



Reasonable Collection Potential (RCP) - Detailed Rules

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Highlights



- **Reasonable Collection Potential is the key metric in all collections cases**
- **Approximation of what could be collected through forced collection - liens and levies**
- **To discuss detailed rules**

Assets



- Home, car, RV, money in bank account, retirement accounts
- 20% quick sale discount applied (except cash)
- Accounts for the fact that full FMV would not be obtained in a seizure / immediate sale of asset

Debts



- Debts secured by assets
- Typical - mortgage debt - loan to buy auto
- IRS does not jump ahead of existing debt
- Step into the shoes - home / debt example

Future Income



- **Monthly income - cash income less expenses**
- **Usually based on current earnings - wages / self-employment**
- **May be averaged - i.e. for a down year**
- **May be anticipated future income - i.e. job change / unemployed**

Future Expenses



- **Begin with actual cash expenses**
- **IRS applies standards to many**
- **Standards based on government data - i.e. Bureau of Labor Statistics**
- **Goal is standardization / equity among taxpayers**
- **In many situations standard is less than actual**
- **Does the IRS expect me to move?**

Expense Types



- **Necessary and Conditional**
- **Necessary can be used with all collection alternatives**
- **Conditional - usually only if full pay**
- **Necessary - “for the production of income or for the health and welfare of the taxpayer’s family”**
- **Conditional - all other expenses**

Necessary Expenses



- **Food, Clothing and Miscellaneous - clothing, food, personal care, miscellaneous - standard allowance provided**
- **Out of Pocket Healthcare - medical services, prescriptions, etc. - standard allowance provided - additional allowed if substantiated**
- **Housing and Utilities - mortgage / rent, repairs, insurance, etc. - standard provided - allowed is the lesser of actual or standard**



Necessary Expenses (continued)

- **Transportation - auto - 1) Ownership Costs - loan or lease, 2) Operating Costs - gas, insurance, repairs - local standard amount - lesser of actual or standard**
- **Public Transportation - standard amount if no car - if car then lower of actual or standard**
- **Other Necessary - e.g. accounting and legal, child care (working), court ordered payments - child support / alimony, mandatory wage deductions, life insurance, secured debt, current year taxes, delinquent taxes, student loan payments**

Conditional Expenses



- Not “required”
- Usually allowed with Installment Agreements - using six year and one year rules
- Six Year - full payment in six years
- One Year - not full payment in six years but can use expenses for year one
- Example - minimum credit card payments, retirement plan contributions, unsecured debt, court ordered child's education

Conclusion



- **RCP determination - critical to all collection situations**
- **Unlike taxable income - RCP is based on IRS rules that take into account equity and fairness**
- **Service provider - knowledge of both tax law and IRS practice and procedure**