



[Abatements] *i.e., Salvation*

[Tax Debit Forgiveness found in Fresh Start Initiative & Redemption from "Offer in Compromise"]

IRS Announces More Flexible Offer-in-Compromise Terms to Help a Greater Number of Struggling Taxpayers Make a Fresh Start

Update Jan. 6, 2014 — Use [Form 656 Booklet](#), Offer in Compromise, to find the correct form to use.

IR-2012-53, May 21, 2012

WASHINGTON — The Internal Revenue Service today announced another expansion of its "Fresh Start" initiative by offering more flexible terms to its Offer in Compromise (OIC) program that will enable some of the most financially distressed taxpayers to clear up their tax problems and in many cases more quickly than in the past.

"This phase of Fresh Start will assist some taxpayers who have faced the most financial hardship in recent years," said IRS Commissioner Doug Shulman. "It is part of our multiyear effort to help taxpayers who are struggling to make ends meet."

Today's announcement focuses on the financial analysis used to determine which taxpayers qualify for an OIC. This announcement also enables some taxpayers to resolve their tax problems in as little as two years compared to four or five years in the past.

In certain circumstances, the changes announced today include:

- Revising the calculation for the taxpayer's future income.
- Allowing taxpayers to repay their student loans.
- Allowing taxpayers to pay state and local delinquent taxes.
- Expanding the Allowable Living Expense allowance category and amount.

In general, an OIC is an agreement between a taxpayer and the IRS that settles the taxpayer's tax liabilities for less than the full amount owed. An OIC is generally not accepted if the IRS believes the liability can be paid in full as a lump sum or a through payment agreement. The IRS looks at the taxpayer's income and assets to make a determination of the taxpayer's reasonable collection potential. OICs are subject to acceptance on legal requirements.

The IRS recognizes that many taxpayers are still struggling to pay their bills so the agency has been working to put in place common-sense changes to the OIC program to more closely reflect real-world situations.

When the IRS calculates a taxpayer's reasonable collection potential, it will now look at only one year of future income for offers paid in five or fewer months, down from four years, and two years of future income for offers paid in six to 24 months, down from five years. All offers must be fully paid within 24 months of the date the offer is accepted. The [Form 656-B](#), Offer in Compromise Booklet, and Form 656, Offer in Compromise, has been revised to reflect the changes.

Other changes to the program include narrowed parameters and clarification of when a dissipated asset will be included in the calculation of reasonable collection potential. In addition, equity in income producing assets generally will not be included in the calculation of reasonable collection potential for on-going businesses.

Allowable Living Expenses

The Allowable Living Expense standards are used in cases requiring financial analysis to determine a taxpayer's ability to pay. The standard allowances provide consistency and fairness in collection determinations by incorporating average expenditures for basic necessities for citizens in similar geographic areas. These standards are used when evaluating installment agreement and offer in compromise requests.

The National Standard miscellaneous allowance has been expanded to include additional items. Taxpayers can use the miscellaneous allowance for expenses such as credit card payments and bank fees and charges.

Guidance has also been clarified to allow payments for loans guaranteed by the federal government for the taxpayer's post-high school education. In addition, payments for delinquent state and local taxes may be allowed based on percentage basis of tax owed to the state and IRS.

This is another in a series of steps to help struggling taxpayers under the Fresh Start initiative.

In 2008, IRS announced lien relief for taxpayers trying to refinance or sell a home. The IRS added new flexibility for taxpayers facing payment or collection problems in 2009. The IRS made changes to lien policies in 2011 and expanded the threshold for small businesses to resolve tax issues through installment agreements. And, earlier this year, the IRS increased the threshold for a streamlined installment agreement allowing individual taxpayers to set up an installment agreement without providing a significant amount of financial information.

Related Items:

- Interim Guidance Memorandum for Offer in Compromise
- [Internal Revenue Manual 5.8.5.5.1, Income-Producing Assets](#)(Note: *IRM* renumbered to 5.8.5.15 and revised to incorporate Interim Guidance memorandum (IGM) number SBSE-05-0512-041)

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<http://www.irs.gov/uac/IRS-Announces-More-Flexible-Offer-in-Compromise-Terms-to-Help-a-Greater-Number-of-Struggling-Taxpayers-Make-a-Fresh-Start>



Offer in Compromise

ALERT

Revised Offer in Compromise forms and instructions will be available in January 2015. Please use the most current revision of Form 656-B in preparing and submitting your offer. Use of outdated forms and instructions may cause a delay in the processing of your offer application.

An offer in compromise allows you to settle your tax debt for less than the full amount you owe. It may be a legitimate option if you can't pay your full tax liability, or doing so creates a financial hardship. We consider your unique set of facts and circumstances:

- Ability to pay;
- Income;
- Expenses; and
- Asset equity.

We generally approve an offer in compromise when the amount offered represents the most we can expect to collect within a reasonable period of time. Explore all other payment options

before submitting an offer in compromise. The Offer in Compromise program is not for everyone. If you hire a tax professional to help you file an offer, be sure to check his or her qualifications.

Note to Pre-Qualifier Tool Users

We are in the process of making modifications to the [Pre-Qualifier Tool application](#). If you use this tool, please consider making the following adjustments to your displayed results.

- If you enter an amount on Screen 3 Assets, Line 1 which reads "Total bank Balances," you may reduce this amount by \$1000. The result may not be less than zero.
- If you enter an amount on Screen 3, Vehicle 1, you may reduce this amount by \$3450. The result may not be less than zero.
- If you enter an amount on Screen 3, Vehicle 2, and you are making a joint offer with a spouse or other party, you may also reduce this amount by \$3450. The result may not be less than zero.

Make sure you are eligible

Before we can consider your offer, you must be current with all filing and payment requirements. You are not eligible if you are in an open bankruptcy proceeding. Use the [Offer in Compromise Pre-Qualifier](#) to confirm your eligibility and prepare a preliminary proposal.

Submit your offer

You'll find step-by-step instructions and all the forms for submitting an offer in the Offer in Compromise Booklet, [Form 656-B](#) (PDF). Your completed offer package will include:

- Form 433-A (OIC) (individuals) or 433-B (OIC) (businesses) and all required documentation as specified on the forms;
- Form 656(s) - individual and business tax debt (Corporation/ LLC/ Partnership) must be submitted on separate Form 656;
- \$186 application fee (non-refundable); and
- Initial payment (non-refundable) for each Form 656.

Select a payment option

Your initial payment will vary based on your offer and the payment option you choose:

- **Lump Sum Cash:** Submit an initial payment of 20 percent of the total offer amount with your application. Wait for written acceptance, then pay the remaining balance of the offer in five or fewer payments.
- **Periodic Payment:** Submit your initial payment with your application. Continue to pay the remaining balance in monthly installments while the IRS considers your offer. If accepted, continue to pay monthly until it is paid in full.

If you meet the Low Income Certification guidelines, you do not have to send the application fee or the initial payment and you will not need to make monthly installments during the evaluation of your offer. See your application package for details.

Understand the process

While your offer is being evaluated:

- Your non-refundable payments and fees will be applied to the tax liability (you may designate payments to a specific tax year and tax debt);

- A Notice of Federal Tax Lien may be filed;
- Other collection activities are suspended;
- The legal assessment and collection period is extended;
- Make all required payments associated with your offer;
- You are not required to make payments on an existing installment agreement; and
- Your offer is automatically accepted if the IRS does not make a determination within two years of the IRS receipt date.

If your offer is accepted	If your offer is rejected
<ul style="list-style-type: none"> • You must meet all the Offer Terms listed in Section 8 of Form 656, including filing all required tax returns and making all payments; • Any refunds due within the calendar year in which your offer is accepted will be applied to your tax debt; • Federal tax liens are not released until your offer terms are satisfied; and • Certain offer information is available for public review at designated IRS offices. 	<ul style="list-style-type: none"> • You may appeal a rejection within 30 days using Request for Appeal of Offer in Compromise, Form 13711 (PDF).

[Español](#)

[<< Make a Payment](#)

Find all you need

to consider and make an offer in [Form 656-B, Offer in Compromise Booklet](#) (PDF)

Get Help

- [Understand Your IRS Notice](#)
- [Understand IRS Collection \(videos\)](#)
- [Download a Form](#)



Pub. 594: IRS Collection Process

Explains the actions IRS may take to recover taxes owed. [Download Pub. 594](#) (PDF)

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<http://www.irs.gov/Individuals/Offer-in-Compromise-1>

Offer In Compromise Pre-Qualifier



Find all you need to consider in the Offer in Compromise Booklet, Form 656-B (PDF).

Use this tool to see if you may be eligible for an offer in compromise. Enter your financial and tax filing status to calculate a preliminary offer amount. We make our final decision based on your completed OIC application and our associated investigation. This tool should only be used as a guide. Although it may show you can full pay your liability, you may still file an offer in compromise and discuss your individual financial situation with the IRS.

If you reside in a U.S. Territory, foreign country, or are military personnel using an APO or FPO address the OIC Pre-Qualifier is not applicable for your situation. Please proceed to the application in the [Offer in Compromise Booklet](#).

Are you in an open bankruptcy proceeding?

- Yes
 No

Have you filed all required federal tax returns?

- Yes
 No

Have you made all required estimated tax payments?

- Yes
 No
 N/A

If you are self-employed and have employees, have you submitted all required federal tax deposits?

- Yes
 No
 N/A

http://irs.treasury.gov/oic_pre_qualifier/