

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF TAX AND REVENUE**



OFFER IN COMPROMISE

Form OTR-10 Booklet

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If you have any questions regarding OIC qualifications, please call (202) 724-5045, or visit our website at www.taxpayersevicecenter.com: click: tax forms/publications, from the Miscellaneous Forms drop-down window, select and download Offer in Compromise Form (OTR10).

What is an Offer in Compromise (OIC)?

An **Offer in Compromise (OIC)** is an agreement between the taxpayer and the OTR that allows the taxpayer to settle their **tax** debt for less than the full amount owed. It may be a legitimate option if the taxpayer can't pay the full **tax** liability, or doing so creates a financial hardship.

The **Office of Tax and Revenue (OTR)** will consider an offer to settle unpaid tax liabilities for less than the full amount due when there is a reasonable doubt as to the liability of the taxpayer or the collectibility of the tax imposed under title D.C. Code § 47-4404.

The ultimate goal is a compromise that suits the best interest of both the taxpayer and the OTR. To be considered, generally you must make an appropriate offer based on what the OTR considers your true ability to pay.

Submitting an offer application does not ensure that it will be automatically accepted by OTR. It, your offer, does however begin a process of evaluation and verification by the OTR, taking into consideration any special circumstances that might affect your ability to pay.

Generally, the OTR will not accept an offer if you can pay your tax debt in full via an installment agreement or a lump sum payment.

What is the Offer in Compromise Program?

The **Offer in Compromise** program is used to resolve tax liabilities for income tax, sales and use, withholding tax, or any other tax administered by the OTR when the taxpayer is unable to pay in full and all other efforts to resolve the liability have been unsuccessful.

The **OIC** program is not an appeal of the taxpayer's liability. Instead, under the program, the OTR looks at the taxpayer's available resources and assets, and considers the resources in light of the taxpayer's circumstances to arrive at an equitable resolution of the taxpayer's liability by considering a reduction or abatement of the amount of tax due.

Who is eligible?

- You have incurred a delinquent tax liability that has resulted in an assessment
- You have exhausted all other avenues of administrative appeal.
- You cannot make an offer in compromise if there is any issue remaining or currently being appealed
- You must be current with all tax returns you are legally required to file
- You either are without resources or unable to apply present and/or future resources to paying the outstanding tax liability.
- You or your business is currently in an open bankruptcy proceeding, you are not eligible to apply for an offer. *(Note: Any resolution of your outstanding tax debts generally must take place within the context of your bankruptcy proceeding.)*

Other Important Facts

- Penalties and interest will continue to accrue while your OIC is being evaluated.
- You may not submit an offer for tax years that have not been assessed
- If you currently have an approved installment agreement with OTR in good standing, then you may suspend making those installment agreement payments when you submit an offer. If your offer is rejected for any reason, your installment agreement with OTR will be reinstated and payments must resume within 30 days of the date of the rejection.
- All decisions under the Offer in Compromise Program are final and cannot be appealed. For this reason, you should carefully consider the facts and arguments submitted with the original offer.
- You must remain current with respect to future filings for at least five years after the Offer in Compromise is accepted. If you do not, the full liability will become due immediately and the OTR will pursue all necessary action to collect.
- OTR will review the Offer in Compromise and determine if there is sufficient reason for a reduction or abatement of the assessment.
- If OTR determines that no grounds for an adjustment exist, you will be notified that your offer has been declined. The OTR will consider another offer if your circumstances change.
- If OTR determines that grounds for an adjustment exist, but that the amount offered is insufficient, you will be advised as to an acceptable offer amount.
- If OTR determines that your offer is acceptable, you will be notified.
- You must pay the offer amount within 30 days of the accepted offer. Failure to do so will result in the offer being voided.
- All agreed upon terms must be adhered to or the accepted offer will become null and void. And, all collection enforcement activity will resume.

Payment Options

Submitting an OIC requires the selection of a payment option as well as sending an initial payment with your application. The amount of the initial payment and subsequent payments will depend on the total amount of your OIC and which of the following payment options you choose.

Lump Sum: This option requires that 100% of the total amount of the Offer is paid when the application is submitted.

Periodic Payment: This option requires that a 20% first payment is submitted with the Offer, and the remaining balance paid in five or fewer payments within 12 months of the date your offer is accepted. *(Note: Under this option, you must continue to make all subsequent payments while OTR is evaluating your OIC. Failure to make these payments will result in default, rendering the OIC null and void.)*

- The length of the payment option you choose may affect the amount of the offer that OTR will accept.
 - An OIC paid within five months of acceptance might result in a lesser amount.

- In all cases, your OIC amount must be paid within 12 months of the date the OIC is accepted.
- Your OIC amount cannot include a refund that you are due from OTR; however any further refunds may be withheld and applied to an outstanding liability.
- In the event that your OIC is denied, any payment(s) submitted at the time of filing or thereafter *will not* be refunded. Payment(s) will be applied to the outstanding tax debt.
- You may need to consider borrowing money from a bank, family and/or friends if you are unable to honor the OIC.
- If retirement savings from an IRA or 401k plan are utilized to satisfy this obligation, there will be future tax liabilities owed. Contact OTR or your tax advisor prior to choosing this action.

Future Tax Obligations

If your OIC is accepted, you must continue to file and pay any future tax obligations. If you fail to file and pay any tax obligations that become due within the five years after your OIC is accepted, your OIC may be defaulted. If your OIC is defaulted, all compromised tax debts, including penalties and interest will be reinstated.

How to apply for an Offer in Compromise

The application process involves completing and transmitting the following:

- Form OTR-10, Offer in Compromise (OIC)
- Form PA-1, Collection Information Statement for Individuals, if applicable. (Note: OTR will accept the IRS Form 433-A, Collection Information Statement for Wage Earners and Self-Employed Individuals, in lieu of Form PA-1, if filed with the IRS within the past six (6) months).
- Form PA-2, Collection Information Statement for Businesses, if applicable. (Note: OTR will accept the IRS Form 433-B, Collection Information Statement for Businesses, in lieu of Form PA-2, if filed with the IRS within the past six (6) months.)
- Submitting an initial payment with your OIC packet. (*See Payment Options*)

When you complete the **Form OTR-10**, you should address all of the reasons you believe you cannot, or should not, pay the full amount due. You should offer an amount you are able to pay. A mere unwillingness to pay will not excuse you. OTR will consider the following circumstances when deciding whether or not to accept your **offer in compromise**:

Doubt as to liability

If you believe you don't owe the amount due, you must include with a Form OTR-10 a detailed explanation of the reason(s) you believe you don't owe the tax.

Insufficient resources

If you don't have enough assets or income to pay the full amount, you must include with Form OTR-10 a complete financial statement, Form PA-1 for individuals and/or PA-2 for businesses.

Economic or other hardship

If you have enough assets to pay the full amount, but believe that because of your exceptional circumstances requiring full payment would cause an economic hardship or would be unfair and inequitable, you must include with Form OTR-10 a complete financial statement, Form PA-1 and/or PA-2.

Reasons for a rejected OIC

OTR will not process your OIC application, if the following exist:

- An official Form OTR-10 is not submitted
- Pre-printed terms on the form have been altered
- Taxpayer is not identified
- Taxpayer Identification Number is not included (i.e., SSN, EIN, ITIN)
- An amount is not offered and/or payment terms are not stated
- Appropriate signatures are not present
- Forms PA-1 & PA-2, if required or subsequent balance sheets and income statements are not included with packet or are incomplete
- If OTR determines that the amount offered is less than your equity in assets and available income
- You have not filed all tax returns you are legally required to file
- You don't meet the following criteria: Doubt as to Collectibility; Doubt as to liability; Insufficient Resources; or Economic or Other financial hardship

Filing Status

If you are Single, Married, Married filing separately, you must:

- Submit one Form OTR-10 to include all tax years you would like to submit an OIC. (PA-1)
- If only one spouse owes tax, but both have income, prepare Form PA-1 using only the liable spouse's income and expense information. OTR will require disclosure of financial information of the non-liable spouse during our evaluation process.

If you are a Business and would like to submit an offer, you must:

- Submit one Form OTR-10 to include all parties responsible for the tax debt, along with the appropriate financials (PA-2)
- If you owe business income tax, you must submit a Form PA-1 for all persons responsible for the tax debt, and Form PA-2 for the business.

If you and Your Spouse/Domestic Partner/ex-spouse owe joint and/or separate tax debts, you must:

- Submit one Form OTR-10 with all of the joint tax debt(s), and a second Form OTR-10 with your individual tax debt(s).
- If you and your spouse/domestic partner/ex-spouse have joint tax debt and your spouse/domestic partner/ex-spouse does not want to submit a Form OTR-10, you may submit a Form OTR-10 to compromise your responsibility for the joint debt.

How do I compute the amount of my Offer?

You will receive more favorable consideration if you offer a substantial portion of the total tax and penalty and interest due; or you offer money you can raise only under condition that your tax is settled. Examples: personal loans from friends or family, bank loans, and proceeds from contracts you are able to make if tax liens are released. Additionally, OTR will consider your offer more favorably if you submit all or a substantial portion of the offer amount with your offer request to demonstrate your sincerity. Any money submitted with an offer is non-refundable in the event the offer is rejected.

In determining the amount that would be acceptable to compromise your tax liability, a Revenue Officer will review your offer application, and conduct a thorough examination to ensure the following:

- You accurately included all assets and income available to you.
- You claimed only the necessary expenses allowable for the health and welfare of you and your family, and to provide for production of income.

OTR may request additional information from you. If OTR does not receive the requested info during the allotted timeframe, the offer may be rejected. Additionally, OTR may accept or reject the offer if it does not cover the required tax. At this time, OTR may ask you to increase the amount of the offer or simply reject the offer.

If your Offer is accepted

- We will confirm acceptance by mail.
- You should promptly pay any unpaid offer amounts or within the allotted timeframe.
- You must comply with all contractual terms and conditions of the offer.
- OTR will release all tax liens when the offer amount is paid in full.
- Failure to adhere to the five-year compliance requirement to file all returns and pay all amounts due may result in default of your offer. If this occurs, the unpaid compromised tax liability will be reinstated; any released tax liens will be reinstated; and the collection process will resume.

If your Offer is rejected

- You may submit another offer with different payment terms within 30 days of denial.

Doubt as to Collectability

If you are filing an OIC due to Doubt as to Collectability, you must:

- Complete a Form PA-1, Collection Information Statement for Individuals
- Complete a Form PA-2 Collection Information Statement for Businesses and submit with Form OTR-10.

Important: You must attach a copy of your latest Federal Income Tax Return(s) for the business, and for all Individuals responsible for the tax who submit this offer.

- The information you provide must be current and complete and reflect activity within the 6 months prior to the date you submit the offer. OTR uses this information to evaluate the offer.
- Do not include information relating to unsecured creditors. (*Example:* do not include amounts you owe on credit cards, loans, or any item without pledging assets as security.)
- If you owe business income tax, you must submit a Form PA-1 for all persons responsible for the tax debt, and Form PA-2 for the business.
- If only one spouse owes tax but both have income, prepare Form PA-1 using only the liable spouse's income and expense information. OTR will require disclosure of financial information of the non-liable spouse during our evaluation process.
- Assets or income available to you but not available to OTR for direct collection action should be included on the financial statement. Even if OTR may not collect directly from the assets, those assets are available to raise funds and should be included in the offer packet.

Completing the OIC packet

Step 1 – Gather Your Information

To calculate an OIC amount, you must gather information about your financial situation, including cash, investments, available credit, assets, income and debt.

You must gather information about your average gross monthly household income and expenses. The entire household includes you, your spouse/domestic partner, significant other, children, and others that reside in the household. This is necessary for OTR to accurately evaluate your OIC. OTR will not accept expenses for tuition for public and private elementary and secondary schools, or other unsecured debt payments as part of the expense calculation.

Step 2 – Fill out Form PA-1

Complete the Form PA-1 or submit the IRS Form 433-A (OIC) if you are an individual wage earner and/or a self-employed individual. This will be used to calculate an appropriate OIC amount based on your assets, income, expenses, and future earning potential. You will have the opportunity to provide a written explanation of any special circumstances that affect your financial situation (for details, see “How to Apply”).

Step 3 – Fill out Form PA-2

Complete the Form PA-2 or submit the IRS Form 433-B (OIC) if your business is a Corporation, Partnership, Limited Liability Company (LLC) classified as a corporation, single member LLC, or other multi-owner/multi-member LLC. This will be used to calculate an appropriate OIC amount based on your business assets, income, expenses, and future earning potential. If you have assets that are used to produce income (ex: a tow truck used in your business for towing vehicles), you may be allowed to exclude equity in these assets. (For details, see “How to Apply”).

Step 4 – Attach required documents

You must attach supporting documentation with Form(s) PA-1 and PA-2 or IRS 433-A or B. A list of the documents required will be found at the end of each form. (*Note: Do not send original documents.*)

Step 5 – Fill out Form OTR-10, Offer in Compromise (OIC)

Complete a Form OTR-10. This form serves as your OIC contract. It identifies you as the taxpayer, the tax years and type of tax that you would like to compromise. It also identifies your OIC amount and the proposed payment terms. Be sure to sign and date the Form OTR-10. Failure to do so may result in a rejected offer.

Step 6 – Include payment

Include a credit card, certified funds, or money order for your initial payment based on the payment option you selected. If *lump-sum* offer is selected, 100% of the OIC amount must be submitted along with OIC packet. If *periodic payment* is selected, a 20% first payment is due when the OIC packet is submitted. Additionally, if you choose the periodic payment option, the subsequent payments must follow in five or fewer payments, not to exceed a 12 month period. (Note: Please maintain a copy of your OIC package and payment history for your records.)

Instructions for completing Form OTR-10

Failure to follow these instructions may result in OTR rejecting your offer. Questions may be directed to the Revenue Officer responsible for your case; if none please contact (202) 724-5045:

Line 1 - Enter the taxpayer's name and home and/or business address, including a mailing address if different.

Line 2 – Enter the Marital Status (Single, Unmarried (Single, Divorce Widowed), Name and age of all dependents

Line 3 - Enter the name and social security number of all persons submitting the offer.

Enter the business tax number of the business submitting the offer. Also, Show the business tax numbers for all other businesses you own. Under the terms of the offer you must comply with the filing and paying requirements of the tax laws for 5 years after the accepted compromise.

Line 4 - Enter the total amount of tax, penalty and interest, for all taxes you seek to compromise. Prepare a separate schedule listing the type of tax, tax period and the amount of each tax bill you seek to compromise.

Line 5 – Check the circumstance which applies to your OIC. *You must complete Line 7. If Doubt as to Collectability, you must submit Form PA-1 or PA-2, whichever is applicable.*

Line 6 – Enter the total amount of your offer. Do not include amounts you have already paid; OTR has already collected, or is due to receive. Enter proposed payment terms if you cannot pay the amount offered in full. *If OTR determines that you can pay in less time, the offer will be rejected and/or other terms will be requested.*

Line 7 – Explanation of circumstances why you are requesting an offer in compromise. Please provide a detailed written statement. If you require additional space, please attach additional sheet to the OTR-10 application.

Line 8 – It is important that you thoroughly read and understand the contractual requirements in this section. All persons submitting the offer should sign and date Form OTR-10.

Instructions for Completing Forms PA-1 and PA-2

Be sure to read the terms and definitions below to aid you in preparing the Forms PA-1 and PA-2. Be sure to complete every item on each form; if an item doesn't apply, you must enter "N/A".

Current Market Value: The reasonable amount that you expect to be paid for the asset if you sold it. Do not guess you must use accurate information.

Necessary Expenses: *(Not for business entities)* Expenses needed to provide for you and your family's health and well-being. Do not include tuition for private elementary and secondary schools; however, you may include public or private college tuition and expenses.

Generally Allowed: Charitable contributions, voluntary retirement benefits, unsecured debts, and cable television charges.

Equity in Assets: Current market value of asset minus current balance due on loan(s) or mortgage(s).

Where to file the OIC application?

File your offer in compromise at Office of Tax and Revenue, 1101 – 4th Street, S.W., Suite 270W, Washington, DC 20024. If you have been working with a specific OTR employee, please contact that person prior to filing the offer.

FORM OTR-10
OFFER IN COMPROMISE
 OFFICE OF TAX AND REVENUE



**Application For Wage Earners, Self-Employed
 Individuals, and Businesses**

1a. Full Name of Taxpayer and Spouse (if applicable) _____ _____		1c. Home Phone () _____	1d. Cell Phone () _____
1b. Mailing Address (Street, City, State, Zip Code) _____ _____ _____		1e. Business Phone () _____	1f. Business Cell Phone () _____
		2a. Marital Status: Married Unmarried (Single, Divorced or Widowed) _____	
		2b. Name, Age, and relationship of dependant(s) _____ _____	
3a. Names and Social Security Numbers of all persons submitting this offer _____ _____ _____		3b. Business Tax Number(s), included with this offer _____ _____	
		3c. Other Business Tax Number(s) not included with this offer _____	
4a. I/We (Individual Tax Type Taxpayers) submit this offer to compromise the tax liabilities plus any interest, penalties, additions to tax, and additional amounts required by law (tax liability) for the tax type and period below: <input type="checkbox"/> Individual Income Tax Tax Period(s) : _____ _____ _____		4b. I/We (Business Tax Type Taxpayers) submit this offer to compromise the tax liabilities plus any interest, penalties, additions to tax, and additional amounts required by law (tax liability) for the tax type and period below: <input type="checkbox"/> Sales & Use <input type="checkbox"/> Withholding Tax <input type="checkbox"/> Other Tax(es)/Fee(s) Please Specify Tax Period(s): _____ _____	
5. I/We submit this offer for the reason(s) checked below: <input type="checkbox"/> <i>Doubt as to Liability</i> - If you believe you don't owe the amount due, you must include with a Form OTR-10 a detailed explanation of the reason(s) you believe you don't owe the tax. <input type="checkbox"/> <i>Insufficient Resources</i> - If you don't have enough assets or income to pay the full amount, you must include with Form OTR-10 a complete financial statement, Form PA-1 for individuals and/or PA-2 for businesses. <input type="checkbox"/> <i>Economic or Other Hardship</i> - If you have enough assets to pay the full amount, but believe that because of your exceptional circumstances requiring full payment would cause an economic hardship or would be unfair and inequitable, you must include with Form OTR-10 a complete financial statement, Form PA-1 and/or PA-2.		6. I/We offer to pay the following: <input type="checkbox"/> Lump Sum – 100% - \$ _____ 6b. I/We offer to pay using the following terms: <input type="checkbox"/> Periodic Payment – 20% initial payment - \$ _____ <input type="checkbox"/> Other proposed payment terms – 20% initial payment \$ _____ Please specify: _____ _____	
7. Explanation of Circumstances - I am requesting an offer in compromise for the reason(s) listed below: _____ _____			

OFFER IN COMPROMISE

Doubt as to liability Doubt as to Collectibility Special Circumstances

Note: If you are requesting compromise based on doubt as to liability, explain why you don't believe you owe the tax. If you believe special circumstances exist that is affecting your ability to fully pay the amount of tax due, please explain. You may attach additional sheets if necessary.

8. Under penalties of perjury, I/We declare that I/we have examined this offer, including accompanying scheduled and statements, and to the best of my/our knowledge and belief, the information provided is true, correct, and complete.

Signature of Taxpayer proponent

Date

Signature of Taxpayer proponent

Date

Signature of Taxpayer proponent

Date

FOR INTERNAL USE ONLY

Proposed Offer in Compromise

Accepted Rejected

Reason for approval/denial:

Signature and Title of OTR Official

Date
