

Offers In Compromise and Installment Agreements

A new (potential) client asked us the difference between an Offer-In-Compromise (OIC) and an Installment Agreement. We resisted the mad urge to say something like

“The biggest difference is that you can probably qualify for an Installment Agreement but qualifying for OICs is often problematic and expensive.”

Astonishing as it seems – those “OIC pennies-on-the-dollar” radio ad claims are mostly bunkum.

Notwithstanding our persistent skepticism (we have seen very few OICs granted based on “inability to pay,” and only a few more based on “equitable administration”) We gave the prospective client a short course in OIC vs. Installment Agreements by providing a few links to relevant IRS information. We thought we’d pass those along to our existing constituency as well.

Links to OIC related forms, instructions, and background

[Form 433A](#) Report of personal income and outgo. More formally known as Collection Information Statement for Wage Earners and Self-Employed Individuals. The form is not all you must provide: We feel it is only fair to note that the specific documentation list at the end of page 8 is the minimum the Service requires,,. Almost inevitably, the Service usually asks for additional documents over the course of the discussion (especially where multiple years are involved).

There is a similarly hideous [Form 433B](#) (Collection Information Statement for Businesses) that applies to businesses.

[Form 656B \(OIC Handbook\)](#) Apart from Form 656 itself, the most useful part of the Handbook is the checklist on pages 31 and 32, and the list of agreement terms on pages 27 and 28 (with particular reference to those on page 28)

If the OIC forms aren’t daunting enough, take a look at the [IRS OIC webpage](#) to get a feel for how the whole thing works and how the Service decides on compromise amounts

By way of contrast: (Links to Installment Agreement forms, instructions, and background

The [IRS Installment plan web page](#) is considerably more transparent than its OIC webpage

[Form 9465 IRS Installment agreement](#) forms are relatively straightforward. Small Installment plans are “automatic” (effectively no approval process other than making sure all the terms have been completed) Documentation requirements and qualifying conditions are typically minimal for “small balances.”

You can also [apply on-line for an Installment Agreement](#), saving a tree or two along the way.

Once you are in an installment agreement, about the only real necessity is to keep making the payments – the Service is out of the loop, unless you miss a payment (which voids the original agreement and imposes additional reinstatement requirements).

Bottom Line: We encourage clients (and prospective clients) to examine all the options for settling their tax obligations – but (notwithstanding radio ads to the contrary) clients need to know and manage their expectations for each approach. OICs are a great thing – if you qualify and the stakes are high. However, they are an expensive and paperwork intensive approach that may not provide the tax relief you seek (IRS Compromises in about 32% of OIC submissions).

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