

ASTPS[©] PRESENTS



**OFFER in
COMPROMISE:
THE BASICS+**



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3 OIC TYPES



Doubt as to Liability
Doubt as to Collectibility
Effective Tax Administration

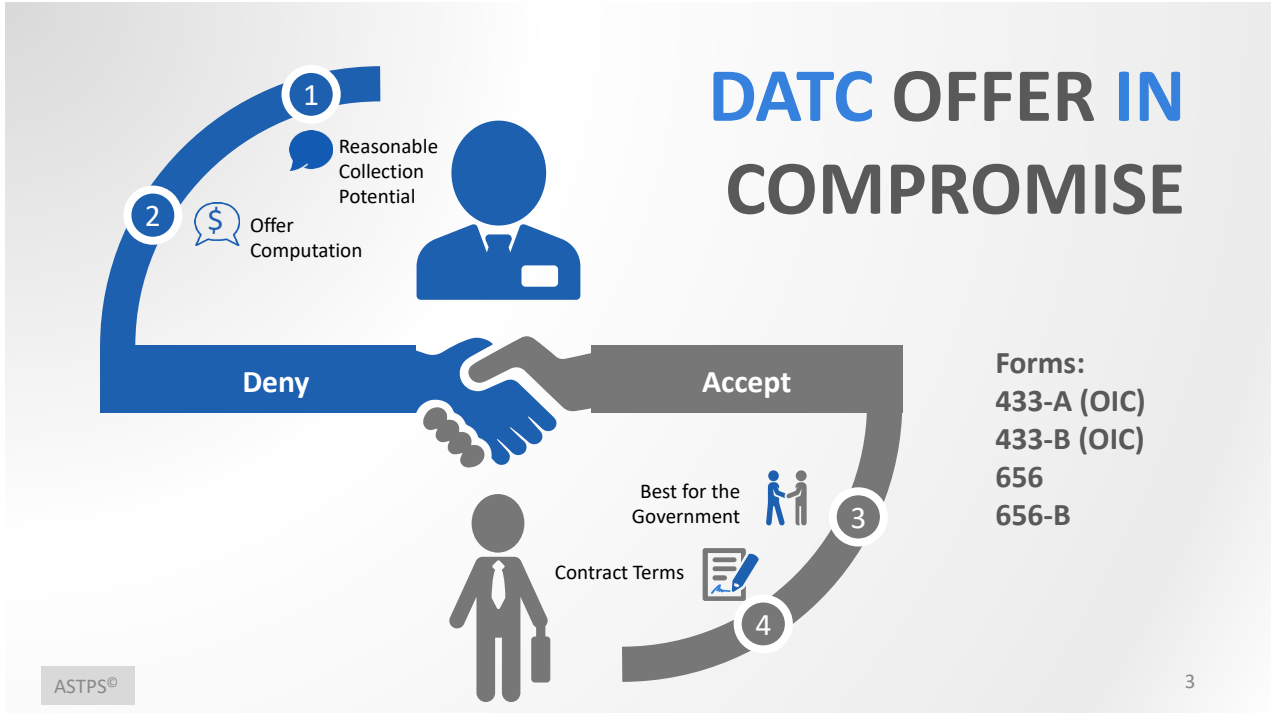


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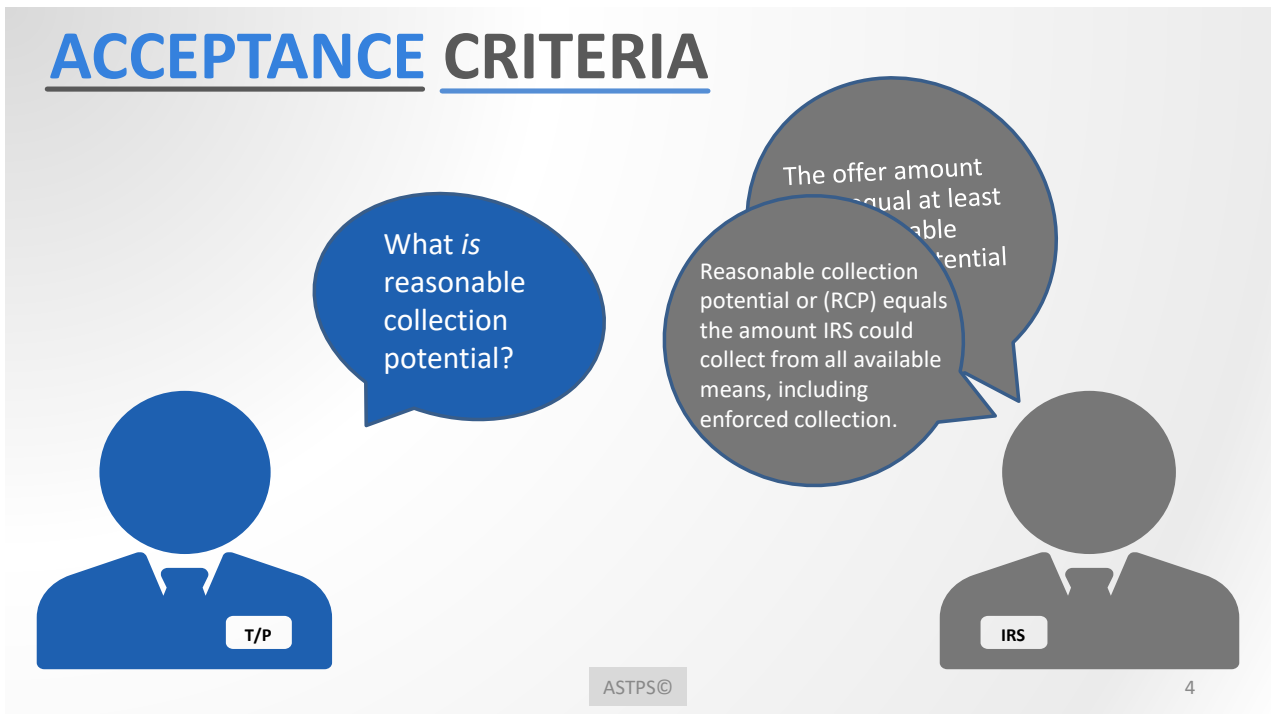


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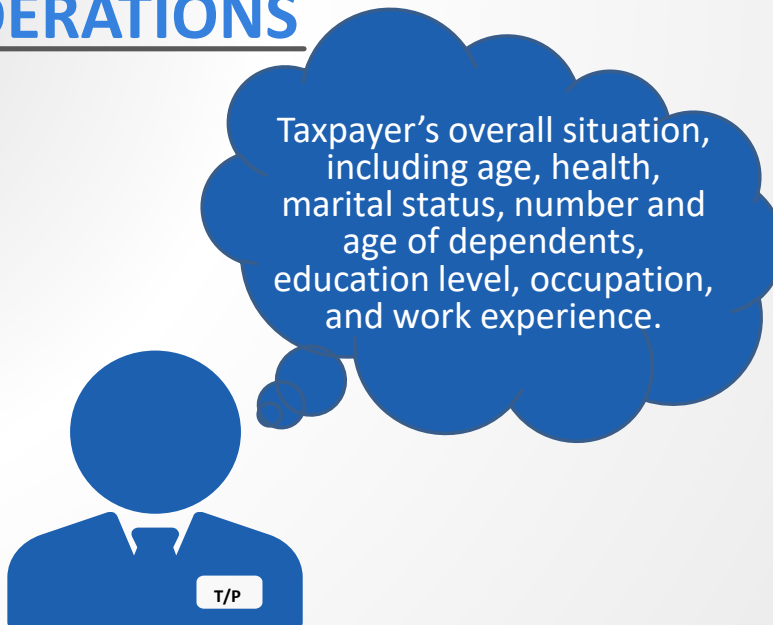


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CONSIDERATIONS



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INCOME: Future vs Current or Past

- **Known changes coming**
- **Temporary situation**
- **Expected actual in future**
- **Long-term under-employed**
- **Poor health**
- **Retirement proximity**
- **Bankruptcy potential**



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EXPENSES: Form 433-A (OIC)

Health & Welfare of the Family

- Food, clothing, and miscellaneous*
- Housing and utilities**
- Vehicle loan or lease payment(s) (\$508)
- Vehicle operating costs (N.E. \$237)
- Public transportation (\$217)
- Health insurance
- Out-of-pocket health care (\$55/\$114)
- Court ordered payments
- Child/dependent care
- Life insurance
- Current taxes
- Secured debt payments
- Student loans
- Delinquent state and local taxes



*Non-liable spouse allocation

** Non-liable spouse or person allocation

National or Local Standards

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Business Income & Expense

Form 433-B (OIC)

- Cash basis
- Allowable expenses - POI
- No depreciation
- Principal on business debt
- ~~Proprietorships~~



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Future Income Component

Payment Computations

- Pay 12 times the monthly excess income in 5 months
- Pay 24 times the monthly excess income over 24 mo.
- Or, pay remaining collections period times the monthly excess income

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Equity in Assets

- Tangible assets – real estate, vehicles, personal property
 - Quick sale value - FMV times 80%
 - Reduce by 100% of encumbrances
 - Consider percentage of ownership allocation,
 - Consider marketability and minority interest discounts
 - No household furnishings or tools of the trade
 - No income producing assets
- Cash - Exclude \$1000 plus one month of allowable expenses
- Investment assets - net proceeds after liquidation cost and current taxes
- Retirement accounts, life insurance policies - net proceeds after loans, liquidation costs, and current taxes
- Collectibles, jewelry, artwork - QSV



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Dissipated Assets

- No longer allowed
- Exception:
 - Taxpayer sold, transferred, encumbered, or otherwise disposed of assets to avoid tax
- Or, used for other than POI or H&W after tax is assessed, or in 6 months prior to assessment



Generally a
3-year timeframe

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Dissipated Assets IRS will Include in RCP

- Liquidated IRA or other investment account for child's wedding, child's tuition, extravagant vacation
- Re-fi home to pay credit cards or non-secured debt (Credit cards were not used for living expenses or POI)
- Inherited funds used for other than POI or H&W
- Unexplained balances missing from closed accounts
- Encumbered property after IRS withheld lien filing
- Sold real estate and gifted proceeds



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Dissipated Assets IRS will Exclude from RCP

- ❑ Proceeds were used for living expenses or POI
- ❑ Retirement funds liquidated during unemployment or under-employment to meet necessary living expenses
- ❑ Funds used for medical expenses – supporting documents
- ❑ Balance Sheet transfers and new asset is included in RCP



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Non-Liable Person



- Assets and income - excluded
- Prorate allowable expenses
- May request financial information



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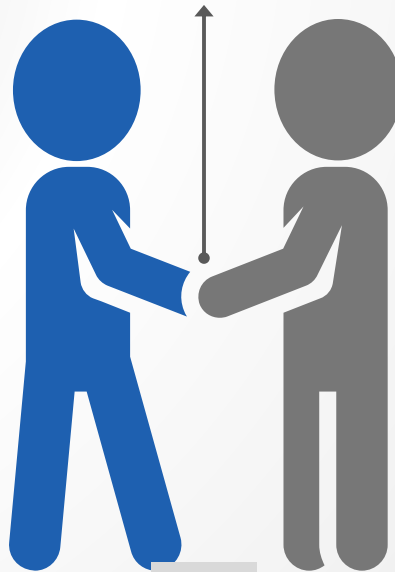
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BEST FOR THE GOVERNMENT

Taxpayers

Must offer to pay the most they can afford without suffering economic hardship



IRS

To be acceptable the offer amount must be the best the IRS Offer Examiner or Settlement Officer believes to be the best offer the government can get

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INSTALLMENT AGREEMENTS



- ✓ IRM an Offer in Compromise is not to be accepted if tax is payable in full by an Installment Agreement.
- ✓ Practitioners are often surprised when an OIC is rejected based on the time remaining on the Statute of Limitations for collection.
- ✓ IRS will multiply the taxpayer's excess monthly income times the remaining months of the collection statute.
If the result exceeds liability OIC will be rejected as taxpayer is able to full pay.



- ✓ If full pay is not indicated, IRS is to compare and evaluate the amount that IRS could collect under a Partial-Payment Installment Agreement to the amount of the taxpayer's offer.
- ✓ Considerations include:
 - Benefit to gov't to receive amount earlier,
 - Compliance OIC brings,
 - Monitoring and default issues,
 - Monetary difference between PPIA and IA,
 - Taxpayer's income & family size,
 - Potential changes in taxpayer's finances.

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MISCELLANEOUS NOTES



- **Streamlined OIC**
 - Total household income \$100,000
 - Liability less than \$50,000
 - Internal verification and submitted documentation
 - Additional info requested by phone
 - Responses by fax
- **Conditional expense rules do not apply to Offer in Compromise.**
- **Discretionary investments not allowed**
- **Include unusual expenses you consider necessary living expenses and support with a well-reasoned written argument.**

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CONTRACT TERMS



Upon acceptance taxpayer must:

- **Pay amount offered as scheduled,**
- **Remain compliant for the next 5 years,**
- **Forfeit any tax refund for the year of acceptance.**

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Questions? More Information?

Member consulting calls:

- Scheduled by calling at least 48 hours in advance,
- Brief email description due at time of scheduling,
- Call ASTPS at the appointed time.
- Topics to be addressed should be related to *tax problem resolution* technical, marketing, or practice management issues.

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