



From The Tax Experts  
At ALG Tax Solutions

**Other Considerations  
Impacting an Offer in  
Compromise Submission**

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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%<sup>1</sup>

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

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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: <sup>1</sup>Data is from the 2015 IRS Data Book*

# \$2.2 Billion<sup>1</sup>

Value of accepted offers in 2020.



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# Calculating an Offer in Compromise

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## Other Considerations Impacting an Offer in Compromise Submission

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After you have downloaded the ALG Tax Solutions eBook: *4 Steps to Calculating an Offer in Compromise*, you will understand the basic calculations of determining whether you qualify for an offer in compromise.

**However, there are some other considerations that can impact an offer in compromise submission:**

- IRS Research
- Supporting Documentation
- Business Ownership
- Income Averaging
- Dissipated Assets
- Special Circumstances



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## Other Considerations

### IRS Research

The IRS will conduct thorough research to determine whether there are any items that have not been reported on your offer. This may include:

- Reviewing your credit report for auto loans and mortgages
- Gathering state and county records for registered assets
- Reviewing IRS records for assets and income verification
- Reviewing past tax returns for assets and income verification



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## Other Considerations

### Supporting Documentation

The offer in compromise process is document intensive. The items reported on the offer in compromise forms must be supported by documentation.

If there is a lack of documentation for an offer, the IRS will likely make unfavorable adjustments to the offer. These unfavorable adjustments may result in an unaffordable offer amount or offer rejection.

### Business Ownership

If an individual taxpayer is filing an offer in compromise and the taxpayer owns a business, the business financials will likely need to be included in the offer calculations.

## TAX HELP:

You may not need to provide supporting documentation for household expenses that are below the IRS Collection Standards.



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## Other Considerations

### Income Averaging

The IRS may use income averaging when income has significantly dropped or is inconsistent. The IRS may average the yearly income of the taxpayer for the last three years when determining monthly income.

#### **EXAMPLE:**

A taxpayer's yearly income was \$90,000 in 2014, \$150,000 in 2015, and \$25,000 currently. The IRS may average the last three years of income  $(\$90,000 + \$150,000 + \$25,000) / 3 = \$88,333$ . *\$88,333 of yearly income will be used for the monthly income calculations.*



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## Other Considerations

### Dissipated Asset

A dissipated asset is one that was sold, transferred, encumbered, or otherwise disposed of in an attempt to avoid the payment of the tax liability. The IRS will include any deemed dissipated assets in offer calculations.

#### Examples of Dissipated Assets.

- An asset that was sold at far below fair market value.
- An asset that should have been used to pay the back taxes.
- An asset that was transferred to a third party with the intention of possibly getting it back after the offer process is completed.

#### Example 1:

Taxpayer cashed out a 401K. The money was used to pay for a 2nd home. *However, the taxpayer should have used the money to pay off the back taxes.*

#### Example 2:

Taxpayer quitclaim deeds a house to a sibling. *The taxpayer received no funds in exchange for transfer of ownership to the sibling.*



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## Other Considerations

### Special Circumstances

The IRS will consider special circumstances when determining an offer in compromise. You may not qualify for an offer based on the calculations, however under special circumstances, the IRS will agree to an offer in compromise. Contact us if you feel there are special circumstances.



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