



From The Tax Experts  
At ALG Tax Solutions

# 4 STEPS

To An Offer In Compromise

[www.algtaxsolutions.com](http://www.algtaxsolutions.com)

(855) MI-TAX-HELP

# 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.

# 31.9%<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.



For More Info Visit [ALGTaxSolutions.com](https://www.algtaxsolutions.com)

(855) MI-TAX-HELP



# 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.

# \$158 Billion<sup>1</sup>

Value of accepted offers in 2020 (31.9% acceptance rate).



For More Info Visit [ALGTaxSolutions.com](https://www.algtaxsolutions.com)

(855) MI-TAX-HELP



# Calculating an Offer in Compromise

## Table of Contents

<b>STEP ONE</b>	<b>Equity in Assets</b>	<b>pg 5</b>
<b>STEP TWO</b>	<b>Collectability</b>	<b>pg 18</b>
<b>STEP THREE</b>	<b>Offer in Compromise Calculation</b>	<b>pg 34</b>
<b>STEP FOUR</b>	<b>Collection Statute Expiration Date</b>	<b>pg 39</b>

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



The background of the slide is a photograph of a diverse group of business professionals in an office setting. A woman in a teal top is the central focus, smiling and looking towards the right. Other people are visible in the background, some slightly out of focus. A solid blue horizontal band is overlaid across the middle of the image, containing the text.

# STEP 1

## EQUITY IN ASSETS

## Step 1 - Equity in Assets

The first step in calculating an offer in compromise is determining the equity in assets. Equity is the value of property, less loans on the property.

### Topics Covered in this Section:

- Determining Equity in Assets for Individual Offers
- Determining Equity in Assets for Business Offers
- Income Producing Assets
- Tool: Equity Spreadsheet for Individual and Business Offers



# 8.4 Billion<sup>1</sup>

Number of delinquent IRS Accounts.



For More Info Visit [ALGTaxSolutions.com](https://www.ALGTaxSolutions.com)

(855) MI-TAX-HELP

**alg** TAX  
SOLUTIONS

## Equity in Assets for Individual Offers

### Cash, Bank Accounts, and Money Market/CD:

How much cash do you have on hand? Are there any liquid investment accounts such as a money market or CD? What is the average 3-month ending balance of your bank account?

- › Determine the 3-month average of all accounts.
- › Add the monthly average of all accounts together.
- › Then subtract \$1,000 from the total.

#### EXAMPLE 1:

The ending bank balance for month one is \$1,500, month two is \$500 and month three is \$1,250. There is no cash on hand or money market accounts. The 3-month average is  $(\$1,500 + \$500 + \$1,250) / 3 = \$1,083$ . Then subtract \$1,000.  $\$1,083 - \$1,000 = \$83$ . ***\$83 is added to the total equity in assets.***

#### EXAMPLE 2:

The ending bank balance for month one is \$1,500, month two is \$500 and month three is \$750. There is no cash on hand or money market accounts. The 3-month average is  $(\$1,500 + \$500 + \$750) / 3 = \$917$ . Then subtract \$1,000. \$1,000 is greater than \$917, therefore ***\$0 is added to the total equity in assets.***

#### EXAMPLE 3:

The taxpayer has \$10,000 cash on hand and a money market account worth \$100,000. The ending bank balance for month one is \$50,500, month two is \$25,000 and month three is \$35,750. The 3-month average for the bank account is  $(\$50,500 + \$25,000 + \$35,750) / 3 = \$37,083$ . Add cash on hand and money market account.  $\$10,000 + \$100,000 + \$37,083 = \$147,083$ . Finally, subtract \$1,000 from the total.  $\$147,083 - \$1,000 = \$146,083$ . ***\$146,083 is added to the total equity in assets.***

## TAX HELP:

If your average bank balance for the last 3 months is over \$1,000, you may be able to further decrease the cash equity with amounts paid for necessary monthly living expenses.



## Equity in Assets for Individual Offers

### Investment Accounts

What is the value of stocks, bonds, or any other non-retirement investment accounts? Are there any loans on the investment accounts?

The equity of each investment account is the fair market value of the investment account multiplied by .8, and minus the loan balance. This calculation should be done for each investment account separately. The total available equity for all investment accounts are then added together. Any investment account worth less than the loan on the investment account, is treated as having zero equity.

#### EXAMPLE 1:

No stocks or investments. ***\$0 is added to the total equity in assets.***

#### EXAMPLE 2:

The value of stocks is \$2,500. The value of bonds is \$1,000. The bond account was used as collateral for a \$1,000 loan. The value of the stock is multiplied by .8 ( $\$2,500 \times .8 = \$2,000$ ). ***\$2,000 is added to the total equity in assets.*** The value of the bond account is multiplied by .8 ( $\$1,000 \times .8 = \$800$ ). Then subtract the loan balance.  $\$800 - \$1,000 = -\$200$ . ***\$0 is added to the total equity in assets.***

#### EXAMPLE 3:

The value of a non-retirement investment account is \$250,000. There is no loan. Multiply the investment account by .8 ( $\$250,000 \times .8 = \$200,000$ ). ***\$200,000 is added to the total equity in assets.***

# 8.4 Million<sup>1</sup>

Number of Returns filed in 2020 with additional tax due.

# \$114 Billion<sup>1</sup>

Value of taxes owed from filed tax returns in 2020



## Equity in Assets for Individual Offers

### Retirement Account

What is the value of any 401K, IRA, or other retirement accounts? Are there any loans on the retirement accounts?

The equity of each retirement account is the fair market value of the retirement account multiplied by .8, and minus the loan balance. This calculation should be done for each retirement account separately. The total available equity for all retirement accounts are added together. Any retirement account worth less than the loan on the retirement account, is treated as having zero equity.

#### EXAMPLE 1:

No retirement accounts. *\$0 is added to the total equity in assets.*

#### EXAMPLE 2:

You have an IRA worth \$3,000. There are no loans on the IRA. Multiply the value of the IRA by .8 ( $\$3,000 \times .8 = \$2,400$ ). *\$2,400 is added to the total equity in assets.*

#### EXAMPLE 3:

You have a 401K worth \$25,000. There is a \$12,500 loan on the 401K. Multiply the value of the 401K by .8 ( $\$25,000 \times .8 = \$20,000$ ). Then subtract the \$12,500 loan ( $\$20,000 - \$12,500 = \$8,500$ ). *\$8,500 is added to the total equity in assets.*

## TAX HELP:

If, due to the administration rules or policies of your retirement account, no withdrawals or loans are allowed on the account, you may not have to include the value of the retirement account for offer equity calculations.



## Equity in Assets for Individual Offers

### Life Insurance Policies

What is the cash value of any whole life insurance policies? Are there any loans on the insurance policy?

The equity of each life insurance policy is the fair market value of the policy, minus the loan balance. This calculation should be done for each life insurance policy separately. The total available equity for all life insurance policies are added together. Any life insurance policy worth less than the loan on the policy, is treated as having zero equity.

#### EXAMPLE 1:

No whole life insurance accounts. *\$0 is added to the total equity in assets.*

#### EXAMPLE 2:

You have a whole life policy with a cash value of \$10,000. There are no loans on the whole life policy. *\$10,000 is added to the total equity in assets.*

#### EXAMPLE 3:

You have a whole life policy with a cash value of \$100,000. There is a loan of \$75,000 on the policy. The loan is subtracted from the cash value ( $\$100,000 - \$75,000 = \$25,000$ ). *\$25,000 is added to the equity in assets.*

## TAX HELP:

There is no cash value for a term life insurance policy. The monthly premium paid for a term life insurance policy may be excluded from the equity calculations and included in monthly collectability calculations.



## Equity in Assets for Individual Offers

### Real Estate

Do you own a home, land, or multiple properties? Are there any loans on the real estate? The value of real estate is the fair market value of the property multiplied by .8, and minus the loan balance. This calculation should be done for each property separately. The total available equity for all properties must be added together. Any property worth less than the loan on the property, is treated as having zero equity.

#### EXAMPLE 1:

No real estate is owned. ***\$0 is added to the total equity in assets.***

#### EXAMPLE 2:

You own a home worth \$200,000. The current balance of the mortgage is \$120,000. Multiply the value of the home by .8 ( $\$200,000 \times .8 = \$160,000$ ). Then subtract the mortgage balance ( $\$160,000 - \$120,000 = \$40,000$ ). ***\$40,000 is added to the total equity in assets.***

#### EXAMPLE 3:

You own a home worth \$200,000. The current balance of the mortgage is \$175,000. Multiply the value of the home by .8 ( $\$200,000 \times .8 = \$160,000$ ). Then subtract the mortgage balance ( $\$160,000 - \$175,000 = -\$15,000$ ). ***\$0 is added to the total equity in assets.***

#### EXAMPLE 4:

You own a home worth \$750,000. The current balance of the mortgage is \$650,000. You also own a second lake home worth \$150,000. The current balance of the mortgage on the second home is \$50,000. Multiply the value of the home #1 by .8 ( $\$750,000 \times .8 = \$600,000$ ). Then subtract the mortgage balance ( $\$600,000 - \$650,000 = -\$50,000$ ). ***\$0 is added to the total equity in assets.*** Multiply the value of the home #2 by .8 ( $\$150,000 \times .8 = \$120,000$ ). Then subtract the mortgage balance ( $\$120,000 - \$50,000 = \$70,000$ ).

***\$70,000 is added to the total equity in assets.***

## TAX HELP:

You may be able to exclude the value of your main home for the equity calculations if you are unable to obtain an equity loan and you own no other real estate.



## Equity in Assets for Individual Offers

### Vehicles

Do you own any vehicles? Are there any loans on the vehicles?

The value of each vehicle is the fair market value of the vehicle multiplied by .8, and minus the loan balance and \$3,450. The \$3,450 reduction is available for only two vehicles. This calculation should be done for each vehicle separately. The total available equity for all vehicles must be added together. Any vehicle worth less than the loan on the vehicle, is treated as having zero equity.

#### EXAMPLE 1:

No vehicle is owned. *\$0 is added to the total equity in assets.*

#### EXAMPLE 2:

You own a vehicle worth \$20,000. The current balance of the loan is \$12,000. Multiply the value of the vehicle by .8 ( $\$20,000 \times .8 = \$16,000$ ). Then subtract the loan balance ( $\$16,000 - \$12,000 = \$4,000$ ). Finally, subtract \$3,450 ( $\$4,000 - \$3,450 = \$550$ ). *\$550 is added to the total equity in assets.*

#### EXAMPLE 3:

You own a vehicle worth \$20,000. The current balance of the loan is \$17,500. Multiply the value of the vehicle by .8 ( $\$20,000 \times .8 = \$16,000$ ). Then subtract the loan balance ( $\$16,000 - \$17,500 = -\$1,500$ ). *\$0 is added to the total equity in assets.*

## TAX HELP:

We suggest using Edmunds.com or NADA.com for determining the fair market value of the vehicle. You are allowed to use the average private party value for your vehicle.



## Equity in Assets for Individual Offers

### Vehicles

#### EXAMPLE 4:

You own a vehicle worth \$35,000. The current balance of the loan is \$15,000. You own a second vehicle worth \$30,000. The current balance of the loan on the second vehicle is \$20,000. You own a third vehicle worth \$5,000, and a boat worth \$50,000 free and clear of any loans.

Multiply the value of vehicle #1 by .8 ( $\$35,000 \times .8 = \$28,000$ ). Then subtract the loan balance ( $\$28,000 - \$15,000 = \$14,000$ ). Finally, subtract \$3,450 ( $\$14,000 - \$3,450 = \$10,550$ ).

***\$10,550 is added to the total equity in assets.*** Multiply the value of vehicle #2 by .8 ( $\$30,000 \times .8 = \$24,000$ ). Then subtract the loan balance ( $\$24,000 - \$20,000 = \$4,000$ ). Finally, subtract \$3,450 ( $\$4,000 - \$3,450 = \$550$ ). ***\$550 is added to the total equity in assets.***

Multiply the value of vehicle #3 by .8 ( $\$5,000 \times .8 = \$4,000$ ). The \$3,450 subtraction is not allowed on a 3rd vehicle. ***\$4,000 is added to the total equity in assets.*** Multiply the value of the boat by .8 ( $\$50,000 \times .8 = \$40,000$ ). The \$3,450 subtraction is not allowed. ***\$40,000 is added to the total equity in assets.***

## TAX HELP:

There is zero equity for a leased vehicle.



## Equity in Assets for Individual Offers

### Other Valuable Items

Examples of other valuable items are artwork, collections, jewelry, items of value in a safe deposit box, and interest in non-publicly traded businesses. Clothing, furniture and other personal effects are not included in the equity calculations.

Add the fair value of other valuable items and multiply by .8. Then subtract any loans on the valuable items. This calculation should be done separately for each valuable item. The total available equity for all valuable items must be added together. Any valuable item worth less than the loan on the item, is treated as having zero equity.

#### EXAMPLE 1:

No valuable items are owned. *\$0 is added to the total equity in assets.*

#### EXAMPLE 2:

You own a rare coin collection worth \$50,000. The coin collection was used as collateral for a \$25,000 loan. Multiply the value of the coin collection by .8 ( $\$50,000 \times .8 = \$40,000$ ). Then subtract the loan balance ( $\$40,000 - \$25,000 = \$15,000$ ). *\$15,000 is added to the total equity in assets.*

#### EXAMPLE 3:

You own a rare coin collection worth \$50,000. The coin collection was used as collateral for a \$45,000 loan. Multiply the value of the coin collection by .8 ( $\$50,000 \times .8 = \$40,000$ ). Then subtract the loan balance ( $\$40,000 - \$45,000 = -\$5,000$ ). *\$0 is added to the total equity in assets.*

# 515,000<sup>1</sup>

Number of federal tax liens filed in 2015.

# 1.5 MILLION<sup>1</sup>

Number of tax levies issued in 2015.



## Equity in Assets for Business Offers

### Business Assets

The equity calculations for business assets are similar to the equity calculations for individual assets.

#### **Business Cash, Bank Accounts, and Money Market Accounts**

Add the total amount of cash, bank account, and money market accounts. Unlike Individual accounts, there is no \$1,000 subtraction.

#### **Business Investment Accounts**

The value of each investment account is the fair market value of the investment account multiplied by .8, and minus the loan balance.

#### **Business Real Estate**

The value of real estate is the fair market value of the property multiplied by .8, and minus the loan balance.

#### **Business Vehicles**

The value of each vehicle is the fair market value of the vehicle multiplied by .8, and minus the loan balance. Unlike individual vehicles, there is no \$3,450 reduction allowed for business vehicles.

#### **Other Business Equipment**

The value of business equipment is the fair market value of the business equipment multiplied by .8, and minus the loan balance.

# 77,000<sup>1</sup>

Number of property seizures in 2020.



Calculate Your Offer In Compromise At [ALGTaxSolutions.com](https://www.ALGTaxSolutions.com)



## Income Producing Assets

### Income Producing Business Assets

An income producing asset is any asset that generates revenue for the business. For example, manufacturing machinery required to produce goods.

### Special Rule for Income Producing Business Assets

For income producing assets, in the collectability calculations, you have the choice to: Include the equity of the asset, while not including the income this asset generates.

**OR**

Not include the equity in the asset, but include the income the asset generates. You can choose whichever method that is more favorable to you.

### EXAMPLE:

The business has production equipment worth \$1,000,000. There is a \$250,000 loan on the equipment. The production equipment is directly tied to \$50,000 of monthly business sales. The equity calculation for the production equipment is the fair market value of the business equipment multiplied by .8, and minus the loan balance ( $\$1,000,000 \times .8 = \$800,000$ ). Then less the loan balance ( $\$800,000 - \$250,000 = \$550,000$ ).

### Choice #1

You can include the \$550,000 equity calculation as part of the offer. Then you may reduce monthly sales by \$50,000 when calculating collectability.

### Choice #2

You can exclude the \$550,000 equity calculation as part of the offer. Then you must include the monthly sales of \$50,000 generated by the production equipment when calculating collectability.

# TAX HELP:

A business offer in compromise could be a useful tool to remove a portion of penalties and interest owed.



## Tool: Equity Spreadsheet for Individual and Business Offers

Add all equity calculations for each line item to discover Total Equity in Assets.

### Individual Offers

Asset	Equity
Cash, Bank Accounts, and Money Market/CD	
Investment Accounts	
Retirement Accounts	
Whole Life Insurance	
Real Estate	
Vehicles	
Other Valuable Items	
<b>Total Equity in Assets</b>	

### Business Offers

Asset	Equity
Business Cash, Bank Accounts, and Money Market	
Business Investment Accounts	
Business Real Estate	
Business Vehicles	
Business Equipment	
<b>Total Equity in Assets</b>	

# STEP 2

## COLLECTABILITY

## Step 2 - Collectability

The second step in calculating an offer is determining collectability.

Collectability is a term used by the IRS to determine the amount you are able to pay the IRS monthly towards IRS back tax debt. The collectability calculation is total monthly gross income, minus necessary expenses.

- Monthly Household Income for Individual Offers
- Tool: Monthly Household Income Table
- Monthly Household Expenses for Individual Offers
- Tool: Monthly Household Expense Table
- Tool: Individual Collectability Table
- Business Collectability

## IRS FACT:

According to the IRS, the average acceptance rate of filed Offer in Compromises is less than 50%. The overall acceptance rate of Offer in Compromises prepared by ALG Tax Solutions is greater than 90%.



## Monthly Household Income for Individual Offers

### Monthly Household Income

Determine the total amount of monthly household income from all sources. Monthly household income includes, but is not limited to:

- Wages
- Social Security
- Pension
- Other Income such as Unemployment
- Interest and Dividends
- Distributions
- Net Rental Income
- Net Business Income from Self-Employed Business
- Child Support
- Alimony

#### EXAMPLE 1:

Husband earns \$2,000 in wages per month and spouse receives \$1,700 per month in social security income. The gross monthly income is  $\$2,000 + \$1,700 = \$3,700$ .

#### EXAMPLE 2:

Single taxpayer earns \$25,000 per month in wages, \$10,000 per month of net rental income, and \$2,000 per month of distributions. The gross monthly income is  $\$25,000 + \$10,000 + \$2,000 = \$37,000$ .

## TAX HELP:

If your income significantly dropped in the year the offer in compromise is filed, the IRS may average your income for the past three years to determine monthly income. This is called income averaging.

If your pay period is bi-weekly, semi-monthly or weekly, then convert your pay to monthly.

- Bi-Weekly Pay x 2.17 = Monthly Pay
- Semi-Monthly Pay x 2 = Monthly Pay
- Weekly Pay x 4.33 = Monthly Pay



## Monthly Household Income for Individual Offers

### Income of All Members of the Household Included

The income of all members of the household must be considered for the offer in compromise calculation. This includes the income of a non-liable spouse, significant other, children, family, and any other household member. The IRS requires this income information even if other members of the household are not liable for the back taxes.

Please contact ALG if you do have multiple members in the household that have monthly income and are not liable for the back taxes. Special allocation calculations will be required; however, the complexity of these special allocation calculations are beyond the scope of this eBook. Tip: You may continue to review this eBook to get a general scope for getting an offer in compromise. Then call us to help determine your specific collectability using the special allocation calculations.



## IRS FACT:

As part of the Highway Funding Bill passed in December of 2015, the IRS must start using 3rd party private debt collectors to collect certain unpaid back taxes.



For More Info Visit [ALGTaxSolutions.com](http://ALGTaxSolutions.com)

(855) MI-TAX-HELP



## Tool: Monthly Household Income Table

Use this table to calculate the total monthly household income.

### Individual Offers

Monthly Household Income	Amount
Wages	
Social Security	
Pensions	
Other Income	
Interest and Dividends	
Distributions	
Net Rental Income	
Net Business Income from Self-Employed Business	
Child Support and Alimony	
<b>Total (Add all lines together)</b>	

## TAX HELP:

The IRS will require the most recent pay statements to prove the income reported when submitting an offer in compromise.



Calculate Your Offer In Compromise At [ALGTaxSolutions.com](https://www.algtaxsolutions.com)



## Monthly Household Expenses for Individual Offers

### IRS Collection Financial Standards

IRS Collection Financial Standards are used to help determine a taxpayer's necessary monthly expenses. The IRS will generally allow monthly expenses up to the Collection Financial Standards. The IRS may allow a taxpayer to exceed Collection Financial Standards for special circumstances.

#### EXAMPLE 1:

The taxpayer owns a \$750,000 home. There is a \$700,000 mortgage on the home. The mortgage payment on the home is \$3,700 monthly. The IRS has a local standard for housing and utilities. The local standard for the taxpayer's county of residence is \$1,500 monthly. When calculating the collectability for an offer, the IRS will limit the taxpayer's necessary expenses for housing and utilities to \$1,500 monthly. The IRS will disallow the difference between the actual monthly cost for the mortgage payment and the housing standard:  $\$3,700 - \$1,500 = \text{\$1,200 of monthly expense disallowed}$ .

#### EXAMPLE 2:

A disabled taxpayer pays \$200 monthly for necessary medical prescriptions. The national standard for out-of-pocket health costs is \$54 per month. The IRS may allow the taxpayer to exceed the standard by including \$200 monthly for necessary medical prescriptions when calculating collectability.

The Collection Financial Standards can be found here:

<https://www.irs.gov/businesses/small-businesses-self-employed/collection-financial-standards>

## IRS FACT:

\$5.4<sup>1</sup> Billion

Amount of failure to pay penalties assessed by the IRS.

## IRS FACT:

\$1.2<sup>1</sup> Billion

Amount of failure to pay penalties abated under first time penalty abatement program or reasonable cause.



## Monthly Household Expenses for Individual Offers

### Household Size

#### Determine your household size

The household size should generally equal the number of exemptions claimed on your most recently filed tax return.

#### EXAMPLE 1:

Husband and wife have two children. Both children are claimed as dependents on the most recently filed tax return. The household size is four.

#### EXAMPLE 2:

Husband and wife have two children. One child is an adult and no longer lives at home. Husband and wife claimed one child as dependent on the most recently filed tax return. The household size is three.

## TIP:

When using the [IRS Collection Financial Standards tables](#), use the amount listed for your household size.



## Monthly Household Expenses for Individual Offers

### Food, Clothing, and Miscellaneous

What is the total amount paid monthly for food, clothing, and miscellaneous? Miscellaneous includes housekeeping supplies, personal care products, and minimum payment on credit cards. There is an IRS Collection Financial Standard for this expense. The maximum you can claim for this expense is generally limited to the standard.

#### Find the national standard for your household size:

<https://www.irs.gov/businesses/small-businesses-self-employed/national-standards-food-clothing-and-other-items>

## TAX HELP:

You can exceed the food, clothing, and miscellaneous standard if the standard is inadequate to provide basic living expenses. An example is if a doctor prescribed a special diet that requires expensive grocery bills.



For More Info Visit [ALGTaxSolutions.com](https://www.algtaxsolutions.com)

(855) MI-TAX-HELP



## Monthly Household Expenses for Individual Offers

### Housing and Utilities

#### How much is spent monthly on housing and utilities costs?

Housing and utilities include the following:

- Mortgage payment or rent
- Property taxes
- Homeowner or renter's insurance
- Home maintenance and repairs
- Dues and fees
- Electric, gas, and water
- Trash
- Home and cell phone
- Internet
- Cable
- Other housing and utilities costs

The IRS has a Collection Financial Standard for housing and utilities. The maximum you can claim for this expense is generally limited to the standard.

#### Find the local standard for your household size, state, and county:

<https://www.irs.gov/businesses/small-businesses-self-employed/local-standards-housing-and-utilities>

## TAX HELP:

The IRS may allow you to exceed the local standard for housing and utilities. An example would be additional costs related to a taxpayer with physical disabilities.



## Monthly Household Expenses for Individual Offers

### Vehicle Costs

#### **There are two costs for a vehicle:**

The cost for owning a vehicle, and the cost for operating a vehicle.

The monthly cost for owning a vehicle is an auto loan payment or lease payment. The monthly costs for operating a vehicle are gas, maintenance, repairs, insurance, registrations, licenses, inspections, parking, and tolls. There is an IRS Collection Standard for owning a vehicle and an IRS Collection Standard for operating a vehicle. The maximum you can claim for each expense is generally limited to the standard.

If you don't own a vehicle, you are allowed to include costs incurred for public transportation. This includes monthly costs of fares for mass transit such as bus, train, ferry and taxi.

#### **Find the local standards for transportation:**

<https://www.irs.gov/businesses/small-businesses-self-employed/local-standards-transportation>

## TAX HELP:

If there is no loan on your vehicle and the vehicle is older than 6 years or has more than 75,000 miles, then you are allowed an additional \$200 per month of operating expenses in addition to the local standard for operating costs.



## Monthly Household Expenses for Individual Offers

### Health Costs

The IRS will allow health insurance premiums and out-of-pocket health costs when calculating your offer in compromise.

The full amount of premiums paid for health insurance premiums are allowed. The IRS doesn't limit health insurance costs.

The IRS has a Collection Financial Standard for out-of-pocket health costs. The national standard is \$54 per month for each household member under 65 years old and \$130 per month for each household member 65 years old and older.

## TAX HELP:

Substantiation for health care expenses less than the allowable standard is not required.



Calculate Your Offer In Compromise At [ALGTaxSolutions.com](https://www.algtaxsolutions.com)



## Monthly Household Expenses for Individual Offers

### Other Expenses

The IRS may allow other expenses when calculating an offer. These expenses may include:

- Court-ordered payments such as alimony and child support
- Child/dependent care
- Life insurance premiums including term life insurance
- Current monthly taxes such as IRS, state, and local income taxes
- Secured debts such as student loans
- Payment arrangements for delinquent state or local taxes

## TAX HELP:

Payments toward a retirement plan are not an allowable expense for offer calculations.



For More Info Visit [ALGTaxSolutions.com](https://www.algtaxsolutions.com)

(855) MI-TAX-HELP



## Tool: Monthly Household Expense Table

Use this table to calculate the total monthly household expenses.

Monthly Household Expenses	Amount
Food, clothing, and miscellaneous*	
Housing and Utilities*	
Vehicle loan/lease payments*	
Vehicle operating costs*	
Public transportation*	
Health insurance premiums	
Out-of-pocket health care costs*	
Life insurance premiums	
Current monthly taxes	
Secured debts	
Other allowable expenses	
<b>Total (Add all lines together)</b>	

\* These expense line items are limited by IRS Collection Standards when calculating collectability for an offer in compromise. The IRS may allow expenses that exceed IRS Collection Standards for special circumstances.

## EXAMPLE:

Your car is on the brink of being inoperable. You can repair the vehicle or purchase a new vehicle. The loan on a new vehicle may reduce your collectability.



Calculate Your Offer In Compromise At [ALGTaxSolutions.com](https://www.algtaxsolutions.com)



## Individual Collectability

Use this table to calculate individual collectability.

Total Monthly Household Income	
Total Monthly Household Expense	
Collectability (Income – Expense)	

If the monthly household expenses are greater than the monthly household income, do not enter a negative number. Your collectability is zero.

## TAX HELP:

You may be able to add an allowable expense to reduce your offer.



For More Info Visit [ALGTaxSolutions.com](http://ALGTaxSolutions.com)

(855) MI-TAX-HELP



## Business Collectability

Calculating the collectability for a business offer in compromise is slightly different compared to individual collectability. The collectability calculation for a business is basically gross sales minus allowable cash expenses.

Cash expenses are business expenses that were paid in the current year. Accrued expenses reported as a business expense but not yet paid are not considered when calculating an offer in compromise for a business.

### EXAMPLE 1:

Business liability insurance premiums paid during the year are an allowable cash business expense. However, business liability insurance accrued on the books as an expense but not yet paid is not an allowable cash business expense when calculating an offer in compromise.

### EXAMPLE 2:

Depreciation recorded on the books may not be an allowable business expense when calculating an offer. This is because depreciation may not be a cash expense that occurred in the current year.

## TAX HELP:

Refer back to the section on Income Producing Assets when calculating business collectability.



## Tool: Business Collectability Table

Use this table to calculate the total monthly business sales and expenses.

<b>Total Monthly Business Income **</b>	
<b>Monthly Business Expenses</b>	
Materials purchased	
Inventory purchased	
Gross wages and salaries	
Rent	
Supplies	
Utilities/telephone	
Vehicle costs	
Insurance	
Current taxes	
Other expenses	
<b>Total Monthly Business Expense (Add all business expenses)</b>	
<b>Business Collectability (Income – Expense)</b>	

\*\* Include all monthly business income. This may include gross receipts, gross rental income, interest income, and other business income.

## TAX HELP:

The IRS may allow you to attach a year-to-date profit and loss statement to the offer instead of entering the same business information on the IRS forms.



Calculate Your Offer In Compromise At [ALGTaxSolutions.com](http://ALGTaxSolutions.com)



# STEP 3

OFFER IN COMPROMISE CALCULATION

## Step 3 - Offer in Compromise Calculation

---

The IRS allows you two choices to pay the offer in compromise amount:

- Lump Sum Offer
- Payment Plan Offer

The next step in the process is to determine the offer in compromise amount.

- Future Remaining Income
- Offer Amount Table

alg



Calculate Your Offer In Compromise At [ALGTaxSolutions.com](https://www.ALGTaxSolutions.com)

## Lump Sum Offer

---

A lump sum offer is an agreement to pay the offer amount to the IRS within 5 months of offer acceptance. When submitting your offer in compromise, there is an application fee and 20% down payment upon submission of the offer. The remaining offer amount will not be due until after your offer is reviewed and accepted by the IRS. On average, it takes the IRS about six months to review and accept an offer.

### EXAMPLE:

On January 1, 2016, a \$24,000 lump sum offer is submitted. The taxpayer submits the offer with a 20% down payment of \$4,800 ( $\$24,000 \times 20\% = \$4,800$ ). The taxpayer will pay the remaining offer amount within 5 months of offer acceptance. The remaining amount owed will be \$19,200 ( $\$24,000 - \$4,800 = \$19,200$ ). The IRS accepts the \$24,000 lump sum offer on July 1, 2016. The taxpayer must pay the remaining balance owed, \$19,200, within 5 months of July 1, 2016.

## TAX HELP:

The IRS may waive the required offer application fee and 20% down payment if you qualify for Low-Income Certification.



Calculate Your Offer In Compromise At [ALGTaxSolutions.com](http://ALGTaxSolutions.com)



## Payment Plan Offer

---

A payment plan offer is an agreement to pay the offer amount in 6 to 24 months. For this type of offer, you must divide the offer amount by the number of months selected, and then start paying the monthly amount upon offer submission.

### **EXAMPLE:**

On January 1, 2016, a \$24,000 payment plan offer is submitted to be payable in 24 months. The monthly payments are \$1,000 per month ( $\$24,000 / 24 = \$1,000$ ). The taxpayer submits the first \$1,000 payment upon offer submission and continues to pay \$1,000 every month during the offer review period. If the IRS accepts the \$24,000 offer, the taxpayer continues to pay \$1,000 per month until the offer amount is fully paid.

## TAX HELP:

ALG typically recommends selecting a lump sum offer because the offer amount calculations for a lump sum offer are more favorable compared to a payment plan offer.



## Determining the Offer in Compromise Amount

### Future Remaining Income

The calculations for determining Future Remaining Income are the same for both individual and business offers.

For individual offers, use the collectability amount calculated on page 31. For business offers, use the collectability amount calculated on page 33.

#### Lump Sum Offers

Multiply the individual collectability or business collectability amount by 12.

Collectability Amount	Multiplication Factor	Future Remaining Income
	12	

#### EXAMPLE:

Collectability is \$500 per month. You select a lump sum offer payable within five months of offer acceptance. Future Remaining Income is \$6,000 ( $\$500 * 12 = \$6,000$ ).

#### Payment Plan Offers

Multiply the individual collectability or business collectability amount by 24.

Collectability Amount	Multiplication Factor	Future Remaining Income
	24	

#### EXAMPLE:

Collectability is \$500 per month. You select a payment plan offer payable in 12 months. Future Remaining Income is \$12,000 ( $\$500 * 24 = \$12,000$ ).



## Determining the Offer in Compromise Amount

### Offer Amount Table

You are now able to calculate the offer in compromise amount. This is the amount you will offer to the IRS to settle your debt.

The Offer in Compromise Amount = Total Equity in Assets + Future Remaining Income.

For both individual and business offers, use total Equity in Assets calculated on page 17. The future remaining income was calculated on the previous page.

Total Equity in Assets +	Future Remaining Income =	Offer Amount

### EXAMPLE:

The Equity in Assets is \$1,000. The Future Remaining Income is \$500. Offer Amount is \$1,500 ( $\$1,000 + 500 = \$1,500$ )

## TAX HELP:

The offer amount must be more than zero. If you have zero Equity in Assets and zero Future Remaining Income, ALG recommends offering the IRS \$250 to \$1,000.



Calculate Your Offer In Compromise At [ALGTaxSolutions.com](https://www.algtaxsolutions.com)





Department of the Treasury  
Internal Revenue Service  
P.O. Box 9019  
Holtsville, NY 11742-9019

004817-250101-33521-812 1 AD 0.384 534  
[Barcode]

Notice	
Tax Year	0714
Notice date	2010
Social Security number	
To contact us	

# STEP 4

## COLLECTION STATUTE EXPIRATION DATE

...the First Party's ideas and statement in  
... Lorem ipsum dolor sit amet, consectetur adipiscing elit. Mauris ut erat vitae nulla  
... nec enim ullamcorper libero semper accumsan sit amet at eros. Praesent rhoncus diam libero.  
... adipiscing a. Quisque cursus porttitor metus vitae tincidunt. Vivamus dignissim nunc id faucibus hendrerit.

2. PRICE AND PAYMENT SCHEDULE. Integer blandit massa elit, ac viverra nibh iaculis sed. Etiam  
cursus nisl vel ultricies. Donec tristique semper magna, vitae luctus ante adipiscing nec. Fusce vitae gravida  
rutrum turpis. Ut quis varius ligula. Quisque tristique, nisi vel mattis volutpat, ante nisl molestie  
est nec tortor. Vestibulum vitae vulputate dolor. Cras tempus tempus nunc eget  
augue, a aliquam augue hendrerit ac. Mauris quis nisi tempus, ultrices l

3. DATE OF DELIVERY: In eu turpis  
facilisis sed est. Fusce adipiscing  
eleifend ante lacinia  
libero

## Step 4 – Collection Statute Expiration Date

- What is the Collection Statute Expiration Date?
- How Does the Collection Statute Expiration Date Impact an Offer?
- Determining Remaining CSED Months
- Tool: Collection Statute End Date Table



## What is the Collection Statute Expiration Date?

Generally, the IRS has 10 years to collect unpaid taxes. This is called the Collection Statute Expiration Date ("CSED"). Once the 10 year CSED has passed, the tax balance is removed.

## TAX HELP:

If your taxes are close to the CSED, it may be more advantageous to request hardship status and wait out the CSED instead of filing an offer in compromise.



For More Info Visit [ALGTaxSolutions.com](https://www.ALGTaxSolutions.com)

(855) MI-TAX-HELP



# How Does the Collection Statute Expiration Date Impact an Offer?

One of the criteria the IRS must review is whether the taxpayer has the ability to pay off the taxes within the CSED. If the IRS determines the taxpayer does have the ability to pay off the taxes within the CSED, then the IRS may not accept an offer in compromise. If the IRS determines the taxpayer doesn't have the ability to pay off the back taxes within the CSED, then the IRS may accept an offer in compromise.

The main calculation factors the IRS considers are the CSED and monthly collectability amount. The following examples demonstrate how the CSED can impact offer acceptance.

## EXAMPLE 1:

The taxpayer owes \$50,000 in back taxes. The CSED for the back taxes is in 120 months. The taxpayer's equity in assets is \$5,000 and collectability is \$0 per month. The taxpayer's lump sum offer amount is \$5,000 ( $\$5,000 + (\$0 \times 12) = \$5,000$ ).

The IRS will multiply monthly collectability by the remaining months left in the CSED ( $\$0 \times 120 = 0$ ). The taxpayer is not able to pay the back taxes within the CSED period. The IRS may accept this offer.



# How Does the Collection Statute Expiration Date Impact an Offer? (Continued)

## EXAMPLE 2:

The taxpayer owes \$50,000 in back taxes. The CSED for the back taxes is in 120 months. The taxpayer's equity in assets is \$5,000 and collectability is \$500 per month. The taxpayer's lump sum offer amount is \$11,000 ( $\$5,000 + (\$500 * 12) = \$11,000$ ).

The IRS will multiply monthly collectability by the remaining months left in the CSED ( $500 * 120 = \$60,000$ ). The taxpayer is able to pay the back taxes within the CSED period. The CSED calculation of \$60,000 is greater than the \$50,000 of back taxes owed. The IRS may not accept this offer. The IRS may request that the taxpayer set up a payment plan for \$500 per month.

## EXAMPLE 3:

The taxpayer owes \$50,000 in back taxes. The CSED for the back taxes is in 90 months. The taxpayer's equity in assets is \$5,000 and collectability is \$500 per month. The taxpayer's lump sum offer amount is \$11,000 ( $\$5,000 + (\$500 * 12) = \$11,000$ ).

The IRS will multiply monthly collectability by the remaining months left in the CSED ( $\$500 * 90 = \$45,000$ ). The taxpayer is not able to pay the back taxes within the CSED period. The CSED calculation of \$45,000 is less than the \$50,000 of back taxes owed. The IRS may accept this offer.

# TAX HELP:

If the CSED calculation is impacting your offer, consider filing an offer in compromise at a later date.



# Determining Remaining CSED Months

Determining the Collection Statute Expiration Date can be complicated. Below we offer some general guidance on determining CSED. Contact us for more help on determining the CSED. The CSED is generally 120 months from the date the tax return was due or filed, whichever is later.

## **EXAMPLE 1:**

The 2010 Form 1040 tax return was due on 4/15/2011. The tax return was filed on 4/1/2011. The CSED date is 120 months from 4/15/2011 which is 4/15/2021. It is currently 4/1/2016. The remaining CSED months is the number of months between 4/1/2016 and 4/15/2021.

***There are 60 remaining CSED months.***

## **EXAMPLE 2:**

The 2010 Form 1040 tax return was due on 4/15/2011. The tax return was filed on 8/1/2012. The CSED date is 120 months from 8/1/2012 which is 8/1/2022. It is currently 4/1/2016. The remaining CSED months is the number of months between 4/1/2016 and 8/1/2022.

***There are 76 remaining CSED months.***



## Tool: Collection Statute Expiration Date Table

This is the final calculation in determining whether you qualify for an offer in compromise.

For individual offers, use the collectability amount calculated on page 31. For business offers, use the collectability amount calculated on page 33. Use the Remaining CSED Months calculated on the previous page.

A	B	AxB	
Monthly Collectability	Remaining CSED Months	Total	Total Back Taxes Owed

### You may qualify for an offer in compromise if

Monthly Collectability x Remaining CSED Months < Total Back Taxes Owed

### You may *not* qualify for an offer in compromise if

Monthly Collectability x Remaining CSED Months > Total Back Taxes Owed



Calculate Your Offer In Compromise At [ALGTaxSolutions.com](https://www.algtaxsolutions.com)