

More Flexible Offer-in-Compromise Terms Help Taxpayers Make a Fresh Start —July 9, 2012

The IRS has expanded its “Fresh Start” initiative by offering more flexible terms to its Offer-in-Compromise Program. These newest rules enable some financially distressed taxpayers to clear up their tax problems even quicker.

An offer-in-compromise (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 through a payment agreement. The IRS looks at the taxpayer’s income and assets to determine the reasonable collection potential.

This expansion of the “Fresh Start” initiative focuses on the financial analysis used to determine which taxpayers qualify for an OIC.

Here are the OIC changes:

- Revising the calculation for a taxpayer’s future income The IRS will now look at only one year (instead of four years) of future income for offers paid in five or fewer months; and two years (instead of five years) of future income for offers paid in six to 24 months. All OICs must be paid in full within 24 months of the date the offer is accepted.
- Allowing taxpayers to repay their student loans Minimum payments on student loans guaranteed by the federal government will be allowed for the taxpayer’s post-high school education. Proof of payment must be provided.
- Allowing taxpayers to pay state and local delinquent taxes When a taxpayer owes delinquent federal and state or local taxes, and does not have the ability to fully pay the liabilities, monthly payments to state taxing authorities may be allowed in certain circumstances.
- Expanding the Allowable Living Expense allowance Standard allowances incorporate average expenses 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. Taxpayers can use the allowance to cover expenses such as credit card payments and bank fees and charges.

More information on the “Fresh Start” initiative can be found at IRS.gov.

Form 656-B, Offer in Compromise Booklet, and Form 656, Offer in Compromise, can be found at IRS.gov or ordered by calling 1-800-TAX-FORM (800-829-3676).