

How to Complete a 433

A Step-by-Step Guide

Eric L. Green, Esq.



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Eric Green, Esq.

- ▶ Managing partner in Green & Sklarz LLC, a boutique tax firm with offices in Connecticut and New York.
- ▶ Focus is civil and criminal taxpayer representation before the Department of Justice Tax Division, Internal Revenue Service and state Departments of Revenue Services.
- ▶ Has served as a columnist for CCH's Journal of Practice & Procedure.
- ▶ Attorney Green is the past Chair of the Executive Committee of the Connecticut Bar Association's Tax Section.
- ▶ Eric is a Fellow of the American College of Tax Counsel ("ACTC").



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Eric Green, Esq.



- Eric is the host of the weekly Tax Rep Network Podcast
- Eric is the founder of Tax Rep Network, an online community designed to help tax professionals build their IRS Representation Practice
- He is the author of the Accountant's Guides in IRS Representation
- Partnered with UConn and creator of the IRS Representation Certificate Program
- Creator of the Tax Rep App



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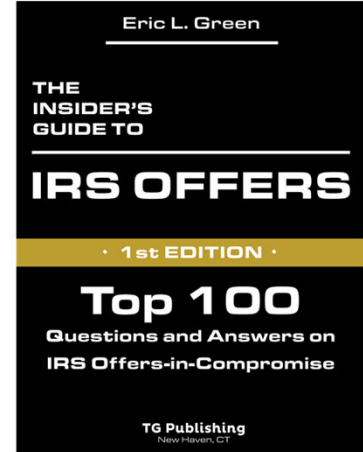
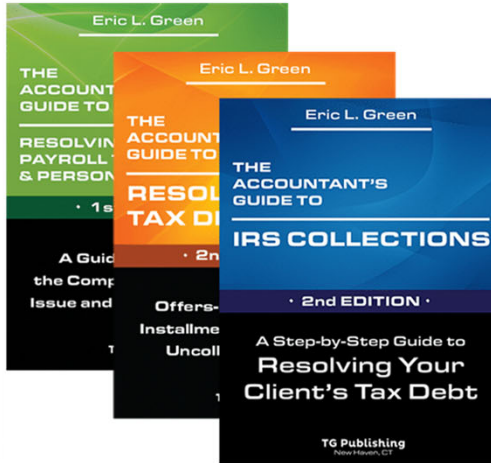
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Guide to Collections	\$99	\$129	\$129
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Complete Set	\$299	\$469	\$469

Until November 30th at Midnight!

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Before we get started....



- ▶ 16 Attendance check words
- ▶ Please write them down
- ▶ We will take our 10 minute break at the top of the hour

Coffee Break!

Take a 10-Minute Break!



The 433 is the cornerstone of IRS Collection

- ▶ It is the financial statement the IRS requires
- ▶ It creates the roadmap for collection
- ▶ It is what we use to sort out the collection possibilities
- ▶ But Which Form to use?

Which 433 do you need?

- ▶ 433-A Complex for Individuals, Field Collections
- ▶ 433-F Simple for Individuals seeking CNC Status (ACS)
- ▶ 433-H Simple for Individuals seeking Regular IA or PPIA (ACS)
- ▶ 433-B For Business Entities
- ▶ 433-D Payment agreement (can also use a Form 9465)
- ▶ 433-A (OIC) Individuals for Offers-in-Compromise
- ▶ 433-B (OIC) Businesses for Offers-in-Compromise

We will focus on the 433-A

- ▶ The 433-A is the most common form
- ▶ It is the most detailed
- ▶ If you get this the others are easy

Test Your Knowledge

- ▶ So why does Eric Like the 433-F and 433-H more than the 433-A?
- ▶ You can use a 433-A and send it into ACS, which Eric usually prefers, but under what circumstance does it strategically make sense to not use a 433-A but the 433-F/H instead?

Test Your Knowledge

- ▶ If the client has dissipated assets by transferring them to other people!

11 In the past 10 years, have you transferred any assets for less than their full value (If yes, answer the following) <input type="checkbox"/> Yes <input type="checkbox"/> No			
List Asset(s)	Value at Time of Transfer \$	Date Transferred (mmddyyyy)	To Whom or Where was it Transferred

So lets complete this thing!

- ▶ Cash
- ▶ Investments
- ▶ Virtual Currency
- ▶ Available Credit
- ▶ Life Insurance
- ▶ Real Estate
- ▶ Personal Vehicles
- ▶ Personal Assets
- ▶ Future Income
- ▶ Business assets
- ▶ Business Profit and Loss

Basics – Numbers Need to be Backed-Up

- ▶ IRM 5.15.1.7 requires three months of bank statements, and ROs often may ask for 6 months or even a year
- ▶ How much to provide depends upon the situation
- ▶ Example: Wage earner (3 months)
- ▶ Example 2: Seasonal Landscaper (maybe 12 months)



Basics- Dependents

- ▶ IRM § 5.15.1.8 (7) – Dependents are those claimed on the 1040
- ▶ IRM § 5.15.1.11(3) – no other alternative



Practice Tip!!!

- ▶ Clean up the client before presenting them
- ▶ Examples:
 - a. Extra LLCs
 - b. Vehicles and other personal stuff

Cash

- ▶ Cash includes cash in the bank and on-hand. List the cash that ties to the bank balance at the end of the last bank statement
- ▶ IRM 5.8.5.7 – allows cash to be treated as not available if it is needed to pay current expenses, usually 1 month
- ▶ Argue for an amount equal to one month of allowable expenses to be treated as not available for collection
- ▶ Example, TP has \$10,000 in the bank and allowable monthly expenses of \$7,200. We explain that per IRM 5.8.5.7 that \$7,200 is needed by the TP and only \$2,800 should be required to be paid in to the IRS

Investments

- ▶ Investments are valued at their current market value available per public listing
- ▶ Consider if the investment is something that either (a) has no value or (b) is not marketable (like a SMLLC without assets)
- ▶ IRM 5.15.1.28 (2) – Contributions to retirement plans are not an allowable expense

Investments

- ▶ For qualified investments, the IRS steps into the shoes of the TP: if client can liquidate and get it so can the IRS
- ▶ Allow for current taxes on gains/income and any 10% early withdrawal penalty
- ▶ IRS will want loans taken if allowed and needs to allow for the future expense repaying the loan

Virtual Currency



- ▶ Considered an asset
- ▶ IRS is utilizing AI to compare to 433s submitted by taxpayers in the last few years
- ▶ Fraud referrals are up 42% from Collections

Available Credit

- ▶ IRS does not ask TP to take loans against credit card
- ▶ Home equity loans they will
- ▶ I generally list to show if taxpayers are in bad shape
- ▶ Credit card payments and minimums are already included in allowable expenses (Misc expense)

Food, Clothing, Misc.

“The miscellaneous allowance is for expenses taxpayers may incur that are not included in any other allowable living expense items, or for any portion of expenses that exceed the Collection Financial Standards and are not allowed under a deviation. Taxpayers can use the miscellaneous allowance to pay for expenses that exceed the standards, or for other expenses such as **credit card payments, bank fees and charges**, reading material and school supplies.”

<https://www.irs.gov/businesses/small-businesses-self-employed/national-standards-food-clothing-and-other-items>

Life Insurance

- ▶ Cash value life insurance is considered an asset
- ▶ Cash value will be considered available
- ▶ Find out limit on borrowing to avoid collapsing the policy
- ▶ **If used to pay taxes loan repayment should be allowed**
- ▶ Term is allowed as an expense
- ▶ **Negotiate for a portion of permanent policies to be allowed as an expense!**

Real Estate – the Asset



- ▶ 80% quicksale value
- ▶ IRS uses Zillow as a default check, so check
- ▶ If like Zillow, use it
- ▶ If not, then consider an appraisal plus a separate statement of value plus town valuation
- ▶ IRM 5.15.1.31 –Exception: Taxpayers will not be required to pursue the equity in real property if doing so would cause an economic hardship

Real Estate - Expense

- ▶ The housing and utilities standards are derived from U.S. Census Bureau, American Community Survey and BLS data, and are provided by state down to the county level. The standard for a particular county and family size includes both housing and utilities allowed for a taxpayer's primary place of residence. Housing and utilities 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.

Real Estate - Expense

- ▶ TP gets lesser of the standard or their actual
- ▶ Does NOT include HELOC/Home Equity Line - this expense goes on the secured debts line
- ▶ Benefits the taxpayer because otherwise usually just ignored because of the limitation
- ▶ IRM 5.15.1.31 – establishing FMV, reduced by loans. Make three attempts online to tap equity (online because of the rejections)
- ▶ **Exception:** Taxpayers will not be required to pursue the equity in real property if doing so would cause an economic hardship

Personal Vehicles

- ▶ Each spouse is entitled to 1 vehicle
- ▶ IRS will not allow a payment if the person has another vehicle (Pick-up truck with payment, and a motorcycle with none)
- ▶ This is an area where we often have to do clean-up before submitting



Personal Assets



- ▶ \$9,790 is exempt under Rev Proc 2020-45
- ▶ IRS is looking for assets that can be sold – jewelry, artwork, collectibles
- ▶ Check the Homeowner's insurance riders!

Practice Tip on Personal Assets!

- ▶ Its asking for FMV, not replacement value
- ▶ Meaning: if you dragged all the crap onto the front lawn and held a yard sale what would you get for it?
- ▶ Clients often list what it would cost to BUY it all again (ie. Replace) and massively overstate the value

Future Income

- ▶ Again, note the analysis is for cash-flow, not taxable income
- ▶ Income sources will therefore include all cash flow into the household
 - a. wages and earned income
 - b. social security
 - c. disability income
 - d. alimony and child support

Practice Tip!

- ▶ IRS will add up the bank deposits on the bank statements provided, divide by the number of months and compare it to the income reported
- ▶ You MUST do this!
- ▶ Explain what is off
- ▶ If necessary due to timing or seasonality, you can provide more than the 3 or 6 requested

Cash Flow – IRM 5.15.1.16

- ▶ Depreciation on P&Ls is removed as not a cash expense
- ▶ Actual payments though are added back (car payments for instance)
- ▶ Bad debts are never an expense (not a hit to future cash flow)



Three Types of Expenses

- ▶ Actual – what the taxpayer is actually spending
- ▶ National – is a standard that all taxpayers get regardless of whether they spend it or not
- ▶ Local – the taxpayer is allowed the lesser of what they spend or the standard

Expenses: Actual vs Allowable

Expense	Actual or Allowable
Food, Clothing and Misc	National Standard
Housing and Utilities	Lesser of Actual or Local Standard
Automobile - Ownership	Lesser of Actual or National Standard
Automobile - Operating	Local Standard
Public Transportation	National Standard
Health Insurance	Actual
Out of Pocket Health Care Costs	Higher of Actual or National Standard
Court Ordered Payments	Actual
Child/Dependent care expenses	Actual (must be necessary)
Life Insurance	Actual (must be reasonable)
Current Year Taxes	FIT, FICA or SE, SIT, Local
Secured Debts	Actual
Delinquent State Taxes	Percentage of State v. Federal Debt

Other Expenses – IRM 5.15.1.11

- ▶ Accounting & Legal Fees – we are an allowed expense (future income, so retainer is an issue but consider the note or credit card)
- ▶ Charitable contributions – disallowed unless required for your job
- ▶ Child/dependent care – must be no other option
- ▶ Court ordered payments (alimony and child support) – must be required and actually being paid
- ▶ Education – allowed if for physically or mentally handicapped child, or as a condition of employment

Other Expenses – IRM 5.15.1.11

- ▶ Secured or legally perfected debts – must be required, secured (lien) and being paid
- ▶ Current year taxes – all taxes (FIT, SIT, SE, FICA, Local Income, etc) Current taxes are allowed regardless of whether the taxpayer made them in the past or not.
- ▶ Delinquent state & local taxes – allowed in full if state is ahead of the IRS in priority, otherwise available income apportioned based upon percentage of total tax debt
- ▶ Student Loans – Federally guaranteed, for the TP, and being paid
- ▶ Personal loan repayment if proceeds went to pay taxes

Business P&L

- ▶ The P&L needs to be scrutinized for the following:
- ▶ Depreciation needs to be added back but actual costs removed (buildings, cars, etc). The depreciation is a non-cash expense so its added back, but the actual payments have to be removed because it's a cash flow analysis - IRM 5.15.1.16
- ▶ No double-dipping: if the vehicles are being written off for business cannot claim it on the 433-A, same with health insurance, home office, etc

Business Assets - IRM 5.15.1.23

- ▶ If the asset is necessary for the production of income, can it be used to secure a loan
- ▶ Account for the loss of income stream if the asset were either liquidated or used as collateral to secure a loan
- ▶ If a loan cannot be secured and the assets are necessary to produce income for the taxpayer than TP is allowed to retain the asset without requiring him to borrow
- ▶ Go online and apply for loans and get rejections

Strategies

- ▶ Start paying expenses that were behind (student loans, child support and alimony)
- ▶ Look at expenses not being taken that could (term life, disability insurance, health insurance, car loan/lease)
- ▶ We are an allowable expense, but only if a future expense, so taxpayer needs to repay it in the future (loan or credit card)
- ▶ Our fees do NOT reduce the equity in assets unless secured by a lien ahead of the IRS

Quirky Things to Remember....

- ▶ International Taxpayers – identify a city for similar cost of living in US and use it (Tel Aviv = Singapore = NYC, so use NYC)
- ▶ Allowable expense guidelines are just that, guidelines, and you can deviate where it is not sufficient – IRM 5.15.1.8(6). Deviation must be because its necessary and not convenience – IRM 5.15.1.8(8).
- ▶ National Standards are allowed without question (Melissa’s client and restaurants): IRM 5.15.1.9(2)

Practice Tips – The Business That Owes

- ▶ The business that owes payroll taxes or civil penalties at the entity level (1065 or 1120), you will still need to do the 433-A as well as the 433-B
- ▶ Example, TP owns S Corp, and S Corp owes \$80,000 in payroll taxes. Its P&L shows wages to the owner of \$100,000, and \$25,000 of profits to the owner on his K-1. How much can the company afford to pay annually toward the payroll issue?
- ▶ You cannot know without the 433-A. So, we do the 433-A and let’s say it shows the owner needs \$85,000 a year to cover allowable expenses....

Practice Tips – The Business That Owes

We have three options (third is only to illustrate):

- ▶ Set up the Company to pay the \$25,000 per year through an IA and arrange for the owner to pay \$15,000 a year against the TFRP (the 100K of wages less the \$85K needed for allowable expenses), or
- ▶ Set up the Company to pay the \$40,000 against the payroll liability, reduce the owner's wages to \$85,000 and make the owner CNC (IRS Likes This!)
- ▶ Increase owner's salary to \$125,000, have the owner pay \$40,000 against TFRP and make the company CNC until TFRP is paid then reduce the salary so company can start paying (Owner likes this, IRS will refuse!)

Remember: Ethical Responsibilities

- ▶ Its good to be default aggressive (I am)
- ▶ BUT....the taxpayer submits the financial under penalty of perjury
- ▶ So a few thoughts on handling this....



Penalty of Perjury

- ▶ The 433 is being signed under penalty of perjury
- ▶ Client must disclose everything
- ▶ Collection Cases do go criminal

So another attorney calls me...at 11:50 pm

- ▶ Hasn't filed in 8 years
- ▶ People stopped by his house that day and he is terrified he will be arrested
- ▶ Ends up it was only political folks stopping by to express hope he would vote for their candidate

Next Steps

- ▶ We file the last 6 years
- ▶ Start working with an RO assigned to him
- ▶ Argue he is CNC

Next Steps

- ▶ RO agrees except for a Harley Davidson motorcycle (client has a pick-up truck) and a small IRA with \$16,000
- ▶ Asks about transfer back and forth between his kids bank accounts and his operating account for is law practice
- ▶ Client explains he has to borrow sometimes because of cash flow ups and downs

CNC, but

- ▶ RO says he will make the client CNC if he sells the Harley and pays over the proceeds and cashes in the IRA and pays that over.
- ▶ Client refuses
- ▶ We go back and forth with RO for 4 months then it goes silent
- ▶ Special Agents call me 6 months later

When the client refused.....

- ▶ RO got annoyed and pulled all the banking records
- ▶ Noted payments from the IOLTA account going to the kids private school
- ▶ Payments were significant and did not appear to be on the tax return
- ▶ Referred the case to CI

CI Investigation

- ▶ They investigate and realize that the tax[payer has been hiding money in the IOLTA
- ▶ Note that he transfers little money each day to just pay bills and avoid having real balances in his operating account that could be levied
- ▶ They want to talk with me about his “music collection” and will be interviewing the CPA who does his tax returns

It gets worse

- ▶ CPA admits he never received the IOLTA statements so the money paid to the private school ws never reported
- ▶ They also charge him with a false 433 because he left off the music collection worth \$250,000. How do they know this?
- ▶ They watched the documentary online of him walking people around his house showing them the music collection and claiming how much each piece was worth
- ▶ Worse, the day he said he couldn't pay us he bought a BMW for cash

NEWS

New Haven Attorney Sentenced Over Income Tax Violations

US vs Brimberry

- ▶ Defendant-appellant Janice A. Brimberry was convicted of making and subscribing a false Internal Revenue Service Collection Information Statement in violation of 26 U.S.C. § 7206(1) and attempted evasion of payment of income taxes in violation of 26 U.S.C. § 7201.
- ▶ The district court sentenced Brimberry under the Sentencing Guidelines to 33 months imprisonment and two years supervised release for each violation, to run concurrently.
- ▶ Janice was indicted for her role in the Stix swindle but was granted immunity in exchange for her testimony. Her husband was convicted.

US vs Brimberry

- ▶ IRS began an enforcement action against Janice Brimberry to collect the tax deficiency.
- ▶ Janice provided information regarding her assets and liabilities for IRS Form 433A, Collection Information Statement for Individuals, and for IRS Form 433B, Collection Information Statement for Businesses.
- ▶ The forms asked for information on all assets from which the tax deficiency could be paid.

US vs Brimberry

- ▶ Janice represented that she was living with her mother, she depended on her mother for necessary living expenses, she owned no real property, and had no property that could be used to collect the tax.
- ▶ Janice signed the forms under penalties of perjury.
- ▶ the IRS learned through a confidential informant that Janice Brimberry was trying to sell a four carat, heart-shaped diamond for \$20,000 to \$25,000.

US vs Brimberry

- ▶ The IRS opened a criminal investigation of Janice and set up a sting operation. The confidential informant agreed to introduce Janice to an IRS undercover agent who would pose as a potential buyer of the jewelry.
- ▶ At the Collinsville, Illinois Hilton, in front of a rolling video camera, Janice sold the heart-shaped diamond and another, two carat diamond to the undercover IRS agent for \$36,000. The IRS agent gave Janice \$35,000 cash and arranged to deliver the remaining \$1,000 at a later time.
- ▶ IRS agents detained Janice as she was leaving the hotel room and seized the two diamonds and the \$35,000.

US vs Brimberry

- ▶ They also seized a diamond cocktail ring and a woman's 18 carat gold Rolex Presidential watch which Janice was wearing.
- ▶ Janice admitted that she had additional jewelry hidden behind a television in the basement of her home.
- ▶ Additional jewelry was seized during a later consensual search of Janice's home. The total value of the jewelry seized from Janice was over \$69,000. Janice admitted that she had the jewelry when she signed the Collection Information Statements.
- ▶ Further investigation by CI turned up that she had purchased her home with a "loan" from a friend she actually provided to the friend in cash.

Lessons:

- ▶ Client must provide documents
- ▶ Must confirm everything provided
- ▶ Must confirm FATCA/FBAR/Crypto: Yes or No
- ▶ Must review the 433
- ▶ ***CLIENT MUST SIGN THE 433!***

So the phone rings...

- ▶ Intake
- ▶ Retainer
- ▶ 2848 (POA) and call to IRS (ENQ)
- ▶ Transcripts
- ▶ Checklist of documents
- ▶ Sort out the RCP
- ▶ Propose a resolution

Case Studies

1. I will throw \$100,000 at this to make it go away
2. The full-pay IA
3. The step-up arrangement
4. The dependent
5. The Offer

Case #1: The Tale of Ron

- ▶ Ron comes to see us with his father in 2012
- ▶ Ron is 62, his father is 85
- ▶ Ron's wife died in 2007 from cancer
- ▶ Ron went to pieces and hasn't worked since, has been living on his father's couch
- ▶ Ron brings in with him IRS notices of threat to levy for years 1995-2000. He and his former wife owe \$328,000 to the IRS
- ▶ Dad tells us he is "Willing to throw \$100,000 at this to make it go away."

#1: Tale of Ron

- ▶ Looking at the years in question we assume its expired
- ▶ We get retained and explain the issue od the CSED and ask to do some investigating. We will prepare a 433-F to make Ron CNC while we do this (See attached 433-F)
- ▶ Transcripts indicate Ron and his deceased wife filed two Offers that were rejected.
- ▶ Despite those tolling events, nearly \$300,000 will expire in 45 days

#1: Take of Ron

- ▶ Strategy: **file the 433-F and make Ron CNC**
- ▶ CNC will not toll the statute
- ▶ Let \$300,000 fall away
- ▶ Dad can then pay \$28,000 or wait out the last 9 months for the rest to go away

Case #2: Full-Pay Installment Agreement

- ▶ Mike comes to see you
- ▶ He is divorced, 53 years old, and is a physician
- ▶ His children are in their late 20s and are independent
- ▶ He owes the IRS \$320,000 and has full-paid the state of Connecticut. Balance stems from money he cashed out of an IRA to invest in a new medical device in 2020. Collection notices just started showing up.
- ▶ \$290,000 is tax, \$20,000 is FTP Penalty and \$10,000 of interest
- ▶ His assets and income are as follows:

#2: Assets

- ▶ Home in North Haven, CT (New Haven County): FMV of \$650,000, mortgage of \$110,000
- ▶ IRA with \$270,000
- ▶ 401(k) with Yale New Haven Hospital balance of \$1,250,000, no loan
- ▶ BMW 5 worth \$42,000, no loan
- ▶ Ford F150 Pickup Truck worth \$23,000, no loan

#2: Income and Expenses

Dr. Mike Future Income Analysis

Income	<u>Actual</u>	Expenses	<u>Actual</u>	<u>Allowable</u>	
Wages (yourself)	\$ 40,000	Food, Clothing and Misc	\$ 1,800	\$ 723	
Wages (spouse)	\$ -	Housing & utilities	\$ 3,700	\$ 1,971	
Interest - Dividends	\$ -	Vehicle Ownership	\$ 1,200	\$ 533	
Net Business Income	\$ -	Vehicle Operating Costs	\$ 500	\$ 274	
Net Rental Income	\$ -	Public Transportation	\$ -	\$ -	
Distributions	\$ -	Health Insurance	\$ 780	\$ 780	
		Out of Pocket			
Pension/Soc Sec (taxpayer)	\$ -	HealthCare	\$ 25	\$ 68	
Pension/Soc Sec (spouse)	\$ -	Court ordered pmts	\$ 5,000	\$ 5,000	Alimony
Social Security (taxpayer)	\$ -	Child/Dep Care	\$ -	\$ -	
Social Security (spouse)	\$ -	Life Insurance	\$ 220	\$ 220	Term
Child Support	\$ -	Current Year Taxes	\$ 12,000	\$12,000	
Alimony	\$ -	Secured Debts	\$ -	\$ -	
Other Income	\$ -	Delinquent State Taxes	\$ -	\$ -	
	\$ -	Student Loans	\$ -	\$ -	
	\$ -	Total Living Expenses	\$ 25,225	\$21,569	
Total	\$ 40,000	Net Difference	\$ 14,775	\$18,431	
Analysis - Future Income					
Income	\$ 40,000				
Expense	\$ 21,569				
Monthly Available	\$ 18,431				

#2: Options

- ▶ Submit a 433-H and request an installment agreement of \$14,775 based upon the 6-year rule (use actual expenses if can full-pay within 6 years)
- ▶ Issues will be the IRS wants to get paid now, so:
 - a. Cash in IRA
 - b. borrow against 401(k)
 - c. Attempt to tap the equity in the home
- ▶ Then start paying \$18,431 a month if not full-paid

#2: Options

▶ Expanded Streamlined?

- a. Client takes a 401K loan of \$50,000 (max allowed) and pays down the amount owed
- b. We call with 433-D and request first time abatement and knock out the \$20,000
- c. Set up expanded streamlined IA (\$250,000 over 9.5 years remaining on CSED)
- d. Do not have to file the 433 so won't disclose the assets!

Case #3: Stepped Up IA

- ▶ Eric and Jill owe \$100,000 to the IRS for 2020 due to cashing in an IRA for medical expenses
- ▶ Eric is now retired and is collecting social security at age 63, Jill is still working at 62
- ▶ They rent a home and have a leased car and an older used car
- ▶ Their income and assets are the following

#3: Income and Expenses

Eric & Jill Future Income Analysis

Income		<u>Actual</u>	Expenses		<u>Actual</u>	<u>Allowable</u>	
Wages (yourself)	\$	-	Food, Clothing and Misc	\$	1,292	\$ 1,292	
Wages (spouse)	\$	6,500	Housing & utilities	\$	2,950	\$ 2,315	
Interest - Dividends	\$	-	Vehicle Ownership	\$	750	\$ 533	
Net Business Income	\$	-	Vehicle Operating Costs	\$	548	\$ 548	
Net Rental Income	\$	-	Public Transportation	\$	-	\$ -	
Distributions	\$	-	Health Insurance	\$	650	\$ 650	
Pension/Soc Sec (taxpayer)	\$	1,500	Out of Pocket HealthCare	\$	136	\$ 136	
Pension/Soc Sec (spouse)	\$	-	Court ordered pmts	\$	-	\$ -	
Social Security (taxpayer)	\$	-	Child/Dep Care	\$	-	\$ -	
Social Security (spouse)	\$	-	Life Insurance	\$	150	\$ 150	Term
Child Support	\$	-	Current Year Taxes	\$	1,600	\$ 1,600	
Alimony	\$	-	Secured Debts	\$	-	\$ -	
Other Income	\$	-	Delinquent State Taxes	\$	-	\$ -	
	\$	-	Student Loans	\$	-	\$ -	
	\$	-	Total Living Expenses	\$	8,076	\$ 7,224	
Total	\$	8,000	Net Difference	\$	(76)	\$ 776	
Analysis - Future Income							
Income	\$	8,000					
Expense	\$	7,224					
Monthly Available	\$	776					

#3: Step-Up IA

- ▶ With actual expenses the taxpayer is CNC
- ▶ Based on allowable they can pay \$776 per month
- ▶ Thoughts?

#3: Step-Up IA



- ▶ Propose a stepped up IA: \$50/month for 12 months then increasing to \$776 thereafter (1-year rule)
- ▶ I would have the clients break and get rid of the lease once the IA was set up so they can afford it
- ▶ Why not CNC for 12 months?

Case #4: The Dependent

- ▶ Bob and Marcy owe \$75,000 to the IRS
- ▶ They have no available equity in assets
- ▶ Their income and expenses are as follows:

#4: Bob & Marcy

Bob and Marcy Future Income Analysis

Income		<u>Actual</u>	Expenses		<u>Actual</u>	<u>Allowable</u>	
Wages (yourself)	\$	6,000	Food, Clothing and Misc	\$	1,292	\$ 1,292	
Wages (spouse)	\$	4,500	Housing & utilities	\$	2,650	\$ 2,315	
Interest - Dividends	\$	-	Vehicle Ownership	\$	750	\$ 750	\$375 each
Net Business Income	\$	-	Vehicle Operating Costs	\$	548	\$ 548	
Net Rental Income	\$	-	Public Transportation	\$	-	\$ -	
Distributions	\$	-	Health Insurance	\$	900	\$ 900	
Pension/Soc Sec (taxpayer)	\$	-	Out of Pocket HealthCare	\$	136	\$ 136	
Pension/Soc Sec (spouse)	\$	-	Court ordered pmts	\$	-	\$ -	
Social Security (taxpayer)	\$	-	Child/Dep Care	\$	550	\$ 550	Mom
Social Security (spouse)	\$	-	Life Insurance	\$	150	\$ 150	Term
Child Support	\$	-	Current Year Taxes	\$	2,500	\$ 2,500	
Alimony	\$	-	Secured Debts	\$	-	\$ -	
Other Income	\$	-	Delinquent State Taxes	\$	-	\$ -	
	\$	-	Student Loans	\$	-	\$ -	
	\$	-	Total Living Expenses	\$	9,476	\$ 9,141	
Total	\$	<u>10,500</u>	Net Difference	\$	<u>1,024</u>	\$ 1,359	
Analysis - Future Income							
Income	\$	10,500					
Expense	\$	9,141					
Monthly Available	\$	<u>1,359</u>					

#4: Mom's rental help

- ▶ Not a legal dependent
- ▶ Need to justify
- ▶ Get a financial on mom!

#4: Mom

Marcy's Mom Future Income Analysis

Income	Actual		Expenses	Actual Allowable	
Wages (yourself)	\$	-	Food, Clothing and Misc	\$	723
Wages (spouse)	\$	-	Housing & utilities	\$	1,450
Interest - Dividends	\$	-	Vehicle Ownership	\$	-
Net Business Income	\$	-	Vehicle Operating Costs	\$	274
Net Rental Income	\$	-	Public Transportation	\$	-
Distributions	\$	-	Health Insurance	\$	150
Pension/Soc Sec (taxpayer)	\$	1,300	Out of Pocket HealthCare	\$	136
Pension/Soc Sec (spouse)	\$	-	Court ordered prmts	\$	-
Social Security (taxpayer)	\$	1,100	Child/Dep Care	\$	-
Social Security (spouse)	\$	-	Life Insurance	\$	-
Child Support	\$	-	Current Year Taxes	\$	-
Alimony	\$	-	Secured Debts	\$	-
Other Income	\$	-	Delinquent State Taxes	\$	-
	\$	-	Student Loans	\$	-
	\$	-	Total Living Expenses	\$	2,733
Total		<u>\$ 2,400</u>	Net Difference	\$	(333)
				\$	(341)
Analysis - Future Income					
Income		\$ 2,400			
Expense		<u>\$ 2,741</u>			
Monthly Available		<u>\$ (341)</u>			

#4: IRS Response

- ▶ Make sure to argue that mom has no other resource to make up the shortfall, and it's a shortfall on allowable expenses
- ▶ IRS should allow it because Bob and Marcy can full-pay even with it
- ▶ If Bob and Marcy cannot full-pay it will be an issue that will need to be negotiated

#5: The Offer

- ▶ Tony & Marie come to see us. He is 56 and she is 52. He just landed a W-2 job (was self-employed)
- ▶ They owe taxes for 2015-2019
- ▶ They have an IRA with \$15,000, they have a home worth \$450,000 with a mortgage of \$360,000
- ▶ They both have older cars with over 100,000 miles on it. Tony's Cadillac is 12 years old and worth \$4,100. Marie drives a Toyota Highlander which is 10 years old and worth \$2,500
- ▶ Their income and expenses are as follows:



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#5: Income and Expenses

Tony & Marie Future Income Analysis

Income	Expenses	
	Actual	Allowable
Wages (yourself)	\$ 7,000	Food, Clothing and Misc \$ 1,292 \$ 1,292
Wages (spouse)	\$ 4,500	Housing & utilities \$ 2,900 \$ 2,315
Interest - Dividends	\$ -	Vehicle Ownership \$ - \$ -
Net Business Income	\$ -	Vehicle Operating Costs \$ 548 \$ 948 Older
Net Rental Income	\$ -	Public Transportation \$ - \$ -
Distributions	\$ -	Health Insurance \$ 1,100 \$ 1,100
Pension/Soc Sec (taxpayer)	\$ -	Out of Pocket HealthCare \$ 368 \$ 368 \$300 for tony meds
Pension/Soc Sec (spouse)	\$ -	Court ordered pmts \$ - \$ -
Social Security (taxpayer)	\$ -	Child/Dep Care \$ - \$ -
Social Security (spouse)	\$ -	Life Insurance \$ 220 \$ 220 Term
Child Support	\$ -	Current Year Taxes \$ 2,875 \$ 2,875
Alimony	\$ -	Secured Debts \$ - \$ -
Other Income	\$ -	Delinquent State Taxes \$ - \$ -
	\$ -	Student Loans \$ - \$ -
	\$ -	Total Living Expenses \$ 9,303 \$ 9,118
Total	\$ 11,500	Net Difference \$ 2,197 \$ 2,382
Analysis - Future Income		
Income	\$ 11,500	
Expense	\$ 9,118	
Monthly Available	\$ 2,382	



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No Offer Available – Can Full Pay

CSED Analysis Before any Adjustments

Tax Year	Assessed	Original CSED	Tolling Events		Adj CSED	Months	Balance Due	Assets	Balance	Paid in Mos
			CDP Rights	Pending IA						
2015	10/15/2016	10/15/2026	30	90	2/12/2027	62.50	\$ 57,300.00	\$10,500.00	\$46,800.00	19.65
2016	10/15/2017	10/15/2027	30	90	2/12/2028	74.50	\$ 65,000.00	\$ -	\$65,000.00	46.94
2017	10/15/2018	10/15/2028	30	90	2/12/2029	86.50	\$ 48,500.00	\$ -	\$48,500.00	67.30
2018	10/15/2019	10/15/2029	30	90	2/12/2030	98.50	\$ 51,600.00	\$ -	\$51,600.00	88.96
2019	10/15/2020	10/15/2030		90	1/13/2031	110.50	\$ 47,600.00	\$ -	\$47,600.00	108.94

Adjustments?

- ▶ Use the IRA money to get into tax compliance
- ▶ Our \$5,000 in fees are coming from Maria's mom
- ▶ Create a note for Maria and her mom so the fees need to be repaid over 18 months after the Offer is accepted and resolved

Adjusted Income and Expenses

Tony & Marie Future Income Analysis

Income	Actual	Expenses	Actual	Allowable	
Wages (yourself)	\$ 7,000	Food, Clothing and Misc	\$ 1,292	\$ 1,292	
Wages (spouse)	\$ 4,500	Housing & utilities	\$ 2,900	\$ 2,315	
Interest - Dividends	\$ -	Vehicle Ownership	\$ -	\$ -	
Net Business Income	\$ -	Vehicle Operating Costs	\$ 548	\$ 948	Older
Net Rental Income	\$ -	Public Transportation	\$ -	\$ -	
Distributions	\$ -	Health Insurance	\$ 1,100	\$ 1,100	
Pension/Soc Sec (taxpayer)	\$ -	Out of Pocket HealthCare	\$ 368	\$ 368	\$300 for tony meds
Pension/Soc Sec (spouse)	\$ -	Court ordered pmts	\$ -	\$ -	
Social Security (taxpayer)	\$ -	Child/Dep Care	\$ -	\$ -	
Social Security (spouse)	\$ -	Life Insurance	\$ 220	\$ 220	Term
Child Support	\$ -	Current Year Taxes	\$ 2,875	\$ 2,875	
Alimony	\$ -	Secured Debts	\$ -	\$ -	
Other Income	\$ -	Delinquent State Taxes	\$ -	\$ -	
	\$ -	Representation Fees	\$ 278	\$ 278	18 mo repay
	\$ -	Total Living Expenses	\$ 9,581	\$ 9,396	
Total	\$ 11,500	Net Difference	\$ 1,919	\$ 2,104	
Analysis - Future Income					
Income	\$ 11,500				
Expense	\$ 9,396				
Monthly Available	\$ 2,104				



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CSED – Cannot full pay now, so can proceed with Offer

CSED Analysis Before any Adjustments

Tax Year	Assessed	Original CSED	Tolling Events		Adj CSED	Months	Balance Due	Assets	Balance	Paid in Mos
			CDP Rights	Pending IA						
2015	10/15/2016	10/15/2026	30	90	2/12/2027	62.50	\$ 57,300.00	\$ -	\$ 57,300.00	27.23
2016	10/15/2017	10/15/2027	30	90	2/12/2028	74.50	\$ 65,000.00	\$ -	\$ 65,000.00	58.12
2017	10/15/2018	10/15/2028	30	90	2/12/2029	86.50	\$ 48,500.00	\$ -	\$ 48,500.00	81.17
2018	10/15/2019	10/15/2029	30	90	2/12/2030	98.50	\$ 51,600.00	\$ -	\$ 51,600.00	105.69
2019	10/15/2020	10/15/2030		90	1/13/2031	110.50	\$ 47,600.00	\$ -	\$ 47,600.00	128.31



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Offer Calculation

▶ Assets

- IRA: \$0
- Cadillac: $\$4,100 \times 80\% \text{ QSV} = \$3,280 - \$3,450 \text{ exemption} = \0
- Highlander: $\$2,500 \times 80\% \text{ QSV} = \$2,000 - \$3,450 \text{ exemption} = \0
- House: $\$450,000 \times 80\% \text{ QSV} = \$360,000 - \$360,000 = \0

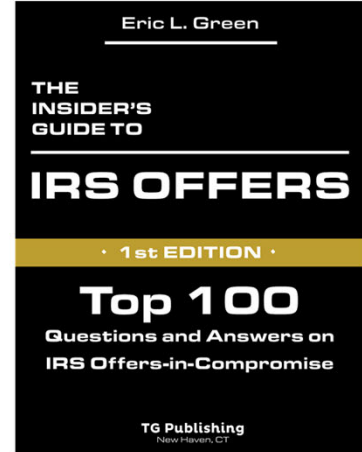
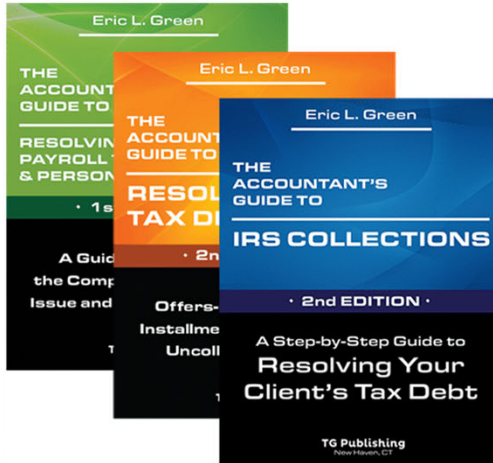
▶ Future Income: $\$2,104 \times 12 \text{ months} = \$25,248$

Remember:

- ▶ Look at actual assets and expenses
- ▶ Analyze with allowable
- ▶ Look at what can be legitimately adjusted and start planning!



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Questions?



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