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IRS BREAKS DOWN BARRIERS
FOR NEW OFFER IN COMPROMISE PROGRAM,
EXPANDS ACCESS FOR TAXPAYERS

WASHINGTON – The Internal Revenue Service is ushering in a new era for struggling taxpayers unable to pay their tax bills by expanding the Offer in Compromise program.

With this week's publication of revised tax Form 656 and an array of internal IRS changes underway, the agency is fundamentally changing the Offer in Compromise program. These steps will make it easier for taxpayers to apply for help and allow the IRS to be more flexible when considering taxpayer offers to settle tax bills.

"We're breaking down the barriers for the Offer in Compromise program," IRS Commissioner Charles O. Rossotti said Monday. "We're making the new rules flexible and making it easier for taxpayers to qualify for the program."

For taxpayers facing dire financial circumstances and are unable to pay the entire tax bill, the Offer in Compromise program allows the IRS to negotiate a settlement. For taxpayers, the settlement offer must reflect the maximum amount they can pay after basic living expenses. The IRS may accept the taxpayer's offer under certain conditions prescribed by law.

"In the end, this helps all taxpayers," Rossotti said. "Instead of collecting nothing from people with an unpaid tax bill, we're able to collect something. And for taxpayers facing severe hardship, we'll work with them to help find a way to satisfy their tax obligations."

The IRS Restructuring and Reform Act approved last year by Congress and President Clinton called for an expansion of the Offer in Compromise program. It's one of several new taxpayer rights provisions being put in place by the IRS.

In the past, only a relatively small number of Offers in Compromise have been accepted. In fiscal year 1998, only 25,052 offers out of 105,255 were accepted, leading to the collection of $290 million out of $1.9 billion in outstanding tax bills.

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Under the changes being made at the IRS, the Offer in Compromise program will feature more straightforward rules, increased flexibility by key agency employees and fewer rejections of compromise offers. Even more changes will unfold in the weeks and months ahead.

"We want to work with taxpayers to make it simpler for them to apply for an Offer in Compromise," Rossotti said. "The process will be streamlined to make more and more people eligible."

The program will feature new flexibility in evaluating taxpayer expenses. In the past, the program frequently relied on local and national standards for evaluating cost-of-living expenses – a key element in determining how much a taxpayer can afford to pay through the compromise offer.

But the new guidelines allow IRS employees more freedom to assess an individual's particular financial hardship beyond the standard cost-of-living formulas. The move will help guarantee a taxpayer can still afford basic living expenses while paying the tax bill.

Among the other OIC changes being made by the IRS:

New, flexible IRS rules for processing taxpayer offers. Instead of the old, stringent application guidelines that often led to immediate rejections, the IRS will now work with taxpayers to fine tune their compromise offers – a step that will lead to accepting more offers.

Less documentation. Taxpayers will be asked to provide fewer financial documents to qualify for smaller compromise offers.

New payment procedures. New deferred payment procedures provide more opportunities for compromise offers to be submitted by taxpayers who may have been excluded under the old guidelines. And a short-term deferred payment option allows taxpayers up to two years to pay the compromise offer.

Specially trained IRS experts will be devoted to handling compromise offers. These new offer specialists will bring more consistency to the offer program and centralize offer processing.

New independent reviews for each rejected compromise offer. These administrative reviews assess whether rejection is in the best interest of the taxpayer and the government.

These new procedures will be included in an updated version of the agency's Internal Revenue Manual, which is expected in April.

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In addition, other changes will be reflected in the new version of Form 656, the Offer in Compromise application. The new form is available on the IRS web site at *www. irs.ustreas.gov*.

Among the changes reflected on the new form:

For payments made within 90 days, compromise offers will now only require 48 months of future income.

Clearer rules for evaluating assets of taxpayers. The new standards will be more uniform, and the fair market value of assets will be reduced by 20 percent up front.

Innocent spouse protection for joint compromise agreements. New protections will safeguard a spouse who complies with the agreement but the other spouse defaults on payments.

More changes will unfold later this year, when the IRS and the Treasury Department publish regulations covering a new element of the Offer in Compromise program. The guidelines, which will create a new category of compromise offers, will focus on equity and hardship factors affecting taxpayers seeking compromise offers.

"This is an area where we must carefully balance the interests of the taxpayers and the government," Rossotti said. "We're taking time to make sure we get this right, so we can be fair to all parties."

The combination of the new internal standards, the new Form 656 and the new regulations means a new day for the Offer in Compromise program.

"If taxpayers are having problems with their bills, we want to work with them to make this process as painless as possible," Rossotti said.

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