


**Guide to IRS Collections**

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Kristy Maitre  
Tax Specialist  
Center for Agricultural Law and Taxation  
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IOWA STATE UNIVERSITY  
**CALT**  
Center for Agricultural Law and Taxation



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**Tax Payment Options and Solutions**

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- When to submit an Offer in Compromise
- Releasing a Federal Tax Lien
- Installment Agreements – when your client would qualify
- Innocent Spouse issues

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**Offer in Compromise**

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- An offer in compromise allows your client to settle your tax debt for less than the full amount they owe
- It may be a legitimate option if they can't pay the full tax liability, or doing so creates a financial hardship
- IRS considers your clients unique set of facts and circumstances:
  - Ability to pay;
  - Income;
  - Expenses; and
  - Asset equity.
- IRS will generally approve an offer in compromise when the amount offered represents the most we can expect to collect within a reasonable period of time

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First Step
<ul style="list-style-type: none"><li>• Explore all other payment options before submitting an offer in compromise</li><li>• The Offer in Compromise program is not for everyone – and the application does not ensure the IRS will accept the offer</li><li>• IRS will<ul style="list-style-type: none"><li>– Evaluate the offer, AND</li><li>– Validate the application information</li></ul></li></ul>

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Can the Client Pay Via
<ul style="list-style-type: none"><li>• Installment Agreement</li><li>• Lump sum</li><li>• Generally, if the client can pay by the above means and Offer in Compromise will not be accepted</li></ul>

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Conditions
<ul style="list-style-type: none"><li>• Doubt as to Liability</li><li>• Doubt as to Collectability</li><li>• Exceptional Circumstances</li><li>• No open bankruptcy proceeding – in progress</li><li>• Initial offer payment, unless the client meets the low-income certification</li></ul>

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The IRS may accept an OIC based on three grounds:

- First, the IRS can accept a compromise if there is doubt as to liability. A compromise meets this only when there is a genuine dispute as to the existence or amount of the correct tax debt under the law.
- Second, the IRS can accept a compromise if there is doubt that the amount owed is fully collectible. Doubt as to collectability exists in any case where the taxpayer's assets and income are less than the full amount of the tax liability.
- Third, the IRS can accept a compromise based on effective tax administration. An offer may be accepted based on effective tax administration when there is no doubt that the tax is legally owed and that the full amount owed can be collected, but requiring payment in full would either create an economic hardship or would be unfair and inequitable because of exceptional circumstances.

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*Doubt as to Liability*

- A taxpayer submitting an OIC based on doubt as to liability must file a Form 656-L, *Offer in Compromise (Doubt as to Liability)*

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**Doubt as to Collectability**

- When submitting an OIC based on doubt as to collectability or based on effective tax administration, taxpayers must use the most current version of Form 656, *Offer in Compromise*
- Also submit Form 433-A (OIC) (PDF), *Collection Information Statement for Wage Earners and Self-Employed Individuals*
- And/or Form 433-B (OIC), *Collection Information Statement for Businesses*

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Cost
<ul style="list-style-type: none"><li>• In general, a taxpayer must submit a \$186 application fee with the Form 656.</li></ul>

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Payment Options
<ul style="list-style-type: none"><li>• <b>Lump Sum Cash:</b> Submit an initial payment of 20 percent of the total offer amount with the application<ul style="list-style-type: none"><li>– Wait for written acceptance, then pay the remaining balance of the offer in five or fewer payments.</li></ul></li><li>• <b>Periodic Payment:</b> Submit the initial payment with the application<ul style="list-style-type: none"><li>– Continue to pay the remaining balance in monthly installments while the IRS considers your offer</li><li>– If accepted, continue to pay monthly until it is paid in full, generally within 24 months</li><li>– Failure to make these payments will cause the offer to be returned</li></ul></li></ul>

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Low Income Certification
<ul style="list-style-type: none"><li>• If your client meets the Low Income Certification guidelines – chart in instructions</li><li>• Based on family size and where the taxpayer lives<ul style="list-style-type: none"><li>– Do not send the application fee or the initial payment</li><li>– Do not make monthly installments during the evaluation of the offer</li><li>– See the application package for more details</li></ul></li></ul>

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## Chart

**Section 4 Low-Income Certification (Individuals and Sole Proprietors Only)**

Do you qualify for Low-Income Certification? You qualify if your gross monthly household income is less than or equal to the amount shown in the chart below based on your family size and where you live. If you qualify, you are not required to submit any payments during the consideration of your offer. Businesses other than sole proprietorships do not qualify for the low income waiver.

Check here if you qualify for Low Income Certification based on the monthly income guidelines below.

Size of family unit	48 contiguous states and D.C.	Hawaii	Alaska
1	\$2,431	\$2,796	\$3,038
2	\$3,277	\$3,769	\$4,096
3	\$4,123	\$4,742	\$5,154
4	\$4,969	\$5,715	\$6,213
5	\$5,815	\$6,688	\$7,271
6	\$6,660	\$7,660	\$8,329
7	\$7,506	\$8,633	\$9,388
8	\$8,352	\$9,606	\$10,446
For each additional person, add	\$ 846	\$ 973	\$1,058

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## Non Refundable Deposit

- All deposits and fees are non-refundable
- Deposits are applied to the tax due

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## Requirements for Evaluations of the OIC

- **Make sure you are eligible**
  - The client must be current with all filing and payment requirements
  - The client is not eligible if they are in an open bankruptcy proceeding
  - Use the Offer in Compromise Pre-Qualifier on IRS.GOV to confirm their eligibility and prepare a preliminary proposal
  - [http://irs.treasury.gov/oic\\_pre\\_qualifier/](http://irs.treasury.gov/oic_pre_qualifier/)

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Offer In Compromise Pre-Qualifier
<ul style="list-style-type: none"><li>• 6 sections need to be completed<ul style="list-style-type: none"><li>– Status</li><li>– Basic Information</li><li>– Assets</li><li>– Income</li><li>– Expenses</li><li>– Proposal</li></ul></li></ul>

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IRS will look at:
<ul style="list-style-type: none"><li>• Ability to Pay</li><li>• Income and Expenses</li><li>• Asset Equity</li><li>• Notice<ul style="list-style-type: none"><li>– No credit card debt is allowed</li><li>– Full disclosure is required – IRS does have means to verify the information</li><li>– IRS can adjust the monthly expenses to allow only for local standards (Drakes and Taylor, T.C. Memo 2012-189)</li></ul></li></ul>

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Application
<ul style="list-style-type: none"><li>• Generic</li><li>• No personal information of identity is input</li><li>• Have all available information present that is needed to complete the pre-qualifier</li><li>• Your client must certify that<ul style="list-style-type: none"><li>– They have filed all tax returns legally required to be filed</li><li>– They have made all required federal employment tax deposits if applicable</li><li>– They have made all required estimated tax deposits as required</li></ul></li></ul>

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## Status

Status Basic Info Assets Income Expenses Proposal

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

NEXT >

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## Basic Information

### Offer In Compromise Pre-Qualifier

Status Basic Info Assets Income Expenses Proposal

Enter information about your location, household and tax debt.

ZIP or postal code

State

County

Total members of household

Total members of household 65 years or older

Total IRS tax debt (whole dollars) \$

What is the most recent tax year you are requesting to compromise? (For example, if you owe 1040 taxes for 2007, 2008 and 2009, enter 2009)

PREVIOUS < NEXT >

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## Assets

### Offer In Compromise Pre-Qualifier

Status Basic Info Assets Income Expenses Proposal

Enter information about your assets (in whole dollars). Your equity is the value of your asset minus what you still owe on the asset.

Total bank balances (checking, savings, money market, CDs, etc.) \$

Home market value \$

Home loan balance \$

Vehicle 1 equity \$

Vehicle 2 equity \$

Retirement account equity (401k, IRA, etc.) \$

Other real property (rental, business, land, timeshare, etc.) \$

Other asset equity (airplane, motorcycle, recreational vehicle, etc.) \$

Stocks, bonds and other investments \$

Miscellaneous (art, coin and gun collections, etc.) \$

PREVIOUS < NEXT >

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## Income

Offer In Compromise Pre-Qualifier

Status Basic Info Assets **Income** Expenses Proposal

Enter information about your **monthly household income** (in whole dollars).

Gross wages  
\$

Interest and dividends  
\$

Distributions from partnerships, sub-S corporations, etc.  
\$

Net rental income  
\$

Net business income  
\$

Child support received  
\$

Alimony received  
\$

Additional income  
\$

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## Expenses

Offer In Compromise Pre-Qualifier

Status Basic Info Assets Income **Expenses** Proposal

Enter information about your **typical month's household expenses** (in whole dollars). Maximum allowances for expenses are determined based on your location and number of members of your household. We provide allowances for food, clothing, miscellaneous items and out-of-pocket medical expenses.

Rent or mortgage and utilities  
\$

Vehicle 1 loan or lease payment  
\$

Vehicle operating costs (gas, repairs, etc.)  
\$

Total vehicles owned

Public transportation costs  
\$

Health insurance premiums  
\$

Federal, state and local taxes (Enter a 0 if no taxes)  
\$

Court-ordered payments (child support, alimony, etc.)  
\$

Child dependent care costs  
\$

Life insurance premiums  
\$

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## Example

Offer In Compromise Pre-Qualifier

Status Basic Info Assets Income **Expenses** Proposal

Enter information about your **typical month's household expenses** (in whole dollars). Maximum allowances for expenses are determined based on your location and number of members of your household. We provide allowances for food, clothing, miscellaneous items and out-of-pocket medical expenses.

Rent or mortgage and utilities  
\$10100

Vehicle 1 loan or lease payment  
\$1500

Vehicle operating costs (gas, repairs, etc.)  
\$5000

Total vehicles owned  
1

Public transportation costs  
\$

Health insurance premiums  
\$16000

Federal, state and local taxes (Enter a 0 if no taxes)  
\$2500

Court-ordered payments (child support, alimony, etc.)  
\$10000

Child dependent care costs  
\$

Life insurance premiums  
\$15000

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**Forms 433**

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- Individual

Form <b>433-A (OIC)</b> (Rev. January 2014)	Department of the Treasury — Internal Revenue Service <b>Collection Information Statement for Wage Earners and Self-Employed Individuals</b>
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**Use this form if you are**

<ul style="list-style-type: none"> <li>• An individual who owes income tax on a Form 1040, U.S. Individual Income Tax Return</li> <li>• An individual with a personal liability for Excise Tax</li> <li>• An individual responsible for a Trust Fund Recovery Penalty</li> </ul>	<ul style="list-style-type: none"> <li>• An individual who is personally responsible for a partnership liability</li> <li>• An individual who is self-employed or has self-employment income. You are considered to be self-employed if you are in business for yourself, or carry on a trade or business.</li> </ul>
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**Wage earners** Complete Sections 1, 2, 3, 7, 8, 9 and the signature line in Section 10.  
**Self-employed individuals** Complete Sections 4, 5, 6, in addition to Sections 1, 2 (if applicable), 3, 7, 8, 9 and the signature line in Section 10.  
**Note:** Include attachments if additional space is needed to respond completely to any question.

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**Application Rejected**

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- **Appeal a rejected OFFER IN COMPROMISE (OIC) - Online Self-Help Tool (START)**
- **Before you begin...**  
 The tool is for your client if the following statements apply:
  - They received a 30-day letter rejecting an OIC,
  - They are a W-2 wage earner,
  - They do not own rental property, and
  - They are not self-employed.
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**Question 1**

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Appeal a rejected OFFER IN COMPROMISE (OIC) - Online Self-Help Tool (1)

Has it been less than 30 days from the date on the OIC rejection letter?

YES

**NO**  
 If it has been more than 30 days from the date on the rejection letter, Appeals will not accept your request for appeal.

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## Question 2

Appeal a rejected OFFER IN COMPROMISE (OIC) - Online Self-Help Tool (2)



Do you disagree with the decision not to accept your OIC?

YES

NO

I do not want any further assistance.

[RETURN TO BEGINNING](#) | [EXIT](#)

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## Question 3

Appeal a rejected OFFER IN COMPROMISE (OIC) - Online Self-Help Tool (3)



Do you want assistance in deciding whether to file a request for an appeal and identifying the information you'll need to prepare a request for an appeal?

YES

NO

Please refer to [Preparing a Request for Appeal](#) for more information.

[RETURN TO BEGINNING](#) | [EXIT](#)

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## Question 4

Appeal a rejected OFFER IN COMPROMISE (OIC) - Online Self-Help Tool (4)



What are the reason(s) for your disagreement? (Select one)

**I just cannot pay.**

This reason alone will not help Appeals reconsider your offer in compromise. Please consider other reasons below.

**I don't agree...**

- with the amount determined that I can pay from future income. (Find this amount on the IET Worksheet)
- with the amount determined as my equity in assets. (Find this amount on the AET Worksheet)
- that my special circumstances do not warrant acceptance of my offer in compromise.

**None of these reasons meet my situation but I need assistance.**

For further assistance you may contact the person whose name is on the 30 -day letter, refer to [What is an Offer in Compromise?](#) or call the toll-free Customer service line at 1-800-829-1040 (TTY/TDD users may call 1-800-829-4059; (Remember you have 30 days from the date of the rejection letter to file your request for an appeal).

[RETURN TO BEGINNING](#) | [EXIT](#)

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### Form 13711

- If your client received a letter notifying them that the offer was rejected you have 30 days to request an appeal of the decision
- You can request an Appeals conference by preparing either a Form 13711, *Request for Appeal of Offer in Compromise*, or a separate letter with the following information included:
  - Name, address, SSN, and daytime telephone number
  - A statement that you want to appeal the IRS findings to the Appeals office
  - A copy of your rejected offer letter
  - Tax period or years involved
  - A list of the specific items you don't agree with and a statement of why you don't agree with each item
  - Any additional information you want Appeals to consider
  - The facts supporting your position on any issue that you do not agree with
  - The law or authority, if any, on which you are relying
  - Sign the written protest, stating this it is true under the penalties of perjury

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### 30 days

- Must request within the 30 day timeframe
  - **Remember you have 30 days from the date of the rejection letter to file your request for an appeal.** If you request an appeal and are not able to reach an agreement with the Officer of Appeals, you may be eligible for consideration of post-Appeals mediation under Announcement 2011-6
- IRS will reject offer if beyond 30 days
- Be specific in addressing the issues

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### Announcement 2011-6

#### ***Test of Procedures for Mediation and Arbitration for Offer in Compromise and Trust Fund Recovery Penalty Cases in Appeals***

- Section 7123 requires the Internal Revenue Service to prescribe procedures by which a taxpayer or the Office of Appeals may request non-binding mediation on any issue unresolved at the conclusion of Appeals procedures, or unsuccessful attempts to enter into a closing agreement under section 7121 or a compromise under section 7122
- The announcement modifies several other announcements and extended the two-year test of the mediation and arbitration procedures for Offer in Compromise (OIC) and Trust Fund Recovery Penalty (TFRP) cases that are under the jurisdiction of the Office of Appeals until December 31, 2012.

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**ALERT**

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

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**Scoop Dates for Post Filing Season**

- May 13, 2015
- May 27, 2015



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**UP Coming Tax Law Webinars  
May 2015**

- **Defense of Marriage Act (DOMA) – May 5, Noon to 1:00**
  - An overview of the DOMA decision and how it affects filing status, community property state issues, the marital deduction for same sex couples, fringe benefit issues, gift tax issues and a multitude of other issues directly related to this Supreme Court decision. The class is designed to provide the necessary information to inform your client of their federal tax responsibilities.
- **Free: It's Time for Your Repair Regulations Questions and Concerns - May 12, Noon to 2:00**
  - It is time for you to ask the questions you have concerning the new repair regulations. What difficulties did you have during filing season where further clarification is needed? Pose the questions and we will do our best to sort through the facts and get you an answer. We will also update you on any new IRS procedures.



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**UP Coming Tax Law Webinars**  
**May 2015**

- **Return Preparer Fraud and Remedies for the Client – May 26, Noon- 1:00**
  - You have a new client and it is evident that serious mistakes have been made and now you, the new tax preparer must fix the mess another person has created. How can you assist this client and what IRS procedures are available for resolving your client’s issues, when preparer fraud is present. How the Taxpayer Advocate can assist and what forms the client needs to file to establish they are a victim of fraud will also be discussed.
- **Identity Theft – May 27, Noon to 1:00**
  - An overview of the Identity Theft process and how you can assist your client with getting the return processed and the refund issued.

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**New AgLaw Webinars**

- **AgLaw Webinar: A Pipeline May Be Coming Through Your Property – May 21, Noon to 1:00**
  - A Texas energy company is hoping to build a 1,134-mile underground pipeline to transport crude oil from North Dakota’s Bakken oil fields through 18 Iowa counties en route to Illinois. This seminar will discuss the legal issues landowners face, both during negotiations for a voluntary easement or during a possible eminent domain proceeding. We will also discuss the tax implications of granting an easement to a utility company.
- **AgLaw Webinar: Can I Fly an Unmanned Aerial Vehicle Over My Farm? – May 13, Noon – 1:00**
  - The uses for unmanned aerial vehicles (UAVs) in agricultural operations are numerous. Unfortunately the authorization to begin using this technology has been slow in coming. This webinar will address the legal issues associated with using a UAV in your farming operation and discuss the current status of regulations to govern the commercial use of UAVs.




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**New AgLaw Webinars**

- **AgLaw Webinar: What You Need to Know about Ag Liens – May 14, Noon to 1:00**
  - This class will review procedures to perfect and collect on a landlord’s lien. We will also discuss other agricultural liens and how to respond if your client has a lien against his property.
- **AgLaw Webinar: Establishing an LLC– May 28, Noon – 1:00**
  - This webinar will provide an introduction to Limited Liability Companies for practitioners. The webinar will discuss when an LLC may be a good choice for your client, what documents you must file at federal and state levels, and other issues related to creating the LLC. This webinar will also link practitioners to helpful forms.




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### CALT Website

<http://www.calt.iastate.edu/>



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### Tour of the CALT Website



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### CALT Staff



**Roger A. McEowen**  
CALT Director and is a Leonard Dolezal Professor in Agricultural Law  
Email: [mceowen@iastate.edu](mailto:mceowen@iastate.edu)  
Phone: (515) 294-4076  
Fax: (515) 294-0700



**Kristine A. Tidgren**  
Staff Attorney  
E-mail: [ktidgren@iastate.edu](mailto:ktidgren@iastate.edu)  
Phone: (515) 294-6365  
Fax: (515) 294-0700

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## CALT Staff



**Kristy S. Maitre**  
Tax Specialist  
E-mail: [ksmaitre@iastate.edu](mailto:ksmaitre@iastate.edu)  
Phone: (515) 296-3810  
Fax: (515) 294-0700



**Tiffany Kayser**  
Program Administrator  
Email: [tkayser@iastate.edu](mailto:tkayser@iastate.edu)  
Phone: (515) 294-5217  
Fax: (515) 294-0700

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