



# Offer In Compromise - Can I Really Pay The IRS Less Than I Owe?

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# Highlights



- **Filing of a tax return with an amount due begins the process - tax is assessed**
- **If unpaid the IRS will send a bill**
- **If no payment is made collections activity begins**
- **The IRS has a 10 year SOL to collect the tax**
- **An OIC may be available if the IRS believes they can't collect the debt before the SOL**

# What Is An OIC?



- **IRS allows for Offers In Compromise (OIC) - reduction in debt**
- **When the taxpayer can demonstrate that their assets and future earnings are not enough to pay the debt before the SOL expires**

# OIC Requirements



- **Compliance** - have at least the past six years filed, be current with withholding and/or estimates
- **RCP** - using IRS rules - total assets and future earnings
- **SOL** - how much time is left



## RCP - Reasonable Collection Potential

- **Cash flow analysis - not taxable income**
- **Gross income includes non-taxable income - i.e. Social Security**
- **Specific rules for allowable expenses: actual, IRS standards (local or national), lower of actual or IRS standard**
- **Does the IRS expect me to change my lifestyle?**

# OCI Computations - Basics



- **First step - listing of all assets, sources of income, and living expenses**
- **Compute RCP**
- **Review SOL**
- **Is RCP enough to pay the tax debt before SOL?**
- **If yes - no OIC - potential for IA**
- **If no - potential for OIC**

# Offer Types



- **Lump Sum - total payment amount (settled debt) - due within five months - net equity in assets and 12 months of future income - 20% payment due with offer submission**
- **Periodic payments - total payment due within 24 months - net equity in assets and 24 months of future income - monthly payments begin with offer submission (balloon payment allowed)**

# Related Issues



- **Dissipated Assets - three year look back - if payment is made towards debts junior to IRS - amounts are added back in RCP**
- **Non-Cash Expense - i.e. need to add back depreciation expense on business**
- **Income Averaging - if past three years significantly more income**



# Summary



- Program can provide significant benefits
- IRS wants to settle debts - not seize assets or garnish wages
- OIC program has specific rules that differ from income tax rules - but need to be followed - legally the money is owed and they can enforce collection
- Next up - RCP Computation