



From The Tax Experts
At ALG Tax Solutions

5 Real Life Examples of Offer in Compromise Submissions

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What is an Offer in Compromise?

An offer in compromise is an agreement between you and the federal government to settle your back taxes for less than the amount you owe.

An Offer in Compromise is Objective, Not Subjective

The IRS reviews each offer objectively, which means IRS employees will not be influenced by personal feelings or opinions when considering an offer in compromise.

An offer in compromise is reviewed strictly based on numbers; the numbers being your financial ability to pay back the taxes. An offer in compromise will not be accepted if the IRS believes the delinquent taxes can be paid back in full. However, if it can be proven that you don't have the financial ability to pay back the taxes in full, then the IRS will accept an offer in compromise.

32%¹

Percentage of offers accepted in 2020. Out of 44,809 offers filed, 14,288 were accepted.

Over 90%

Percentage of offers prepared by ALG that were accepted by the IRS.



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Tax Compliance

Tax compliance is an extremely important aspect of any offer in compromise submitted. Tax compliance means you are current with all tax filings and tax payments.

Both individual taxes and any associated business taxes must be compliant with all tax obligations. Failure to maintain tax compliance will result in an automatic rejection of your offer.

EXAMPLE:

A taxpayer is filing an offer in compromise for individual taxes. The taxpayer owns a business that has payroll tax obligations. The taxpayer's business failed to pay payroll taxes for the previous two quarters. The taxpayer's individual offer will be rejected if the outstanding business payroll taxes are not paid in full.



Source: ¹Data is from the 2015 IRS Data Book

\$2.2 Billion¹

Value of accepted offers in 2020.



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Five Real Case Offer in Compromise Examples

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Download the ALG Tax Solutions eBook: *4 Steps to Calculating an Offer in Compromise* for the formulas used to calculate the offer in compromise amounts for each example.



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Low Income Wage Earner Offer in Compromise

The taxpayer owed \$65,000 to the IRS.

Total Equity in Assets	\$20
Monthly Household Income	\$2,293
Monthly Household Expenses	\$2,379
Collectability (Income - Expenses)*	\$0

*In this case, monthly expenses are greater than monthly income. You can't report a negative amount for collectability. Therefore, collectability is \$0.

Collectability Amount	Multiplication Factor	Future Remaining Income
\$0	12	\$0

Total Equity in Assets	Future Remaining Income	Offer Amount **
\$20	0	\$750

** We could've offered the IRS \$20, however, when the offer amount is extremely low, we recommend offering an amount between \$250 and \$1,000. In this case, we offered \$750.

A	B	A * B	
Monthly Collectability	Remaining CSED Months	Total	Total Back Taxes Owed
\$0	110	\$0	\$65,000

The taxpayer didn't have the ability to pay back the taxes within the Collection Statute Expiration Date. The IRS accepted \$750 to settle the \$65,000 of back tax debt.

Download the ALG Tax Solutions eBook: *4 Steps to Calculating an Offer in Compromise* for more information on the calculations used in this example.

IRS Fact: The number of "courtesy disconnects" when calling the IRS has increased from 544,000 in 2014 to 8.8 million in 2015 - an increase of 1,500%!



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Low Income Self Employed Offer in Compromise

The taxpayer had more than 3 years of unfiled tax returns. After the unfiled tax returns were prepared by ALG Tax Solutions, the taxpayer owed the IRS \$33,000 in back taxes.

Total Equity in Assets	\$2,957
Monthly Household Income	\$2,020
Monthly Household Expenses	\$2,324
Collectability (Income - Expenses)*	\$0

*In this case, monthly expenses are greater than monthly income. You can't report a negative amount for collectability. Therefore, collectability is \$0.

Collectability Amount	Multiplication Factor	Future Remaining Income
\$0	12	\$0

Total Equity in Assets	Future Remaining Income	Offer Amount **
\$2,957	\$0	\$2,957

A	B	A * B	
Monthly Collectability	Remaining CSED Months	Total	Total Back Taxes Owed
\$0	115	\$0	\$33,000

The taxpayer didn't have the ability to pay back the taxes within the Collection Statute Expiration Date. The IRS accepted \$2,957 to settle the \$33,000 of back tax debt.

Download the ALG Tax Solutions eBook: *4 Steps to Calculating an Offer in Compromise* for more information on the calculations used in this example.

Tax Help: The IRS will release all tax liens once the offer in compromise process is completed. After the tax liens are released, the taxpayer may be eligible to request a lien withdrawal.



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Retired Taxpayer Offer in Compromise

A retired taxpayer owed the IRS \$171,000 in back taxes.

Total Equity in Assets	\$2,957
Monthly Household Income	\$2,283
Monthly Household Expenses	\$2,277
Collectability (Income - Expenses)*	\$546

Collectability Amount	Multiplication Factor	Future Remaining Income
\$546	12	\$6,552

Total Equity in Assets	Future Remaining Income	Offer Amount **
\$2,453	\$6,552	\$9,005

A	B	A * B	
Monthly Collectability	Remaining CSED Months	Total	Total Back Taxes Owed
\$546	60	\$32,760	\$171,000

The taxpayer didn't have the ability to pay back the taxes within the Collection Statute Expiration Date. The IRS accepted \$9,005 to settle the \$171,000 of back tax debt.

Download the ALG Tax Solutions eBook: *4 Steps to Calculating an Offer in Compromise* for more information on the calculations used in this example.

IRS Fact: : IRS doesn't create or pass federal law; the U.S. Congress has this responsibility. What the IRS can and can't do is determined by law.



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Self-Employed Offer in Compromise

A self-employed taxpayer owed the IRS \$66,000 in back taxes.

Total Equity in Assets	\$76
Monthly Household Income	\$5,148
Monthly Household Expenses	\$4,573
Collectability (Income - Expenses)*	\$575

Collectability Amount	Multiplication Factor	Future Remaining Income
\$575	12	\$6,900

Total Equity in Assets	Future Remaining Income	Offer Amount **
\$76	\$6,552	\$6,976

A	B	A * B	
Monthly Collectability	Remaining CSED Months	Total	Total Back Taxes Owed
\$575	100	\$66,000	\$57,500

The taxpayer didn't have the ability to pay back the taxes within the Collection Statute Expiration Date, however, the timeframe was close. Any unfavorable adjustments made by the IRS would result in an offer rejection. The IRS accepted \$6,976 to settle the \$66,000 of back tax debt.

Download the ALG Tax Solutions eBook: *4 Steps to Calculating an Offer in Compromise* for more information on the calculations used in this example.

Tax Help: If the taxes owed are older than 3 years and you don't qualify for an offer in compromise, filing bankruptcy may be an alternative option.



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Business Offer in Compromise

The business owed \$250,000 of back payroll taxes. The tax balance included \$128,000 of actual tax and \$132,000 of penalties and interest (\$128,000 + \$132,000 = \$250,000). The business owner wanted to pay the taxes, but felt that the penalties and interest were outrageous. The IRS would not agree to penalty abatement. ALG filed an offer in compromise with the goal of removing a majority of the penalties and interest. The rules for income producing assets were used in preparing this offer in compromise. You can learn more about these rules in the ALG Tax Solutions eBook: *4 Steps to Calculating an Offer in Compromise*.

Total Equity in Assets	\$123,486
Monthly Business Income	\$184,904
Monthly Business Expenses	\$181,735
Collectability (Income - Expenses)*	\$3,169

Collectability Amount	Multiplication Factor	Future Remaining Income
\$3,169	12	\$38,028

Total Equity in Assets	Future Remaining Income	Offer Amount **
\$123,486	\$38,028	\$161,514

A	B	A * B	
Monthly Collectability	Remaining CSED Months	Total	Total Back Taxes Owed
\$3,169	60	\$190,140	\$250,000

The taxpayer didn't have the ability to pay back the taxes within the Collection Statute Expiration Date, however, the timeframe was close. Any unfavorable adjustments made by the IRS would result in an offer rejection. The IRS accepted \$161,514 to settle the \$250,000 of back tax debt. This result removed all penalties and a portion of the interest.

Download the ALG Tax Solutions eBook: *4 Steps to Calculating an Offer in Compromise* for more information on the calculations used in this example.

IRS Fact: The IRS doesn't report tax liens directly to the credit bureaus. The credit bureaus gather lien information from the county Register of Deeds.



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