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Settle for Less? A Practical Guide to Offer in Compromise (OIC)

If you owe the IRS more than you can afford to pay, an Offer in Compromise (OIC) may be your best chance at a fresh start. The IRS OIC program allows qualified taxpayers to settle their tax debts for less than the full amount owed. But success requires meeting strict eligibility standards and submitting a well-documented application.

What is an Offer in Compromise?

An Offer in Compromise is an IRS program that allows taxpayers to resolve their tax debt by paying a reduced amount, based on their ability to pay. It is only granted when the IRS believes the offered amount is the most it can reasonably collect.

Who Qualifies?

To be eligible for an OIC, you must:

- - Be current on all required tax filings
- - Not be in active bankruptcy proceedings
- - Demonstrate financial hardship using Form 433-A (OIC) or 433-B (OIC)
- - Offer an amount based on your assets, income, and expenses

Required Forms

Your application package must include:

- - Form 656: Offer in Compromise
- - Form 433-A (OIC) for individuals or Form 433-B (OIC) for businesses
- - A non-refundable application fee (unless low-income certification is met)
- - Initial payment based on your offer terms

Tips for Submission

- - Be honest and thorough in financial disclosures
- - Provide complete documentation: bank statements, pay stubs, and asset records
- - Keep copies of everything submitted
- - Don't ignore IRS correspondence after submission

Red Flags That Lead to Denials

- - Incomplete or inaccurate financial forms
- - Submitting an offer significantly lower than what IRS deems collectible
- - Having unfiled tax returns
- - Recent asset transfers that reduce collectible value

IRS Evaluation Criteria

The IRS evaluates your offer based on ‘Reasonable Collection Potential’ (RCP), which includes:

- - Your equity in assets
- - Your future income
- - Your basic living expenses

OIC Eligibility Checklist

Use this quick checklist to see if you may qualify:

- - [ ] I have filed all required tax returns
- - [ ] I am not in bankruptcy
- - [ ] I can demonstrate financial hardship
- - [ ] I am willing to make a good-faith offer based on my ability to pay

Need Help?

At GoTaxGurus, we’ve handled countless OIC cases and know how to package a winning application. Let our former IRS professionals help you determine your eligibility and guide you through every step of the process.

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