

Offer in Compromise: The Basics

When you hear that pitch on tv and radio about settling the amount of tax you owe for far less than the total balance due this is what they are talking about- the Offer in Compromise or the OIC. The main thing that you need to know is that getting a successful Offer In Compromise through the Internal Revenue Service is not nearly as easy as the advertisers make it sound when giving you the sales pitch. In fact, far less than one half of one percent of cases are resolved using the OIC, and this will most likely not be the way your situation is resolved either.

When the Internal Revenue Service considers an Offer in Compromise it is really a business decision on their part. The most common form of Offer in Compromise is a “doubt as to collectibility” of the debt on the part of the IRS. In order to qualify for an OIC under “doubt as to collectibility” you have to be able to show the IRS that it is in the best interest of the government to accept less than is owed, because it is better to get something now rather than the possibility of getting little or nothing later. You show this by filling out a lot of paperwork showing that you have very few assets and what you do own cannot be easily converted into substantial cash. You also have to give the IRS details of all sources of money coming in to you and all your expenses going out. The IRS is also going to request at least three months bank statements from all accounts that confirm the information you are supplying them. From this information the IRS adheres to strict formulas as to what the minimum acceptable offer is. Submitting an Offer in Compromise based on “doubt as to collectibility” is one of the very few times in life when it is best to have few or no assets and no additional income coming in over the basic amount required to survive. The taxpayers most likely to qualify for an OIC would be older, retired taxpayers on a fixed income as well as the very sick or disabled taxpayer.

Lesson number sixteen: Having an Offer In Compromise accepted is much more difficult than most people have heard. However, in cases where there are few assets, very little income- especially when you have an ability to borrow money from family or friends, or be gifted money to offer The Internal Revenue Service, this could be a great alternative to get a fresh start with the IRS.