

Offers In Compromise

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The Offer In Compromise (OIC) has always been considered a last resort because the criteria for accepting an offer has always been strict and very few are accepted each year. The IRS has made major changes to the OIC, **effective July 17, 2006**, making them even less attractive to taxpayers.

Most taxpayers pay their taxes and file their tax on time, but some do not have the cash available to pay the taxes they owe with their returns. If you do not pay your taxes when they are due, the IRS will charge you interest and penalties.

The IRS's current interest rate is 8% on any unpaid tax from the due date of the return until the date of payment. Assuming you filed your return on time, but just didn't pay the tax owed, the late payment penalty is equal to 0.5% of the tax you owed and increases to 1% if you're more than 10 days late up to a maximum penalty of 25% of the amount of tax you owe. If you failed to file a return on time, the total late filing penalty is usually 4.5% of the tax owed each month, that your return is late up to five months. **This equates to roughly 13.5% in interest and penalties if your more than 10 days late.**

Usually the amount a bank would charge you is less than the amount assessed by the IRS. If you are unable to taking out a loan you should consider what assets you have that you might be able to sell to pay the taxes that you owe. As a last resort, you can submit an Offer in Compromise (OIC) to the IRS.

There are two types of offers allowable with an OIC include:

- **Lump-sum offer:** an offer to pay taxes owed in 5 or fewer installments and
- **Periodic payment offer:** an offer to pay taxes owed in 6 or more installments

Under the new law a taxpayer filing a lump-sum offer must pay **20% of the offer amount with the application and a \$150 application fee**. A taxpayer filing a periodic-payment offer must pay **the first proposed installment payment with the application plus a \$150 application fee**, and pay additional installments while the IRS is evaluating the offer.

In order to avoid defaulting the OIC, you must file and pay all required taxes for a period of five years, or until the offered amount is paid in full, whichever is longer. Failure to file and pay your taxes causes you to be in default of the OIC and tax liability is reinstated.

The statute of limitations is extended, if necessary, until the OIC is accepted, rejected, returned withdrawn or under appeal.

Gina L. Gwozdz is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.