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The IRS Offer-in-compromise

The IRS offer-in-compromise, a legitimate service designed to help individuals with large unpaid tax bills and little hope of repaying them. Under certain circumstances, the IRS will agree to reduce your tax debt, sometimes by a significant amount. But what many of the smooth-talking tax preparers fail to mention is that qualifying for a reduction in your tax bill is extremely difficult. Only a handful of taxpayers make the cut.

IRS officials issued a consumer alert earlier this month warning taxpayers to be wary of high-priced promises to slash tax bills. The offer-in-compromise program “serves an important purpose for a select group of taxpayers,” IRS Commissioner Mark Everson said in a statement. “But we are increasingly concerned about unscrupulous promoters charging excessive fees to taxpayers who have no chance of meeting the program’s requirements.”

Simply owing money to the IRS does not make you eligible for an offer-in-compromise. You must also prove that you’ve exhausted all other resources and that there’s little chance you will be able to raise the money in the future.

Only about 15% of applications for an offer-in-compromise are approved by the IRS, says Dale Hart, commissioner of the IRS division in charge of the program. “We get a great number of them where the taxpayers flat out don’t qualify because they can pay,” she says.

If you can pay your tax bill by taking out a second mortgage or selling some of your investments, the IRS probably is not going to approve your application. Explaining that you have other financial obligations probably won’t get you far, either.

Along with scrutinizing your investment portfolio, bank accounts and art collection, the IRS will also take a hard look at your potential future earnings when deciding whether to reduce your tax bill. For example, after Internet stocks collapsed many employees in the technology industry sought relief from big tax bills they owed on worthless stock options. The only offers the IRS granted were from administrative employees who were never going to make enough money to pay those taxes. The IRS rejected applications from software engineers and other skilled workers on the grounds that they would eventually earn enough to pay their debt.

If you are a senior citizen living on a fixed income, the IRS may decide you qualify for a reduction in your tax bill. Likewise, taxpayers who are suffering from a serious illness may get special consideration.

Be prepared to show the IRS medical records, doctors’ statements and other documents supporting your case.

If you are convinced you are eligible for an offer-in-compromise, get Form 656 and Form 433A, both available at www.irs.gov. Be prepared to bare your soul to the IRS. You will need to provide detailed information about all your assets, sources of income and future earning. You also may need to include a check. Last November, the IRS added a \$150.00 fee to offer-in-compromise applications. Low-income taxpayers may qualify for a waiver. The IRS imposed the fee to discourage taxpayers from filing frivolous applications. If you decide you need professional help please give our office a call to set up a consultation.

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