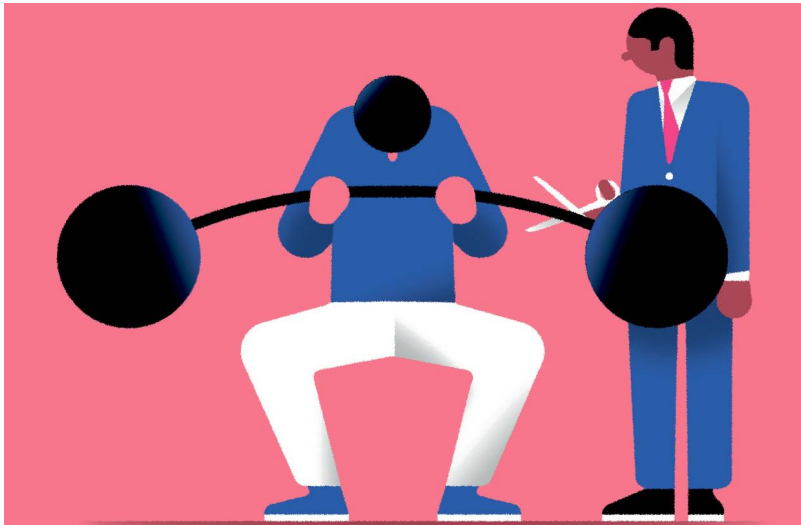


JOURNAL REPORTS: WEALTH MANAGEMENT

Ins and Outs of Settling With the IRS

It isn't easy to settle your tax debts for less than you owe, but it is possible. Here is what taxpayers need to know



Being up to date on all required tax filings and estimated tax payments is crucial when applying for a debt settlement. **PHOTO:** GIACOMO BAGNARA

By Tom Herman

Sept. 10, 2019 10:03 pm ET

Here is an idea that probably sounds like a guaranteed waste of time: Ask the Internal Revenue Service to settle your tax debts for less than you owe.

For most people, that may sound far-fetched. But for some people drowning in debt or struggling with other seemingly insurmountable financial woes, persuading the IRS to accept a compromise offer may not be as hopeless as it seems.

While the IRS isn't known for its generosity, it is authorized by law to compromise under certain circumstances. For example, the IRS "generally" will accept a compromise offer "when the amount offered represents the most we can expect to collect within a reasonable period," says Eric Smith, an IRS spokesman. A compromise is a possibility if "you can't pay your full tax liability, or doing so creates a financial hardship," the IRS says on its website.

But getting to “yes” can be stunningly complicated and time-consuming. Filling out the application, collecting documentation and waiting for an IRS response can require extraordinary patience. “It’s typically a long haul due to the unfortunate underfunding of the IRS by Congress and the process the examiners must go through to analyze each offer,” says Fran Obeid, an attorney at MFO Law, P.C., in New York City.

JOURNAL REPORT

- [Insights from The Experts](#)
- [Read more at WSJ.com/WealthReport](#)

MORE IN WEALTH MANAGEMENT

- [When My Money and Your Money Becomes Our Money](#)
- [Negotiating a Phased Retirement](#)
- [Netflix, Hulu, Amazon Prime: Subscription Creep Adds Up](#)
- [The Generation Leading the Way in ESG Investing](#)

Critics say the IRS could make the program more user-friendly, including responding more quickly to offers and being less stingy. The IRS has said that determining someone’s “reasonable collection potential” is a “complex and nuanced topic,” and that it has made improvements, including posting more information on its website. Officials also say they are reviewing the subject and will consider changes based on the findings.

Here are answers to some questions readers may have.

How many compromise offers does the IRS receive in a typical year, and how many are

accepted?

During the year ended Sept. 30, 2018, the IRS accepted about 24,000 offers out of 59,000 received, Mr. Smith says. Those numbers, which include individual taxpayers and businesses, are “fairly typical” of data in recent years, he says. They don’t reflect offers that the IRS returned to taxpayers because more information was required, or other reasons. “It’s difficult” to get a compromise approved, says Russell Schneidewind, lead tax research analyst at The Tax Institute at H&R Block. “This program isn’t for everyone.” The dollar amount of accepted offers totaled \$261.3 million in 2018.

Is there an online tool that can help me decide whether I might qualify?

Try the IRS’s Offer in Compromise Pre-Qualifier.

Before applying and begging for mercy, be sure to “explore all other payments options,” such as an installment agreement, the IRS says. Taxpayers who can pay everything they owe through installments, or some other way, “generally won’t qualify” for a compromise “in most cases,” the IRS says.

A few other suggestions:

• Make sure you are up-to-date with all required tax filings, as well as any required estimated tax payments. Many people aren't aware of these requirements, says Eric L. Green, a lawyer at Green & Sklarz LLC.

• You aren't eligible if you are in "an open bankruptcy proceeding," the IRS says on its website.

For more information, type "offer in compromise" in the search box on the IRS website. The IRS recently posted a revised compromise application package that reflects a recently enacted law, Mr. Smith says. "Normally, an offer in compromise requires a \$186 application fee to cover the cost of processing," he says. But "many low-and-moderate income taxpayers qualify for waiver" of that fee. Other sources include IRS Tax Topic Number 204, a general publication on the topic and IRS answers to frequently asked questions.

How long does it take for the IRS to reply?

It depends on the facts and circumstances of each case. "I usually tell clients to plan on a year from start to finish," says Mr. Green. "I've had clients tell me 'I want to sell my house in two months.' I say 'that's not going to happen.'" Mr. Smith of the IRS says most offers are processed "within a year, though there are obviously some that take longer."

Will I need to seek professional help?

That also depends on your case's complexity and how much time you want to spend. But if you're thinking of hiring pros, check their credentials and experience carefully. Beware of "unscrupulous promoters" who "promise unrealistic results" and charge "excessive fees to taxpayers who have no chance of meeting the program's requirements," the IRS spokesman says.

Is it possible to get a compromise accepted if my assets and income exceed the tax liability?

Sometimes. For example, the IRS may accept a compromise based on "effective tax administration." That refers to a case "when there is no doubt that the tax is legally owed and that the full amount owed can be collected, but requiring payment in full would either create an economic hardship or would be unfair and inequitable because of exceptional circumstances." Another category: "doubt as to liability," which means "there's a genuine dispute as to the existence or amount of the correct tax debt under the law," the IRS website says.

What can happen if a taxpayer submits an offer that isn't truthful, such as not disclosing assets or income?

Very bad idea, warns Mr. Green. “That kind of case can go criminal,” he says. The IRS says it reviews offers for “possible fraudulent intent.” On its website, the IRS warns: “Submitting an OIC with false information, or making a false statement to an IRS employee, is considered fraud and may be subject to civil or criminal penalties.”

Mr. Herman is a writer in New York City. He was formerly The Wall Street Journal’s Tax Report columnist. Send comments and tax questions to taxquestions@wsj.com.

-
- **College Rankings**
 - **College Rankings Highlights**
 - **Energy**
 - **Funds/ETFs**
 - **Health Care**
 - **Leadership**
 - **Retirement**
 - **Small Business**
 - **Technology**
 - **Wealth Management**

Copyright © 2019 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.