

**IRS SIMPLIFIES OFFER-IN-COMPROMISE PROGRAM,
PROVIDES FIXED MONTHLY PAYMENT OPTION**

WASHINGTON – In another step to improve the way the collection process works while respecting taxpayer rights, the Internal Revenue Service announced Wednesday a new, simplified method of settling taxpayer debts under the Offer-in-Compromise program.

The Offer-in-Compromise program's purpose is to settle tax debts for the maximum amount that a taxpayer can pay. In some cases, the taxpayer is best able to settle the debt by paying it off over a period of time. The new, simplified offer will provide taxpayers a fixed monthly payment option, ending uncertainty about converting offer amounts into monthly payments.

This new method will also assist taxpayers and practitioners in situations where taxpayers are willing to pay their debts, but the maximum amount they can pay is not sufficient to pay off the full amount of the debt. In this situation, taxpayers are not eligible for ordinary installment agreements, but they will be eligible for the new, fixed monthly payment option under the Offer-in-Compromise program. The IRS anticipates that this will not only help taxpayers but will also translate into increased collections in these situations.

"This is a common-sense approach for everyone involved," IRS Commissioner Charles O. Rossotti said. "The change eliminates headaches and uncertainty for taxpayers and tax practitioners by simplifying the process."

The switch is being made in conjunction with other changes, such as revising Form 656 (Offer in Compromise) to include Form 656-A (Additional Basis for Compromise). The changes are aimed at simplifying the Offer-in-Compromise program, which allows the IRS to negotiate a settlement with people facing financial circumstances in which they cannot pay their entire tax bill.

Taxpayers can propose an Offer in Compromise to the IRS, which generally must reflect the maximum amount they can pay after basic living expenses.

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The IRS can accept the taxpayer's Offer in Compromise when there is doubt about whether the tax debt could ever be collected or whether it was owed. Under changes made in the IRS Restructuring and Reform Act of 1998, some taxpayers can also qualify for a special type of Offer in Compromise in cases where settlement would promote effective tax administration, including situations involving severe or unusual economic hardship.

The latest change to streamline the program eliminates confusion associated with interest calculations for deferred Offer-in-Compromise payments.

Under the old system, the interest could be adjusted up to four times a year. With deferred payments spread out for up to 10 years, this created complicated calculations and uncertainty for the IRS, tax practitioners and taxpayers. It also meant the IRS had to leave room at the back end of the deferred payment plans to factor in interest. This interest uncertainty kept the IRS from collecting the maximum amount possible.

Under the new system, the IRS will now be able to precisely calculate the exact amount the person will owe during the life of the Offer-in-Compromise payments – without any of the uncertainty and imprecision involved with fluctuating interest rates. This new fixed monthly payment option means the IRS will be able to collect the maximum amount the taxpayer can pay.

"This cuts through the red tape and still allows the Offer in Compromise to be paid in full," Rossotti said. "The tax debt is settled, and the taxpayers get a fresh start."

The IRS will adopt the same fixed-payment policy for taxpayers choosing the other two Offer-in-Compromise payment options – cash or short-term payments.

The fixed payment combines all debts, including interest, owed by the taxpayer under the Offer in Compromise terms into a single payment, which reflects the maximum the taxpayer can pay after covering basic living expenses.

The statutory requirement for interest accrual will remain in place. If taxpayers default on their Offer-in-Compromise agreement, the entire tax liability will be reinstated, along with interest and penalties. Taxpayers will also be responsible for interest accrued after they entered into the agreement.

The IRS is also making changes in two other areas involving the program:

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All instructions for an Offer in Compromise will now be contained in the new Form 656 package. This consolidated package will replace Form 656-A, which appeared as a new, separate form earlier this year. This means that taxpayers who previously had to fill out two forms – 656 and 656-A – will now just fill out one.

The waiver provision for suspension of the collection statute will be removed. Effective Jan. 1, 2000, the collection statute – the time the IRS has to collect the balance due – will be suspended by law rather than by taxpayers signing the waiver on Form 656. The suspension occurs while the IRS processes and reviews the Offer in Compromise, plus 30 days, plus any time a rejected Offer in Compromise is being appealed.

The changes mean that all Offers in Compromise submitted after Jan. 1, 2000, must be on the new Form 656. A new copy of the form is available on the IRS web site, www.irs.gov, under the “Forms and Pubs” section.

Under other changes made earlier in 1999 by the IRS, the Offer in Compromise program features more straightforward rules and increased flexibility by key agency employees.

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