Offers-in-Compromise

Presented by:

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TAX REP NETWORK

1

Agenda

1. The Basics of the Offer-in-Compromise program
2. Doubt-as-to-Liability Offers
3. Doubt-as-to-Collectibility Offers
4. Effective Tax Administration Offers
5. The Offer Process
6. Calculating Reasonable Collection Potential
7. Strategies
8. Offer Documents
9. Sample Offer Correspondence Letters
10. Marketing
11. Case Studies

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Offer-in-Compromise Basics

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Offer Basics

- IRC § 7122 authorizes the IRS to accept a compromise on an amount owed
- IRC § 7122(c) provides that the Service shall set forth guidelines for determining when an offer in compromise (OIC) should be accepted

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Offer Basics

- Congress explained that these guidelines should allow the Service to consider:
  - a. Hardship,
  - b. Public policy, and
  - c. Equity
- Treasury Regulation § 301.7122-1 authorizes the Service to consider OIC's raising these issues.
- These Offers are called Effective Tax Administration (ETA) offers. See IRM § 5.8.11.1

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Critical Things to Know…

- Is the client in compliance?
- How much times remains on the statute?
- Is the client an OIC candidate?

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Self-Study Question

Which of the following is critical to knowing if the client is an Offer-in-Compromise candidate?

a. If the taxpayer’s parents are in good health and how likely the taxpayer is to inherit money.

b. What type of lifestyle the taxpayer wants so we can properly plan.

c. How much time remains on the collection statute to determine if the taxpayer can full-pay the liability or not.

d. Whether the taxpayer plans on having more children in the future

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Self-Study Question

Answer:

a. Incorrect. The health of the taxpayers parents is not something usually considered when deciding if the client is an Offer candidate.

b. Incorrect. The type of lifestyle a taxpayer wants is generally not considered when deciding whether they are an Offer candidate or not.

c. Correct. The time remaining on the collection statute is critical because if the taxpayer shows an ability to full-pay within the time remaining they cannot submit an Offer but must instead get into an installment agreement.

d. Incorrect. Whether a taxpayer plans on having more children in the future is not critical to determining if they are an Offer candidate now

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Offer in Compromise


Form 656 Booklet

Offer in Compromise

IRS

CONTENTS

IRS contact information

If you want to see if you qualify for an offer in compromise before filling out the paperwork, you may use the Offer in Compromise Pre-Qualifier tool. The questionnaire format assists in gathering the information needed and provides instant feedback as to your eligibility based on the information you provided. The tool will also assist you in determining a preliminary offer amount for consideration of an acceptable offer. The Pre-Qualifier tool is located on our website at www.irs.gov.

If you have questions regarding qualifications for an offer in compromise, please call our toll-free number at 1-800-829-1040. You can get forms and publications by calling 1-800-TAX-FORM (1-800-829-3676), by visiting your local IRS office, or at www.irs.gov.

Taxpayer resources

The Taxpayer Advocate Service (TAS) is an independent organization within the Internal Revenue Service that helps taxpayers and protects taxpayer rights. TAS helps taxpayers whose problems with the IRS are causing financial difficulties, who've tried but haven't been able to resolve their problems with the IRS, or believe an IRS system or procedure isn't working as it should. And the service is free. Your local advocate's number is in your local directory and at taxpayeradvocate.irs.gov. You can also call us at 1-877-777-4778. For more information about TAS and your rights under the Taxpayer Bill of Rights, go to taxpayeradvocate.irs.gov. TAS is your voice at the IRS.

Low-Income Taxpayer Clinics (LITCs) are independent from the IRS. LITCs serve individuals whose income is below a certain level and who need to resolve a tax problem with the IRS. LITCs provide professional representation before the IRS or in court on audits, appeals, tax collection disputes, and other issues for free or for a small fee. For more information and to find a LITC near you, see the LITC page at www.taxpayeradvocate.irs.gov/litcmap or IRS Publication 4134, Low-Income Taxpayer Clinic List. This Publication is also available by calling the IRS toll-free at 1-800-829-3676 or visiting your local IRS office.

Three types of Offers:

- Doubt as to liability
- Doubt as to collectability

  ~ DCSC
- Effective Tax Administration

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Step #1: Tax Compliance

- All returns filed that are due as of this date
- Current tax period payments being made

  a) Proper withholding

  b) Estimated tax payments

  c) Payroll tax deposits

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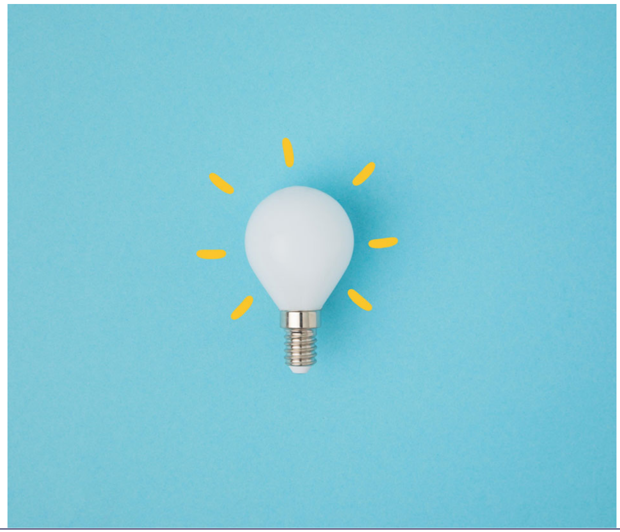
Inside Secret

- What is compliance for tax returns?
- Last 6 years – IRM 1.2.14.1.18
- No OIC or IA without it!



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Client Now in Compliance?

- Just filed missing documents or made missing payments?
- Include copies of the payments in the Offer package
- Include SIGNED copies of the filed returns with the package – delayed processing can cause the Offer to be returned otherwise

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Self-Study Question

A taxpayer comes to see you and they have not filed a tax return in 12 years. For the taxpayer to be considered in compliance they must file how many of the missing tax years?

a. The last year's tax return

b. The last three years of tax returns

c. The last six years of tax returns

d. All twelve years must be filed

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Self-Study Question

Answer:

a. Incorrect. The taxpayer must file more than the last year's return in order to be considered in tax compliance

b. Incorrect. Filing the last three years will not make the taxpayer compliant for their tax filings

c. Correct. According to Policy Statement 5-133 the taxpayer must file their last 6 years of tax returns in order to be considered in compliance with the IRS

d. Incorrect. To get into compliance the taxpayer does not need to file all twelve years.

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Doubt-as-to-Liability Offers

Doubt-as-to-Liability Offer

Challenging the underlying liability

(Form 656-L)

Not about ability to pay but if the taxpayer can prove they do not owe the money

Doubt-as-to-Liability Offer

- Similar to Audit Reconsideration
- Need to effectively do the audit the way it should have been done and submit the package with the 656-L
- Package should include the return, and if needed, the amended return showing the correct numbers

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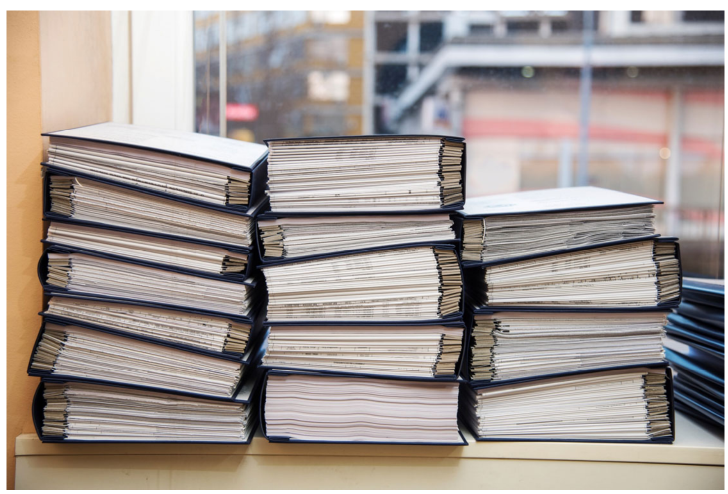
Doubt-as-to-Liability Offer

- The package includes the supporting documents
- Make it dummy proof
- Feel free to use table of contents, exhibit lists, cross references, etc



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Pros and Cons of a DATL

Pros

- Collection Stops
- Forces an audit reconsideration
- Can reopen TFRP assessments

Cons

- Must Offer something ($)
- Compromises future liability (i.e. no refunds)
- Taxpayer must be in and maintain compliance

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Self Study Question

A Doubt-as-to-Liability Offer, or DATL, is what?

a. An Offer that is based on the taxpayer's inability to pay

b. A taxpayer's Offer to avoid prison time

c. A taxpayer's Offer to resolve a liability based upon his or her not actually owing the money the IRS thinks is owed

d. An Offer to a state based upon the IRS's admission that it was wrong in filing a tax lien

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Self Study Question

Answer:

a. Incorrect. A DATL has nothing to do with a client's inability to pay a tax assessment

b. Incorrect. A DATL has nothing to do with avoiding prison time for the commission of a crime

c. Correct. A DATL is an Offer that is based upon the taxpayer's ability to prove that he or she does not owe the liability that the IRS has assessed against them

d. Incorrect. A DATL has nothing to do with a state or an IRS lien filing

Doubt-as-to-Collectability Offers

Doubt as to Collectability

- Based upon the taxpayer's inability to full pay the liability
- It's a request for the government to accept less than the full amount owed because of the taxpayer's financial situation
- Types include Deferred, Lump-Sum and DCSC

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What an Offer is....

- Offer settles it
- No requirement to sell or change
- Clients need to understand its not about access

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Offer in Compromise

Lump Sum

- Paid in 5 or fewer payments
- Net Equity in Assets + 12 Months of Future Income

Deferred

- Paid in more than 5 but less than 24 monthly payments
- Payments must be made starting when the OIC is filed
- Net Equity in Assets + 24 Months of Future Income

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Offer in Compromise

- $205 application fee
- 20% deposit with a lump sum offered
- Monthly payments with deferred offers start when the offer is filed and continue until accepted or rejected

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So Which Offer to File?

- Most of the RCP from Assets: Deferred
- Significant Future Income? Lump-Sum
- Note: Deferred Offers do not need to be paid in evenly over the 24 months! Ex: $100/month for 23 months and lump sum in 24th month.

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Self-Study Question

Which of the following needs to accompany the Offer package to the IRS?

a. The application fee of $205

b. A statement by the taxpayer's banker that they are truly insolvent

c. A letter of good character

d. Proof of the taxpayer's bankruptcy filing

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Self-Study Question

Answer:

a. Correct. Each Offer must include the application fee of $205 unless the taxpayer can show they meet the low-income guidelines

b. Incorrect. No statement by a banker is necessary to file an Offer

c. Incorrect. No letter of good character is necessary to file an Offer

d. Incorrect. No proof of bankruptcy is necessary to file an Offer.

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ETA & DCSC Offers

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Effective Tax Administration Offers

An ETA offer is an Offer where the taxpayer could full-pay the liability but where, for public policy reasons, the IRS should agree to accept less than the full-amount

Very rarely given

All ETA Offers are reviewed in Washington, DC

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ETA vs. DCSC

- ETA: Can full-pay is where RCP exceeds liability but hardship/public policy exists
- Doubt-as-to-Collectability with Special Circumstances: Cannot fully pay the tax due, and have proven special circumstances that warrant acceptance for less than RCP

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ETA & DCSC Offers

- Its critical to document the special circumstances
- Can include medical documentation, etc
- Everything you want the Offer specialist to see, include

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Self-Study Question

Which of the following is NOT a type of Doubt-as-to-Collectibility (“DATC”) Offer-in-Compromise?

a. Lump Sum

b. Penalty Abatement Only

c. Deferred

d. Doubt-as-to-Collectibility with Special Circumstances

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Self-Study Question

Answer

a. Incorrect. A Lump Sum Offer is a DATC offer that will be paid with 20% down and the balance over 5 months after accepted.

b. Correct. There is no DATC offer that is for penalty abatement only

c. Incorrect. A deferred offer is a DATC offer that is paid over 24 months

d. Incorrect. A DATC with Special Circumstances is an Offer that asks the IRS to not follow the Reasonable Collection Potential rules because of some personal circumstances.

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The Offer Process

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The OIC Process

1. Consultation
2. Pull and Review Transcripts for CSED Issues
3. Perform RCP Calculation
4. Deal with Compliance Issues
5. Implement Strategies
6. Prepare CIS
7. Submit Offer
8. Appeal if denied

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The Phone Rings

- The phone call…
- Bring the documents
- Need your current income
- Bring a check

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The OIC Lingo

- DATL: Doubt-as-to-Liability Offer
- DATC: Doubt-as-to-Collectability Offer
- ETA: Effective Tax Administration Offer
- DCSC: Doubt-as-to-Collectability with Special Circumstances Offer
- RCP: Reasonable Collection Potential
- CSED: Collection Statute Expiration Date

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Initial Considerations

- Statute of Limitations
- Compliance
- Financial Analysis
  - RCP
- Easier Solution? CNC or Bankruptcy?

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Collection Statute Expiration Date ("CSED")

- How much time is left on the statute?
- Pull Transcripts (the tale of Ron)
- Can we CNC and run out the clock?
- Is there real estate?

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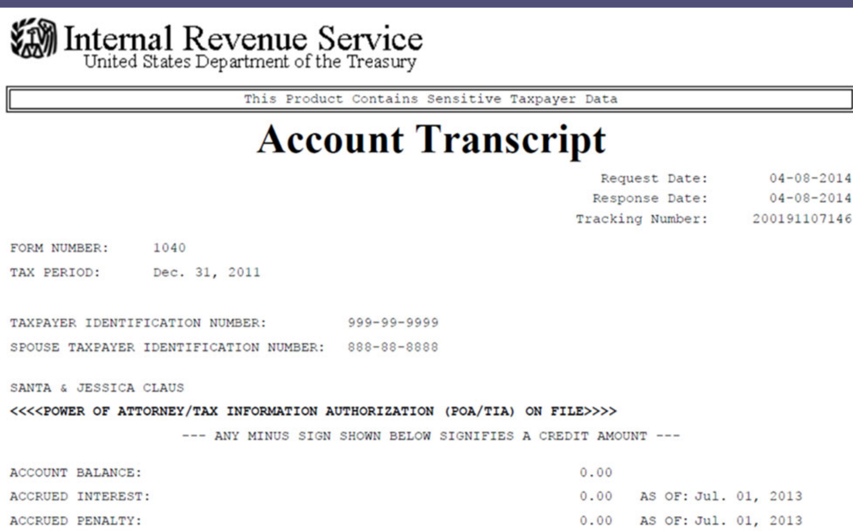
Pull Transcripts



Internal Revenue Service
United States Department of the Treasury

This Product Contains Sensitive Taxpayer Data

Account Transcript

Request Date: 04-08-2014
Response Date: 04-08-2014
Tracking Number: 200191107146

FORM NUMBER: 1040
TAX PERIOD: Dec. 31, 2011

TAXPAYER IDENTIFICATION NUMBER: 999-99-9999
SPOUSE TAXPAYER IDENTIFICATION NUMBER: 888-88-8888

SANTA & JESSICA CLAUS
<<<<POWER OF ATTORNEY/TAX INFORMATION AUTHORIZATION (POA/TIA) ON FILE>>>>
--- ANY MINUS SIGN SHOWN BELOW SIGNIFIES A CREDIT AMOUNT ---

ACCOUNT BALANCE:	0.00	
ACCRUED INTEREST:	0.00	AS OF: Jul. 01, 2013
ACCRUED PENALTY:	0.00	AS OF: Jul. 01, 2013

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Calculate the CSED Dates

CSED CALCULATIONS

YEAR	CODE	ASSESSMENT	DATE	AMOUNT	ESTIMATED TOTAL TOLLING DAYS	ESTIMATED CSED	ESTIMATED 3 YEAR LOOK BACK*	ESTIMATED 2 YEAR FILING RULE*	ESTIMATED 240 DAY ASSESSMENT*	ESTIMATED ELIGIBLE BANKRUPTCY DISCHARGE DATE*
2012										
	170	Penalty for not pre-paying tax 01-28-2024	11/18/2013	$388.00	65	01/22/24	10/15/16	10/14/15	07/16/14	10/15/16
	150	Tax return filed	11/18/2013	$21,657.00	65	01/22/24	10/15/16	10/14/15	07/16/14	10/15/16
2013										
	170	Penalty for not pre-paying tax 12-28-2024	11/17/2014	$407.00	35	12/22/24	10/15/17	10/14/16	07/15/15	10/15/17
	150	Tax return filed	11/17/2014	$22,677.00	35	12/22/24	10/15/17	10/14/16	07/15/15	10/15/17
2014										
	170	Penalty for not pre-paying tax 12-23-2025	11/23/2015	$399.00	30	12/23/25	10/15/18	10/14/17	07/20/16	10/15/18
	150	Tax return filed	11/23/2015	$22,232.00	30	12/23/25	10/15/18	10/14/17	07/20/16	10/15/18
2015										
	170	Penalty for not pre-paying tax 11-07-2026	11/7/2016	$354.00		11/07/26	10/15/19	10/12/18	07/05/17	10/15/19
	150	Tax return filed	11/7/2016	$26,400.00		11/07/26	10/15/19	10/12/18	07/05/17	10/15/19
2016										
		No Assessments Present								
2017										
		No Assessments Present								

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Analysis

- Are they an Offer candidate or not?
- This is why we charge for consultations
- Taxpayer will get benefit just from the meeting

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Self-Study Question

What does a practitioner need to properly calculate the statute expiration dates (CSED) for the taxpayer?

a. The taxpayer's account transcripts

b. The taxpayer's age and health

c. The taxpayer's family history of residing in the area they are located in now

d. The location to which the taxpayer plans to retire

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Self-Study Question

Answer:

a. Correct. The account transcripts are necessary to know the exact date of assessment and all the events that have occurred that would toll the statute from running.

b. Incorrect. The taxpayer's age and health are not necessary to calculate the collection statute expiration date.

c. Incorrect. The taxpayer's family's history of residing in the area is not critical to calculating the CSED dates

d. Incorrect. Where the taxpayer plans to retire too is not critical to calculating the CSED.

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Calculating Reasonable Collection Potential

("RCP")

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Reasonable Collection Potential

- Gross monthly income
- Allowable expenses
- Determine <u>future income</u>
- <u>Net equity</u> in assets (QSV)
- FI + NE = RCP

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Financial Guidelines

- Gross monthly income
- Allowable v. actual expenses
- Why most offers/IA requests are denied

https://www.irs.gov/businesses/small-businesses-self-employed/collection-financial-standards

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Food, Clothing & Misc. (national std)

2021 Allowable Living Expenses National Standards

Expense	One Person	Two Persons	Three Persons	Four Persons
Food	$400	$724	838	$955
Housekeeping supplies	$41	$76	69	$79
Apparel & services	$92	$150	191	$259
Personal care products & services	$42	$76	72	$89
Miscellaneous	$148	$266	303	$358
Total	**$723**	**$1,292**	**1,473**	**$1,740**

More than four persons	Additional Persons Amount
For each additional person, add to four-person total allowance:	**$341**

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Housing (local by county)

2021 Allowable Living Expenses Housing Standards

County	State Name	2021 Published Housing and Utilities for a Family of 1	2021 Published Housing and Utilities for a Family of 2	2021 Published Housing and Utilities for a Family of 3	2021 Published Housing and Utilities for a Family of 4	2021 Published Housing and Utilities for a Family of 5
San Juan County	Colorado	1,533	1,800	1,897	2,115	2,149
San Miguel County	Colorado	2,094	2,459	2,591	2,889	2,936
Sedgwick County	Colorado	992	1,165	1,228	1,369	1,391
Summit County	Colorado	1,860	2,185	2,302	2,567	2,608
Teller County	Colorado	1,572	1,847	1,946	2,170	2,205
Washington County	Colorado	1,351	1,587	1,672	1,864	1,894
Weld County	Colorado	1,666	1,957	2,062	2,299	2,336
Yuma County	Colorado	1,381	1,622	1,709	1,906	1,936
Fairfield County	Connecticut	2,624	3,081	3,247	3,620	3,679
Hartford County	Connecticut	1,899	2,230	2,350	2,620	2,663
Litchfield County	Connecticut	1,887	2,217	2,336	2,605	2,647
Middlesex County	Connecticut	2,035	2,390	2,518	2,808	2,853
New Haven County	Connecticut	1,971	2,315	2,439	2,719	2,763
New London County	Connecticut	1,832	2,151	2,267	2,528	2,569
Tolland County	Connecticut	1,906	2,239	2,359	2,630	2,673
Windham County	Connecticut	1,681	1,975	2,081	2,320	2,358
Kent County	Delaware	1,499	1,760	1,855	2,068	2,102
New Castle County	Delaware	1,662	1,952	2,057	2,294	2,331
Sussex County	Delaware	1,501	1,763	1,858	2,072	2,105
District of Columbia	District of Columbia	2,409	2,829	2,981	3,324	3,377
Alachua County	Florida	1,459	1,714	1,806	2,014	2,046
Baker County	Florida	1,288	1,513	1,594	1,777	1,806

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Transportation

Public Transportation		
National	$217	

Ownership Costs		
	One Car	**Two Cars**
National	$533	$1,066

Operating Costs		
	One Car	**Two Cars**
Northeast Region	$274	$548
Boston	$271	$542
New York	$355	$710
Philadelphia	$293	$586
Midwest Region	$201	$402
Chicago	$226	$452
Cleveland	$201	$402
Detroit	$305	$610
Minneapolis-St. Paul	$203	$406
St. Louis	$233	$466

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Out of Pocket Health Care Costs

2021 Allowable Living Expenses Health Care Standards

	Out of Pocket Costs
Under 65	$68
65 and Older	$142

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Financial Guidelines

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

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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

Self-Study Question

One of the reason's most Offers-in-Compromise fail is because why?

a. Taxpayer's do not like to speak to the IRS so refuse to respond

b. Taxpayer's are not interested in Offers-in-Compromise

c. Practitioners do not understand how the allowable expense rules work

d. Practitioners feel its unethical to help taxpayers resolve their tax debt

Self-Study Question

Answer:

a. Incorrect. The issue that cause most Offers-in-Compromise to fail is not because taxpayers wont speak with the IRS.

b. Incorrect. Taxpayers are very interested in the Offer-in-Compromise program.

c. Correct. The reason most Offers-in-Compromise fail is because practitioners do not understand how the IRS calculates reasonable collection potential and the rules, so most Offers submitted are for amounts the IRS will not seriously consider.

d. Incorrect. The reason most Offers-in-Compromise fail is not because practitioners consider it unethical to compromise a tax debt.

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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

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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

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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

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Dissipated Assets

- Dissipated assets are those used to pay other creditors or expenses that should have gone to the IRS
- Examples include:

  a. Liquidated stocks to pay back a loan from mom

  b. IRA cashed in to pay for a Disney cruise

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Dissipated Assets

- IRS looks for dissipated assets from the last 3 tax returns (Schedule D, Form 4797, Gift Tax returns, etc)
- Added back to the RCP
- May need to pursue CNC or an IA and wait out the 3-year period

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Averaging of Income

- IRS does not want to accept less because of an off-year
- Will usually look to average the income from the last three years
- If stable or increasing, current year is fine
- If falling or scattered, then a 3-year average is used
- Average - current tax number must be adjusted

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Why RCP is so important

- What is the point of working on an OIC the taxpayer cannot pay?
- Are there strategies we can utilize to reduce the RCP?
- Is another alternative more attractive (like CNC)

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Up until now

- We have covered the Offer process and RCP calculation
- Are there exceptions to the RCP number?
- When do these special forms of Offers apply?

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65

RCP If Only One Taxpayer is Liable

- Situation comes up when only one taxpayer is responsible for a debt
- Comes up Frequently:
  a. Spouse incurred debts before marriage
  b. Spouse is deemed responsible for TFRP
  c. Couple live together but are not married

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66

Treatment

- Treat the couple as married and then allocate joint expenses
- Allocation is generally done based upon the percentage of household income

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Allocation of Joint Expenses

- IRM § 5.15, Exhibit 5.15.1-1, Questions and Answers to Assist in Financial Analysis, Example 14

14. A taxpayer lives with his fiancé. Both of them are wage earners. The home is owned by the fiancé but the taxpayer claims he pays all the household bills, including the mortgage. They have a joint checking account and all wages are electronically deposited to that account. The taxpayer's proportionate share of household income is 64%. How is the excess income determined when making a determination of payment ability?	The total allowable and conditional expenses would be determined for the entire household the same as a married couple. The taxpayer would then be allocated 64% of those expenses when determining the monthly installment agreement amount.

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So what is allocated and what is not

- Joint expenses that cover more than the couple
- Food & Clothing, housing, health insurance and out-of-pocket healthcare costs are numbers that cover all 4 family members, so they are allocated
- The auto payments, life insurance and taxes we can just use the debtor spouse for a single individual

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Self-Study Question

Where only one spouse is responsible for the tax debt that he incurred prior to marriage, how will the IRS allocate the joint housing expense?

a. By percentage of the household income each brings in

b. By the percentage of the assets each one owned before marriage

c. They will not allocate the expense but require both to pay because both are now liable

d. The IRS wont allocate because the debt is automatically discharged upon their legal marriage

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Self-Study Question

Answer:

a. Correct. The IRS will allocate the joint expense based upon the percentage of household income each spouse brings into the household

b. Incorrect. The IRS does not allocate joint expenses based upon a percentage of the assets.

c. Incorrect. For a tax debt prior to marriage the IRS will not require the non-liable spouse to pay

d. Incorrect. The tax debt is not automatically discharged upon the couple's marriage

TRN TAX REP NETWORK

Community Property

- **5.15.1.5 (11-17-2014), Shared Expenses**
- Although the assets and income of a non-liable person may be reviewed to determine the taxpayer's portion of the shared household income and expenses, they are generally not included when calculating the amount the taxpayer can pay.
- One notable exception is community property states.

TRN TAX REP NETWORK

Community Property

- Community Property States: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.
- In addition, Alaska is an opt-in community property state; property is separate property unless both parties agree to make it community property through a community property agreement or a community property trust.
- The territories of Puerto Rico, Guam and the Commonwealth of the Northern Mariana Islands also allow property to be owned as community property.

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Community Property State: Collection

- The income of a couple will be determined as follows:

a. 100% of the income earned by the debtor spouse or from separate property owned by the debtor spouse

b. 50% of the income from community property and all sources regardless of who owns it or earned it

- All property of the marriage will be available for collection in the community property state (Texas 50%)
- Real estate of a non-liable spouse in a separate property jurisdiction is not available for collection

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So conclusion for one spouse…

- If the client comes in before filing, consider the impact of a MFS return
- Can we keep the other spouse (and their assets) out of the tax issue
- Are they in a separate property state or community property state

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Strategies

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Strategy Starts…

- The moment the client arrives
- Its why you charge for consults
- You have expertise use it!

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Step #1

- How does this end?
- Engineer backwards
- Once you know where you are going you can figure out how to get there!

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Strategies

- Spend assets to get into compliance
- Pay expenses you are not but should
- Non-Filer: File MFS?
- Non-Filer: File State First
- Adjust the RCP Calculation: Go Shopping
- Representation Fees

TRN TAX REP NETWORK

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

TRN TAX REP NETWORK

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 $20,450, made up of:

  IRA: $25,000 x 70% = $17,500

  Truck: $5,000 x 80% QSV - $3,450 Exemption = $550

  Future Income: $200/mo x 12 months = $2,400

- Joe needs to be making quarterly estimated payments of $3,500 and it's the third quarter to be in compliance and file his Offer.

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TAX REP NETWORK

Strategy 1: Spend the Assets

- 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 a dissipated asset because it paid current taxes to the IRS

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#2: Pay Expenses You are Supposed to!

- Alimony
- Child Support
- Student Loans
- Mortgage

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Strategy #3: 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)
- You need to know what the RCP looks like before you file
- See the client story after #3

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TAX REP NETWORK

Self-Study Question

One strategy to help a taxpayer reduce their Offer and get into compliance is what?

a. Stop filing returns to avoid the IRS knowing the taxpayer owes money

b. Stop making tax payments so the IRS gets less of the taxpayer's money

c. Spend the assets down, like an IRA, to get into tax compliance with current payments

d. Go and create more allowable expenses to reduce the Offer amount

TRN TAX REP NETWORK

Self-Study Question

Answer:

a. Incorrect. By not filing returns a taxpayer would not be in compliance.

b. Incorrect. If the taxpayer stops making their current tax payments they would not be in tax compliance.

c. Correct. By using their assets to pay their current taxes the taxpayer can get themselves in compliance for an Offer by using assets that would otherwise have been included in their RCP calculation.

d. Incorrect. By creating more expenses, the taxpayer would not get themselves into compliance for an Offer.

TRN TAX REP NETWORK

Strategy #4: 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 percentage of the state payment if there if future income available

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TAX REP NETWORK

Case Study for Strategies 3 and 4

- 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

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TAX REP NETWORK

Case Study for Strategies3 and 4

- 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

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TAX REP NETWORK

Case Study for Strategies 3 and 4

- 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 were $4,000 (truck and net IRA)

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TAX REP NETWORK

Strategy #5

- Figure out the RCP
- Change the future income calculation by spending it:
  - a. New Car (up to $521/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
  - f. Our fees become a future expense - IRM 5.15.1.11 (3)

TRN TAX REP NETWORK

A word on our fees

- We take retainers – we don't want to be a future expense
- Only future expense is allowed for RCP
- How do we become a future expense?
- Loan required to be paid back over 24 months after OIC

TRN TAX REP NETWORK

Self-Study Question

Which of the following is a strategy to help the non-filing taxpayer get an Offer-in-Compromise with the IRS?

a. File the state income tax returns first so that its tax assessments is ahead of the IRS

b. Cease filing returns to prove hardship

c. Submit for a domestic voluntary disclosure

d. Let the house go into foreclosure to prove hardship

TRN TAX REP NETWORK

93

Self-Study Question

Answer:

a. Correct. By filing the state income tax returns before the federal returns the state would assess its liability ahead of the IRS and a payment plan with the state would have to be allowed for the offer calculation. This would allow the taxpayer to create a payment plan with the state that can help them compromise the federal tax liability.

b. Incorrect. By failing to file tax returns the taxpayer would make themselves ineligible to receive an Offer-in-Compromise.

c. Incorrect. A domestic voluntary disclosure is meant for taxpayers who believe they have criminal exposure and would not help with an Offer-in-Compromise.

d. Incorrect. Though a house going into foreclosure may be an indicator of hardship it does not impact the Offer analysis.

TRN TAX REP NETWORK

94

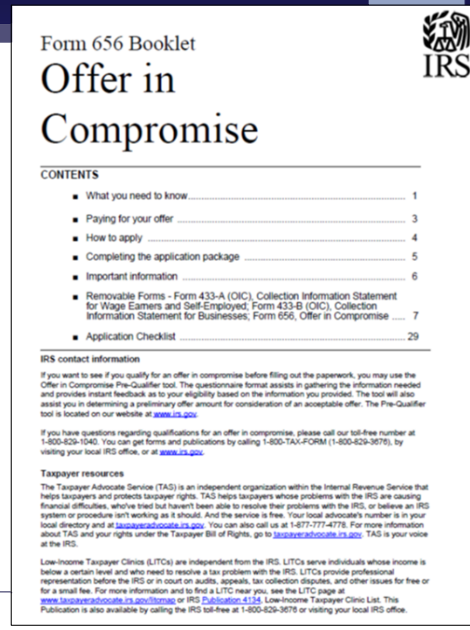
The Offer Documents

The Offer Package

- The Forms
- The Support
- The Cover Letter
- The Payment
- The IRS Responses
- The Appeal

Offer Documents

- Offer Booklet is Form 656-B
- Inside is the Form 656 (The Offer)
- Form 433-A (OIC) – Personal Financial
- Form 433-B (OIC) – Business Entity Financial



Form 656 Booklet

IRS

Offer in Compromise

CONTENTS

IRS contact information

If you want to see if you qualify for an offer in compromise before filling out the paperwork, you may use the Offer in Compromise Pre-Qualifier tool. The questionnaire format assists in gathering the information needed and provides instant feedback as to your eligibility based on the information you provided. The tool will also assist you in determining a preliminary offer amount for consideration of an acceptable offer. The Pre-Qualifier tool is located on our website at www.irs.gov.

If you have questions regarding qualifications for an offer in compromise, please call our toll-free number at 1-800-829-1040. You can get forms and publications by calling 1-800-TAX-FORM (1-800-829-3676), by visiting your local IRS office, or at www.irs.gov.

Taxpayer resources

The Taxpayer Advocate Service (TAS) is an independent organization within the Internal Revenue Service that helps taxpayers and protects taxpayer rights. TAS helps taxpayers whose problems with the IRS are causing financial difficulties, who've tried but haven't been able to resolve their problems with the IRS, or believe an IRS system or procedure isn't working as it should. And the service is free. Your local advocate's number is in your local directory and at taxpayeradvocate.irs.gov. You can also call us at 1-877-777-4778. For more information about TAS and your rights under the Taxpayer Bill of Rights, go to taxpayeradvocate.irs.gov. TAS is your voice at the IRS.

Low-Income Taxpayer Clinics (LITCs) are independent from the IRS. LITCs serve individuals whose income is below a certain level and who need to resolve a tax problem with the IRS. LITCs provide professional representation before the IRS or in court on audits, appeals, tax collection disputes, and other issues for free or for a small fee. For more information and to find a LITC near you, see the LITC page at www.taxpayeradvocate.irs.gov/litcmap or IRS Publication 4134, Low-Income Taxpayer Clinic List. This Publication is also available by calling the IRS toll-free at 1-800-829-3676 or visiting your local IRS office.

TRN TAX REP NETWORK

Supporting Documents

- Cover Letter
- Checks
- IRS Form 2848 – Power of Attorney
- Any Last Minute filings for compliance (2751 waiver forms, estimated tax payments, missing 1040s filed, etc)
- Back-up documents for any income or expense item claimed that is not a national standard

TRN TAX REP NETWORK

The Cover Letter

- Highlight anything you want the IRS to know and consider
- Disclose anything that you believe requires disclosure
- You may want to walk the IRS through your RCP argument
- ETA and DCSC circumstances highlighted

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99

Sample Offer Correspondence

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100

IRS Response – Offer Received

Department of the Treasury

Internal Revenue Service
Centralized OIC
PO Box 9011 Stop 682
Holtsville, NY 11742

Date of this Letter: NOV

Person to Contact:
Mr.Exmployee
Employee #: 0xxxxxxx
Phone#: (866) 611-6191
08:00am-08:00pm Mon-Fri

Taxpayer ID#: ***-**-xxxx
Offer Number: 1001xxxxxx

Taxpayer Name
Taxpayer Address
City, CT xxxxx

Dear Mrs. Taxpayer,

We received your Offer in Compromise. You will be contacted by 03/06/2017.

While investigating your offer, we will determine whether a notice of federal tax lien should be filed in order to protect the government's interests. If we determine to file a notice of federal tax lien we will provide you with notification within five days of the filing. You will have the opportunity to request a hearing with Appeals at which you may propose alternative methods for protecting the government's interest.

If you have any questions, please contact the person whose name and telephone number are shown in the upper right hand corner of this letter.

Since

Process Examiner Manager

IRS Response - Rejection

Department of the Treasury

Internal Revenue Service
Centralized OIC
PO Box 9011 Stop 682
Holtsville, NY 11742

Date of this Letter: JUN -

Person to Contact:
Mr.Employee
Employee #: 1000XXXXXX
Phone#: ~~(866)~~ 611-6191 EXT.
3366 08:00am-03:30pm Mon-Fri

Taxpayer ID#: ***-**-XXXX
Offer Number: 1001XXXXXX

Taxpayer Name
Taxpayer Address
City, CT Zip

Dear Mr. Taxpayer,

We have investigated your offer dated 11/28/2016 in the amount of $250.00.

We are rejecting the offer for the following reason(s):

The amount offered is less than your reasonable collection potential. Copies of worksheets showing our calculations are enclosed for your review.

Based on the financial information you submitted, we have determined you can pay the amount due in full.

We have considered the special circumstances you raised but they did not warrant a decision to accept your offer.

If you disagree with our findings, please provide any additional information in writing to support your position within 30 days of the date of this letter. If you also want your case considered by the Office of Appeals, you must include a written statement in your response asking that your case be sent to the Office of Appeals after our reconsideration. If you do not send this written statement within 30 days of the date of this letter you will not receive consideration by the Office of Appeals.

IRS Response - Reject or Increase

Department of the Treasury

Internal Revenue Service
2888 Woodcock Blvd. Stop 314
Atlanta, GA 30341

Date of this Letter:

Person to Contact:
EMPLOYEE NAME
Employee #:1000XXXXXX
Phone#: (XXX) XXX-XXXX
EXT. 07:00am-07:00pm Mon-Fri

Taxpayer ID#:***-**-XXXX
Offer Number:1001XXXXXX

Taxpayer Name
Taxpayer address
City, CT xxxxx

Dear Mr.______,

We have investigated your offer dated 12/03/2014 in the amount of $12,864.00.

We are rejecting the offer for the following reason(s):

The amount offered is less than your reasonable collection potential. Copies of worksheets showing our calculations are enclosed for your review.

If you agree to increase your offer to $81,658.00, we will recommend acceptance. That recommendation is subject to additional review and approval. You will be notified in writing if the amended offer is accepted. If you wish to amend your offer, please contact the person whose name appears at the top of this letter within 30 days of the date of this letter.

IRS Response – Offer Addendum

Form 14640 (January 2016)

Department of the Treasury–Internal Revenue Service

Addendum to Form 656

Part 1

Taxpayer Name TAXPAYER NAME	Offer Number 1001XXXXXX
Primary Taxpayer SSN/EIN *(last 4 digits)* XXXX	Secondary Taxpayer SSN/EIN *(last 4 digits)*

I/We submitted an offer dated 12/03/2014 in the amount of $ 12,864
to compromise unpaid income tax *(kind of tax)*, plus statutory additions for the tax periods 2007, 2008, 2009, 2010, 2011. The purpose of this addendum is to amend the above offer amount I/we are offering to pay and/or to specify the payment terms if the offer is accepted.

Part 2. Revised Offer in Compromise Amount

Accordingly, I/we offer to pay $ 44,600, which includes the following amounts already paid or included with this addendum:

A. $ 2,573, paid with original offer dated 12/03/2014

B. $ ______, paid with an amended/revised Form 656 dated ______

C. $ 6,347, additional payment, if any, to be included with this addendum

D. $ ______, periodic payments, if any, made since original offer was submitted

Part 3. Revised Offer in Compromise Payment Amount

E. $ 35,680 payable within 5 months after acceptance

F. $ ______ payable within ______ months after acceptance

G. $ ______ payable within ______ months after acceptance

H. $ ______ payable within ______ months after acceptance

I. $ ______ payable within ______ months after acceptance

IRS Response – Offer Accepted

Department of the Treasury
Internal Revenue Service
Appeals Office
150 Court Street, Room 312
New Haven, CT 06510

Date: MAR 21 2017

Person to contact:
Name: Employee Name
Employee ID number: 100xxxxxx
Telephone: 203-xxx-xxxx
Fax: 855-xxx-xxxx
Hours: 8:00 - 4:30
Tax period(s) ended:
12/2007 12/2008 12/2009 12/2010
12/2011

Re:
Offer in Compromise

Taxpayer name
Taxpayer Address
City, CT, Zip

Dear Mr. _______:

We accepted your offer in compromise signed and dated by you on 12/03/2014 and as modified by an addendum dated 02/01/2017. The date of acceptance is the date of this letter and our acceptance is subject to the terms and conditions on the enclosed Form 656, *Offer in Compromise*.

Please note that the conditions of the offer require you to file and pay all required taxes for five tax years, beginning from the date of this letter.

If you are required to make payments under this agreement, make your check or money order payable to the United States Treasury and send it to:

IRS - OIC
P.O. Box 24015
Fresno, CA 93779

You must promptly notify the IRS of any change in your address or marital status. That way we'll have the correct address to advise you of your offer status.

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IRS Response – Terms Met

Department of the Treasury

Internal Revenue Service
PO Box 9006, Stop 663
Holtsville, NY 11742

Date of this Letter: MA

Person to Contact:
NAME
Employee #:xxxxxxx
Phone#: (631) 447-4279 EXT.
07:00am-03:30pm Mon-Fri

Taxpayer ID#:***-**-xxxx
Offer Number:1001xxxxxx

Taxpayer Name
Taxpayer Address
_______, CT Zip

Dear Mr._______,

Thank you for your payment. You have met the payment provisions for your Offer in Compromise contract. Please remember that we will apply any overpayments from the year we accepted your Offer in Compromise to the tax periods specified in your offer contract.

REMINDER: Compliance is an important part of your Offer in Compromise contract. You must file and pay your taxes timely for five years following the date we accepted the offer or during an extended installment offer payment period, whichever is later. If you don't comply, we will terminate your offer and reinstate the original amount of your liability, less payments made.

We are processing your lien release and it should be effective within 30 days.

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TAX REP NETWORK

The Appeal

- Most of our Offers go to appeals
- Draft a letter and state you are appealing
- Raise any issue that you disagree with
- Appeals will not raise issues that COIC did not raise

TRN TAX REP NETWORK

Marketing Ideas

TRN TAX REP NETWORK

Marketing Ideas

- Clients are everywhere
- 93% of people start their search for anything on the internet, usually on a smart phone
- Get the word out you handle these matters
- Simple and cheap ideas you can do/start tonight:
  1. Blog
  2. Newsletter to existing clients and local biz: "What to do if you cannot pay the taxes?"
  3. Newsletter to Divorce Attorneys, Bankruptcy Attorneys, etc
  4. Fix your website to include this service

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TAX REP NETWORK

Marketing

- Do lien lists, radio ads, etc work?
- Yes, but VERY expensive
- You do not need to do that – it just takes consistent effort.
- I ask Tax Rep Members to commit to 2 hours a week to add a $100,000 practice

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TAX REP NETWORK

Case Studies

Case Studies

- Joe's Messy Life
- When Only One Spouse is Responsible – Andy Smith
- I can Pay But Shouldn't Have to! The ETA Offer
- Disabled Child: DCSC Offers

Case Study: Joe's Messy Life

- Joe has not filed is tax returns since 2012, but his oldest child may need to go to college and get financial aid
- If Joe files 2013 – 2020 he will owe $275,000 to the IRS and $85,000 to Connecticut
- Joe is 50, divorced and pay's alimony and child support of $1,500/month
- Joe used to be self-employed but is now a W-2 employee

TRN TAX REP NETWORK

113

Case Study: Joe's Messy Life

- Joe earns $120,000 a year and lives in New Haven, CT (New Haven County)
- He leases a Ford 150 for $575 a month, owns a Ford Fusion (2012, no payments, worth $6,000) and a Harley Motorcycle (worth $8,000)
- He rents an apartment in New Haven and spends $2,050 plus $450 on utilities
- He pays, though his employer:

  a. $925 for health insurance

  b. $45 for life insurance and disability insurance

TRN TAX REP NETWORK

114

Case Study: Joe's Messy Life

- Joe has no significant out of pocket health care costs
- He pays $2,500 a month in taxes (federal, state, FICA)
- He invests $1,000 per month in his employer's 401K
- He has $6,000 in his checking account
- He donates $3,000 per year to his church

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TAX REP NETWORK

Compliance

- Joe is in compliance with withholding
- He will file the last 6 years if federal tax returns, so balance is now $195,000 for IRS
- Voluntary disclosure with CT reduces it to just the three past-due years (17-19) so Joe now owes just $50,000 to CT

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TAX REP NETWORK

Future Income: Actual Expenses

Income	Actual	***Expenses***	Actual
Wages (yourself)	$ 10,000	Food, Clothing and Misc	$ 723
Wages (spouse)	$ -	Housing & utilities	$ 2,500
Interest - Dividends	$ -	Vehicle Ownership	$ 575
Net Business Income	$ -	Vehicle Operating Costs	$ 274
Net Rental Income	$ -	Public Transportation	$ -
Distributions	$ -	Health Insurance	$ 925
Pension/Soc Sec (taxpayer)	$ -	Out of Pocket HealthCare	$ 68
Pension/Soc Sec (spouse)	$ -	Court ordered pmts	$ 1,500
Social Security (taxpayer)	$ -	Child/Dep Care	$ -
Social Security (spouse)	$ -	Life Insurance	$ 45
Child Support	$ -	Current Year Taxes	$ 2,500
Alimony	$ -	Secured Debts	$ -
Other Income	$ -	Delinquent State Taxes	$ -
	$ -	Student Loans	$ -
	$ -	Total Living Expenses	$ 9,110
Total	$ 10,000	Net Difference	$ 890

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TAX REP NETWORK

Actual

- Monthly income of $10,000
- Expenses of $9,110
- Available Monthly Income
  - $890
- So what does the IRS think?

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TAX REP NETWORK

Monthly Expenses

Expenses	Actual	Allowable	
Food, Clothing and Misc	$ 723	$ 723	National Standard
Housing & utilities	$ 2,500	$ 1,971	Limited due to IRS Local Standard
Vehicle Ownership	$ 575	$ -	Other Vehicle available, unnecessary
Vehicle Operating Costs	$ 274	$ 274	Local Standard
Public Transportation	$ -	$ -	
Health Insurance	$ 925	$ 925	Actual and necessary
Out of Pocket HealthCare	$ 68	$ 68	National standard
Court ordered pmts	$ 1,500	$ 1,500	Actual and Court Ordered
Child/Dep Care	$ -	$ -	
Life Insurance	$ 45	$ 45	Actual and necessary
Current Year Taxes	$ 2,500	$ 2,500	Actual and allowed
Secured Debts	$ -	$ -	
Delinquent State Taxes	$ -	$ -	
Student Loans	$ -	$ -	
Total Living Expenses	$ 9,110	$ 8,006	
Net Difference	$ 890	$ 1,994	

TRN TAX REP NETWORK

Also

- IRS does not allow the car payment (Truck) when Joe has a paid off vehicle (Fusion) available - unnecessary
- IRS does not allow the 401k
- IRS does not allow charitable giving unless its required for their jobs (it’s not)

TRN TAX REP NETWORK

Analysis

- Future income: $23,928 ($10,000 - $8,006 = $1,994 x 12)
- Ford Fusion: $4,800 ($6,000 x 80%)
- Harley Motorcycle: $6,400 ($8,000 x 80%)
- Cash: Zero ($1,000 exemption but 1 month of allowable expenses)
- **Total Offer would be: $35,128**
- **NO OFFER BECAUSE CAN FULL PAY! ($1,994 x 120 months = $239,280)**

TRN TAX REP NETWORK

Analysis

- Can we do better than a full-pay IA?
- Lets look at some simple strategies:
  a. File CT First through voluntary disclosure
  b. Set-up IA with CT DRS for $1,500 a month
  c. The file IRS returns
- Now CT is in front of IRS, and $1,500 will be allowed in full

TRN TAX REP NETWORK

Also, we need to clean up Joe

- Get rid of the fusion and Harley
- Cash available is now part of the Offer, but truck payment will be allowed

TRN TAX REP NETWORK

Adjusted Monthly Expenses: CT and Truck

Expenses	Actual	Allowable	
Food, Clothing and Misc	$ 723	$ 723	National Standard
Housing & utilities	$ 2,500	$ 1,971	Limited due to IRS Local Standard
Vehicle Ownership	$ 575	$ 533	Limited by national standard
Vehicle Operating Costs	$ 274	$ 274	Local Standard
Public Transportation	$ -	$ -	
Health Insurance	$ 925	$ 925	Actual and necessary
Out of Pocket HealthCare	$ 68	$ 68	National standard
Court ordered pmts	$ 1,500	$ 1,500	Actual and Court Ordered
Child/Dep Care	$ -	$ -	
Life Insurance	$ 45	$ 45	Actual and necessary
Current Year Taxes	$ 2,500	$ 2,500	Actual and allowed
Secured Debts	$ -	$ -	
Delinquent State Taxes	$ 1,500	$ 1,500	Actual and priority so allowed
Student Loans	$ -	$ -	
Total Living Expenses	$ 10,610	$ 10,039	
Net Difference	$ (610)	$ (39)	

TRN TAX REP NETWORK

Updated Analysis

- Income: $10,000
- Allowable Expenses: $10,039
- Future Income: $0
- Assets: $11,200 (Fusion and Harley)
- **RCP: $11,200!**
- **We just saved Joe $184,000! – Can now do an OIC and avoid a full-pay IA**

TRN TAX REP NETWORK

Self-Study Question

Charitable donations will be allowed as an expense for calculating the couple's Reasonable Collection Potential when?

a. The couple is very passionate about the charity

b. When the donation comes out of the person's paycheck before it gets deposited to their bank account

c. When it is required for the taxpayer's job

d. All charitable giving is allowed and is a planning tool for an Offer-in-Compromise

TRN TAX REP NETWORK

Self-Study Question

Answer:

a. Incorrect. Charitable donations are generally not considered as an allowable expense regardless of how passionate about the charity the taxpayer is

b. Incorrect. Charitable donations are generally not considered as an allowable expense regardless of when the payment is made

c. Correct. Charitable donations are generally not considered as an allowable expense regardless unless it is required for their employment, such as a minister who is required to tithe 10% of his or her income as part of their appointment

d. Incorrect. Charitable donations are generally not considered as an allowable expense and is not a planning tool for adjusting the taxpayer's RCP for an Offer-in-Compromise.

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TAX REP NETWORK

127

127

Case Study 2: Only Andy is Liable

- Andy Smith is retired at 67
- Had a medical crisis in 2018 and pulled almost all his IRA money out to pay expenses
- Did not pay the taxes
- Currently owes $87,000 with penalties and interest
- Andy's wife Susan (age 66) still works for the State of Connecticut

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TAX REP NETWORK

128

128

So what changes?

- Susan only has to disclose her income, not assets
- Andy will be given his proportionate share of the joint expenses
- Based upon share of income into the household

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TAX REP NETWORK

Actual - Income

- Andy's monthly pension is $3,611
- Susan's monthly wages are $7,656

TRN
TAX REP NETWORK

Actual - Expenses

- Food & Clothing – who cares (National Standard)
- Housing & Utilities - $3,377
- Car Payment for Andy - $392/month
- His wife's car has no loan
- Andy gets health insurance through his wife, which costs her $537 per month

TAX REP NETWORK

131

131

Actual - Expenses

- Out of pocket medical expenses for each are:
  a. Andy - $35
  b. Susan - $27
- Andy has term life insurance that costs him $258 a month
- Andy's current taxes on his pension are $490 for both federal and Connecticut
- Andy went back to school later in life and is still paying $263 a month for his federally guaranteed Student loans

TAX REP NETWORK

132

Monthly Expenses

Income	Actual	Expenses	Actual	Allowable	32% Allocation
Wages (yourself)	$ -	Food, Clothing and Misc	$ 1,473	$ 1,292	$ 414
Wages (spouse)	$ 7,656	Housing & utilities	$ 3,377	$ 2,315	$ 742
Interest - Dividends	$ -	Vehicle Ownership	$ 392	$ 392	$ 392
Net Business Income	$ -	Vehicle Operating Costs	$ 274	$ 274	$ 274
Net Rental Income	$ -	Public Transportation	$ -	$ -	$ -
Distributions	$ -	Health Insurance	$ 537	$ 537	$ 172
Pension/Soc Sec (taxpayer)	$ 3,611	Out of Pocket HealthCare	$ 284	$ 284	$ 142
Pension/Soc Sec (spouse)	$ -	Court ordered pmts	$ -	$ -	$ -
Social Security (taxpayer)	$ -	Child/Dep Care	$ -	$ -	$ -
Social Security (spouse)	$ -	Life Insurance	$ 258	$ 258	$ 258
Child Support	$ -	Current Year Taxes	$ 490	$ 490	$ 490
Alimony	$ -	Secured Debts	$ -	$ -	$ -
Other Income	$ -	Delinquent State Taxes	$ -	$ -	$ -
	$ -	Student Loans	$ 263	$ 263	$ 263
	$ -	Total Living Expenses	$ 7,348	$ 6,105	$ 3,147
Total	$ 11,267	Net Difference	$ 3,919	$ 5,162	$ 464

TAX REP NETWORK

Analysis - Connecticut

- Andy earns 32% of the household income ($3,611 of the $11,267 gross monthly income into the household)
- He therefore gets 32% of the joint expenses
- In Connecticut (a separate property state) Susan does NOT need to disclose her assets
- Andy did not want to argue about our Rep fees or claim them
- **RCP: $464 x 12 = $5,568**

TAX REP NETWORK

Andy – in Community Property States

- If Andy lived in Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Washington or Wisconsin, all of Susan's income and assets would be included (just like in case #1 with Joe and Mary)
- If Andy lived in Texas, 50% of Susan's property would be included and 100% of her income
- The reason is the tax debt is from income tax, so it is a community debt, so all community property is available for collection
- Texas, the spouse has a 50% interest in all community property

TAX REP NETWORK

Case Study 3: ETA for Dr. V.

- 72 year-old dentist forced into retirement
- Owed $450,000 to IRS
- Inheriting $500,000 from his deceased wife
- His 433-A shows $1,000 a month negative future income based upon allowable standards

TAX REP NETWORK

Publication 590-B

Table I

(Single Life Expectancy)

(For Use by Beneficiaries)

Age	Life Expectancy	Age	Life Expectancy
56	28.7	84	8.1
57	27.9	85	7.6
58	27.0	86	7.1
59	26.1	87	6.7
60	25.2	88	6.3
61	24.4	89	5.9
62	23.5	90	5.5
63	22.7	91	5.2
64	21.8	92	4.9
65	21.0	93	4.6
66	20.2	94	4.3
67	19.4	95	4.1
68	18.6	96	3.8
69	17.8	97	3.6
70	17.0	98	3.4
71	16.3	99	3.1
72	15.5	100	2.9

TRN TAX REP NETWORK

Dr. V.

- IRS Life expectancy table is to 87 years old, or 15 years
- 15 years x $12,000 a year shortfall
- He needs $180,000 to live
- No interest due to conservative investment and inflation
- IRS agreed to accept $320,000 and allow him to keep $180,000

TRN TAX REP NETWORK

Case Study #4: DCSC for Raquel

- Woman is a single mother of a severely disabled child: mentally and physically
- Lives in a home at the end of a cul-de-sac
- Home is designed so that the child is locked in: windows and doors are designed so they cannot be opened from the inside
- Child will run if she escapes
- Home has some equity after 80% quicksale analysis

TRN
TAX REP NETWORK

DCSC for Raquel

- RCP is $45,000
    a. $400,000 home at 80% = $320,000, less mortgage of $280,000 = $40,000
    b. $5,000 for cash and value of vehicle
- Offered $5,000
- Argued for DCSC, use 60% Forced Sales value for the home: necessary due to her special circumstances and cannot be easily replaced/replicated
- Appeals ultimately agreed

TRN
TAX REP NETWORK

Self-Study Question

An Effective Tax Administration ("ETA") Offer can be considered by the IRS when?

a. The client can full-pay but for public policy reasons the IRS should accept less than the full amount of the tax debt.

b. The taxpayer cannot make any payments due to being broke

c. The taxpayer can pay only the tax but not the penalty and interest

d. The taxpayer cannot full-pay but the IRS, due to hardship, will accept less than the RCP calculation shows

Self-Study Question

Answer:

a. Correct. An ETA Offer is an offer where the client can full-pay based upon their financial information but, due to public policy reasons, the IRS agrees to accept less than the full amount.

b. Incorrect. A client that cannot pay anything does not qualify for an Offer under the ETA Offer guidelines.

c. Incorrect. A Taxpayer that can only pay the tax but no additions does not qualify for an Offer under the ETA guidelines.

d. Incorrect. An Offer where the taxpayer cannot full-pay and is seeking a departure from the RCP guidelines is not an ETA Offer

Questions?

TRN
TAX REP NETWORK