Grease Boy Gary

Facts

- 1040 taxes
  - All returns filed on time, 2017 is filed and paid.
  - **Balance Due - $107,000 – 2014 $4,678, 2015 $79,684, 2016 $22,638.**
- 44 years old, not married, Gary and his 10-year old son (Larry) live with his sister in Wayne County, Wisconsin. He previously liquidated his 401(K) and is now divorced.
- Only income is Workman's Compensation Benefits.
- He pays child support of $600/month for an additional child from a previous relationship.

Income/Expenses

- **Income**
  - Workman's comp $2,917
- **Expenses – All expenses listed are the taxpayer's actual costs**
  - Food/clothing $850 (ALSO CALLED NATIONAL STANDARDS)
  - Rent (Pd to sis/verified) $1000
  - Phone(Pd to sis/verified) $53
  - 2005 Honda Civic (no payment) $0.00
  - Vehicle Operating $200
  - Health insurance $0
  - Out of Pocket medical $45
  - Taxes $0
  - Child Support $600
  - Court Ordered Restitution $75

EXPENSE / INCOME	ACTUAL	IRS ALLOWED	FINAL #'S	2ND CASE
Income	$2,917	$2,917	$2,917	$2,917
FOOD/National Standard	$850	2 - $1,202	$1,202	$1,202
Housing & Utilities	$1,053	2-$1,535	$1,053	$553
Auto Ownership	$0	$0	$0	$0
Auto Operating	$200	$274	$274	$274
Health Insurance	$0	$0	$0	$0
Out of Pocket Health	$45	$104	$104	$104
Taxes	$0	$0	$0	$0
Child Support	$600	$600	$600	$600
Court Ordered Restitution	$75	$75	$75	$75
Totals	$2,823	N/A	$3,308	$2,808

DI = <$391> OR ZERO

NOW, RECALCULATE WITH A REDUCTION OF THE "RENT" EXPENSE DOWN TO $500/MONTH, PLUS PHONE. DI = $109

Cool Hand Luke

- The taxpayer, Mr. Luke comes into your office and you discover that neither he nor his wife have filed 1040's for 2011-2017. The IRS has assessed (through the substitute for return (SFR) program) his 2011 1040 and the liability is $42,562.
- The taxpayer is a W-2 employee with a current levy on his pay. His next bi-weekly pay date is at the end of this week; but his time is reported on Tuesday, today is Monday.
- Mr. Luke, now our client believes that he can pay roughly $500/month and is hopeful this amount will resolve his issues and retire the liability.
- He is married and has one child, family of 3 (Little Luke). He is 61/she is 48. They live in Washtenah County, WI.
- At the interview you are able to prepare/draft the 6 MFJ 1040's and they owe the following taxes: 2011 $14,000, 2012 $26,000, 2013 $21,000 and have small refunds for 2014-2017.

Income/Expenses

- **Income**
  - Luke W-2 $4,821, gross
  - Spouse W-2 $3,645, gross
- **Expenses – All expenses listed are the taxpayer's actual costs**
  - Food/clothing $2,000 (ALSO CALLED NATIONAL STANDARDS)
  - Housing $2,809 (Rent $2,500, Cable/Phone $205/Insurance $104)
  - Vehicle Ownership $ 615 (2014 Jeep w/payment/2010 Ford Escape – no payment)
  - Vehicle Operating $800
  - Out of Pocket medical $42
  - Taxes $2,117
  - Life insurance $2

EXPENSE / INCOME	ACTUAL	IRS ALLOWED	FINAL #'S	2ND CASE
Income	$8,466	$8,466	$8,466	$6,563
Food/National Standard	$2,000	3 - $1,384	$1,384	$1,384
Housing	$2,809	3 - $2,077	$2,077	$2,077
Auto Ownership	$615	$497	$497	$497
Auto Operating	$800	$392	$392	$392
Out of Pocket Health	$42	$156	$156	$156
Taxes	$2,117	$2,117	$2,117	$853
Life Insurance	$2	$2	$2	$2
Total Expenses	$8,385	N/A	$6,625	$5,361

DI = $1,841

RECALCULATE AFTER YOU REDUCE HER INCOME TO $1,742/MONTH AND TOTAL COUPLE TAXES TO $853 (SHE HAS LOST HER JOB, ON UI) DI = $1,202

Joel & Jennifer Billy .....Water, Water, Everywhere...Still Thirsty?

- Joel Billy is a self employed entertainer/songwriter. His wife is a stay at home mom, they have 3 children. He is a "reformed" tax protestor and owes 1040's 2008-2017 $256,000. He also owes Civil Penalties (fraudulent filings)- total of $6,500 for 2010-2012.
- Oakland County.
- Taxpayer states that he cannot pay anything more than $1,000/month to the IRS. He is "barely making it"....but, he does gamble a little bit...

CALCULATE MONTHLY DISPOSABLE INCOME: **T/P net monthly income $32,500**

- EXPENSES
- -National Standards (Food/clothing) $3,500
- -Housing , mortgage $5,500 utilities $1,110, phone $75
- -Vehicle Ownership Car#1-$980, Car#2-$750
- -Vehicle Operating $950
- -Health insurance $1,250
- -Out of Pocket medical $210
- -Taxes (average monthly1040ES made in 2017) $1,577
- His father's home expenses that he pays $3,500 (father lives separately, has Social Security and a pension, he is not a dependent of the taxpayer)
- Private Tuition for Children $7,000
    - -Other Secured Debts (boat) $750

EXPENSE / INCOME	ACTUAL	IRS ALLOWED	FINAL #'S	NOTES
Income	$32,500	$32,500	$32,500	
Food/NationalStandard	$3,500	5-$2,051	5-$2,051	
Housing	$6,685	5-$2,244	5-$2,244	
Auto Ownership	$1,730	$994	$994	
Auto Operating	$950	$548	$548	
Health Insurance	$1,250	$1,250	$1,250	
Out of Pocket Health	$210	$260	$260	
Taxes	$1,577	$1,577	$1,577	S/B $10,000
Fathers Home Expense	$3,500	$0.00	$0.00	
Private Tuition	$7,000	$0.00	$0.00	
Boat	$750	$0.00	$0.00	
Total Expenses	$27,152	--------	$8,924	
	DI=$5,348	N/A	$23,576	

FINAL BREAK OUT PROBLEM (WHICH IS REALLY A RESOLUTION). **These get complicated, it is not a problem if you need my help and the help of the larger group to get an answer. This is a learning process and you are here to gain knowledge in Representation Practice resolutions**.

Now that we know what the IRS considers as Disposable Income for each client, let's now make suggestions to the clients as to how to resolve their IRS tax problems:

1. Grease Boy Gary owes $107,000 for 2014- 2016, he is Single, with one child. He has a $500 auto. He rents. His CSED's are approximately 5/1/25, 5/21/26 and 4/2/27. ACS has the case.

    - What are his options when he has no DI (Disposable Income) and equity of $500 in his car? ACS has the case, so the easiest is to first request **CNC** by supplying any requested supporting documents. Once a CNC has been granted, ACS will file a lien on any periods that do not already have a lien. You can then explain the TP's option of an **offer in compromise** This is not a full OIC class, so suffice to say we could offer the IRS very little ($500 to $1,000). There is an exemption of $3,450 in equity in a vehicle, so there is no need to offer the $500. If you possibly want to avoid the lien altogether, you could ask for 30 days to assemble the OIC, skip the CNC, and submit an OIC.
    - What are his options when he has $109 DI? $109/month will not full pay the $107K over 60, 72, or 84 months, but he can afford to pay something. ACS would grant him a $109/m **PPIA** (w/24-month review). Again, the second option is an **offer in compromise**. Given that the $109/month will not pay the liability over CSED, the 656 could be submitted as a lump sum payment of $1,308. The OIC payment terms would be "pay $1,308 five months after the IRS accepts OIC. It may take ten months for the OIC to be reviewed and accepted. If he is unable to save $1,308 in that time, advise him the PPIA is the best option.

2. Cool Hand Luke and his wife owe approximately $111,000 after P&I are applied and the small refunds are taken into account. Married - family of 3. They rent and have equity of $8,500 in one auto. Their CSED's are 2011-10/21/24, 2012-10/05/28, 2013-10/05/28. Taxpayer tells you he can pay $500/month to resolve the liability. The case is with a Revenue Officer.

    - What are their options when you calculate his DI to be $1,841/month? Remember the CSED is only 62 months away....This has to be paid within the 62 months left in the statute. $111K/60 =$1,850/month, so it is close enough to propose a regular Installment Agreement.
    - At $1,202/month, we could look at a PPIA (Partial Pay IA), or an OIC for $19,474 ($14,424 in a 12 month payment + the auto equity of $5050).

3. Joel Billy and his wife owe $262,500 for 2008-2017. Married - family of 5. They have equity of $40,500 in their home. The boat is probably under water (lol). No equity in the vehicles. Their CSED's are not an issue here. Taxpayer tells you he can pay $1,000/month to resolve the liability. The case is with a Revenue Officer, who needs a 433-A from you in 30 days.

- Given that they are not making much in the way of estimated payments (federal or state), what is their biggest financial problem?
- Their worst financial problem is they need to cut over $10,000 of their budget and start making monthly 1040ES payments. That amount plus an amount to pay the back taxes. The IRS is not the problem, the fact they need to live life at 35% lower than what they are living it now is the real problem.

- What are their options when the RO informs you they can pay $23,576/month?
- Request a Six Year Installment Agreement and convince the RO you will help them get into compliance. This is based on the Assessed Balance and would roughly be $3,500 to $3,700/month. These amounts are a lot better than $10,000 for taxes and $12,706 per month! We could also invoke the One Year Rule, but he can in fact pay within 6 years, so this would only serve to bump up his payments for the remaining 60 months.
