return.

IRS Local Standards

The IRS Collection Financial Standards are also extended to local territories. The [IRS Local Standards](#) provide guidelines regarding how to account for housing and utilities. Housing and utilities calculations are based upon state, county, and family size.

In addition, IRS Local Standards also include transportation standards. For example, in terms of ownership costs, single taxpayers are allowed one automobile. Taxpayers are allowed operating costs by regional and metropolitan area.

There is a [single allowance](#) for public transportation. The single nationwide allowance for public transportation is based upon Bureau of Labor Statistics expenditure data for mass transit fares for a train, bus, taxi, ferries, and other public transits. Taxpayers with no vehicle are allowed the standard amount monthly, per household, without any questioning into the amount actually spent.



In the case of taxpayers who use both their personal vehicles and public transportation, the IRS may allow expenses for both, provided that the need is for the health and welfare of the family and contributes to the production of income.

Specific costs and more information about IRS Local Standards can be found on the IRS website.

Income and Expense Table and Future Income

The IRS Income Expense Table

Similar to the asset/equity table, the [IRS income and expense table \(IET\)](#) outlines necessary living expenses, where the taxpayer lists both total income and expenses. The IRS income and expense table are divided into two major categories where the taxpayer eventually calculates the net difference multiplied by one or more amounts to get to an amount that could be paid from their future income.

Under the total income column, taxpayers must provide information with regard to the following:

- ▶ Wages
- ▶ Wages (spouse)
- ▶ Interest – dividend
- ▶ Net business income
- ▶ Net rental income
- ▶ Pension/Social Security (taxpayer)
- ▶ Social Security (spouse)

- ▶ Child support
- ▶ Alimony
- ▶ Other income if applicable

Taxpayers calculate amounts and list the total income in the first column of the IRS income and expense table. In the second column, taxpayers provide information concerning necessary living expenses — those claimed and those allowed.

Necessary living expenses are defined as those that are required for living and carrying on daily life. Food, clothing, housing, utilities, vehicle operating costs, health insurance, out-of-pocket healthcare costs, child/dependent care, current year income taxes, state and local taxes and secure debts are considered necessary living expenses.

Other expenses, such as charitable contributions, education, credit cards, and voluntary retirement allotments are generally not considered as necessary living expenses under the IET. The IET is useful in helping taxpayers calculate both the amount that could be paid in the future and the amount that could be paid in general.

Future Income Potential

Future income potential within the context of tax law and the IRS income and expense table is defined as the ability of the taxpayer to generate earnings through physical exertion. In addition, future income potential also refers to the ability of the taxpayer's assets to generate a return on investment.

Within the context of investing, future income potential refers to earning potential as well as the upside of a particular product



generating earnings. The earning potential of an investment represents the largest possible profit made by a corporation and is usually passed on as dividends to the investors.

For more information about earning potential, review the Investopedia definition. The link is available here: <http://www.investopedia.com/terms/e/earning-potential.asp>

Other Collections Forms if an Offer in Compromise is Not An Option

Form 9465

Taxpayers can use [Form 9465](#), Installment Agreement Request to request consideration for a monthly installment plan if they cannot pay the full amount shown on the tax return. Taxpayers making payments on a current installment agreement cannot use Form 9465.

Form 433-F

The IRS uses [Form 433-F](#), Collection Information Statement to obtain current financial information for a wage earner or self-employed individual to determine if the taxpayer can satisfy an outstanding liability.

The form is divided into eight sections. Taxpayers are required to list all accounts and/or lines of credit and information pertaining to wage earning.

- ▶ Section A – Accounts/Lines of Credit
- ▶ Section B – Real Estate
- ▶ Section C – Other Assets
- ▶ Section D – Credit Cards

- ▶ Section E – Business Information
- ▶ Section F – Employment Information
- ▶ Section G – Non-Wage Household Income
- ▶ Section H – Monthly Necessary Living Expenses

Accounts and lines of credit also include reports of stocks and bond holdings. You must list all real estate you currently own and/or plan on purchasing. You will need the county description. To determine equity, the IRS will subtract the amount owed for each piece of real estate from its current market value.

Other assets include the ownership of cars, boats, recreational vehicles; insurance policies; paintings, coin collections, or antiques; and business assets such as tools, equipment, inventory, and intangible assets such as domain names, patents, and copyrights. To determine equity, the IRS will subtract the amount owed from its current market value.

List all credit cards whether you have a balance or not. In addition, you must list accounts receivables owed to your business as well as information about business credit cards.

Section F requires that you include employment information. On the other hand, Section G requires that you list non-wage income. According to Form 433-F, non-wage income may include net self-employment income, net rental income, and other income reported as distributions from partnerships and subchapter S corporations.



Other income also includes agricultural subsidies, unemployment compensation, gambling income, oil credits, rent subsidies, Social Security and interest dividends, IRAs, and pension income. This list is not comprehensive.

Lastly, monthly necessary living expenses are those figures for housing and utilities, rent,

transportation, public transportation, medical, health insurance, out-of-pocket health care expenses, child/dependent care, estimated tax payments, life insurance, delinquent state and local taxes, student loans, court ordered payments, and other expenses as determined acceptable by an IRS collections representative.

CONCLUSION

Filling out IRS paperwork is a hassle and nobody likes doing it. However, if you want to have your OIC approved the first time, you need to grit your teeth and just do it.

Accuracy is everything. Take the time to carefully read the instructions and complete the forms to your best knowledge. Gather any documents you need, like bank statements, to support your claims.

I can not stress this enough. If it is “location, location, location,” for real estate, it is “presentation, presentation, presentation” with the IRS. Please print your forms

neatly and legible. Organize all of your documentation and put everything together in a manner so that the IRS representative who is reviewing your application has everything they need at their fingertips.

My clients have successfully used this simple tip when preparing for audits and it can work when preparing your OIC request.

I hope you found this chapter helpful. If you have any questions or need help preparing the forms, give us a call.



04 What Are IRS Allowable Living Expenses?

INTRODUCTION

Although a favorite saying of IRS revenue officers is that “The IRS is not a bank” and takes collection of taxes owed seriously, the IRS is prevented from collecting assets that a person needs to survive and meet their basic living requirements. The IRS does not have the best reputation of cutting delinquent taxpayers much slack, so that is why I wrote this chapter for you.

I understand how you feel when the IRS is questioning every dollar you spend and that is why I get panicked calls from clients who fear that the IRS is going to take their house or car, or other property necessary for daily living. It is important to achieve a resolution that will help satisfy any pending tax liabilities, but it is equally important to have a plan that will be manageable for the taxpayer and will not put them into financial hardship.

The IRS calls these [“Allowable Living Expenses”](#) and they are excluded from the calculation that collection agents use to

determine a taxpayer’s reasonable collection potential. Keep in mind that regardless of the size of the liability, whether \$1,000 or \$1,000,000, the IRS will always allow the taxpayer to keep enough cash to pay for their allowable living expenses.

In this chapter, I have explained how the IRS defines allowable living expenses and provided links to the IRS website which will give you more information. This will give you a better understanding of the basis of the IRS’ decisions. As always, if you have any questions after you have read this, give me a call.

The Definition of IRS Allowable Living Expenses

So, what does the IRS consider allowable living expenses? The IRS has developed a test called the necessary expense test to determine whether or not it will allow an expense to be included. According



to the Internal Revenue Manual (IRM), the necessary expense test is defined as “expenses that are necessary to provide for a taxpayer’s and his or her family’s health and welfare and/or production of income.”

These are further broken down by the IRS into three categories:

1. Allowable Living Expenses – based on published IRS National and Local Standards
2. Other Necessary Expenses – expenses that meet the necessary expense test, and are normally allowed
3. Other Conditional Expenses – expenses, which may not meet the necessary expense test, but may be allowable based on the circumstances of an individual case.
[2]

How IRS Allowable Living Expenses Are Classified

First, allowable living expenses have been separated into five basic necessities:

4. Food, Clothing, Personal Effects
5. Housing
6. Transportation – Ownership
7. Transportation – Operating
8. Out-of-Pocket Healthcare Costs

Within these five categories, two of them (food, healthcare) are governed by set national standards, which are deviations of the statistics compiled by the Bureau

of Labor Statistics’ Consumer Expenditure Survey (CES). In these two cases, how much your monthly budget is for food and out-of-pocket healthcare is a fixed number.

The allowable expense in these categories depends principally on how many members are living in the household. In addition, healthcare costs also take into consideration how old the particular member of the household is.

The current IRS national standards can be found here: <https://www.irs.gov/businesses/small-businesses-self-employed/national-standards-food-clothing-and-other-items>.

It is important to note for collection purposes that these amounts are given to you to maintain your basic standard of living whether you exhaust them in a month or not.

Therefore, if the amount that you actually spend per month is lower than the IRS national standard, you should indicate to the IRS that you wish for them to use the standards when computing your collection potentials.

Many of the nicer collection agents (and there are plenty of them) will go ahead and give it to you automatically.

Remaining IRS Allowable Living Expense Categories

The remaining expense categories (Housing, Transportation – Ownership, Transportation – Operating) are set by IRS local standards, which are based on the part of the country that the taxpayer lives in.

Think about it from the IRS perspective. Taxpayers who live in Tupelo, Mississippi,



will likely spend less on their monthly housing than those who live in New York City. Likewise, transportation costs would be higher in Los Angeles than in other parts of the country.

As such, these expenses increase or decrease based on the county that the taxpayer resides in. Unlike national expenses, however, the IRS will examine the taxpayer's actual amount spent on these categories and take whatever amount is lower between the actual amount spent and the standard.

However, some IRS collections personnel will just take the local standard amount if the taxpayer requests it without requesting verification of the expense. IRS protocol dictates that collections agents verify these amounts though.

IRS Allowable Living Expenses – Other Expenses the IRS Considers Necessary

Outside of these basic necessary expense categories, the IRS will also factor other "necessary expenses" into their collection equation. Federal income taxes are considered a necessary expense, as are court-ordered payments and the vast majority of secured debts.

Here is a quick list of some of the expenses that the IRS considers reasonable in certain circumstances:

9. Accounting and legal fees
10. Charitable deductions

11. Childcare, especially when both parents work
12. Court ordered payments
13. Educational expenses (Note: College tuition is generally not considered necessary)
14. Involuntary deductions (uniforms for a job, dues, etc.)
15. Life insurance
16. Secured or legally perfected debts
17. Credit cards (for the portion of the debt that was for basic living expenses)
18. Some other unsecured debts
19. Current year taxes
20. Delinquent state and local taxes
21. Telephone service
22. Student loans
23. Repayment loans made for purpose of paying federal taxes

Likewise, expenses that are needed to produce income such as wages to employees, materials and other business expenses will also likely be considered allowable.

The IRS will rarely challenge expenses listed for a taxpayer's business unless they appear to be facially unreasonable.



IRS Allowable Living Expenses – Other Expenses/Items that the IRS May Disallow

On the other hand, expenses that exceed the national/local standards are presumed disallowed absent significant necessity shown on the part of the taxpayer. From a practical perspective, if the expense that you want to claim does not appear on the above list, if you are claiming more than the allowable standard, or if you cannot demonstrate that it is necessary to your production of income, then you are going to fight an uphill battle with the IRS to get it approved.

The purpose of having the collection standards in the first place is to provide a uniform and fair system for all collection accounts to be judged equally.

The IRS generally does not deviate from these rules, absent good cause. One general exception to this is if your out-of-pocket medical costs exceed the standard. We have found in practice that the IRS usually will not fight you too much on the reasonableness of a medical expense, provided the expense is not outrageous and you can document the medical reason for the expense claimed and/or show substantiation of the expense.

In some instances, the taxpayer may be allowed conditional expenses for a period of time while working with collections. These are on a case-by-case basis and up to the discretion of the collections representative that you are working with.

For example, a taxpayer who has a mortgage amount higher than the local standard for housing may be allowed that expense for a period of time, usually provided they are in the process of liquidating that house to satisfy their tax liability or to lower their monthly housing expense.

Unfortunately, as mentioned earlier, college tuition expenses for a dependent are roundly not considered allowable expenses by collections personnel. As such, we are often forced to manage expectations of the IRS collections clients when asked their two most common questions: can I keep my house and can I continue to send my kids to college?

The short answer from the IRS is often “no” (although we practitioners would not be doing our job if we always took that answer).

There is a seemingly difficult line drawn by the IRS when it comes to allowable expenses. Many have criticized the IRS for what appears to be hard and fast rules regarding the expense categories and “allowable expenses” which are not actually reflective of a taxpayer’s financial position.

However, there are no serious proposals on the table to change the collections financial calculations and taxpayers are going to have to do the best they can with the current system.

CONCLUSION

Having the IRS nosing through your living expenses can seem like a major intrusion, but if you want to have your offer in compromise approved, then you have to play the game. It is no fun, but just keep your end goal in mind — getting your offer in compromise or other repayment proposal approved.



The IRS is trying to be as fair as possible in determining a taxpayer's reasonable living expenses and that is why they developed standards on the national and regional levels. It gives them a benchmark against which to compare your living expenses to assess how much you will be able to pay towards your IRS debt.

If you want to submit an offer in compromise or other repayment request to the IRS, I encourage you to reach out to me. I have negotiated successful OICs and other repayment requests for other clients. I am very familiar with the standards and can help you prepare your documentation so that the IRS will accept your offer as well as leave you with enough money to live comfortably on.



05 What Happens When An Offer In Compromise Is Received By The IRS?

INTRODUCTION

You have jumped through all the hoops to prepare and submit your Offer in Compromise (OIC) to the IRS. Now what? Does your offer languish in an IRS black hole somewhere? Should you brace yourself for a long wait ... ?

Well, I am happy to inform you that the IRS jumps on OIC requests and turns them around pretty quickly, especially those that include a down payment. If that describes your situation, then you will probably hear something within 24 hours; however, that is just to let you know whether or not the IRS is able to process your request. They will not have made a decision on accepting your offer quite that soon.

More often than not, the IRS will contact you if they have questions about your application — if it has been deemed processible. Otherwise, if they do not like something you submitted and decide not to process your request, then they will return your OIC to you.

A returned OIC is not good news. That is why I urge my clients to take their time when preparing their OIC application and be as exacting as possible; make sure you sign all the forms and include all supporting documentation. I always preach that neatness and organization can go a long way towards tipping the scales in your favor. Make it as easy as possible for the recipient on the IRS end to process your information.

In this chapter, I will explain what actually does happen when the IRS receives your request for an OIC. My hope is that you will have a much clearer picture of the process and the rationale behind the IRS' decision to accept, return or reject your OIC.

As always, if you are considering an OIC and need a sounding board, give me a call. I have helped many, many clients submit OICs that were accepted with few or no additional questions.



How the IRS Processes OIC Requests

Once the processing center has received the taxpayer's offer-in-compromise, the IRS will determine whether or not the offer can be processed. An offer may be deemed not processable under one or more of the following circumstances:

- ▶ The taxpayer is in bankruptcy
- ▶ The taxpayer did not submit the application fee or initial payment with the offer
- ▶ The liability was previously referred to the Department of Justice
- ▶ The offer relates to liabilities that have not been assessed
- ▶ The collection statute expiration date has expired for the liabilities the taxpayer seeks to compromise
- ▶ The taxpayer has outstanding tax returns
- ▶ There is no outstanding tax liability

See both [IRM 5.8.2.4.1](#) (05-25-18) and [SBSE-05-0217-0020](#) (Feb. 23, 2017).

Furthermore, an offer-in-compromise must be perfected and cannot be processed by the IRS if:

- ▶ Form 656 is missing a signature
- ▶ Balance of any TIPRA shortfall is due at submission of the offer
- ▶ The amount offered is left blank or is zero (unless there are terms present)
- ▶ Form 433-A and/or 433-B(OIC) are

not entirely and accurately completed

- ▶ Requesting required estimated tax payments from self-employed taxpayers
- ▶ Requesting Federal Tax Deposit (9FTD) payments when appropriate
- ▶ There is a missing signature on a tax return that has been sent with the offer

See [IRM 5.8.3.6](#) and [Rev. Proc. 2003-71](#).

Withholding of Collection

After the IRS has received the offer-in-compromise, they will generally stop collection activity in most instances. However, an offer-in-compromise does not guarantee that collection efforts will be stopped. The IRS may proceed with collection enforcement if it decides that the offer has not been made in good faith. This may happen in instances where the offer is seen as frivolous or an effort to delay. Additionally, the IRS may levy to collect liability during an offer in compromise while evaluating the offer if they determine that the liability amount is in jeopardy.

Taxpayer Contact

A decision on whether or not the offer will be processed is made as soon as possible. For offers submitted with a payment, a decision must be made on processability within 24 hours. Case building is completed for all offers within 16 calendar days. If the IRS finds that the offer is eligible to be processed, but has not been perfected, the IRS may reach out to the taxpayer in order to request the missing information needed. Otherwise,



the offer will be returned without any further correspondence.

Review of the Offer

Offer Adequacy

As you might recall the IRS determines RCP by assessing whether the taxpayer's assets and income (present and future) will amount to less than the amount owed. Therefore, for a successful offer, the taxpayer must offer an amount that is equal to the realizable equity in assets plus the value of future ability to pay

In order to decide whether the taxpayer offer is adequate for doubt as to collectibility cases, the IRS must make a determination on the value of the taxpayer's assets. The IRS determines a quick sale value for the assets under consideration. A quick sale value refers to the amount of money that the seller can expect when they must sell an asset quickly due to financial constraints. Accordingly, the quick sale value will be less than the fair market value.

As a general rule of thumb, the IRS directs its employees to use 80 percent of the fair market value to determine the quick sale value. Of course, this is just a general rule and may be modified depending on the asset. Additionally, in the case that an asset is sold the IRS will verify and use the actual sale price instead in their calculation.

In their evaluation of future income, the IRS will consider the following factors applicable to the taxpayer:

- ▶ Education
- ▶ Profession or trade
- ▶ Age and experience

- ▶ Health
- ▶ Marital status
- ▶ Past and present income

See [IRM 5.8.5.20 \(03-23-18\)](#).

The IRS will also consider whether there is a chance that the taxpayer's income will increase, allowing him to pay the tax liability. See also [IRM 5.8.5.21 \(9-30-13\)](#).

Negotiating an Acceptable Offer

The IRS examiner will carry out an investigation of the taxpayer's assets and income to make a determination on whether the amount offered in compromise accurately reflects RCP (reasonable collection potential). Specifically, the examiner will investigate the following assets:

- ▶ Cash on hand, including analysis of checking and saving accounts ([IRM 5.8.5.7 \(03-23-18\)](#))
- ▶ Value of stocks and securities of closely held entities ([IRM 5.8.5.8 \(03-23-18\)](#))
- ▶ Value of life insurance policies ([IRM 5.8.5.9 \(03-23-18\)](#))
- ▶ Pension and profit-sharing plans ([IRM 5.8.5.10 \(03-23-18\)](#))
- ▶ The value of taxpayer's furniture, fixture, and personal effects ([IRM 5.8.5.11 \(03-23-18\)](#))
- ▶ Equity in motor vehicles, airplanes, and boats ([IRM 5.8.12 \(03-23-18\)](#))
- ▶ Receivables, machinery, and equipment ([IRM 5.8.5.14 \(03-23-18\)](#)); [IRM 5.8.5.16 \(10-22-10\)](#))



- ▶ The value of all real estate—unless held by the taxpayer and a non-liable spouse as tenants by entirety, in which case the IRS includes 50 percent of the property’s equity ([IRM 5.8.5.13 \(03-23-18\)](#))
- ▶ The value of a business as a going concern ([IRM 5.8.5.17 \(03-23-18\)](#))

Finality of the Agreement

An offer in compromise is only considered accepted once the taxpayer has been notified of the acceptance by the IRS in writing. Acceptance of an offer in compromise settles all liability included in the offer for good. See [Reg. §301.7122-1\(e\)\(5\)](#).

CONCLUSION

An Offer in Compromise is a good solution if you have looked into all other options for paying your tax debt and none of them will work in your situation. There are strict requirements to apply for an OIC, but if you qualify, I urge you to proceed.

Hopefully, this chapter has helped you understand the process at every turn, so that you are prepared with all of the required forms, documentation and any down payments you are required to make.

Once the IRS has your application, they will review the amount of your offer, substantiation that you are eligible and ability to pay. After that, they will get back to you by either: acceptance, rejection or return. If you receive a rejection or return, then I urge you to read my chapters on how to appeal a rejected OIC.

If you want to increase your odds of getting your OIC accepted, give me a call. I have helped many clients get their OICs accepted



by the IRS which has given them the opportunity for a fresh start. I am confident that I can do the same for you.



06 How Much Should I Offer?

INTRODUCTION

There are many options available through the IRS for paying your tax debt and some are more attractive than others. Your goal is to negotiate a reasonable amount that the IRS will not laugh at and flatly turn down, but to also have enough money to live on without having to sacrifice too much of your standard of living.

If you have evaluated all of your options for paying your tax debt to the IRS and landed on an Offer in Compromise (OIC), the burning question is ... “How much should I offer?” Your offer has to make sense. If you low-ball too much, that is going to raise a red flag to the IRS that you really are not that serious and simply trying to buy time.

Obviously, if you offer too much to pay within too short of a time period, then that could leave you, your family and your business seriously strapped for cash. So, the key is to strike a balance that will satisfy the IRS with minimal upheaval in the rest of your life.

I have a lot of experience in helping my clients determine the minimum or maximum amount they should offer without selling themselves short. There really is a fine line and that is why it would be beneficial to consult with a tax professional before you start throwing out numbers to the IRS.

I wrote this chapter so you will have an overview of the different payment options available through the IRS. I will go into more depth about the offer in compromise process so you will have a better understanding of how this works and if it really is your best option. If you are still trying to decide, feel free to give me a call and we can talk through your options.

IRS Payment Options for Taxpayers

Lump Sum Cash Offer

A taxpayer may choose the lump sum offer, which is defined as an offer where the



taxpayer makes five or fewer installment payments within 24 months after the offer is accepted. If a taxpayer submits a lump sum offer, the taxpayer must include with the Form 656 a nonrefundable payment equal to 20 percent of the amount. This payment is required in addition to the \$150 application fee. Under the offer in compromise requirements, the nonrefundable amount cannot be returned to the taxpayer if the offer is either rejected or accepted. Instead, it will be applied to the taxpayer's liability.

Periodic Payment Offer

The periodic payment offer is defined as an offer where the taxpayer makes six or more monthly payments within 24 months after the offer is accepted. When the taxpayer submits the offer, he or she must also submit the proposed installment payment along with Form 656. This payment is required in addition to the \$150 application fee. Similar to the lump sum cash offer, the 20 percent first installment payment is nonrefundable.

Also, while the IRS is evaluating a periodic payment offer, the taxpayer must continue to make the installment payments provided for under the terms of the offer. These amounts are also nonrefundable. The first and successive installment payments are all applied to the tax liabilities. The "taxpayer has a right to specify the particular tax liabilities to which the periodic payments will be applied" (See Topic 204).

Collateral Agreements

A collateral agreement is specific to offers in compromise. A collateral agreement is the ability of the government to collect

additional funds, 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. (See [Part 5. Collecting Process, Chapter 8. Offer in Compromise, Section 6. Collateral Agreements](#)).

If the taxpayer refuses to enter into a collateral agreement, this refusal may serve as a basis for rejecting the taxpayer's offer.

Keep in mind that collateral agreements are not used to accept an offer where the amount is less than the taxpayer's current financial condition. Instead, a collateral agreement is specifically appropriate where significant recovery is anticipated or facilitates resolution.

More information about Offer in Compromise (OIC) is available in Form 656 Booklet, Offer in Compromise. You may access the PDF here: <http://www.irs.gov/pub/irs-pdf/f656b.pdf>.

IRS Offer in Compromise Rules

Salability of Assets

Salability, or marketability, is defined in terms of liquidity as the ability to convert property to cash (See [Discount for Lack of Marketability: Job Aid for IRS Valuation Professionals](#)). Under the IRS offer in compromise rules, liquidity is essentially the ability to convert an asset into cash without losing the principal. Conversion is not only specific to the term asset; it may include business, business ownership interest, and/or security.



However, liquidity differs from marketability. Used interchangeably with marketability, salability is the ease and ability to transfer an asset, business, business ownership interest or security.

Marketability is defined as the fact of salability. If it is liquid, then it is marketable. However, if it is non-marketable, then it is illiquid. Being illiquid does not mean non-marketable as it may still be sellable, but the asset may not quickly or without loss of value be converted.

When evaluating a taxpayer's assets, the IRS will determine the ability of the asset to be converted to cash in order to satisfy the federal tax liability. The IRS will take into consideration economic factors affecting marketability.

Current Assets: Cash and Cash Equivalents

Credit Cards

According to the IRS, the payment of credit cards does not fall under the category of necessary living expenses. It is important to consider this fact when understanding the goal of the IRS in determining your ability to pay the federal tax owed.

Form 433-A will undoubtedly require the taxpayer to list all lines of credit and bank-issued credit cards. On the form, the taxpayer must include the account number, the credit limit, the amount owed, and the available credit as of a particular date. In essence, the IRS encourages taxpayers to pay their federal tax liabilities using a credit card because the interest rate on the card

is much lower than the interest rate plus penalties charged by the IRS.

The penalties and assessments of the IRS make it more difficult for taxpayers to pay the tax balance over time, whereas paying off the balance owed on a credit card would not incur the extra added penalties typically assessed by the IRS.

Long Term Assets

Long-term assets are defined as those that fall under the categories of stocks, bonds, real estate and cash. Taxpayers must list all long-term investments on [Form 433-A](#). On the form, investments are defined as stocks, bonds, mutual funds, stock options, certificates of deposit, retirement assets, and corporations, partnerships, or limited liability companies in which you have a business and/or financial interest. You must calculate the total value of your interest, any loan balances and the equity value minus loan balance.

Monthly Cash Flow

Monthly cash flow is determined as the ability of cash and/or earnings to come in and be expended out on a monthly basis. Form 433-A requires taxpayers to outline and calculate all categories of monthly income, whether generated as wages or through investment distributions; and calculate all categories of expenses — those specific to necessary living.

To obtain the net difference, you must subtract total living expenses from total income. This gives you an idea of the monthly cash flow specific to your income and living



expenses. Your interest may be defined in terms of your investment or your role (i.e., officer, director, owner, or member).

CONCLUSION

An offer in compromise is an option that the IRS offers to delinquent taxpayers which will allow them to pay their tax debt, but not lose their shirt, so to speak. It is not an easy process and you will have to be prepared for a lot of give and take. Your offer has to be realistic and not some “pennies on the dollar” request.

As well, keep in mind that you can only apply for an OIC if you have exhausted all other payment options. If you qualify, then the IRS is going to view your living expenses and lifestyle under a microscope and compare it to the most pared-down national and regional standards.

If you have read this chapter and decided that an OIC would be a good option for your situation, I strongly urge you to call me. It is difficult to have an OIC accepted and most taxpayers only have one shot. I have worked with clients in preparing OICs to present to the IRS for many years and have a high rate of success. How you choose to proceed is up to you, but this definitely is one situation that you should not try to tackle on your own.



07 How to Appeal the IRS When Your Offer in Compromise Is Rejected

INTRODUCTION

An IRS Offer in Compromise (OIC) is a tax settlement with the IRS where the taxpayer agrees to pay a specified sum and the IRS agrees to compromise on the remaining liability. It is a good option if you are over your head in IRS debt with no way to pay it.

If you have gone through the process to submit an OIC and it gets rejected or returned, well, that can sting. There are many reasons why the IRS will turn down your application. It could be anything from a simple clerical error to they did not like how you claimed some of your expenses. The letter you receive will explain why, which may be difficult to decipher. Your surest bet is to go talk to somebody who has extensive experience dealing with the IRS and let them help you figure out the next steps.

Many people have seen the various national tax agencies on daytime television offering to settle your tax debt for pennies on the dollar. However, what is left out of their sales pitch

is that we see nearly 80 percent [CJ1] of IRS offers in compromises are rejected for a variety of reasons. This is not entirely a bad thing, but it requires some strategic planning on the part of the taxpayer.

I really suggest that you not fall for these “bait and switch” tactics to lure desperate taxpayers in the door. The key to getting your OIC accepted is to legitimately maximize your expenses to offset your income. The average taxpayer most likely is not aware of how to do this, nor are the salespeople at those tax agencies you see advertised on TV.

Your best bet is to consult with an experienced tax attorney who is very familiar with the IRS tax code and can help you out of your dilemma. If you give me a call, I can figure out why your OIC was rejected or returned (two very different results) and we can talk about appealing the decision.

In this chapter, I will walk you through the rejection/return process and spell out the differences between the two. I will present



your options for appealing the IRS decision and how to go about it. Lastly, I will give you some exclusive tips which have worked beautifully for my clients, to get your OIC approved the first time around.

First Steps

First, you should have received a detailed letter from the offer specialist at the IRS who was assigned to your IRS offer in compromise. Take a look at that letter to determine why that offer was rejected. Keep in mind that a [rejection](#) of an Offer in Compromise and the return of an Offer in Compromise are not the same thing.

Offer in Compromises can be returned for a variety of reasons whether they are procedural, clerical, or administrative. A bankruptcy filing, failure to include the entire application fee, missing information, additional liabilities being accrued while the offer is being considered, and many other things may all cause your offer in compromise to be returned.

Unlike rejection, there are almost zero appeal rights for a returned Offer in Compromise (other than pleading with the offer specialist). However, there is nothing to prevent you from resubmitting the offer once the deficiency has been corrected. Returned Offer in Compromises are also an expensive, but valuable lesson on the importance of filing good paperwork with the IRS.

If everything was submitted properly and your offer truly is being rejected, it is time to take stock of the situation. First, check to see if the offer specialist concluded that your reasonable collection potential (based on the IRS financial formulas) exceeded your stated

minimum offer amount? If so, double check your initial offer submission (ensure you keep a copy) to verify that your financial statement was filled out to your maximum benefit?

Did you get the most benefit out of your allowable expense categories? Did you overstate your income? Are your asset valuations accurate? If not, it may be better to withdraw your offer in compromise and resubmit it. The IRS will not keep record of a withdrawn offer in compromise, but a rejected one will count as a “strike” against your record — especially if the reason it was rejected was not corrected.

There are two possibilities here. First, compare the calculations of the offer specialist to your calculations and see where they differ. Do you have a fight? If not, there’s little hope that the appeals division is going to accept your IRS offer in compromise out of the kindness of their hearts.

If the revised offer amount that the specialist is proposing is reasonable, perhaps you are better off taking it and running. Think about it: there are still tax savings to be had with any accepted offer in compromise, even if it is not for the amount that you hoped for.

Think you are going to have trouble paying the revised offer amount? Maybe the specialist will consider switching you over to more manageable payment terms. After all, the IRS does have an incentive to accept your offer as some money to the government is better than none.

Continued >



Last Chances at the Offer Specialist Level

What if the offer specialist did change something in their calculation that caused the offer to be rejected and you disagree with them?

First, try talking to the specialist directly and try to persuade them to reverse course. Ideally, this should have been done before the rejection letter went out, but sometimes you can save an offer from the ashes with a little finesse and a good argument.

The offer specialist still not budging? Try talking to their manager. At this point, if you have hit a wall, you have nothing to lose by taking a shot to convince their higher-up. Just be warned: managers are busy and often will back-up their people almost instinctively. Most of the time, they would rather support their people, and have you win in appeals (where it becomes someone else's problem) then to potentially upset the person that they have to see every day.

However, sometimes you get lucky and occasionally you can get one approved, especially if the position advanced by your offer specialist is ridiculous. It is the manager who needs to sign off on these things anyway.

Moving on to the Appeals Division

Suppose you are at the point where you have no more room to argue at offer specialist level. It is officially time to file that appeal and get your offer reconsidered.

Keep in mind that your appeal must be filed within 30 days of the date stamped on the rejection letter. If the IRS does not receive it, you will lose your right to an appeal with the Appeals Division.

Here is the good and the bad news about Appeals.

First, the bad news.

- ▶ Appeals officers are usually more senior IRS employees
- ▶ They usually have a good knowledge of the offer in compromise program (some are former offer specialists)
- ▶ They will almost certainly have a better understanding of the tax code than the offer specialist
- ▶ They will have the full case file from the offer specialist
- ▶ They are going to rely on their findings of the offer specialist as a default position unless there is something truly erroneous

Do not expect them to recalculate anything. Generally, appeals officers are pretty busy people. They will have a limited amount of time to devote to the matter and most will tell you straight up what their intention is during your appeals conference.

Benefits of the IRS Appeals Division

So, I know what you are thinking. You may say to yourself, "So, I am generally dealing with a more experienced person at the IRS who is not going to devote much time to my



case file and who may be more inclined to fall back on the default position of the offer specialist ... Where is the good news in that?"

Fear not. There are several advantages to dealing with an appeals officer.

First, we have found that appeals officers generally have more latitude to reach a settlement on an offer in compromise. The focus of the appeals office is often to settle controversies prior to litigation. Therefore, we have found that appeals officers often come into a matter with a mindset to settle it.

Since appeals officers operate in a more mediatory role, we have found that the discussions on issues in appeals are a lot less adversarial than on the offer level. Although it depends on whom you are assigned to, we have found that the appeals officers are more likely to work with you on certain points.

Offer specialists, on the other hand, often will have to justify accepting an offer to their manager. While it rarely happens, I have seen instances where the offer specialist has tentatively approved an offer in compromise only to have it rejected by their manager.

Furthermore, since they often carry a large caseload, they have little time to spend dissecting the merits of each individual case and often will not fight with you over minor issues.

In fact, appeals will be limited to any issues that you raise during the appeals conference.

Finally, because of their seniority, if appeals officers see from the file that your position is clearly the right one and that your offer should be accepted, they will often just push the offer through without the need for a formal

appeals conference. Their experience often exposes them to many different controversies and if your arguments are credible (as they should be since you are appealing), they will often fast track the resolution of your offer in compromise.

Tips for a Successful Offer in Compromise

Many offers in compromise applications are returned because they are incomplete. The IRS cannot process an offer if it is missing elements specific to applications and related documentation. To be eligible, all filers must not have an open bankruptcy case, must have filed all federal tax returns at issue, must have filed payroll tax returns and deposits at issue for the last two quarters, must pay the required application fee (\$150), must complete and submit Forms 656, 433-A, and/or 433-B (if necessary), and must be current with estimated taxes and income tax withholding for the current year.

The most important aspects for a successful OIC are to pay the offer amount; file all tax returns on time; allow the IRS to keep any tax refunds, payments, and credits to reduce your tax liability; and continue to let the IRS keep any tax refunds payable to you even after the OIC is approved.

Lastly, choose a tax professional to help you with the offer in compromise requirements. Because of the complexity of the process, taxpayers often hire a tax professional knowledgeable about the dynamics of the program. You want a tax professional who is experienced and knowledgeable about this area of tax law and truly understands your OIC requirements.



CONCLUSION

Despite some of the advantages of going to appeals, it is always better to try and resolve an offer in compromise before you get there.

Successful offer in compromises begin at the preparation level by putting together a package that is well-organized and gives the IRS every opportunity to accept it. If you are assigned to an offer specialist, do everything you can to get your offer in compromise resolved at their level.

Be communicative with them and try to engage in negotiations prior to them rejecting your offer. Often it is much easier to get an offer accepted prior to them rejecting it than to save an offer when a rejection letter has already gone out.

When an offer is rejected though, it is not the time to despair. Carefully evaluate the position of the offer and what you can do to strengthen it to make it more favorable to the IRS. If need be, then you can either withdraw it or take the matter up with Appeals.

Offer in compromises are often difficult to get accepted, but by utilizing some of these best practices, I hope that this will increase your chances of acceptance.

If you have received a rejection letter from the IRS or had your OIC returned, reach out to me. I can help you determine what the problem is and see how we can correct it so you can try again.

Or, if you want to propose an OIC to the IRS, come in and talk to me. I have helped clients prepare successful OIC proposals that have gotten accepted on the first pass. It is far easier to push your OIC through at the onset, than to scramble around after it has been returned or rejected and try to plead your case after the fact.

