



Legal Aid Society of Orange County
Low Income Taxpayer Clinic (LITC)
2101 N. Tustin Ave., Santa Ana, CA 92705

Reduce Your Tax Debt

Offer in Compromise

If you have a tax debt with the IRS, you may be able to reduce the amount of your debt through an Offer in Compromise. **An Offer in Compromise allows you to offer the IRS an amount lower than the amount you owe for the settlement of your tax debt.** Your offer can be based on if there is doubt as to whether the IRS could ever collect the full amount of tax debt (doubt as to collectibility), or if there is doubt as to whether you are actually liable for the tax debt (doubt as to liability), or if you have extraordinary and special circumstances (effective tax administration) that prevents you to pay your tax debt.

◆ **How Do I Apply for an Offer in Compromise?**

You will need to fill out **Form 656**, Offer in Compromise, along with **Form 433-A**, Collection Information Statement. You will also need to calculate the payment amount you offer to the IRS using the **Form 433-A Worksheet**.

◆ **How much should I offer them?**

The IRS provides a formula for calculating an offer that will still allow you to pay your necessary living expenses. You must prove that the amount you are offering is equal or more than the **reasonable collection potential** as determined by the IRS. The reasonable collection potential, broadly speaking, is the IRS' best guess about how much money you could come up with in the next 2 years to pay off your tax debt. This will be based on:

- Your monthly income and necessary living expenses;
- The fair market value of all of your assets. This can include the equity in your home, car, bank accounts, investments, life insurance cash value, and any loans owed to you.

◆ **Can the IRS collect from me while my offer is pending?**

No, the IRS can not collect from you while your offer is pending unless the IRS believes that the collection of your debt is in jeopardy.

◆ **What happens if my offer is rejected?**

If the IRS rejects your offer, you may submit a revised offer, or file an appeal. Regardless of which option you choose, this must be done within 30 days of the date of rejection. During this time, the IRS can not collect from you unless they believe the collection of your debt is in jeopardy, your offer was submitted solely to delay collection, or your offer did not contain sufficient information to permit evaluation of whether the offer should be accepted.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT THE LEGAL AID SOCIETY AT 714-571-5200 OR 1-800-834-5001.