

Offer-in-Compromise

Master Class

Offer-in-Compromise Strategies

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Reason I love Representation Work

- ▶ Beyond the obvious (lots of money, never boring, niche that few play in, etc)
- ▶ There is strategy
- ▶ Every case is a little different

Strategy 1: Spend the Assets

- ▶ Taxpayer needs to get into compliance
- ▶ Has assets they will otherwise be including in their Offer
- ▶ Compliance is an issue
- ▶ Spend the assets to get into compliance

Strategy 1: Spend the Assets

- ▶ Example: Joe has an IRA with \$25,000 and a Pick-up Truck worth \$5,000. His future income is \$200 a month. RCP is $(\$17,500 + \$550 + \$2,400) = \$20,450$.
- ▶ Joe needs to be making quarterly estimated payments of \$3,500 and it's the third quarter.
- ▶ Joe cashes the IRA (receives \$17,500) and sends in his first three quarterly estimates (\$10,500).
- ▶ Reduces his RCP to \$9,950, has the \$1,990 for the 20% deposit, IRA is not dissipated (paid it to the IRS)

Strategy #2: MFS instead of MFJ

- ▶ CAVEAT: This works in Separate Property States, not so much in Community Property States
- ▶ Consider filing Married filing separate to keep the other spouse out of the debt (and RCP)
- ▶ See the client story after #3

Strategy #3: File the State First

- ▶ Delinquent state tax debts are 100% allowed as an RCP expense IF THE STATE IS IN PRIORITY POSITION OVER FEDS!
- ▶ If file together IRC 6321 puts IRS in first position (according to IRS)
- ▶ Only allowed a portion of the payment

Case Study for Strategies 2 and 3

- ▶ Husband and Wife are non-filers for last 8 years
- ▶ Major issues have occurred
- ▶ He is self-employed, she is a stay at home mom
- ▶ He has a pick-up truck and small IRA, earns \$180,000/yr
- ▶ She left a corporate job in NYC, has an IRA with \$500,000 and inherited their home worth \$1.2 million, no mortgage

Case Study for Strategies 2 and 3

- ▶ Go to CPA who does the last 6 years of tax returns MFJ
- ▶ Owe IRS \$300,000 and CT \$120,000
- ▶ He has future available income of \$3,800 a month

Case Study for Strategies 2 and 3

- ▶ They can easily full-pay from assets
- ▶ He can also full pay from future income (\$3,800 x 120 months on collection statute is more than the liability)
- ▶ Have him redo them MFS: He now owes \$380,000 to IRS and \$150,000 to CT. She owes nothing
- ▶ File CT returns. Once the bills arrive negotiate for \$3,800 a month payment plan.
- ▶ His Future Income is \$0, and his assets are \$4,100 for truck and net IRA

Strategy #4

- ▶ Figure out the RCP
- ▶ Change the future income calculation by spending it:
 - a. New Car (up to \$507/month)
 - b. Health Insurance
 - c. Term Life Insurance
 - d. Disability Insurance
 - e. Establish student loan, alimony or child support payments that have been in arrears

Questions?

