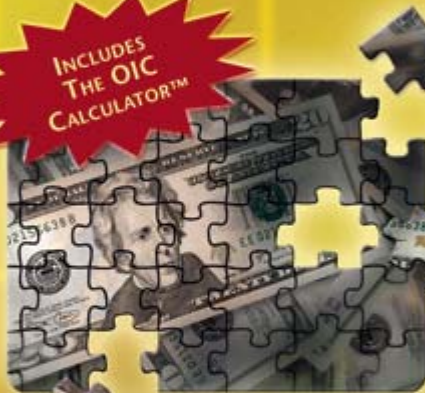


HAPPY ABOUT® TAX RELIEF

The Offer in Compromise Solution

BY THOMAS M. EVANS

INCLUDES
THE OIC
CALCULATOR™



HappyAbout.info



“Happy About® Tax Relief” Book Excerpt

The Offer in Compromise Solution

By Thomas M. Evans

**Subset of the book brought
to you by Happy About**



20660 Stevens Creek Blvd.
Suite 210
Cupertino, CA 95014

WHITE PAPER Table of Contents (included here)

- Introduction
- Chapter 1: Strategic Overview
- About the Author
- Getting the book and other books from Happy About

Getting “Happy About Tax Relief”

(<http://happyabout.info/oic.php>)

“Happy About Tax Relief” can be purchased as an eBook for \$154.95 or tradebook for \$174.95 at <http://happyabout.info/oic.php> or at other online and physical book stores.

Please contact us for quantity discounts sales@happyabout.info or to be informed about upcoming titles bookupdate@happyabout.info or phone (408-257-3000).

C o n t e n t s

NOTE: This is the Table of Contents (TOC) from the book for your reference. The eBook TOC (below) differs in page count from the tradebook TOC.

User Notice	Notice to Users	i
Quick Start	Quick Start Guide	1
Intro	Introduction	3
	You Are Not Alone	3
	How This Application Can Help You	4
	Background on The Tax Co-Op, Inc.	5
Chapter 1	Strategic Overview	7
	Advantages and Disadvantages of an OIC	7
	Best and Worst Case Scenarios	9
	Reasons OIC Applications Are Rejected	10
Chapter 2	Using The OIC Calculator™	13
	How Jeff Qualifies for His OIC	20
	Testing and Refining OIC Strategies	25
Chapter 3	Your Reasonable Collection Potential Test	27
	Getting Your Tax Information from the IRS	27
	Calculating Your Monthly Multiplier	29
	John Taxwise's Monthly Multiplier	30
	Your Case from the IRS Perspective	32
	Enter Your Asset and Liability Information	33
	Value Your Assets	34
	John Taxwise's Asset and Liability Data Input	35
	Enter Your Income and Expense Information	36
	John Taxwise's Income and Expense Data Input	37
	Determining IRS Exemptions and Allowances	38

Chapter 4	Asset and Liability Strategies	41
	Liquid or Near-Cash Assets	42
	Semi-Liquid Assets	43
	John Taxwise's Monthly Multiplier and Asset Strategies	44
	Ill-Liquid Assets and Installment Loans	46
	John Taxwise's Ill-Liquid Assets Strategy	47
	Installment Loan Strategies	48
	John Taxwise's Installment Loan Strategies	50
	Income and Lifestyle Assets	52
	Strategies for Sheltering Cash	53
Chapter 5	Income and Expense Strategies	55
	Your Income and Expenses Goals	55
	Documentation Period Strategies	56
	Income Strategies	56
	Using a Discount Rate on Future Income and Expenses	57
	Expense Strategies	58
	John Taxwise's Expense Strategies	61
Chapter 6	Testing and Executing Your OIC Strategy	65
	Determine Your Total Change in Cash	65
	John Taxwise's Cash Flow Strategies	66
	Budgeting Strategies	68
	John Taxwise's Budget Strategies	70
Chapter 7	Examples Using the OIC Strategies	73
	Roy No Canpay's OIC	73
	How Roy Qualifies for His OIC	79
	Testing the Strategy	89
	Mary N. Trouble's OIC	95
	How Mary Qualifies for Her OIC	100
	Albert U. R. Broke's OIC	110
	How Albert Qualifies for His OIC	115
Chapter 8	Documenting Your OIC	123
	Documents to Submit with Your OIC Application	123
	Documentation "Catch-22"	125

	Written Responses	125
	Quantitative Responses	126
Chapter 9	If Your OIC Is Accepted or Rejected	133
	Your Application Is Accepted	133
	Collateral Agreements	134
	Your OIC Is Rejected	135
	Other Options	137
Appendix A	Examples 1 through 5	139
	Example 1: Jeff I. O. Alot	139
	Example 2: John Taxwise.	151
	Example 3: Roy No Canpay	157
	Example 4: Mary N. Trouble.	175
	Example 5: Albert U. R. Broke	187
Appendix B	Successful OIC Applications	199
	Case 1	199
	Case 2	215
	Case 3	226
Appendix C	OIC Forms and Sample Letters.	243
Appendix D	Frequently Asked Questions.	253
Appendix E	Glossary	259
Appendix F	Communicating with the IRS.	273
Appendix G	Other Choices in Dealing with the IRS.	277
Appendix H	Bibliography and Resources.	279
	Bibliography	279
	On-Line Resources.	280
Index	Index.	283
Author	About the Author.	109
Books & Calculator	Other Happy About Books	291
	Obtaining the OIC Calculator™	293

Introduction

Welcome to the Offer in Compromise (“OIC”) Wonderland! Along the way you will discover many things with this book and software Application:

1. Apply the new OIC regulations that went into effect July, 2006 and February, 2007 to your advantage.
2. Determine what “monthly multiplier” to use in your analysis—and why this is so important.
3. Calculate the benefit of and how to qualify for a more favorable monthly multiplier—a small change saves thousands of dollars.
4. Plan using the *Asset Equity Table* spreadsheet to minimize the “net equity” in your assets and what you’ll pay in taxes.
5. Test scenarios with the *Retired Debt Calculations* spreadsheet to avoid huge tax payments when a loan is paid off.
6. Adjust your monthly figures in the *Income Expense Table* spreadsheet to limit the impact these have on your settlement.
7. The Application links these spreadsheets together to derive the IRS’s “Reasonable Collection Potential.” While this figure determines their final recommendation, you’ll see how to change it to your advantage.

8. Finally, the OIC Calculator™ assists you in preparing the forms and documentation necessary to submit your OIC application.

You Are Not Alone

Experts estimate that ten million taxpayers owe back taxes to the IRS. Up to another ten million taxpayers aren't filing with the IRS as required. This problem has grown so widespread that in 1996 Congress passed the Taxpayer's Bill of Rights 2, which liberalized a program whereby people could settle all their IRS debt in one negotiation—often for pennies on the dollar. Since then the Offer in Compromise (OIC) program has been further expanded to encourage non-filers and those hopelessly behind to come into full compliance (see Internal Revenue Code §7122 and Regulations §301.7122-IT). In July, 2006 and February, 2007 further changes were made and these have been included in this Application.

In 2001, 39,000 (31%) of the 125,000 OIC were accepted. Applications were down slightly in 2002 to 124,000 and acceptances fell to 29,000 (23%). From 2002 the number of acceptances has continued to decline while the approval rate increased somewhat due to fewer applications: 2003 was 22,000 (17%) and 2004 fell to 20,000 (19%). This trend has continued in 2005 where 19,000 (26%) were approved and in 2006 where 15,000 (25%) were accepted. While individual settlements obviously vary greatly, the average amount the IRS recovers has remained fairly constant at about 15% of the aggregate owed. There are three arguments under which the IRS considers granting an OIC:

1. You owe the tax but don't have the money to pay it (also referred to as "doubt as to collectibility").
2. You owe the tax but it would cause undue hardship to pay it.
3. You don't owe the tax for some very good reason ("doubt as to liability").

This Application shows you how to adjust your finances to better fit the OIC guidelines for reasons #1 and #2 and, thereby, qualify for settlement

at a reduce monetary amount. If you are applying under option #3 you need not submit financial statements, and can go directly to Chapter 8 to complete IRS Form 656, Offer in Compromise.

How This Application Can Help You

Whether you're a tax professional or an individual negotiating an OIC under the premise "I owe the tax but..." this Application can help you.

How often has the IRS sent you a response to your application that seems incomprehensible to you?

This Application provides you with detailed insight into the numbers and calculations the IRS employs to reach their conclusions. You will utilize the IRS's own quantitative test to strategize around these challenges and best qualify for an OIC settlement. Also, you can test the feasibility and potential benefits of an OIC before doing the heavy lifting of gathering your records.

Discover which numbers are important to passing the test so you can anticipate and document them in the application. Knowing how the IRS will likely view your OIC case and being able to quickly run varying scenarios is crucial in planning your strategy. Avoid the pit holes with our easy to follow, step-by-step process and extensive examples:

Chapters 1 and 2 provide an objective view of the OIC process so you can decide its applicability to your situation. Plus, an example demonstrates how to strategize using the Application.

Chapter 3 explains the key goals in these negotiations and the information you need to determine where you stand now—prior to any planning.

Chapters 4 through 6 present detailed strategies and a case study on how to best secure an OIC from the IRS.

Chapter 7 shows the application of these strategies in three real-world examples.

Chapter 8 helps you implement your OIC strategy by completing the IRS forms and documenting your application.

Chapter 9 gives you specific actions to take if your OIC is rejected.

Appendixes A through H supply the range of resources to fully research and execute your OIC application.

Background on The Tax Co-Op, Inc.

The Tax Co-Op, Inc. is a nationwide, full service tax resolution firm based on the principle that clients are best served when they make informed decisions and implement the solution they choose. We take the mystery out of the process so you can resolve your tax problem quickly and economically. This Application focuses on the Offer in Compromise solution and, to help you implement it, we provide comprehensive resources, step-by-step instructions and numerous examples. The result is you can proceed with confidence and likely save thousands in taxes and fees.

Appendix G discusses the other possible tax solutions offered by The Tax Co-Op, Inc. via our forthcoming website at www.taxlifeboat.com. Purchasers of this Application will receive a 30% discount on the website services as they become available.

To guide you through the maze of tax resolution strategies, we assembled a team of ex-IRS agents, tax and bankruptcy lawyers, CPA's and other tax professionals as well as asset protection specialists and financial analysts. Collectively we have many decades of experience negotiating clients' interests with the IRS and state tax authorities. We know how the IRS works from the inside. The founders of The Tax Co-Op, Inc. exemplify the high professional standards of our staff:

Thomas M Evans is the author of a book and software program on taxes (Offer in Compromise), a book and software package on commercial loans (LoanBuilder) and a business planning simulation program (Strategy Simulator). He was previously a senior executive with high technology companies, strategic planner with Stanford Research Institute and senior securities analyst with a Wall Street member firm. Mr. Evans has an MS in Systems Analysis and Decision Theory from Stanford University and an MBA from the University of Southern California.

Since 1967, **Terry L. Guy** has provided tax services (from return preparation and audit representation through negotiations and appeals) as well as business consulting to clients throughout the U.S. His entrepreneurial career includes purchasing and turning around small companies, developing real estate projects and establishing and operating copy centers (he was one of the founders of Kinko's). Mr. Guy has been a director of seven corporations and is the past President of the Five Cities Junior Chamber of Commerce.

1 Strategic Overview

Applying for an Offer in Compromise is, in many ways, an irrevocable decision. The pros and cons, as well as other factors, are presented here to consider so that you make an informed choice. In addition, opportunities to pursue alternative tax settlement strategies are discussed briefly in Appendix G, “Other Choices in Dealing with the IRS.”

However, if you decide to pursue the benefits of an OIC, then plan to win! The most frequent reason for the failure of OICs is applicants don’t plan ahead and execute their strategy properly. The chapters that follow combine text and quantitative tools to help secure IRS approval and maximize your tax savings. The Application was designed as an OIC “cookbook” with simple, clear examples and directions.

Advantages and Disadvantages of an OIC

The Advantages

1. You gain peace of mind and certainty by settling all your outstanding issues with IRS in one negotiation.

2. The monetary settlement could be for far less than what you owe. The IRS accepts on average about 15% of the total due.
3. The settlement can be paid in installments over a number of years.
4. Interest accrues, not on the original assessment, but on the settlement amount until the OIC is paid in full.
5. The IRS generally delays seizure or levy of your assets if they feel you're negotiating in good faith. Also, if an OIC is granted and you fulfill your obligations, you may avoid seizure or levy altogether.
6. If you are subject to federal tax liens, you can have them lifted within 30 days of paying off the OIC settlement. In addition, entering into a collateral agreement for future payments usually entices the IRS to release their liens. This allows you to begin repairing your credit rating.
7. If you have paid your OIC settlement in full and your income and financial circumstances improve in the future, the IRS is prohibited from revoking the OIC and demanding the past taxes. This is a significant advantage over an installment agreement.
8. If your OIC application is rejected, you can appeal the ruling so long as you are current with your tax filings and payments and file your appeal within 30 days.

The Disadvantages

During the negotiations with the IRS:

1. The IRS approves about one in four OIC applications.
2. You are required to file all your past tax returns and be current on your quarterly payments or withholding prior to applying.
3. You have to collect, analyze and provide extensive reports and supporting materials along with your OIC filing. In addition, the IRS will undoubtedly request additional information. However, such tasks are considerably easier using this Application.
4. The OIC process takes at least six to eighteen months (or longer) to complete.

5. If you lie or do not disclose all your assets and the IRS finds out, the OIC will likely be revoked and you will probably not be approved for another in the future.
6. Submitting the disclosure forms supplies the IRS with all the personal and financial information they need to seize or levy your assets and/or garnish your income.
7. The IRS may audit you based on information contained in your application, but this is rare.
8. If the Revenue Officer decides you haven't provided sufficient information to document your application, they can "close" your OIC case and there's no appeal to their decision (as there would be if it were "rejected").

If your OIC application is rejected:

1. Amounts you pay in an OIC application fee are forfeited and your deposit is applied to your outstanding tax liability.
2. Interest and penalties accrued during the application period are added to your tax debt.
3. OIC submissions based on the argument "I owe the tax but..." bar you from contesting in tax court since you acknowledge the debt—even if your OIC is turned down. This applies to all the tax years you list in your application.
4. Applying for an OIC extends the time the IRS has to collect by the months the OIC is under consideration, plus one year, to whatever remains on the 10-year collection statute (see Chapter 3, "Getting Your Tax Information from the IRS" for an explanation of this law).

After the IRS approves your OIC request:

1. You must remain current on all tax filings, payments and other requirements for five years. You must also fulfill the terms of your OIC agreement, or IRS will likely revoke it.

2. If your OIC is revoked, the original amount is reinstated in full (including interest and penalties less cash received), and the IRS will commence collection.
3. You give up any tax refunds you are due for prior tax years, the current year and usually for the next three to five years.

Best and Worst Case Scenarios

Many factors determine how easy or difficult it will be to adjust your finances to fit the IRS profile for granting an OIC. The best and worst scenarios are outlined below:

Best Case: Your chances of successfully negotiating an OIC based on the premise “You owe the tax but don’t have the money to pay it” are good if your assets and income match one of these three situations:

1. **You have limited assets, borrowing power or income.** This is best because the IRS doesn’t have much to take, pressure you to borrow against, or garnish.
2. **You don’t have much relative to what you owe.** Here, you forfeit some money in order to avoid a much higher tax. Or, even better, you may be able to shield these funds from the IRS.
3. **You have sizable resources but can protect them.** The best solution in this situation is to arrange your assets and income so that they aren’t accessible to the IRS. Possible strategies are discussed in the next chapters.

Worst Case: The most adverse circumstance is where you owe the tax and have sizeable resources that you can’t protect. This usually occurs if:

1. **You have more equity than you owe in taxes.** The equity in your home, business, and other assets is sufficient to cover the tax and the IRS has liens on them.

- 2. You have good future earnings potential.** You're young (say, under 50 years old) and are likely to earn enough over the next ten years to pay your back taxes.

In these instances, the tax collectors will wait patiently while the interest compounds on your debt at 8% or more per year. And, since this type of interest is not tax deductible (unless you're a corporation), you need to earn at least 13.4% before tax on your money just to break-even—assuming you're in the 35% federal and 8% state tax bracket.

Therefore, in these worst-case scenarios, your best hope is to plead "economic hardship" to qualify for an OIC and, if rejected, seek help from the Taxpayer Advocate Service. If you can't justify adequate hardship, you're better off borrowing and paying the tax. You'll end up saving a great deal of money, because the interest will likely be tax-deductible and at a lower rate than the IRS charges. Plus, you'll reduce stress and free up energy to make more money.

Reasons OIC Applications Are Rejected

Immediate or quick denial of an OIC application happens for several reasons:

1. You didn't use the latest OIC forms. Note that IRS Form 656, the OIC application form, was updated February, 2007.
2. The application Form 656 and documentation was incomplete with some questions unanswered or blank.
 - A. Taxpayer's social security or EIN numbers were missing, incomplete or incorrect.
 - B. The offer was not signed and dated.
 - C. Financial statement forms (433-A and 433-B) were not furnished or were incomplete.
 - D. You didn't include your deposit and application fee.
3. No monetary offer was made to settle.

4. Tax liabilities were not identified.
 - A. If you owe both personal and business taxes, submit two separate OIC applications.
5. Not all past tax returns have been filed.
6. You are not up to date with tax compliance (e.g., quarterly tax remittances).

Rejections that occur later are usually for the following reasons:

1. By far the most frequent reason for denial at this point is the amount offered isn't enough compared to what the IRS believes it could collect using "normal collection efforts."
 - A. For instance, their analysis may conclude that you have higher disposable income or your assets are undervalued so you can afford to pay more. If this is the reason, the IRS usually counters or indicates what they would settle for in your case.
 - B. Younger taxpayers have a harder time convincing the IRS not to wait and collect more over time. Even if this is the case and your offer is rejected, ask if there's an amount they would accept to settle.
 - C. The criterion used by the IRS to estimate what can be collected is the Reasonable Collection Potential test as explained in Chapter 3.
2. You failed to supply sufficient documentation to support your application.
3. You didn't respond within the time limits specified. If you need more time, explain why and ask for it.
4. The IRS believes you lied or misled them in your application. Even suspicion that you aren't being forthcoming can be grounds for rejection.
 - A. For example, if your claimed expenses greatly exceed your income, it raises questions as to whether you disclosed all of your income.

- B.** Also, the IRS may know more about you than you are aware, so be sure to obtain a copy of their rejection report (see Chapter 9).
- 5.** They determine there's a high probability that you can't or won't comply with an OIC agreement, due to your poor financial condition and/or history of dishonoring past pledges. For example, falling behind in paying your estimated taxes during the negotiations would likely disqualify you, as would having defaulted on a prior OIC.
 - 6.** The IRS concludes that your offer was not made in good faith, but rather to delay or impede collection. For instance, if you promise to pay, but later file an OIC, this could easily be interpreted as a delaying tactic.
 - 7.** You re-filed an OIC application that was turned down without offering any new facts.
 - 8.** You have a criminal record, especially if it is tax-related.
 - 9.** Occasionally the IRS declines OICs because acceptance might jeopardize overall taxpayer compliance. In other words, if others found out what you settled for, they'd be less willing to pay their taxes as required. This reason is referred to as "Effective Tax Administration."

Following the instructions in this Application should prevent many of the above mistakes. However, even if the IRS denies your OIC, further options are presented in Chapter 9 and Appendix G.

About the Author



Thomas M. Evans, Executive Editor of the upcoming Happy About Tax Remedies Series, is President of The Tax Co-Op Inc. and has spent the last 30 years formulating and implementing business strategies for companies as a senior executive. Over the past ten years, he developed proprietary computer programs for negotiating with the IRS, business simulation and debt funding for companies.

Mr. Evans has lectured at Stanford Business School, University of San Francisco, Golden Gate University and Menlo College on topics related to business strategy. He has an M.S. in systems analysis and decision theory from Stanford University; an MBA from the University of Southern California; graduate studies in

mathematics and economics at the University of Minnesota; and a B.A. in economics from Cal State Northridge. Mr. Evans is a past Dean of Financial Planning Programs, has served on the Board of Governors for the Los Angeles Society of Financial Analysts and as director of the Small Business Development Center in Chicago.

A Message From Happy About®

Thank you for your purchase of this Happy About book. It is available online at <http://HappyAbout.info/oic.php> or at other online and physical book stores.

- Please contact us for quantity discounts at sales@happyabout.info
- If you want to be informed by e-mail of upcoming Happy About® books, please e-mail bookupdate@happyabout.info

Happy About is interested in you if you are an author that would like to submit a non-fiction book proposal or a corporation that would like to have a book written for you. Please contact us by e-mail editorial@happyabout.info or phone (1-408-257-3000).

Other Happy About books available include:

- Climbing the Ladder of Business Intelligence:
<http://happyabout.info/climbing-ladder.php>
- Moving From Vision to Reality:
<http://happyabout.info/myfaith/vision2reality.php>
- Overcoming Inventoritis:
<http://happyabout.info/overcoming-inventoritis.php>
- Happy About People-to-People Lending With Prosper.com:
<http://happyabout.info/prosper/>
- Happy About Online Networking:
<http://happyabout.info/onlinenetworking.php>
- Happy About Apartment Management:
<http://happyabout.info/apartment-management.php>
- Confessions of a Resilient Entrepreneur:
<http://happyabout.info/confessions-entrepreneur.php>
- Memoirs of the Money Lady:
<http://happyabout.info/memoirs-money-lady.php>
- 30-Day Bootcamp: Your Ultimate Life Makeover:
<http://happyabout.info/30daybootcamp/life-makeover.php>
- The Business Rule Revolution:
<http://happyabout.info/business-rule-revolution.php>
- Happy About Global Software Test Automation:
<http://happyabout.info/globalswtestautomation.php>
- Happy About Joint-Venturing:
<http://happyabout.info/jointventuring.php>
- Happy About LinkedIn for Recruiting:
<http://happyabout.info/linkedin4recruiting.php>
- Happy About Website Payments with PayPal:
<http://happyabout.info/paypal.php>
- Happy About Outsourcing:
<http://happyabout.info/outsourcing.php>