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Offer In Compromise

An **Offer in Compromise (OIC)** is a program offered by the IRS that allows taxpayers to settle their tax debt for less than the full amount owed if they can prove paying the full debt would cause financial hardship. Here's a step-by-step guide on the process:

1. Determine Eligibility

Before applying, ensure your client meets the IRS's eligibility criteria. Generally:

- **Compliance:** They must have filed all required tax returns and made any required estimated tax payments.
- **Current Tax Debt:** Only current outstanding taxes are eligible.
- **Bankruptcy:** They cannot be in an open bankruptcy proceeding.

The IRS provides an online **Offer in Compromise Pre-Qualifier Tool** to help taxpayers see if they qualify before starting the process.

2. Prepare Financial Documentation

The IRS will require extensive financial information to assess the taxpayer's ability to pay. Gather documentation on:

- Income (e.g., pay stubs, Social Security benefits)
- Expenses (e.g., rent/mortgage, food, transportation)
- Assets (e.g., bank accounts, retirement accounts, vehicles, real estate)

3. Complete IRS Forms

- **Form 433-A (OIC)** for individuals or **Form 433-B (OIC)** for businesses: This form provides the IRS with financial information.
- **Form 656, Offer in Compromise:** This form proposes the offer amount and payment terms.

The **offer amount** is based on the taxpayer's income, assets, and overall financial condition. The IRS calculates an acceptable offer based on a combination of **monthly disposable income** and **asset equity**.

4. Determine Offer Amount

The offer amount is calculated based on the taxpayer's **reasonable collection potential (RCP)**, which considers:

- The value of their assets.
- Their monthly disposable income (multiplied by 12 to 24 months, depending on the payment plan).

If the calculated RCP is less than the total tax owed, then the IRS may accept an offer equal to the RCP as full payment.

5. Choose a Payment Option

Taxpayers can choose one of two payment options:

- **Lump Sum Cash Payment:** Pay 20% of the offer amount upfront with the application. If the offer is accepted, pay the remainder in five or fewer installments.
- **Periodic Payment:** Make the first installment when submitting the offer, and continue making monthly payments while the

IRS considers the offer. If the offer is accepted, continue with the agreed payments until the debt is fully settled.

6. Submit the Offer

- **Include the Application Fee:** The OIC requires a nonrefundable \$205 application fee, unless the taxpayer qualifies for low-income certification.
- **Submit Financial Forms:** Send Forms 433-A (OIC) or 433-B (OIC) and Form 656 along with payment and documentation.

The IRS will assess the offer and financial situation and may request additional documentation if needed.

7. Wait for IRS Review

The IRS will notify the taxpayer once they receive the offer, and they may take up to 6–12 months or more to review. During this time:

- Collection efforts are usually paused.
- The IRS may conduct further review and may contact the taxpayer or their representative for more information.

8. Accept, Counter, or Reject

- **Acceptance:** If accepted, the taxpayer must follow through with the agreed payment terms. Once the debt is fully paid, the IRS releases any federal tax liens related to the debt.
- **Counteroffer:** The IRS might counter the offer with a higher amount if they believe the taxpayer can afford more than initially proposed. The taxpayer can accept, decline, or negotiate the counteroffer.
- **Rejection:** If the IRS rejects the offer, they'll explain why and offer appeal rights. Taxpayers can appeal the decision by filing

Form 13711, Request for Appeal of Offer in Compromise
within 30 days.

9. Maintain Compliance

After the offer is accepted, the taxpayer must stay compliant for the next five years. Failure to file future tax returns or pay taxes during this period can void the OIC, and the IRS may reinstate the original debt.

This process is complex and often requires the guidance of a tax professional or attorney. Proper documentation, calculation, and negotiation skills can improve the chances of a successful OIC submission.

At Powell United we are experienced Enrolled Agents and would gladly represent you before the IRS in this matter.

Call today or visit our contacts page to set up your free consultation.

409-692-3882

www.powellunited.com

Sincerely,

Matthew Powell

Owner, Powell United Financial Services