

# THE IRS TATTLER

TRAVIS W. WATKINS, PC

WWW.TAXHELPOK.COM



**Travis W. Watkins**

6402 N. Santa Fe, Suite B  
Oklahoma City, OK 73116  
405.607.1192

1831 E. 71st St  
Tulsa, OK 74136  
918.877.2794

[www.taxhelpOK.com](http://www.taxhelpOK.com)

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## It's Not the IRS' Job to "Fix" the Economy

The Internal Revenue Service exists for one reason, and one reason only: to enforce the nation's federal tax laws. This includes bringing legal action against recalcitrant taxpayers, including both businesses and individuals. As a matter of policy, the IRS is not concerned with the effect its actions have on the overall state of the American economy. Even the deepest recession since the 1930's hasn't prevented it from collecting back tax debts using the full force of the law.

If this seems unfair and short-sighted to you, you have a lot in common with other struggling taxpayers in Oklahoma. However, the fact remains that the IRS is not responsible for fixing the economy; all it can do is act on legislation and decisions passed down by higher authorities in the government, such as the Senate, the House of Representatives and the Supreme Court.

If the House and Senate negotiate a huge tax break for middle-class wage earners, and the President signs it into law, then the IRS will have no choice but to roll with the tide. Similarly, if the Supreme Court one day decides that payroll taxes are unconstitutional, the IRS will have to change its policies drastically.

The point is it is fairly useless to scold your IRS revenue officer for dragging you or your business to the brink of financial ruin. He is responsible for collecting your back tax debt, not for supporting your small business or helping to shore up the U.S. economy. A better strategy would be to hire an experienced tax expert to negotiate with the revenue officer and hammer out a mutually agreeable solution to your tax pickle.

For answers to your tricky tax questions, call our office today (800-721-7054).

*Hope you all had a Happy Valentine's Day!*



## 10 Things to Stop Doing to Your IRS Offer in Compromise

Avoiding the pitfalls in the process of requesting an offer in compromise can save you time and money. Here are some mindsets and behaviors you can STOP to vastly improve your chances of getting one accepted.

**1. Continue to stack more tax debt while your offer is pending.** A typical offer in compromise candidate waits 6-12 months right now just for the IRS to process the request. The IRS hates it when offer candidates continue to add more and more to their bill each year. They call this phenomenon ‘pyramiding.’ I have seen good offers wrecked after waiting nearly a year for their turn to come up in line because the taxpayer failed to make his quarterly estimated payments while the offer is pending. You have to stay current in filing and paying while your offer is pending. Now is as good a time as any to get in the habit of filing and paying on time. I will explain below.

**2. Continue to fail to file or pay your taxes in any year for the five years following acceptance of your offer.** You must pay and file your taxes on time for the 5 years following an acceptance of your offer in compromise. If you don’t, all the forgiven tax debt will come rolling back on top of you, with penalties and interest. There is nothing more tragic than a taxpayer failing to file in year 4 and seeing thousands of dollars being added back to their tax bill.

**3. Don’t appeal a good offer.** The collection appeals program can be a game changer for otherwise good offers. Most taxpayers don’t know they can appeal an offer denial. Even fewer know how to appeal the denial. It never hurts to have a

fresh set of eyes on your offer, and that’s what you get when you appeal it to the next level. On average, only about a third of offers get accepted. I think this low number is a result of taxpayer’s lack of knowledge of the appeals program. Tax professionals should have much higher success rates than the general average. So, ask any tax professional you are considering to help you what their success rate is.

**4. Take an offer examiner’s suggestion to withdraw a good offer in compromise, and take a payment plan.** An offer examiner is required to explore the IRS’ collection alternative of choice, the installment agreement, if it denies your offer in compromise. So, don’t get pressured from the beginning into a one-sized fits all payment plan, if you have a good offer.

**5. Submit “junk” offers.** Many taxpayers mistakenly believe that the IRS has no staying power and will bend to cut you a deal just because the government generally runs on huge deficits and massive spending. In other words, these taxpayers think that the government has no staying power and they can make a lowball offer with no basis in reality. An offer in compromise is simple in concept, but you must have supporting documentation for all your figures. Simply put, an offer is the amount of your disposable income (that is, income minus allowable expenses) times 12 months. You can’t just write down an amount grandma might lend you to get out of paying your taxes. These junk offers with no supporting logic or documentation will be rejected. You also will lose the mandatory 20% of your offer that you are required to pay

with your request. If you later submit a legitimate offer, you must submit a new 20% down payment.

**6. Remain inflexible on the idea that the offer in compromise is the only vehicle for saving you money on your taxes.** The offer in compromise is a powerful tool in collection alternatives, but it’s not the only show in town. Don’t go down with a sinking ship offer without exploring a payment plan if your offer is looking like it won’t be accepted, e.g. you have too much equity in your house or other disposable assets. Remember, the collection statute of limitations stops while your offer is pending. So, you may not wish to stop the collection statute if it is short. The IRS has an often overlooked program called the Partial Pay Installment (PPIA) that accomplishes nearly the same thing an offer does if you are not approved for the offer. If the amount you can pay is less than the IRS can collect within its collection statute of limitations, the rest is on them.

**7. Wait until things get better.** It’s counterintuitive, but the best time to make a settlement deal is not when things are at their best financially. That said, the offer rules changed in 2012, and the offer game clearly favors taxpayers with some amount of monthly disposable income. They are going to make you pay the equivalent of 1 year’s disposable income as your offer amount if you agree to pay your accepted offer amount in 5 months or less. If you are going to pay in 6-24 months (24 months is the max for offer payouts now), the IRS is going to look ahead at 2 years of disposable income. So, if that 1 or 2 year look-ahead period is bleak for you finan-

cially, and it won’t full-pay your debt, you have a pretty good shot at getting an offer approved. These developments are getting more offers approved than ever before. These deals won’t be around forever. The IRS loves to “improve” on systems and procedures almost daily, where no improvement is necessary (or desired). There is no guarantee that this workable system will be around forever. Some of its current components are set to expire this Summer.

**8. Do it yourself.** The DIY approach may be good for things like home improvement, but not the offer in compromise process. As mentioned in this article, the IRS’ offer examiners are trained to look out for the best interests of the government. Who is the government? Just know, it’s not you! If you are able to pay your tax debt with available cash or assets, they will want you to sell property, cash out or get in a payment plan to pay out the bill. The IRS will pressure you into these options, but a tax professional that deals with the IRS everyday is not intimidated by these tactics.

**9. Don’t sweeten the IRS’ pot with a collateral agreement.** The IRS will rarely tell you about this little known weapon in the offer process. Often during the offer process, an examiner will bring up certain contingencies that they say will kill the deal. I call these “dream scenarios,” as in-keep dreaming! It goes like this. We (the IRS) think that this able bodied taxpayer will be able to make \$75,000 next year and so the amount of his offer should be at least \$75,000. Never mind that he owes \$80,000 for multiple tax years and has never made \$75,000 in his life. So, you can come up with a side agreement

## Continued: 10 Things to Stop Doing to Your IRS Offer in Compromise

with the IRS that says that IF you make above what you made last year, let's say \$35,000 for instance, you will pay the IRS \$1 for each \$5 above \$35,000. They may still say no deal. So, you come back and say ... oh, AND we won't take any business deductions next year BUT give me the offer I request. In essence, you are putting your money where their mouth is. You are making

it more attractive for the government to say yes to your offer and it is bringing these remote contingencies they like to bring up into perspective.

### 10. Be rude and inflexible toward your offer examiner.

A lot of human elements go into the consideration process of an offer in compromise. As in most things in life, you get more with honey than vinegar. Plainly, if an IRS examiner

doesn't like you, he is not going to give you any benefit of the doubt on close calls. Offer examiners are usually trained tax professionals, unlike some of the IRS employees you get when you contact the general Automated Collection Services helpline. Generally, they will be courteous, professional and even cooperative when it comes to giving you time to round up additional documenta-

tion, since the IRS takes a long time just to process your offer. Some will even come up with creative solutions in the process, if they know that you will politely stand your ground and are being straight with them. However, if you get frustrated or lose your cool or treat them as less than trained professionals, they lose their flexibility toward your offer.

## Golfer Phil Mickelson Reconsiders Tax Changes

Champion golfer Phil Mickelson is backing away from some recent comments in which he suggested he may need to move out of California to avoid the increasingly heavy tax burden in the state.

Mickelson, who has won four major PGA championships, said he will need to make some "drastic changes," but admitted that he is not sure what to do yet. "There are going to be some drastic changes for me because I happen to be in that zone that has been targeted both federally and by the state and it doesn't work for me right now," he said at a press conference Sunday, according to USA Today.

Last November, California voters approved a ballot measure raising taxes on wealthy residents, increasing the top tax rate to 12.3 percent

for single taxpayers who earn \$500,000 or more, and couples who earn over \$1 million a year. Federal income taxes also increased this month to 39.6 percent for single taxpayers who earn over \$400,000 a year and cou-



ples who make over \$450,000 as a result of the fiscal cliff deal. Mickelson cited high tax rates as one reason why he backed away from joining a group of investors in buying the San Diego Padres baseball team. He noted that he already pays high taxes. "If you add up all the federal and you look at

the disability and the unemployment and the Social Security and the state, my tax rate's 62, 63 percent," he said. "So I've got to make some decisions on what I'm going to do."

Mickelson took some criticism over his tax stance, which has been compared to French actor Gerard Depardieu's move from France to Belgium because of a recent tax hike

on the wealthy (see Gerard Depardieu Leaves France Because of Tax Hikes). Mickelson released a statement Monday night apologizing for his comments. "Finances and taxes are a personal matter, and I should not have made my opinions on them public," Mickelson said in a statement quot-

ed by ESPN. "I apologize to those I have upset or insulted, and assure you I intend to not let it happen again."

Besides his earnings from golf, Mickelson also earns endorsement money from several major corporate sponsors, as well as Big Four firm KPMG, whose logo he wears on his cap. Another championship golfer, Tiger Woods, weighed in on the controversy Tuesday, claiming that taxes were one reason why he moved from California to Florida, which has no state income tax. "I moved out of here [California] back in '96 for that reason," Woods said, according to The Daily Caller. "I enjoy Florida, but also I understand what he [Mickelson] was, I think, trying to say."

By Michael Cohn

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6402 N. Santa Fe, Suite B  
Oklahoma City, OK 73116  
405.607.1192

1831 E. 71st St  
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**Question:**

***What Thunder player holds the record for consecutive games played by an active player in the NBA?***

- A. Russell Westbrook*
- B. Kevin Durant*
- C. Serge Ibaka*
- D. Nick Collison*