

Offer in Compromise and Preparing Forms 656/433

Presented on Behalf of the American Society of Tax Problem Solvers
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WHAT IS TO BE LEARNED IN THIS SECTION?

- * **What is an Offer in Compromise?**
- * **What goes into the Preparation of Form 656?**
- * **What goes into the Preparation of Form 433 (et al)?**
- * **Case Study**

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BEST ADVICE EVER GIVEN WHEN I STARTED IN THIS BUSINESS

GET A SIGNED ENGAGEMENT LETTER BEFORE YOU START

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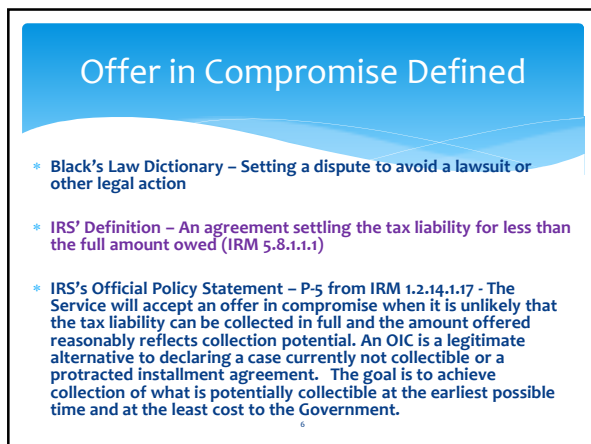
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IRS Fresh State Initiative

- * Introduced in May 21st, 2012
- * Revises calculation of future income for OIC's
- * Expands allowable expense categories
- * Liberalizes valuation of vehicles
- * Liberalizes valuation of assets used in business
- * Reduces use of dissipated asset theories
- * Reduces multiplier for determining future income component of Reasonable Collection Potential

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STATUTORY AUTHORITY

- * The Secretary of the Treasury is granted broad authority to compromise tax liabilities in IRC Section § 7122.
- * The Commissioner of Internal Revenue, under Treasury Regulation § 301.7122-1, is authorized to compromise a liability on any one of three grounds: Doubt as to Collectability (DATC), Doubt as to Liability (DATL), or to promote Effective Tax Administration (ETA).
- * Delegation Order No. 5-1 (Rev. 3) in IRM 1.2.44, *Delegation of Authorities for the Collection Process*, delegates the Commissioner's authority to accept, reject, terminate, or acknowledge withdrawals of offers in compromise.

8 As stated in IRM 5.8.1.1.2

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STATUTORY AUTHORITY Requires the IRS...

- ... to evaluate offers according to prescribed guidelines
- ... to prescribe allowances for basic living expenses
- ... to prescribe guidelines for withdrawals, rejections, appeals
- ... to issue and publish legal opinions for accepted offers of \$50,000 or more in unpaid tax

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OIC Statistics - Data Book			
Offers	2016	2017	2018
# of offers received	63,000	62,000	59,000
#of offers accepted	27,000	25,000	24,000
Amount of offers accepted	225,946,000	255,862,000	261,286,000
% accepted	42.86%	40.3%	40.67%

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CONSIDERATIONS THE CLIENT AND YOU!

- * Free consultation?
- * Charge for the consultation (like a down payment for the complete engagement)
- * Flat fee or hourly
- * Form 2848 or just the 8821 at first
- * Retainer agreement / Engagement Letter
- * Retainer (see previous slide)

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INITIAL THOUGHTS

- * Statute of limitations
 - * ASED
 - * CSED
 - * SFR
 - * Tolling
- * Compliance History – **MUST** have all returns filed
- * Financial Analysis – Reason Collection Potential
- * Easier Solution
 - * Currently Not Collectible
 - * Bankruptcy

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CLIENT ISSUES BESIDES HAVE A TAX DEBT

- * Are they in compliance
 - * Have their returns been filed by themselves
 - * SFRs?
- * At least the last 6 year look back per IRM 5.8.4.8.6
- * Are they current:
 - * In their payments for the year in which they send in the offer
 - * In their payments for the next year, while the offer is being considered, if applicable
 - * Timely filed returns AND paying the tax due for the 5 years once the offer is accepted
 - * Biggest issue for taxpayers – Many Reps shy away from offers as they truly believe that the taxpayer will not be compliance

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IS IT FREE TO FILE AN OFFER??

\$186.00*

* Can be reduced, based on income levels

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POINTS OF NOTE PART I

- * Not eligible if the tax debt can be fully paid via the installment agreement (within the CSED)
- * Income Averaging
- * Dissipated Assets – IRM 5.8.5.18
 - * 3 year look back – Current year and 2 prior IRM 5.8.5.18(2)
 - * Similar to when looking to place someone in non-private nursing facility
 - * IRS will look at past years' Schedule D (8949), Form 4797
 - * Often, an offer killer
- * For clients that are either unemployed or underemployed, the IRS may impute income to them under the assumption that they will be employed. – IRM 5.8.5.18(7)

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**POINTS OF NOTE
PART II**

- * **Future Income Collateral agreement**
 - * IRS will agree to an offer if there are potential future income that cannot be accessed now (i.e., future vested pension)

- * **Low income**
 - * Excused from the 20% rule or the filing fee (\$186)

- * **Qualified Investments**
 - * Can you get a loan? Unrelated????
 - * Can you assess some or all? If not, then neither can the IRS

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ADVANTAGES

- * **Paying Less than full amount**

- * **Levies and asset seizures stayed while the offer is evaluated**

- * **Finality - as long as TP stays compliant for first 5 years (discussed later)**

- * **Tax Liens released once offer is accepted**

- * **IRS MUST accept the offer if not rejected within 24 months**

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DISADVANTAGES

- * **Client Must disclose all financial information – it is a lot of homework for, both, the representative and the client.**

- * **All monies paid in are non-refundable.**

- * **Offer stays collection and assessment statutes**
 - * Once the SOL starts again, 30 days is added

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Types

- * Lump Sum
 - * Paid in 5 or fewer payments
 - * Non-refundable 20% down payment required
- * Deferred Payment
 - * Paid in more than 5 but less than 24 monthly payments
 - * Does not have to be equal payments
 - * Payments **MUST** start when the offer is made
 - * Payments **MUST** continue until offer is accepted or rejected

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Reasons

- (1) Doubt as to Collectability
- (2) Doubt as to Liability
- (3) To promote Effective Tax Administration

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Doubt as to Collectability

- * Most common of all offers
- * Tax Liability exceeds the sum of taxpayers net worth plus future income ability
- * "Net worth" must use asset market values minus lien liabilities (i.e., mortgages, judgements liens, mechanics liens, etc.)

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**Doubt as to Collectability
Collection Financial Standards**

Used to help determine a taxpayer's ability to pay a delinquent tax liability.

Allowable living expenses include those expenses that meet the necessary expense test.

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.

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**Reasons for an Offer:
Doubt as to Collectability**

- * Gross monthly income minus **necessary** basic living expenses
- * IRS Uses National and Local Standard Allowances
 - * National Standards
 - * Food, clothing and other items
 - * Out of pocket health care
 - * Local standards
 - * Housing and utilities
 - * Transportation

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Necessary Basic Living Expenses

**CHANGES EVERY
MARCH**

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**Reasons for an Offer:
Doubt as to Liability**

- * Uncommon
- * Cannot be used where tax liability was judicially determined
- * Acceptable reasons include:
 - * Client's disputes tax liability OR
 - * IRS auditor committed errors interpreting the law OR
 - * Client discovers new evidence never considered during IRS' examination

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**Reasons for an Offer:
Promoting Effective Tax Administration**

- * Also uncommon
- * Reviewed in Washington, DC
- * Client's financial resources adequate to pay entire tax liability, but doing so would create "economic hardship".
- * Client must demonstrate "economic hardship".
- * Examples of economic hardship
 - * Must use financial resources for long-term health condition
 - * Fixed income being used to support dependents

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**National Standards
Food, Clothing and Other Items**

- * Established to cover 5 basic necessary expenses
 - * Food
 - * Housekeeping
 - * Supplies
 - * Apparel and Services
 - * Personal Care Products & Services
 - * Miscellaneous
 - * Items not included in any other category
- * Does not take into account private school, college expenses, charitable donations, unsecured debts (i.e., credit card payments).

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**Local Standards
Housing and Utilities**

- * Provided by state down to the county level
- * Standard for a particular county and family size includes both housing and utilities allowed for a taxpayer's primary place of residence. Standards are also provided for Puerto Rico.
- * Housing and Utilities standards include mortgage or rent, property taxes, interest, insurance, maintenance, repairs, gas, electric, water, heating oil, garbage collection, residential telephone service, cell phone service, cable television, and Internet service. The tables include five categories for one, two, three, four, and five or more persons in a household.

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**National Standards
Out-of-Pocket Health Care Expenses**

- * Established for out-of-pocket health care expenses including medical services, prescription drugs, and medical supplies (e.g. eyeglasses, contact lenses, etc.).
- * Different amounts for those under 65 and over 65.
- * In addition to what the taxpayers pay for health insurance.

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**Local Standards
Transportation**

- * Nationwide figures for monthly loan or lease payments referred to as ownership costs, and additional amounts for monthly operating costs. If vehicle is 6 years or older or has more than 75,000 miles, one gets an additional \$200 per month (IRM 5.8.5.20.3.5 – not in the tables).
- * A conversion chart has been provided with the standards that lists the states that comprise each region, plus counties and cities.
- * The ownership cost portion of this standard, although it applies nationwide, is still considered part of the local.

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Transportation (continued)

- * The ownership costs, shown in the table, provide the monthly allowances for the lease or purchase of up to two automobiles. A single taxpayer is normally allowed one automobile. For each automobile, taxpayers will be allowed **the lesser of:**
 - * the monthly payment on the lease or car loan, or
 - * the ownership costs shown in the table below.
- * If a taxpayer has no lease or car loan payment, the amount allowed for Ownership Costs will be \$0.

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NATIONAL, LOCAL OR ACTUAL

Expense	NATIONAL, LOCAL OR ACTUAL
Food, Clothing and Miscellaneous	National
Housing and Utilities	Lesser of actual or local
Automobile Ownership	Less of actual or standard (thus if no loan or lease, then zero)
Automobile Operating	Less of actual or standard
Public Transportation	National
Health Insurance	Actual
Health Care Costs	Higher of Actual or National

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NATIONAL, LOCAL OR ACTUAL

Expense	NATIONAL, LOCAL OR ACTUAL
Court Ordered Payment (i.e., child support, alimony)	Actual
Child / Dependent Care	Actual (must be necessary)
Life Insurance	Actual (Must be reasonable)
Current Year Taxes	FIT, SS, Medicare, SE, SIT, Local
Secured Debts	Actual
Delinquent State / Local Taxes	Percent of debt vs. Federal

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What is Reasonable Collection Potential (RCP)?

- * **Gross Monthly Income**
- * **Allowable Expenses**
- * **Determine Future Income (FI)**
- * **Net Equity in Assets (Quick sales value or QSV)**
 - * FMV times 80% less debt

FI + QSV = RCP

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SPECIAL CONSIDERATIONS FOR ALLOWABLE EXPENSES

- * **Child & Dependent Care**
 - * Day Care may be necessary, sleep away is not
- * **Health Costs – Actual versus Standard is on a personal by person basis, not on the household as a whole:**
 - * H actual - \$200 (under 65)
 - * W and 2 dependents is \$0 (all under 65)
 - * Allowed amount is \$362 (\$200 for H and \$54 times 3 for others)
- * **Home Equity Loans or lines of credits**
 - * Housing limited to lesser of actual or national (slide 30), put these in "Secured Debt".

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SPECIAL CONSIDERATIONS FOR ALLOWABLE EXPENSES

- * **Timeshare costs not deductible – though secured. However, mortgage may be under "Secured Debts".**
- * **IRS does not allow credit card payments as they are all unsecured, unless traceable as a business debt.**
- * **IRS does not allow charitable giving unless it is required for their jobs (hard to prove this).**

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EXCLUSIONS AND EXEMPTIONS

- * Vehicles – Allowed one \$3,450 exemption for each car no matter how many vehicles are owned (IRM 5.8.5.12)
- * Cash –
 - * Every offer submission should include a \$1,000 exclusion
 - * If the total amount is over \$1,000 and you have reason to believe the money will be used to pay for the taxpayer's monthly allowable living expenses, do not include it. (5.8.5.7)
- * Assets – reduce FMV by 80% **BEFORE** subtracting debt

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**Special Considerations
Non-Liable Spouse**

Allocation of expenses

- * Be careful when you have a non-liable spouse and a two-income household.
- * IRS will pro-rate the portion of the expenses that the taxpayer is responsible for based on the percentage of income the taxpayer brings into the family.
- * So, if husband is liable for the tax liability and wife is not and husband brings in 2/3s of the income, then he is only entitled to claim 2/3 of the expenses. BUT if husband pays alimony or child support, he will be allowed 100% of that expense. While the wife isn't liable for the taxes, her income affects his ability to pay.

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**Special Considerations
IRM 5.8.5.24 (03-23-2018) - Shared Expenses**

IF: A separate offer is submitted by only one taxpayer who owes joint liabilities

Then: Compute the RCP based on the taxpayer's separate income and assets using the allocations described in IRM 5.8.5.5, *Jointly Held Assets*, taking into consideration community property laws, if applicable.

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**Special Considerations
Non-Liable Spouse**

- * The OE/OS should secure **sufficient information concerning the non-liable person's assets and income** to determine the taxpayer's proportionate share of the total household income and expenses. Review the entire household's information and:
- * Determine the **total actual household income**.
- * Determine what **percentage of the total household income the taxpayer contributes**.
- * Determine **allowable expense amounts** using the rules in this chapter and IRM 5.15.1, *Financial Analysis Handbook*.

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**Special Considerations
Non-Liable Spouse**

- * Determine which expenses the taxpayer and others have **agreed to share**, e.g., taxpayer and non-liable spouse pay their expenses from joint checking account. If there is no agreement, then the expense isn't shared, as is typical for child support, allowable educational loan, or union dues.
- * **Apply the taxpayer's percentage** of income to the shared expenses.
- * Verify that the **taxpayer actually contributes** at least this amount to the total household expense. National Standard expenses do not require verification unless the taxpayer claims more than the standard amount.
- * **Do not allow the taxpayer any amount paid toward the non-liable person's discretionary expenses.**

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**Special Considerations
Non-Liable Spouse**

If the non-liable person's income is not provided or cannot be verified internally, **allow the liable taxpayer only the national and local standards for 1 person** plus any allowable and verifiable dependents.

In those cases where the non-liable person refuses to provide the supporting documentation (if the expenses are reasonable) you **may consider allowing up to 50% of the additional necessary household expenses**.

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Special Considerations
Dissipated vs Nominee/Transferee

Dissipated Assets - IRM 5.8.5.18

Will be included in RCP if it can be shown:

- a) TP “has not sold, transferred, encumbered or otherwise disposed of asset in an attempt to avoid payment of the tax liability” or
- b) “Used the assets or proceeds for other than the payments of items necessary for the production of income or the health and welfare of their family”

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Special Considerations
Dissipated vs Nominee/Transferee

Dissipated Assets - IRM 5.8.5.18(2)

Will look for dissipated assets

In the year that the offer is submitted and the two previous years

IR should provide the TP ample opportunity to explain where the assets/proceeds went

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Special Considerations
Dissipated vs Nominee/Transferee

Dissipated Assets – IRS Provided Examples

- Dissolved an IRA or other investment account to pay for non-priority items, i.e., child’s wedding, child’s university tuition, extravagant vacation, etc.
- Refinanced the home and used the funds to pay off credit card and other non-secured debt. The cards were not used to fund necessary living expenses and/or the production of income.

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Special Considerations
Dissipated vs Nominee/Transferee

Dissipated Assets – IRS Provided Examples

- **Inherited funds were not used to fund necessary living expenses and/or the production of income.**
- **Bank or other investment accounts were closed and the taxpayer would not disclose how the funds were spend or if any remain**

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Special Considerations
Dissipated vs Nominee/Transferee

Dissipated Assets - IRM 5.8.5.18

Will be included in RCP if it can be shown:

- a) **TP “has not sold, transferred, encumbered or otherwise disposed of asset in an attempt to avoid payment of the tax liability” or**
- b) **“Used the assets or proceeds for other than the payments of items necessary for the production of income or the health and welfare of their family”**

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Special Considerations
Dissipated vs Nominee/Transferee

Assets Held By Others as Transferees, Nominees, or Alter Egos (IRM 5.8.5.6) – Control?

- 1) **TP previously owned the property**
- 2) **Little or no consideration paid**
- 3) **TP retains possession or control**
- 4) **TP uses or enjoys the property**
- 5) **TP pays most or all of the expenses**
- 6) **Conveyance was for tax avoidance**

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Special Considerations
Dissipated vs Nominee/Transferee
Assets Held By Others as Transferees, Nominees, or Alter Egos (IRM 5.8.5.6)

Major Difference #1 from Dissipated Assets

Control

“Taxpayer place the taxpayer’s asset(s) in the name of another person or entity, but control of the assets(s) and other incidents of ownership remain with the taxpayer”

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Special Considerations
Dissipated vs Nominee/Transferee
Assets Held By Others as Transferees, Nominees, or Alter Egos (IRM 5.8.5.6)

Major Difference #2 from Dissipated Assets

Where in the situation of a dissipated asset, these are ONLY included in RCP, nominee assets, are not only included in RCP, BUT also will be attached to reduce the liability (not the offer, like a refund).

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How to Compute RCP?

- * Facts – Comes to see you on April 1st, 2018 (so nice of them ☺)
- * William, Kate and 3 dependent children (1 born in 2018)
- * William and Kate owes \$505,00K from 2011-2018, formerly 1099 realtors
- * Both are under age 65 and children are both under 18
- * William earns \$42k and Kate earns \$78k, now both as employees by English Royalty Realty Marketing Company, LTD.
- * Used to live in PA (got tired of the state tax, moved to FL in 2019) and owes PA \$28K and pays them \$500/mo.

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William and Kate's Assets

- * Home
 - * FMV \$380,000
 - * Mortgage \$256,000
 - * HELOC if used \$45,000
- * Vehicle (no loans)
 - * 2011 Ford F150 \$6,000* 82k miles
 - * 2012 Chevy Malibu \$4,000* 65k miles
- * Retirement Assets
 - * William - None
 - * Kate - Defined Benefit Pension - \$78,000
- * Cash
 - * Checking \$1,000
 - * Savings \$750

Per KBB.com - standard equipment

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Harry & Kate's Actual Monthly Expenses

Mortgage	\$2850
HELOC	\$175
Utilities	\$675
Auto Expenses	\$1000
Health Insurance	\$695
Union Dues	William \$80
	Kate \$133
Disney Time Share	\$375
Credit Cards	\$400 monthly minimum payment
Summer Day Camp	\$4500 for both children
Church Tithes	\$200
Harry's prescriptions	\$350 - Kate and children none
Total Expenses	\$11,478 (more than their monthly income of \$10,000)

Borrowed \$4500 from William's Dad, Charles, to pay for representation

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National Standards: Food, Clothing and Other Items

Expense	One Person	Two Persons	Three Persons	Four Persons
Food	\$386	\$685	\$786	\$958
Housekeeping supplies	\$40	\$72	\$76	\$76
Apparel & services	\$88	\$159	\$169	\$243
Personal care products & services	\$43	\$70	\$76	\$91
Miscellaneous	\$170	\$302	\$339	\$418
Total	\$727	\$1,288	\$1,446	\$1,786

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National Standards: Out-of-Pocket Health Care

Age	Out of Pocket Costs
Under 65	\$55
65 and Older	\$114

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Local Standards: Housing and Utilities

Martin County	1,640	1,926	2,030	2,263	2,300
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Local Standards: Transportation

Ownership Costs		
	One Car	Two Cars
	\$508	\$1,016
Operating Costs	One Car	Two Cars
South Region*	\$210	\$420
Atlanta	\$240	\$480
Baltimore	\$258	\$516
Dallas-Ft. Worth	\$281	\$562
Houston	\$287	\$574
Miami	\$316	\$632

*This region also has separate costs for Tampa & DC 57

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William and Kate's Monthly Expenses

Expense	Allowed Amount
Food, Clothing and Miscellaneous	1,446
Housing and Utilities	2,030
Automobile Ownership <small>Over 75000 miles is not considered</small>	0
Automobile Operating (<u>South Region</u>)	420
Public Transportation	0
Health Insurance	695
Health Care Costs (350 +(55*3))	515

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William and Kate's Monthly Expenses

Expense	Amount
Court Ordered Payment <small>(i.e., child support, alimony)</small>	0
Child / Dependent Care	375
Life Insurance	0
Current Year Taxes	2,362
Secured Debts (HELOC)	175
Delinquent State / Local Taxes	77 <small>(28/505*500)</small>
Union Dues (job requirement)	213

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William and Kate's "IRS" Expenses

\$8,308

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INITIAL OFFER
Using 12 Month Lump Sum

- * Future Income $\$10,000 - \$8,308 = \$1,692 \times 12 =$ **\$20,304**
- * Future Income $\$10,000 - \$8,436 = \$1,564 \times 24 =$ **\$40,608**
- * House $\$380k \times 80\% - 256K,000 - 45,000 =$ **\$3,000**
Primary HELOC
- * Vehicles $(\$6,000 + 4000) = 10,000 \times 80\% - (3,450 \times 2) =$ **\$18,300**
- * Cash $-\$1,750 - \$1000 - \$750 =$ **\$0**
Exemption Up to one-month's expenses

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INITIAL OFFER

\$41,604
or
\$61,908

**Not bad, 8.23¢ - 12.26¢
on the dollar**

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How Do We Lower the Offer?

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William and Kate's Assets

- * Home
 - * FMV \$380,000
 - * Mortgage \$256,000
 - * HELOC if used \$45,000
- * Vehicle (New leases) – sold old cars for \$3000 each and used \$'s
 - * 2019 Audit A3 Per month \$655
 - * 2019 Kia Stinger Per month \$505
- * Retirement Assets
 - * William– None
 - * Kate – Defined Benefit Pension - \$78,000
- * Cash
 - * Checking \$1,000
 - * Savings \$750

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Harry & Kate's Actual Revised Monthly Expenses

Mortgage	\$2850
HELOC	\$175
Utilities	\$675
Auto Expenses	\$1000
Auto Lease	\$1160
Health Insurance	\$695
Union Dues	William \$80
	Kate \$133
Disney Time Share	\$375
Credit Cards	\$400 monthly minimum payment
Summer Day Camp	\$4500 for both children
Church Tithes	\$200
Harry's prescriptions	\$350 – Kate and children none
Total Expenses	\$12,593 (more than their monthly income of \$10,000)

Borrowed \$4500 from William's Dad, Charles, to pay for representation

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REMINDER Auto Ownership

- * The ownership costs, shown in the table, provide the monthly allowances for the lease or purchase of up to two automobiles. A single taxpayer is normally allowed one automobile. For each automobile, taxpayers will be allowed **the lesser of:**
 - * the monthly payment on the lease or car loan, or
 - * the ownership costs shown in the table below.
- * If a taxpayer has no lease or car loan payment, the amount allowed for Ownership Costs will be \$0.

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William and Kate's Monthly Expenses

Expense	Allowed Amount
Food, Clothing and Miscellaneous	1,446
Housing and Utilities	2,030
Automobile Lease	1,016
Automobile Operating (South Region)	420
Public Transportation	0
Health Insurance	695
Health Care Costs (350+(55*3))	515

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William and Kate's Revised Monthly Expenses

Expense	Amount
Court Ordered Payment (i.e., child support, alimony)	0
Child / Dependent Care	375
Life Insurance	0
Current Year Taxes	2,362
Secured Debts (HELOC)	175
Delinquent State / Local Taxes	77 (28/505*500)
Union Dues (job requirement)	213

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William and Kate's Revised "IRS" Expenses

\$9,325

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REVISED OFFER
Using 12/24 Month Lump Sum

- * Future Income $\$10,000 - \$9,325 = \$675 \times 12 =$ **\$8,100**
- * Future Income $\$10,000 - \$9,325 = \$675 \times 24 =$ **\$16,200**
- * House $\$380k \times 80\% - 256K,000 - 45,000 =$ **\$3,000**
Primary HELOC
- * Vehicles (none as they are leases) = **\$000**
- * Cash - $\$1,750 - \$1000 - \$750 =$ **\$0**
Exemption Up to one-month's expenses

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REVISED OFFER

\$11,100
or
\$19,200

**Not bad, 2.2¢ - 3.8¢
on the dollar**

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REJECTED OFFERS

- * **Must be appealed administratively & within 30 days**
- * **Rejected offers can be included in a collection due process appeal – and then to USTC**

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PART II
Preparing the 433
and a 656

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Form 433 A- Collection Information Statement

Use the 433-A:

- * If you are an individual who owes income tax on Form 1040,
- * If you are an individual who may be a responsible person for a Trust Fund Recovery Penalty,
- * If you are an individual who may be personally responsible for a partnership liability,

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Form 433 A- Collection Information Statement

Use the 433-A:

- * If you are an individual owner of a limited liability company that is a disregarded entity, or
- * If you are an individual who is self-employed or has self-employment income. You are self-employed if you are in business for yourself, or carry on a trade or business as a sole proprietor or an independent contractor
- * Filing this Form on behalf of a deceased person

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433 – A
SECTION BY SECTION

Section 1 – Personal and Household Information

Section 2 – Employment Information for Wage Earners

Section 3 – Personal Assets – the total columns will include supplemental schedules numbers

Section 4 – Self-Employment Information

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433 – A
SECTION BY SECTION

Section 5 – Business Asset Information

Section 6 – SE Business Income and Expenses

Section 7 – Monthly Personal Income and Expenses

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433 – A
SECTION 8

Part I – Lump Sum
Net Monthly Income (from Section 7, Box F)
Multiply 12
Future Remaining Income

Part II – Periodic Payment
Net Monthly Income (from Section 7, Box F)
Multiply 24
Future Remaining Income

If the above is negative, enter **ZERO**

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**433 – A
SECTION 8**

Part III –
Look for **Box A (Section 3, page 4/8)** or **Box B (Section 5, page 5/8)** for the **Includible asset value**
Add to the number for **Future Income** in either the **Lump Sum** or **Periodic computation**

Total is the Offer

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**Form 433 B– Collection Information
Statement for Businesses**

Use the 433-B:

- * **Corporation**

- * **Partnership**

- * **Limited Liability Company (LLC) classified as a corporation**

- * **Other multi-owner/multi-member LLC**

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**433 – B
SECTION BY SECTION**

Section 1 – Business Information

Section 2 – Business Asset Information (2+ pages)

Section 3 – Business Income Information

Section 4 – Business Expense Information

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433 – B
SECTION BY SECTION

Section 5 – Calculate your Minimum Offer Amount

Section 6 – Other Information

Section 7 – Signature

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433 – B
SECTION 5

Part I – Lump Sum
Net Monthly Income (from Section 7, Box F)
Multiply 12
Future Remaining Income

Part II – Periodic Payment
Net Monthly Income (from Section 7, Box F)
Multiply 24
Future Remaining Income

If the above is negative, enter **ZERO**

83

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433 – B
SECTION 5

Part III –
Look for Box A (Section 3, page 4/6)
Add to the number for Future Income in
either the Lump Sum or Periodic computation

Total is the Offer

84

84

433's Used in Other Ways

- * Collection Due Process Hearings
- * Levy Release Requests
- * Partial Pay Installment Agreement
- * Basically, the same rules apply as when preparing for an OIC

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When Not to Use the 656

Purpose of Form
An offer in compromise is an agreement between the taxpayer and the government that settles a tax liability for payment of less than the full amount owed. Grounds for compromise may exist where there is legitimate doubt from the viewpoint of both the taxpayer and the Internal Revenue Service that an assessed tax liability is correct. You may submit Form 656-L if you believe that the tax liability you wish to compromise is incorrect.

When Not to Use This Form

When	Then
believe you do not owe any of the tax liability	see "Alternatives to Offer in Compromise (Doubt as to Liability)", below
agree that the tax liability is correct, but cannot pay the full amount now and would like to request monthly installment payments	see Form 656, Installment Agreement Request
agree that the tax liability is correct, but believe you do not now, nor will ever, have sufficient funds to pay it and wish to compromise ("Doubt as to Collectibility")	see Form 656, Offer in Compromise, instructions for doubt as to collectibility
are currently involved in a bankruptcy proceeding	contact Centralized Insolvency at (800) 913-2038 to discuss any disagreement with our proof of claim

You cannot submit offers in compromise at the same time claiming both that you do not believe the liability is correct (doubt as to liability) and that you are unable to pay it (doubt as to collectibility).

We cannot consider an offer in compromise based on doubt as to liability if the liability you seek to compromise has been finally determined by the Tax Court, other courts, or by the Commissioner's Final Closing Agreement.

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When to Use 656-L (Doubt as to Liability)

Alternatives to Offer in Compromise (Doubt as to Liability)
When you disagree with the accuracy of a tax liability, depending on the situation and the type of tax, the Service has other available remedies. These options generally are less complex than an offer in compromise.

If you think your tax liability is incorrect because:	Then:
IRC created a return for you since you did not file one	see Publication 2796, The Audit Reconciliation Process
IRS made or reported properly on a Form 1042, U.S. Individual Income Tax Return; you filed or because of a tax adjustment the IRS made on your return	see the instructions for Form 1042R, Amended U.S. Individual Income Tax Return
IRS made or reported properly on a Form 1120, U.S. Corporation Income Tax Return; you filed or because of a tax adjustment the IRS made on your return	see the instructions for Form 1120R, Amended U.S. Corporation Income Tax Return
IRS made or reported properly on a tax return, other than Forms 1042 or 1120, you filed or because of a tax adjustment the IRS made on your return	see the instructions for Form 842, Claim for Refund and Request for Abatement
you had reasonable cause to remove or reduce penalties we charged	see Notice 748, Information About Your Rights, Penalty and Interest
you believe additional interest we charged you was due to IRC errors or delays	see the instructions for Form 543
you believe you should be considered an "innocent spouse" for a joint income tax liability	see Publication 271, Innocent Spouse Relief

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FORM 656
SECTION BY SECTION

Section 1 –
Page 1 - Individual Information (1040 Filer)
Page 2 – Low income certification in order to be exempt from the \$186 fee or the 20% lump sum payment requirement

Section 2 – Business Information (1120, 1065, etc., filers)

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FORM 656
SECTION BY SECTION

Section 3 – Reasons for the Offer
Doubt as to Collectability
Effective Tax Administration

Why is Doubt as to Liability Not listed?
Must File 656-L

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FORM 656
SECTION BY SECTION

Section 4 – Payment Terms
Part 1 – Lump Sum Calculation
Part 2 – Periodic Payment

Section 5 – Designation of payments

Section 6 – Source of funds and if returns were filed

Section 7 – Agreeing to Terms

Section 8 - Signatures

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