



Owe the IRS, but can't pay? An Offer in Compromise may be the answer.

If you are unable to pay your tax liability in a lump sum or through an installment agreement and you have exhausted your search for other payment arrangements, you may be a candidate for an Offer in Compromise.

What is an Offer in Compromise?

An OIC is an agreement between a taxpayer and the IRS that settles the taxpayer's tax liabilities for less than the full amount owed. The IRS has the authority to settle, or "compromise," federal tax liabilities by accepting less than full payment under certain circumstances. Absent special circumstances, an offer will not be accepted if the IRS believes the liability can be paid in full as a lump sum or through an [installment agreement](#).

You should beware of promoters' (as seen on TV) claims that tax debts can be settled through the OIC program for "pennies on the dollar." Some promoters are inappropriately advising indebted taxpayers to file an OIC application with the IRS. This bad advice costs you money and time.

In most cases, the IRS will not accept an OIC unless the amount offered by the taxpayer is equal to or greater than the reasonable collection potential (RCP). The RCP is how the IRS measures the taxpayer's ability to pay and includes the value that can be obtained from assets such as real property, automobiles, bank accounts and other property. The RCP also includes anticipated future income, less the amounts allowed for basic living expenses.

Do I Qualify for an Offer in Compromise?

Not all taxpayers qualify for an OIC. Absent special circumstances, if you have the ability to fully pay your tax liability in a lump sum or via an installment agreement, an OIC will not be accepted.

In order for your OIC to be considered, you must meet the following requirements:

- You are not a debtor in an open bankruptcy proceeding.
- You must pay \$150 application fee with your offer.*
- You must submit one of the following payments with the offer:
 - Option 1: 20 percent payment of the offer amount
 - Option 2: the first monthly payment

*You may be exempt from this fee. Taxpayers must certify their eligibility using Form 656-A, Income Certification for Offer in Compromise Application Fee. This exception applies only to individuals.

The objective of the OIC program is to accept an OIC when it is in the best interest of both you and the government and promotes voluntary compliance with all future payment and filing requirements.

This article has been developed by Pelletier, Chase & Associates, LLC as a public service to you. It should not be construed as tax advice or as a promise of potential tax savings or reduced tax liability. For more information, contact [PCA](#).