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Reasonable Collection Potential - How Is This Used By The IRS / How Is It Computed

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Highlights

- Reasonable Collection Potential - RCP is key to collection alternatives:

    - Installment Agreement
    - Offer In Compromise
    - Currently Not Collectible

- Amount IRS determines can pay your tax debt

IRS Collection Tools

- **IRS can use liens and levies to take your stuff**
- **They can take assets you own - force a sale of your house, take money held in a bank account, etc.**
- **They can take your future income - wage garnishment, Social Security, etc.**
- **IRS does not want to go to this extreme - they want to work to settle debt or work on a payment plan**

RCP - The Basics

- RCP = Cash Flow / Not Taxable Income
- Silent Lien - IRS "steps into your shoes"
- Example - home worth $300k / $225 mortgage - your equity is $75 - this is IRS claim
- Example - earn wages as an employee - IRS has a claim to the wages (after allowance for living costs)
- Concept - RCP approximates amounts that could be collected through forced collection

RCP Concepts

- Starting point is listing of assets / debts / income / expenses
- IRS then applies conventions / limitations on these figures
- For assets - 80% Quick Sale Value
- For expenses - many are limited by IRS “standard” amounts - in many situations actual expenses are limited - i.e. housing / utilities

IRS Rules

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- Can help or hurt taxpayers
- Example from above - house would have quick sale value of $240k ($300k @ 80%) - after mortgage debt ($225k) - $15k value - even though “true” equity is $75
- But may cut the other way - i.e. housing / utility costs - typically limited by IRS standards

How RCP Is Used

- Once the standards / rules are applied - calculate the impact re: outstanding taxes
- Compare RCP through SOL - if tax would be paid in full - could not do Offer In Compromise - Installment Agreement likely

Up Next

RCP - Detailed Computation