

## Get the IRS Off Your Back!

Many taxpayers who visit the MSU Law Tax Clinic have the same problem: they owe a large federal tax debt but do not have the means to pay it outright. Offers in compromise (OIC's) are a powerful tool to be used in diminishing or negating a taxpayer's liability, but they are frequently misunderstood, as there are plenty of rules that must be met before one can make a successful offer.

The most common reason to make an offer is because there is doubt that the taxpayer could ever pay off the entire debt. Offers are based on reasonable collection potential, which is just another name for assets plus the surplus from future income. For example, if you have a \$5,000 car with a \$3,000 lien, and you can earn \$2,000/month while spending \$1,900 on reasonable and necessary living expenses, the IRS will expect to collect roughly \$2,000 from the car and \$100 a month over the applicable time period. To determine the applicable time period, one must first determine whether one wants to pay in 5 or 24 months. If the taxpayer pays the liability within 5 months, the surplus in income will be multiplied by 48, whereas if the taxpayer wants to pay over 24 months, the surplus is multiplied by 6. Then, all the taxpayer needs to do is make an offer that "equals or exceeds" the reasonable collection potential.

The IRS uses the word "reasonable" for a reason: not everyone can rely on the formula presented above. A recent graduate from a university is not likely to resolve tax liability through an offer. Despite the fact that the graduate may have no assets and be in the red every month, the IRS expects that person to obtain employment in the near future and to be able to pay off the liability. There are plenty of nooks and crannies in the OIC process in which a taxpayer could get lost, far too many to explain in a simple article. If you have questions, contact a professional, or if you are below the federal poverty guidelines or English is your second language, contact the MSU Law Tax Clinic at (517) 336-8088.

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