



Resolving an IRS Collection Case: Exhibits

May 9, 2023

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<https://TaxRepLLC.com/>



1. IRS Document Checklist
2. The 2023 Allowable Expense Tables
3. Revenue Procedure 21-45
4. IRM Section 5.15.1.11

IRS & State Tax Collection

Document Checklist

{Please provide us all that apply}

General:

1. Have you filed all your federal tax returns? Yes No
 - If No, which years remain unfiled?
 - Are the tax returns prepared?
2. Have you filed all of your state tax returns? Yes No
 - If No, which states do you need to file in?
 - What tax years remain to be filed?
 - Are the tax returns prepared?
3. Has either the IRS or state taxing authority contacted you? Yes No
 - If Yes, please provide copies of any correspondence you have received

Assets:

1. Do you have a bank account? Yes No
 - If Yes, please provide copies of the bank statements for the last six months of bank statements for all accounts
2. Do you own any investments (stocks, bonds, mutual funds, etc) Yes No
 - Most recent statement for all investment accounts (Stocks, Mutual Funds, Trading Accounts)
3. Do you have any retirement accounts (IRA, 401(k), 403(b), etc)? Yes No
 - Copies of all 401(k) and 403(b) plan documents
 - Statements of value for all other investments, including documentation of loans against any investment
4. Do you own any virtual currency or have you owned any virtual currency in the last 6 years? Yes No
 - Statement of value of anything you currently own
 - If you previously owned virtual currency and sold it please confirm it was reported on your tax returns that were filed with the IRS. Yes No

5. Do you own or have you owned any foreign assets, trusts or bank accounts in the last 6 years? Yes No
- List any foreign assets currently owned
 - If it includes foreign bank or investment accounts, please provide the last 6 months of statements on all foreign accounts
 - If you sold or transferred the assets please confirm you reported the assets/transactions on your tax returns? Yes No
6. Life Insurance
- Statement showing the premium and cash value of life insurance
7. Do you own any real estate? Yes No If No go to #8
- Printouts for the value of any real estate owned (appraisal, Zillow, etc)
 - Recent mortgage statements for any property owned
 - Recent statement for credit lines/home equity loans secured by any real estate
8. Do you rent your home? Yes No
- Lease agreement
 - Utility bills
 - Proof of rental payments for the last 6 months
9. Do you own 1 or more automobiles? Yes No
- Kelly Blue Book printouts for value of each vehicle
 - Recent monthly statement of any loan balance and monthly payment
 - Recent monthly statement showing the lease payment and time remaining on the lease
10. Do you own any collectables (artwork, jewelry, collections, etc)? Yes No
- Statement of value or appraisal for collectables
 - Copy of your homeowners or renter's insurance including riders.

Income & Expenses:

1. We need your current income for you and your spouse/partner/significant other you reside with/anyone who contributes to the household income (whether they are responsible or not). Please get us any of the following if they apply:
- A current profit and loss for each business or rental activity
 - If you or your spouse are wage earners, your three most recent pay stubs
 - Proof of any social security income

- Proof of annuity or retirement income
 - Proof of any child support or alimony received
 - Proof of any other income or cash flow stream into the household
2. Last three months of utility bills
 3. Proof of your mortgage payment and balance. If you rent we need your current lease agreement
 4. Proof of monthly car payments, whether loan or lease, with the balance remaining
 5. Proof of health insurance and premium amount
 6. Proof of life insurance premiums
 7. Proof of disability insurance premiums
 8. Proof of any alimony or child support you or your spouse pay, including the divorce or separation agreement and court order
 9. Home equity statement
 10. Proof of any judgments and payment plans to secured creditors
 11. Proof of any payment plans with state taxing authorities
 12. Proof of student loan balances and payments
 13. Proof of current estimated tax payments (unless you are a wage earner, in which case they are reflected on your paystubs)
 14. Proof of out of pocket healthcare expenses, IF they exceed \$52/per person per month (or \$114/month for anyone 65 or older)
 15. Proof of child/dependent care expense, such as daycare and after-school programs
 16. Proof of any other necessary expenses, such as mandatory union dues, restitution payments, etc.

2023 Allowable Living Expenses National Standards

Expense	One Person	Two Persons	Three Persons	Four Persons
Food	\$466	\$777	\$936	\$1,123
Housekeeping supplies	\$47	\$80	\$85	\$90
Apparel & services	\$96	\$145	\$207	\$252
Personal care products & services	\$43	\$78	\$91	\$97
Miscellaneous	\$189	\$309	\$381	\$431
Total	\$841	\$1,389	\$1,700	\$1,993

More than four persons	Additional Persons Amount
For each additional person, add to four-person total allowance:	\$356

All the expense tables may be found on the IRS Website here:
<https://www.irs.gov/businesses/small-businesses-self-employed/collection-financial-standards>

2023 Allowable Living Expenses Health Care Standards

	Out of Pocket Costs
Under 65	\$79
65 and Older	\$154

<i>Allowable Transportation Expenses</i>		
Public Transportation		
National	\$218	
Ownership Costs		
	One Car	Two Cars
National	\$629	\$1,258
Operating Costs		
	One Car	Two Cars
Northeast Region	\$298	\$596
Boston	\$294	\$588
New York	\$379	\$758
Philadelphia	\$318	\$636
Midwest Region	\$225	\$450
Chicago	\$265	\$530
Cleveland	\$225	\$450
Detroit	\$315	\$630
Minneapolis-St. Paul	\$214	\$428
St. Louis	\$244	\$488
South Region	\$242	\$484
Atlanta	\$300	\$600
Baltimore	\$277	\$554
Dallas-Ft. Worth	\$288	\$576
Houston	\$312	\$624
Miami	\$364	\$728
Tampa	\$297	\$594
Washington, D.C.	\$294	\$588
West Region	\$264	\$528
Anchorage	\$208	\$416
Denver	\$279	\$558
Honolulu	\$243	\$486
Los Angeles	\$339	\$678
Phoenix	\$271	\$542
San Diego	\$322	\$644
San Francisco	\$301	\$602
Seattle	\$281	\$562

2023 Allowable Living Expenses Housing Standards

County	State Name	2023 Published ALE Housing Expense for a Family of 1	2023 Published ALE Housing Expense for a Family of 2	2023 Published ALE Housing Expense for a Family of 3	2023 Published ALE Housing Expense for a Family of 4	2023 Published ALE Housing Expense for a Family of 5
Autauga County	Alabama	\$1,483	\$1,741	\$1,835	\$2,046	\$2,079
Baldwin County	Alabama	\$1,617	\$1,899	\$2,001	\$2,231	\$2,267
Barbour County	Alabama	\$1,278	\$1,501	\$1,582	\$1,764	\$1,792
Bibb County	Alabama	\$1,323	\$1,554	\$1,637	\$1,825	\$1,855
Blount County	Alabama	\$1,405	\$1,650	\$1,739	\$1,939	\$1,970
Bullock County	Alabama	\$1,494	\$1,755	\$1,849	\$2,062	\$2,095
Butler County	Alabama	\$1,268	\$1,489	\$1,569	\$1,749	\$1,778
Calhoun County	Alabama	\$1,339	\$1,572	\$1,657	\$1,848	\$1,877
Chambers County	Alabama	\$1,285	\$1,509	\$1,590	\$1,773	\$1,801
Cherokee County	Alabama	\$1,429	\$1,678	\$1,768	\$1,971	\$2,003
Chilton County	Alabama	\$1,338	\$1,572	\$1,656	\$1,846	\$1,876
Choctaw County	Alabama	\$1,195	\$1,404	\$1,479	\$1,649	\$1,676
Clarke County	Alabama	\$1,403	\$1,647	\$1,736	\$1,936	\$1,967
Clay County	Alabama	\$1,217	\$1,429	\$1,506	\$1,679	\$1,706
Cleburne County	Alabama	\$1,496	\$1,758	\$1,852	\$2,065	\$2,098
Coffee County	Alabama	\$1,454	\$1,708	\$1,800	\$2,007	\$2,039
Colbert County	Alabama	\$1,326	\$1,557	\$1,641	\$1,830	\$1,859
Conecuh County	Alabama	\$1,221	\$1,434	\$1,511	\$1,685	\$1,712
Coosa County	Alabama	\$1,201	\$1,411	\$1,487	\$1,658	\$1,685
Covington County	Alabama	\$1,289	\$1,514	\$1,595	\$1,778	\$1,807
Crenshaw County	Alabama	\$1,334	\$1,567	\$1,651	\$1,841	\$1,871
Cullman County	Alabama	\$1,338	\$1,572	\$1,656	\$1,846	\$1,876
Dale County	Alabama	\$1,289	\$1,514	\$1,595	\$1,778	\$1,807
Dallas County	Alabama	\$1,326	\$1,557	\$1,641	\$1,830	\$1,859
DeKalb County	Alabama	\$1,301	\$1,528	\$1,610	\$1,795	\$1,824
Elmore County	Alabama	\$1,544	\$1,814	\$1,911	\$2,131	\$2,165
Escambia County	Alabama	\$1,238	\$1,454	\$1,532	\$1,708	\$1,736
Etowah County	Alabama	\$1,358	\$1,595	\$1,681	\$1,874	\$1,905
Fayette County	Alabama	\$1,257	\$1,477	\$1,556	\$1,735	\$1,763
Franklin County	Alabama	\$1,271	\$1,493	\$1,573	\$1,754	\$1,782

26 CFR 601.602: Tax forms and instructions.
(Also Part I, §§ 1, 23, 24, 32, 36B, 42, 45R, 55, 59, 62, 63, 125, 132(f), 135, 137, 146, 147, 148, 152, 179, 179D, 199A, 213, 220, 221, 448, 461, 512, 513, 642, 831, 877, 877A, 911, 1274A, 2010, 2032A, 2503, 2523, 4161, 4261, 6033, 6039F, 6323, 6334, 6601, 6651, 6652, 6695, 6698, 6699, 6721, 6722, 7345, 7430, 7702B, 9831; 1.148-5.)

Rev. Proc. 2021-45

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SECTION 5. DRAFTING INFORMATION

SECTION 1. PURPOSE

This revenue procedure sets forth inflation-adjusted items for 2022 for various provisions of the Internal Revenue Code of 1986 (Code), as amended, as of November 10, 2021. To the extent amendments to the Code are enacted for 2022 after November 10, 2021, taxpayers should consult additional guidance to determine whether these adjustments remain applicable for 2022.

.46 Reporting Exception for Certain Exempt Organizations with Nondeductible Lobbying Expenditures. For taxable years beginning in 2022, the annual per person, family, or entity dues limitation to qualify for the reporting exception under § 6033(e)(3) (and section 5.05 of Rev. Proc. 98-19, 1998-1 C.B. 547), regarding certain exempt organizations with nondeductible lobbying expenditures, is \$124 or less.

.47 Notice of Large Gifts Received from Foreign Persons. For taxable years beginning in 2022, § 6039F authorizes the Treasury Department and the Internal Revenue Service to require recipients of gifts from certain foreign persons to report these gifts if the aggregate value of gifts received in the taxable year exceeds \$17,339.

.48 Persons Against Whom a Federal Tax Lien Is Not Valid. For calendar year 2022, a federal tax lien is not valid against (1) certain purchasers under § 6323(b)(4) who purchased personal property in a casual sale for less than \$1,690, or (2) a mechanic's lien or under § 6323(b)(7) who repaired or improved certain residential property if the contract price with the owner is not more than \$8,440.

.49 Property Exempt from Levy. For calendar year 2022, the value of property exempt from levy under § 6334(a)(2) (fuel, provisions, furniture, and other household personal effects, as well as arms for personal use, livestock, and poultry) cannot exceed \$10,090. The value of property exempt from levy under § 6334(a)(3) (books and tools necessary for the trade, business, or profession of the taxpayer) cannot exceed \$5,050.

.50 Exempt Amount of Wages, Salary, or Other Income. For taxable years beginning in 2022, the dollar amount used to calculate the amount determined under § 6334(d)(4)(B) is \$4,400.

Part 5. Collecting Process

Chapter 15. Financial Analysis

Section 1. Financial Analysis Handbook

5.15.1 Financial Analysis Handbook

Manual Transmittal

November 22, 2021

Purpose

(1) This transmits revised IRM 5.15.1, Financial Analysis, Financial Analysis Handbook.

Material Changes

(1) The following table outlines changes made to IRM 5.15.1:

IRM #	IRM Subsection Title	IRM Changes
5.15.1.1.6	Terms/Definitions/Acronyms	Added FATCA and CKGE
5.15.1.1.7	Related Resources	Added Counsel recommended approved language on The Taxpayer Bill of Rights (TBOR).
5.15.1.2 (2) & (12)	Overview and Expectations	Revised section to remove unnecessary breaks and split paras to conform with the guidelines in IRM 1.11.2.3.1 which created newly created paras for IRM 5.15.1.2(3), (4), & (15). This includes examples of substantiations.
5.15.1.5	Shared Expenses	Updated the sentence in (1) to clarify that bills paid from commingled funds/joint checking account applies to joint shared household expenses in general and changed format to correct unnecessary page breaks per IRM 1.11.2.3.1(3)
5.15.1.6	Internal Sources and Online Research	Added source information for the CDW Knowledge Graph Environment (CKGE).

IRM #	IRM Subsection Title	IRM Changes
5.15.1.6	Internal Sources and Online Research	Added information on requesting Foreign Account Tax Compliance Act (FATCA).
5.15.1.7(1)	External Sources	Added a note under the life insurance sections to address the sale of a life insurance policy.
5.15.1.10	Local Standards	Changes made to format to correct block paras, make tables 508 compliant per required guidance in IRM 1.11.2.3.1(3).
5.15.1.11	Other Expenses	Corrected the language in the title from the word “invalid“ to Dependent Care (For care of the elderly, handicapped, or otherwise disabled)
5.15.1.20	Assets	Added information on utilizing Foreign Account Tax Compliance Act (FATCA) research to determine and verify the taxpayer’s ability to pay.
5.15.1.27	Life Insurance	Added a note to address the sale of a life insurance policy.
Throughout	Throughout	Editorial changes throughout the IRM to correct citations with italicized titles, broken links, and IRM references.
Throughout	Throughout	Changed the mention of the “Service” and replaced with the “IRS” and changed capitalizations based on IRS Style Guide rules.

Effect on Other Documents

This supersedes IRM 5.15.1 dated July 24, 2019.

Audience

SB/SE revenue officers, Collection management officials, and other IRS Collection personnel.

Effective Date

(11-22-2021)

Kareem Williams
Acting Director, Collection Policy

Item	Claimed	Standard	Allowed
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Total Operating (for 2 cars)	\$360	\$340	\$340
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23.

24. Note:

25.

26. **Total Ownership and Operating Cost Allowed** - You then would add the allowed **ownership cost** for the 1st and 2nd car to the allowed **operating cost** for 2 cars to calculate the total ownership and operating cost allowed. As a result, your allowed ownership and operating cost would equal **\$1,278** (\$478 + \$460 + \$340).

27. Example:

28.

29. If a taxpayer takes a train to work, but drives a vehicle from home to the train station, the actual expenses incurred for vehicle ownership and operating costs and the train fare would be allowable.

- If a taxpayer claims higher amounts of operating costs because he commutes long distances to reach his place of employment, he may be allowed greater than the standard. The additional operating expense would generally meet the production of income test and therefore be allowed if the taxpayer provides substantiation.
- If the amount claimed is more than the total allowed by any of the transportation standards, the taxpayer must provide documentation to verify and substantiate that those expenses are necessary. All deviations from the transportation standards must be verified, reasonable and documented in the case history.

5.15.1.11 (11-22-2021)

Other Expenses

1. Other expenses may be necessary or conditional. Other necessary expenses meet the necessary expense test and normally are allowed. The amount allowed must be reasonable considering the taxpayer's individual facts and circumstances. Other Conditional Expenses **may not** meet the necessary expense test, but may be allowable based on the circumstances of an individual case.
2. There may be circumstances where expenses may be allowed even if they do not meet the necessary expense test. If the IRS tax liability including accruals can be paid within six years and within the CSED, all expenses may be

allowed if they are reasonable. If the taxpayer cannot pay within six years, it may be appropriate to allow the taxpayer up to one year in order to modify or eliminate one or more expenses. See *IRM 5.15.1.3*, Analyzing Financial Information.

3. If other conditional expenses are determined to be necessary and, therefore allowable, document the reasons for the decision in your history.

Expense Item	Expense is Necessary:	Notes/Tips
Accounting and legal fees	<ul style="list-style-type: none"> • The fees are for representation before the IRS (i.e., to resolve current balances due, delinquent returns, examinations, etc.), or • The fees meet the necessary expense test. • The amount should not be excessive and must be reasonable given the complexity of the case. 	<ul style="list-style-type: none"> • Fees related to business operations (i.e., reported on Schedule C) should not be claimed as personal expenses. • Fees may vary; an accountant will charge less for a wage earner with all returns filed that just needs a CIS completed, than he/she would charge for a self-employed individual that needs several returns prepared along with a CIS. Fees vary across the country so allowable amounts may also differ depending on where the taxpayer lives.
Charitable contributions (Donations to tax exempt organizations)	<p>If it is a condition of employment or meets the necessary expense test. Example: A minister is required to tithe according to his employment contract.</p>	<p>Disallow any other charitable contributions that are not considered necessary. Example: Review the employment contract.</p>
Child Care (Baby-sitting, day care, nursery and preschool)	<p>If it meets the necessary expense test. Only reasonable amounts are allowed.</p>	<p>Cost of child care can vary greatly. Do not allow unusually large child care expense if more reasonable alternatives are available.</p>

Expense Item	Expense is Necessary:	Notes/Tips
Court-Ordered Payments (Alimony, child support, including orders made by the state, and other court ordered payments)	If alimony and child support payments are court ordered and being paid, they are allowable. If payments are not being made, do not allow the expense unless the non-payment was due to temporary job loss or illness. Restitution payments made to other victims pursuant to a court order are allowable expenses.	Consider the age of the child and if both parents work. Review the court order. Payments that are included in a state court order are not necessarily allowable (such as a child's college tuition that would not otherwise be allowable as a necessary expense.) See <i>Exhibit 5.15.1-1</i> , Question 15.
Dependent Care (For care of the elderly, handicapped, or otherwise disabled)	If there is no alternative to the taxpayer paying the expense.	N/A
Education	If it is required for a physically or mentally challenged child and no public education providing similar services is available. Education expenses are also allowed for the taxpayer if required as a condition of employment.	Example: An attorney must take a certain amount of education credits each year or they will not be accredited and could eventually lose their license to practice before the State Bar. A teacher could lose their position or in some states their pay is commensurate with their education credits.
Involuntary Deductions	If it is a requirement of the job; e.g., union dues, uniforms, work shoes.	To determine monthly expenses, the total out of pocket expenses would be divided by 12.
Life Insurance	If it is a term policy on the life of the taxpayer only.	If there are whole life policies, these should be reviewed as an asset for borrowing against or liquidating. Life insurance used as an investment is not a necessary expense.
Secured or legally perfected debts	If it meets the necessary expense test.	Taxpayer must substantiate that the payments are being made.
Credit Card Debts	<ul style="list-style-type: none"> • Credit cards are generally considered 	<ul style="list-style-type: none"> • If a taxpayer is paying for necessary

Expense Item	Expense is Necessary:	Notes/Tips
Other Unsecured Debts	<p>a method of payment, rather than a specific expense. A taxpayer may be paying for necessary living expenses using cash or a credit card, e.g. food, clothing, gas, etc. Consequently, payments for the portion of the credit card debt reflecting necessary living expenses are provided for as allowable expenses under the national and local standards.</p> <ul style="list-style-type: none"> It is important that taxpayers be informed of the above, and be advised that the IRS National Standards for Food, Clothing and Other Items provides an amount for miscellaneous expenses that can be applied to credit card debt. Generally, minimum payments on credit cards are allowed under the six-year rule. <p>If the taxpayer substantiates and justifies the expense, the minimum payment may be allowed. The necessary expense test of health and welfare and/or production of</p>	<p>expenses that exceed the standards, and those expenses are justified, a deviation under the expense item on Form 433-A, Collection Information Statement for Wage Earners and Self-Employed Individuals, should be allowed.</p> <ul style="list-style-type: none"> If a credit card payment is only partially allowed or not allowed at all, the taxpayer should be advised that the IRS allows an amount monthly for miscellaneous expenses that can be used to make credit card payments. See <i>Exhibit 5.15.1-1</i>, Questions 19-21. <p>Examples of unsecured debts which may be necessary expenses include: payments required for the production of income such as payments to suppliers and payments on</p>

Expense Item	Expense is Necessary:	Notes/Tips
	income must be met. Except for payments required for the production of income, payments on unsecured debts will not be allowed if the tax liability, including projected accruals, can be paid in full within 90 days.	lines of credit needed for business, and payment of debts incurred in order to pay a federal tax liability.
Current Year Taxes	If it is for current federal, FICA, Medicare, state and local taxes.	Current taxes are allowed regardless of whether the taxpayer made them in the past or not.
Delinquent State and Local Taxes	Payments for delinquent state and local (county or municipal) tax liabilities may be allowed in certain circumstances: <ul style="list-style-type: none"> <li data-bbox="737 919 987 1094">• When a taxpayer does not have the ability to full pay the tax liability. <li data-bbox="737 1104 987 1241">• When a taxpayer provides complete financial information. <li data-bbox="737 1251 987 1493">• When a taxpayer provides verification of the state or local tax liability, and agreement if applicable 	See IRM 5.15.1.11(4) and <i>Exhibit 5.15.1-1</i> , Question 18 for additional guidance.
Optional Telephones and Telephone Services (Pre-paid long distance telephone cards/minutes or pre-paid cellular cards/minutes)	If it meets the necessary expense test.	N/A

Expense Item	Expense is Necessary:	Notes/Tips
Student Loans	<p data-bbox="610 296 980 432">If it is guaranteed by the federal government and only for the taxpayer's post-high school education.</p> <ul style="list-style-type: none"> <li data-bbox="737 443 1003 579">• Taxpayers must substantiate that the payments are being made. <li data-bbox="737 590 1003 1094">• Taxpayers who have student loan debt, but are unable to make payments on the debt because they are suffering an economic hardship or have medical problems, should be advised to request a deferment or forbearance of the student loan payments. <li data-bbox="737 1104 1003 1346">• The Installment Agreement (IA) amount will be established without allowing for a student loan payment. <li data-bbox="737 1356 1003 1675">• Taxpayers must be advised that if they later make arrangements to pay the student loan, they can request the installment agreement be revised. 	<ul style="list-style-type: none"> <li data-bbox="1149 296 1419 726">• Taxpayers with student loan debt, who have not yet made arrangements to repay the loan, should be allowed 10 days to set up a payment plan for the student loan and provide verification so the loan payment can be allowed. <li data-bbox="1149 737 1419 905">• Additional time may be allowed if a taxpayer has extenuating circumstances. <li data-bbox="1149 915 1419 1241">• Taxpayers must be advised that if they do not respond by the due date, the IA amount will be established without allowing for a student loan payment. <li data-bbox="1149 1251 1419 1566">• Taxpayers must also be advised that if they later make arrangements to pay the student loan, they can request the installment agreement be revised.
Repayment of loans made for payment of Federal Taxes	<p data-bbox="610 1696 971 1871">If the IRS has received the proceeds of the loan and the taxpayer can document the loan, the payment amount should be allowed.</p>	N/A

4. Delinquent State and Local Taxes. Payments for delinquent state and local (county or municipal) tax liabilities may be allowed in certain circumstances:

- When a taxpayer owes both delinquent Federal taxes and delinquent state or local taxes, and does not have the ability to full pay.
 - When a taxpayer is cooperative and provides complete financial information.
 - When a taxpayer advises the IRS that he/she owes delinquent state or local taxes and provides verification of the state or local tax liability, and agreement, if applicable.
- Follow the procedures in this table to determine the allowable payment for delinquent state or local tax debts.

IF	AND	THEN
the taxpayer does not have an existing agreement for payment of the delinquent state or local tax debts,	provides a complete Collection Information Statement (CIS) and verification of state or local tax debts,	follow procedures in IRM 5.15.1.11(4)(b) to determine the calculated percentage amount that will be listed as the allowable monthly payment for delinquent state or local taxes on the CIS.
the taxpayer has an existing agreement for delinquent state or local tax debts, and that agreement was established after the earliest IRS date of assessment,	the payment amount on the state or local agreement is less than the calculated percentage amount,	the monthly amount due on the existing state or local agreement will be listed as the allowable delinquent state or local tax payment on the CIS. The payment to IRS will be increased by the amount allowed for the monthly state or local payment one month after the date the state or local liability is scheduled to be fully paid.
the taxpayer has an existing agreement for	the payment amount on the	the amount listed as the delinquent state or local

IF

delinquent state or local tax debts, which was established **after** the earliest IRS date of assessment,

AND

agreement, is **more** than the calculated percentage amount,

THEN

tax payment on the CIS will be the calculated percentage amount. Advise the taxpayer that he/she can use the amount IRS allows for Miscellaneous expenses under National Standards to pay the additional amount due for the delinquent state or local tax payment. The payment to IRS will be increased by the amount allowed for the monthly state or local payment one month after the date the state or local liability is scheduled to be fully paid.

the taxpayer has an existing agreement for delinquent state or local tax debts, which was established **prior to** the earliest IRS date of assessment,

allowing the amount on the existing state or local agreement will not result in the case being reported uncollectible,

allow the existing state or local tax payment and increase the IRS payment one month after the date the state or local liability is scheduled to be fully paid. See IRM 5.15.1.10(4)(c) and (d) if allowing the state payment will result in the account being reported Currently Not Collectible (CNC) due to hardship.

- Follow these procedures to calculate an allowable payment amount for delinquent state or local tax debts.
 - 1) Determine net disposable income on Form 433-A, Collection Information Statement for Wage Earners or Self-Employed Individuals, or Form 433-F, Collection Information Statement. Do not include any amount that is being paid for outstanding state or local tax liabilities in the calculation. Net

disposable income is the difference between gross income and allowable living expenses.

Note:

If the taxpayer's net disposable income is less than \$25, prepare a backup Form 53 due to hardship along with the installment agreement in case of eventual default and termination.

2) Calculate the dollar amounts for the IRS and state or local payments based on the total liability owed to each agency (including penalties and interest to date).

3) Use the net disposable income and a percentage of IRS and state or local liabilities to total liability to calculate the payment amounts.

Example:

(1)

Category	Amount/Percentage
IRS Tax Liability	\$10,000.00
State or Local Tax Liability	\$5,000.00
Total	\$15,000.00
IRS percentage	$10,000.00/15,000.00 = .67$
State or Local percentage	$5,000.00/15,000.00 = .33$
Taxpayer's net disposable income (see Note below)	\$400.00
IRS Payment (400 x .67)	\$268.00
State or Local Payment (400 x .33)	\$132.00

Note:

If the Net disposable income is less than \$25, prepare a backup Form 53 due to hardship along with the installment agreement in case of eventual default and termination.

Example:

(2)

Category	Amount/Percentage
IRS Tax Liability	\$1,000.00
State or Local Tax Liability	\$500.00
Total	\$1,500.00
IRS percentage	$1,000.00/1,500.00 = .67$
State or Local percentage	$500.00/1,500.00 = .33$
Taxpayer's net disposable income	\$35.00
IRS Payment (35 x .67)	\$23.45 (Actual IRS IA payment = \$25.00)
State or Local Payment (35 x .33)	\$11.55 (Actual State or Local IA payment = \$10.00)

- If allowing even a minimal monthly payment for delinquent state or local taxes will result in the account being reported Currently Not Collectible due to hardship:

AND

THEN

the taxpayer does not have an existing agreement for the delinquent state or local tax debts,

a payment for delinquent state or local taxes **will not** be allowed. Advise the taxpayer that he/she can use the amount the IRS allows for Miscellaneous expenses under National Standards to pay the delinquent state or local tax payment.

the taxpayer has an existing agreement for the delinquent state or local tax debts, which was established **after** the

a payment for delinquent state or local taxes **will not** be allowed. Advise the taxpayer that he/she can use the amount the IRS allows for Miscellaneous expenses under National

AND

earliest IRS date of assessment,

the taxpayer has an existing agreement for delinquent state or local tax debts, which was established **prior to** the earliest IRS date of assessment,

THEN

Standards to pay the delinquent state or local tax payment.

the amount allowed for state or local taxes on the CIS should be reduced to allow for an IRS Installment Agreement payment . Advise the taxpayer that he/she can use the amount the IRS allows for Miscellaneous expenses under National Standards to pay the additional amount due for the delinquent state or local tax payment. The payment to the IRS will be increased by the amount allowed for the monthly state or local payment one month after the date that the state or local liability is scheduled to be full paid.

- **Example:**

-
- The taxpayer's net disposable income (not including the state or local payment) is \$70. The state or local payment due on an existing agreement that was established prior to the earliest IRS date of assessment is \$100. The amount allowed for delinquent state or local taxes on the CIS is \$45. The payment for the IRS IA is \$25. Advise the taxpayer that he or she can use the Miscellaneous allowance to pay the difference between what the IRS has allowed (\$45) and what is owed monthly for the state or local payment agreement (\$100), which is \$55 ($\$100 - \$45 = \$55$). One month after the date the state or local agreement will be fully paid at \$45 monthly, increase the IRS' IA amount to \$70 monthly ($\$25 + \45).

- **Note:**

-
- Document all calculations in the case history.
- Allowing payments for delinquent state or local taxes when establishing an Installment Agreement has no effect on lien or levy priorities. This guidance only impacts determinations of ability to pay. Employees should use existing procedures and lien law to determine the IRS interest in assets. If a taxpayer refuses to establish an Installment Agreement or defaults on an Installment

Agreement, IRS employees should follow existing procedures and lien law to determine the appropriate course of action, including pursuing collection.

- Minimal payments for delinquent state or local taxes are allowed for Installment Agreements using the six-year rule. If the six-year rule applies, taxpayers are required to provide financial information, but do not have to provide substantiation of reasonable expenses. If the taxpayer meets all other requirements for the six-year rule, the amount claimed for state or local taxes may be allowed. Employees would not be required to obtain verification of the state payment or calculate an amount due based on the percentage basis discussed above.
- If a state already has a Federal/State Memorandum of Understanding (MOU) for establishing joint Federal and State agreements, follow the MOU guidelines.

5.15.1.12 (08-29-2018)

Determining Individual Income

1. Generally all household income, including income that is exempt from tax on the Form 1040, will be used to determine the taxpayer's ability to pay. Income earned by a taxpayer's dependent child, claimed on the child's Income Tax Return, would generally not be included in the taxpayer's household income. However, if an independent adult child is living with the taxpayer and contributing to the household income used to pay living expenses, that adult child's income may be included in a Shared Expense analysis. In cases where a liable taxpayer lives with a non-liable person, refer to *IRM 5.15.1.5*, Shared Expenses, for a complete explanation of determining proportionate income and expense calculations.

Caution:

IRC 6334(a) describes property that is exempt from levy. Refer to *IRM 5.11.1.4.1*, Property Exempt from Levy for a complete list of exempt levy sources.

2. Income consists of the following:
- A. **Wages** - Wages include salary, tips, meal allowance, parking allowance or any other money or compensation received by the taxpayer as an employee for services rendered. This includes the taxpayer and the taxpayer's spouse. Use the following formulas to calculate gross monthly wages or salaries: