FOR RELEASE: 7/19/99

IR-1999-64

IRS TO HELP TAXPAYERS FACING ECONOMIC HARDSHIPS

SETTLE TAX DEBTS WITH NEW OFFER IN COMPROMISE PLAN

WASHINGTON B Some taxpayers facing severe or unusual economic hardships will have a new way of settling their tax debts under an Internal Revenue Service plan announced Monday.

Under new regulations filed with the Federal Register on July 19, the IRS for the first time will be allowed to consider economic hardship factors in cases where taxpayers try to settle unpaid tax debts through the Offer in Compromise program and where settlement would promote effective tax administration.

"For taxpayers caught in severe hardships, this gives the IRS a new tool to work with people and help settle their tax debt," IRS Commissioner Charles O. Rossotti said.

This change expands the Offer in Compromise program, which allows the IRS to negotiate a settlement with people unable to pay their entire tax bill. Prior to the new regulations, the IRS could accept the taxpayer's Offer in Compromise only when there was doubt about the whether the tax debt could ever be collected or whether it was owed.

The IRS has already put in place changes that make it easier for taxpayers to apply for a compromise under existing regulations.

The IRS Restructuring and Reform Act approved last year by Congress and President Clinton called for expanding the Offer in Compromise program as part of a new set of taxpayer rights provisions.

The provision outlined in the temporary regulations (TD 8829) creates a new category of Offer in Compromise to resolve cases where acceptance of the offer would promote effective tax administration.

Under this new provision, taxpayers may be eligible for a compromise if:

Collection of the entire tax liability would create economic hardship, or
Exceptional circumstances exist where collection of the entire tax liability would be detrimental to voluntary compliance.

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According to the regulations, an Offer in Compromise cannot be approved in situations where it would undermine compliance with the tax laws. To qualify, taxpayers also must have a history of paying and filing their taxes.

"This new type of offer gives the IRS a safety valve to handle tax cases in difficult situations," Rossotti said. "We now have more flexibility to settle debts with taxpayers in ways we couldn't before."

The temporary regulations outline several possible examples where taxpayers might qualify for the new type of Offer in Compromise:

Economic hardship can include taxpayers - and their dependents - facing a long-term illness, medical condition or disability where the person's financial resources will be exhausted while providing for care and support. An example can include a parent who has assets large enough to pay the tax bill, but those assets will be needed for care of a child with a long-term illness.

Economic hardship can also cover cases where the sale or liquidation of assets to pay the tax bill would prevent the taxpayer from meeting basic living expenses. An example could be a retiree with a retirement fund large enough to pay the tax bill, but using the fund would deprive the person of basic living expenses.

In the second area, an Offer in Compromise may be granted under exceptional circumstances, such as extraordinary events beyond a taxpayer's control. An example might include someone who was hospitalized for several years, could not manage any financial affairs and was unable to file tax returns.

Rossotti said the new compromise offer strikes a balance between helping individual taxpayers in severe circumstances and protecting all taxpayers by collecting as much of the tax bill as possible.

"Ultimately, this program will help all taxpayers," Rossotti said. "Instead of collecting nothing from taxpayers with an unpaid tax bill, we're able to collect something and resolve the case. And it gives people in dire financial situations a way of satisfying their tax obligations."

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The IRS cautioned the new program is tailored only for taxpayers entangled in very severe circumstances, and it's not designed to be a sweeping program for everyone with financial difficulties or a panacea for people with tax problems.

"This will help some people in trouble that we haven't been able to help before," Rossotti said. "But it shouldn't be misinterpreted by people as an open invitation to avoid paying taxes.@

The IRS anticipates implementing the temporary regulations and beginning to process applications within 60 days. This will give the IRS enough time to finalize new procedures, print new forms and train Collection employees on the new guidelines.

The IRS also is nearing completion on a new application for the special Offers in Compromise category, which will be Form 656-A. This new form will be submitted in addition to Form 656, the standard Offer in Compromise application.

When the taxpayer submits new 656-A applications, the IRS must first determine whether a taxpayer is eligible for one of the traditional Offer in Compromise options. If the taxpayer is not, then the agency will consider the application under the new economic hardship provisions.

The temporary regulations issued this week will be in effect for three years, which will give the IRS an opportunity to monitor the program's progress and get feedback from tax practitioners and others.

"This will give us the chance to fine tune the program in the future," Rossotti said.

In fiscal year 1998, the IRS accepted 25,052 Offers in Compromise, leading to the collection of $290 million out of $1.9 billion in outstanding tax bills.

Earlier this year, the IRS took several steps to expand access to the Offer in Compromise program. To help taxpayers, the IRS program now features more straightforward rules, increased flexibility by key agency employees, new payment procedures and a new review process for rejected offers.

"There is a delicate balance to this program," Rossotti said. "We have to carefully balance the rights of individual taxpayers with the rights of all taxpayers. The goal is to be fair to everyone."

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