



# MANUAL TRANSMITTAL

Department of the Treasury  
Internal Revenue Service

5.19.13

MARCH 21, 2025

## EFFECTIVE DATE

(03-21-2025)

## PURPOSE

- (1) This transmits revised IRM 5.19.13, Liability Collection, Campus Procedures for Securing Financial Information.

## MATERIAL CHANGES

- (1) The following table outlines changes made to IRM 5.19.13, Liability Collection, Campus Procedures for Securing Financial Information. It incorporates updated procedures, editorial changes and clarifies language and/or to updates references, titles, and/or website addresses since the revision dated October 27, 2022.

IRM Subsection	Description
IPU 24U1100 issued 11-01-2024 IRM 5.19.13.3(1) Securing Financial Information	For language clarity placed the 4th Reminder within paragraph 1 and following the 4th reminder corrected the 3 subsequent alpha list payment option scenarios, labeling from A to C.
IPU 23U0890 issued 08-14-2023 IRM 5.19.13.3 (1) Securing Financial Information	Updated Exception language when taxpayer indicates cannot pay and CNC is being considered.
IPU 23U0890 issued 08-14-2023 IRM 5.19.13.3 (6) Securing Financial Information	Updated Caution to match language in reference to IRM 1.10.3.2.1 Secure Messaging & Encryption.
IPU 23U0890 issued 08-14-2023 IRM 5.19.13.3.1 (10) Verify Financial Statement	Corrected the IRM Exhibit number.
IPU 23U0890 issued 08-14-2023 IRM 5.19.13.3.1 (16) Verify Financial Statement	Updated term from Virtual Currency to Digital Assets.
IPU 23U0890 issued 08-14-2023 IRM 5.19.13.3.1 (17) Verify Financial Statement	Added Note CSCO & ACSS when working correspondence.
IPU 24U1100 issued 11-01-2024 IRM 5.19.13.3.2.1(2) Shared Expenses	Added Reminder paragraph 2 where to locate the Community Property via Pub 555.
IPU 24U1100 issued 11-01-2024 IRM 5.19.13.3.3(4) Asset/Income/Expense Verification and Substantiation	After 1st example in paragraph 4, added Reminder of what 150% overage rule applies for and when the substantiation may be needed.
IPU 23U0890 issued 08-14-2023 IRM 5.19.13.3.3 (1) & (2) Asset/Income/Expense Verification and Substantiation	Updated the fin research steps and language to promote the required usage of CFOL's tools.
IPU 23U0890 issued 08-14-2023 IRM 5.19.13.3.4 (1e) Reminder Making the Collection Decision	Updated Reminder NFTL language.

<b>IRM Subsection</b>	<b>Description</b>
IPU 23U0890 issued 08-14-2023 IRM 5.19.13.3.4 (2) 5th bullet and If Table 1 Making the Collection Decision	Updated term from Virtual Currency to Digital Assets.
IPU 23U0890 issued 08-14-2023 IRM 5.19.13.3.4 (8) 2nd IRM link Making the Collection Decision	Corrected IRM title: Proposal to Reject IA to Independent Review.
IPU 23U0890 issued 08-14-2023 Exhibit 5.19.13-2 (3) Table 3 Verify Financial Statement	Added CC TRDBV to the list of internal research sources.
IPU 23U0890 issued 08-14-2023 Exhibit 5.19.13-2 (3) Table 4 Verify Financial Statement	Updated term from Virtual Currency to Digital Assets.
IPU issued Throughout	Revised text for editorial changes and updated broken links throughout.

**EFFECT ON OTHER DOCUMENTS**

This supersedes IRM 5.19.13 dated October 27, 2022. The following IRM Procedural Updates (IPU) have been incorporated into this IRM: IPU 23U0189 issued on January 27, 2023, IPU 23U0890 issued on August 14, 2023 and IPU 24U1100 issued on November 1, 2024.

**AUDIENCE**

Small Business/Self-Employed (SB/SE) and Taxpayer Services (TS) (formerly Wage and Investment (W&I), Compliance and Field Assistance employees who process Balance Due responses.

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Acting Director, Collection Policy  
Small Business/Self Employed Division

5.19.13

Campus Procedures for Securing Financial Information

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5.19.13.1  
(11-02-2020)  
**Program Scope and Objectives**

- (1) **Purpose:** This chapter discusses the overall financial analysis guidance and procedures aimed at enabling the employee to make appropriate collection decisions to resolve cases. While many topics are touched upon in this chapter, comprehensive guidance about all of them cannot be included here. As you use this chapter, remain alert for references to other resources, such as related IRM's and websites. Access that guidance as needed to ensure a thorough understanding of topics. Specifically, IRM 5.19.13 provides the following policy sections:
  - a. Securing Financial Information
  - b. Income Determination
  - c. Expense Overview
  - d. Making the Collection Decision
- (2) **Audience:** These procedures and guidance apply to tax examiners, customer service representatives, collection representatives, and team managers.
- (3) **Policy Owner:** Director, Collection Policy, SBSE.
- (4) **Program Owner:** Collection Policy, SBSE, Case Resolution Alternatives (CRA) is the owner of this IRM.
- (5) **Primary Stakeholders:**
  - Campus Collection
  - Field Assistance
- (6) **Program Goal:** This IRM provides instructions for securing, verifying, and analyzing taxpayer financial information.

5.19.13.1.1  
(06-23-2017)  
**Background**

- (1) The financial analysis provides the basis for determining a taxpayer's ability to pay delinquent tax liabilities, which enables the Collection employee to make appropriate collection decisions to resolve the case.

5.19.13.1.2  
(11-02-2020)  
**Authority**

- (1) 26 C.F.R. 301.6343-1(b)(4) provides the authority to secure financial information from the taxpayer to determine ability to pay.
- (2) IRC 6343 (a)(1)(D), requires a levy to be released when the IRS determines the levy is creating an economic hardship, i.e., the levy will cause the individual to be unable to pay their reasonable necessary living expenses.
- (3) Policy Statement P-5-71 provides the authority for reporting accounts currently not collectible (CNC). See IRM 1.2.1.6, Policy Statements for the Collecting Process. Accounts can be removed from active inventory after taking the necessary steps in the collection process.

5.19.13.1.3  
(06-23-2017)  
**Roles and Responsibilities**

- (1) The Director, Collection Policy is the executive responsible for the policies and procedures to be employed by Campus Personnel.
- (2) The campus team, department, and operation managers are responsible for ensuring the guidance and procedures described in this IRM are complied with.

5.19.13.1.4  
(06-23-2017)

**Program Management  
and Review**

- (1) **Program Reports:** The following reports can assist with reviewing this type of workload.
  - Embedded Quality Review System (EQRS) Reports.
  - National Quality Review System (NQRS) Reports.
  - AMS Reports.
  - ACS Reports.
- (2) **Program Effectiveness:** The program effectiveness is measured by the following review types and by level of management.
  - Case reviews are conducted by campus managers to ensure compliance with this IRM.
  - Annual Operational Reviews are conducted by department managers, operation managers, and campus director to evaluate program delivery and conformance to administrative and compliance requirements.

5.19.13.1.5  
(06-23-2017)

**Program Controls**

- (1) Once financial information is provided, Compliance Services Collection Operations (CSCO) and Automated Collection Systems Support (ACSS) employees are required to control and work all cases to completion.

5.19.13.1.6  
(08-14-2023)

**Terms/Definitions/  
Acronyms**

- (1) The frequently used terms within this IRM along with their definition:
  - a. Allowable Living Expense - These provide for taxpayer's and their family's, health/welfare and/or the production of income.
  - b. National Standards - A number of necessary expenses such as; food, housekeeping supplies, apparel and services, and personal Care products and services.
  - c. Local Standards - These include housing, utilities, and transportation expenses for a taxpayer's primary place of residence.
  - d. Six (6) Year Rule - All expenses **may** be allowed if taxpayer can full pay within six years.
  - e. One (1) Year Rule - Taxpayers who cannot full pay within six years **may** be given up to one year to modify or eliminate excessive necessary and/or non allowable conditional expense.
- (2) This table lists most commonly used acronyms within this IRM.

Acronym	Definition
AAB	Aggregate Assessed Balance
ALE	Allowable Living Expense
AMS	Accounts Management System
CNC	Currently Non Collectible
CIS	Collection Information Statement
CSED	Collection Statute Expiration Date
NFTL	Notice of Federal Tax Lien
NSIA	Non Streamlined Installment Agreement
PPIA	Partial Pay Installment Agreement

Acronym	Definition
SIA	Streamlined Installment Agreement

5.19.13.1.7  
(04-03-2020)

#### Related Resources

- (1) These are the financial information related resources:
  - a. IRM 5.19.1, Balance Due.
  - b. IRM 5.15, Financial Analysis.
  - c. SB/SE Allowable Expense Lookup Calculator Tool: *Allowable Expense Lookup Calculator Tool*.
- (2) All IRS personnel must be familiar with and responsible for execution of duties in accordance with taxpayer rights afforded by the provisions in the Internal Revenue Code, including the Taxpayer Bill of Rights (TBOR) listed in section 7803(a)(3). For additional information about TBOR, see *Taxpayer Bill of Rights*.
- (3) IAT tools simplify processing by assisting the user with IDRS research and input. The tools also reduce the chance of errors and improve productivity. When an action must be taken and an IAT tool is available, Campus Compliance employees with access to IAT tools are required to complete the action using the IAT tool. See IRM 5.19.1.2.8, Mandated IAT Tools, for a list of mandated IAT tools.

**Note:** If an IAT tool is not functioning properly or it is determined not to be appropriate due to a specific situation, the case should be worked using IDRS. For more information on each tool as well as job aid for each tool, see *IAT Website*.

5.19.13.2  
(06-06-2020)  
**Authority Levels for  
Financial Analysis,  
Verification and  
Substantiation**

- (1) This section provides the dollar amount authority levels, by disposition type, for financial analysis, verification and substantiation requirements.

5.19.13.2.1  
(11-02-2020)  
**Authority Levels - All  
Employees**

- (1) The table below provides guidance to all employees for when financial analysis is needed and when it is necessary to verify and obtain substantiation, by account balance and disposition type:

**Exception:** AM employees do **not** conduct Financial Analysis. See IRM 5.19.1.3.2, For All Employees.

Balance	Disposition	Financial Analysis needed?	Verification and Substantiation Needed?
AAB (cc SUMRY)(IMF)	CNC	No	Not Applicable

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Balance	Disposition	Financial Analysis needed?	Verification and Substantiation Needed?
AAB (cc SUMRY) is	PPIA, CNC	Yes	No
CNC Exception Processing under AAB (cc	CNC	No	Need to verify basis for Exception Processing (through internal or external sources, or verification from taxpayer) See IRM 5.19.17.2.4.1, CNC Exception Processing.
Up to \$25,000 AAB (cc SUMRY)	SIA \$25,000 and under	No	Not Applicable

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5.19.13.2.2  
(01-30-2023)  
**Authority Levels - Field Assistance, FA Employees**

- (1) The table below provides guidance to FA employees for when financial analysis is needed and when it is necessary to verify and obtain substantiation, by account balance and disposition type.
- (2) **NSIA:**

Balance	Financial Analysis needed?
	No

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**Exception:** A financial statement is required when the IA request is made in conjunction with a request for levy release or the taxpayer’s account is identified as having a seriously delinquent tax debt (presence of an unreversed TC 971 AC 641). See IRM 5.19.4.4.10, Levy Release: General Information, and IRM 5.19.25.7, Identification of Certified Seriously Delinquent Tax Debt.

- (3) **PPIA & CNC:**



Balance	Financial Analysis needed?	Verification and Substantiation Needed?
AAB (CC SUMRY) is	Yes	<p>Yes.</p> <ol style="list-style-type: none"> <li>1. Use internal sources to verify assets, income and expenses. Any discrepancies between the assets, income or expenses reported on the CIS and the internal sources used for verification, must be addressed with the taxpayer and documented on the AMS case history.</li> <li>2. Paper substantiation is required: <ul style="list-style-type: none"> <li>• If the amount claimed for income or any expenses appears to be unreasonable (per employee judgment) <b>or</b> the expense amounts claimed exceed the ALE standards <b>and</b> allowing these other expenses will result in a PPIA or CNC hardship.</li> </ul> </li> </ol> <p><b>Reminder:</b> Paper substantiation should also be secured in cases where the taxpayer's explanation does not correspond to the internal sources verified.</p>

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5.19.13.2.3  
(01-30-2023)

**Authority Levels - CSCO Employees**

(1) The table below provides guidance to CSCO employees for when financial analysis is needed and when it is necessary to verify and obtain substantiation, by account balance and disposition type.

(2) **NSIA:**

Balance	Financial Analysis needed?
	No

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**Exception:** A financial statement is required when the IA request is made in conjunction with a request for levy release or the taxpayer's account is identified as having a seriously delinquent tax debt (presence of an unreversed TC 971 AC 641). See IRM 5.19.4.4.10, Levy Release: General Information, and IRM 5.19.25.7, Identification of Certified Seriously Delinquent Tax Debt.

**Note:** See IRM 5.19.1.6.4(11), Installment Agreements, for specific guidance.

(3) **PPIA & CNC**

Balance	Financial Analysis needed?	Verification and Substantiation Needed?	
AAB (CC SUMRY) is -	Yes	<p>Yes,</p> <ol style="list-style-type: none"> <li>1. Use internal sources to verify assets, income and expenses. Any discrepancies between the assets, income or expenses reported on the CIS and the internal sources used for verification, must be addressed with the taxpayer and documented on the AMS case history.</li> <li>2. Paper substantiation is required: <ul style="list-style-type: none"> <li>• If the amount claimed for income or any expenses appears to be unreasonable (per employee judgment) <b>or</b> the expense amounts claimed exceed the ALE standards <b>and</b> allowing these other expenses will result in a PPIA or CNC hardship.</li> </ul> </li> </ol> <p><b>Reminder:</b> Paper substantiation should also be secured in cases where the taxpayer's explanation does not correspond to the internal sources verified.</p>	#

**Note:** See IRM 5.19.1.6.4 (12), Installment Agreements, for specific guidance.

5.19.13.2.4  
(01-30-2023)

**Authority Levels - ACS  
and ACSS Employees**

(1) The table below provides guidance to ACS and ACSS employees for when financial analysis is needed and when it is necessary to verify and obtain substantiation, by account balance and disposition type.

(2) **NSIA:**

Balance	Financial Analysis needed?	Verification and Substantiation Needed?	
or less	<p>No</p> <p><b>Caution:</b> See Exception below</p>	Not Applicable	#

Balance	Financial Analysis needed?	Verification and Substantiation Needed?
AAB (CC) <i>SUMRY</i> is more than	Yes	<p>Yes,</p> <ol style="list-style-type: none"> <li>1. Use internal sources to verify assets, income and expenses. Any discrepancies between the assets, income or expenses reported on the CIS and the internal sources used for verification, must be addressed with the taxpayer and documented on the AMS case history.</li> <li>2. Paper substantiation is required: <ul style="list-style-type: none"> <li>• If the amount claimed for income or any expenses appears to be unreasonable (per employee judgment) <b>or</b> the expense amounts claimed exceed the ALE standards <b>and</b> allowing these other expenses will result in a PPIA or CNC hardship.</li> </ul> </li> </ol> <p><b>Reminder:</b> Paper substantiation should also be secured in cases where the taxpayer's explanation does not correspond to the internal sources verified.</p>

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**Exception:** A financial statement is required when the IA request is made in conjunction with a request for levy release or the taxpayer's account is identified as having a seriously delinquent tax debt (presence of an unreversed TC 971 AC 641). See IRM 5.19.4.4.10, Levy Release: General Information, and IRM 5.19.25.7, Identification of Certified Seriously Delinquent Tax Debt.

**Note:** See IRM 5.19.1.6.4(11), Installment Agreements, for specific guidance.

(3) **PPIA & CNC**

Balance	Financial Analysis needed?	Verification and Substantiation Needed?
AAB (CC SUMRY) is	Yes, unless CNC Exception Processing applies, see IRM 5.19.17.2.4.1, CNC Exception Processing	<p>Yes,</p> <ol style="list-style-type: none"> <li>1. Use internal sources to verify assets, income and expenses. Any discrepancies between the assets, income or expenses reported on the CIS and the internal sources used for verification, must be addressed with the taxpayer and documented on the AMS case history.</li> <li>2. Paper substantiation is required: <ul style="list-style-type: none"> <li>• If the amount claimed for income or any expenses appears to be unreasonable (per employee judgment) <b>or</b> the expense amounts claimed exceed the ALE standards <b>and</b> allowing these other expenses will result in a PPIA or CNC hardship.</li> </ul> </li> </ol> <p><b>Reminder:</b> Paper substantiation should also be secured in cases where the taxpayer's explanation does not correspond to the internal sources verified.</p>

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**Note:** See IRM 5.19.1.6.4(12), Installment Agreements, for specific guidance.

5.19.13.3  
(11-01-2024)  
**Securing Financial Information**

- (1) The goal of securing financial information is to determine the taxpayer's maximum ability to pay their delinquent tax debt based upon their current financial situation. Obtaining financial information verbally (phone call or face to face) or from a Collection Information Statement (Form 433 A, F, or H) is ONLY required when a taxpayer indicates one of the following :

**Reminder:** When following the guidance for securing financial information throughout this IRM, please refer to IRM 5.19.1.2.3, Disclosure Overview - Verifying Identity of Contact Party, to ensure disclosure guidelines are followed when interacting with taxpayers and/or their authorized representatives.

**Reminder:** Conduct a full compliance check (FCC) - see IRM 5.19.1.4.4.1, Full Compliance Check. Do not input a financial where the taxpayer is not within filing compliance.

**Exception:** If the taxpayer is experiencing a financial hardship and indicates cannot pay, currently not collectible (CNC) is being considered, see IRM 5.19.17.2.4, CNC Unable to Pay - Hardship.

**Reminder:** If during the course of the contact with taxpayer, they advise you they are experiencing an economic hardship situation or if they ask for assistance in resolving their tax problems, see IRM 5.19.1.3.2.3, Taxpayer Advocate Service (TAS), for guidance about referring taxpayers to TAS.

**Reminder:** If the taxpayer states they are experiencing an economic hardship due to a levy, secure enough financial information to confirm the levy is

causing the taxpayer to be unable to meet necessary living expenses, see IRM 5.19.4.4.10 (5)(j), Levy Release: General Information, for levy release determinations even in situations where the taxpayer has unfiled returns.

- a. Taxpayer indicates they cannot pay, and a partial pay installment agreement (PPIA) is being considered.
- b. Taxpayer qualifies for Non-Streamlined Installment Agreement (NSIA)

**Exception:** Financial analysis is no longer required for certain NSIAs, refer to IRM 5.19.1.6.4(11) (a), Installment Agreements (IAs).

- c. Taxpayer payment amount requested is insufficient based on the following installment agreement criteria:

**Reminder:** Any Installment Agreement (IA) established based upon the results of a financial statement must be input as an Non-Streamlined Installment Agreement (NSIA) or PPIA, as applicable. See IRM 5.19.1.6.4, IAs, or IRM 5.19.1.6.5, PPIA.

- (2) Guaranteed IA - See IRM 5.19.1.6.4 (8), Guaranteed Installment Agreement.  
Streamlined IA - See IRM 5.19.1.6.4 (9), Streamlined Installment Agreement \$25,000 and under, or IRM 5.19.1.6.4(10), Streamlined Installment Agreement over \$25,000.
- (3) If the taxpayer or financial statement indicates they cannot full pay within 180 days, qualify for a Guaranteed IA, or SIA, do the following based upon your assigned operation:

If ...	Then ...
<b>CSCO and ACSS,</b>	Request a Form Form 433-F, Collection Information Statement. Advise the taxpayer to forward the completed form, to the appropriate CSCO site (notice status only) per state mapping <i>SERP - Service Center Addresses for Collection Operations - Who/Where (irs.gov)</i> or to the appropriate ACSS site (status 22, 24 only) per state mapping <i>SERP - SB/SE Consolidated State Mapping for ACS Support and Collection Due Process - CPLG (irs.gov)</i> .
<b>ACS call site/Field Assistance,</b>	Secure financial information and input the financial statement on AMS financial screens.

- (4) Input the financial information, clearly document all actions taken on the account and relevant financial information on AMS, **save and create history**. All applicable financial screen(s) on AMS **must** be completed prior to making a determination of the taxpayer's ability to pay.

**Note:** Taxpayers are **not required to prove** they are paying their housing, utilities, car payments etc. **Do not** request bank statements, pay stubs, copies of bills or contracts be sent in to complete the financial input for this reason. However, if the taxpayer claims payments on a student loan, court order (i.e. child support), or delinquent state or local tax debt, verification is required.

- (5) When toll free contact is made on a financial case with an **open IDRS control in ACSS or CSCO**, advise the taxpayer to:
- Contact the employee whose name and number was provided on the notice.**
  - Do not** allow additional time without contacting the person with the open control.
  - If you can resolve the case **based upon the controlling person's history and the taxpayer providing the required information**, fax a Form 4442, Inquiry Referral, to the controlling tax examiner advising them of the closing action. USE the fax number per *SERP Who/Where*, Form 4442, Referral Fax Numbers.
  - DO NOT** request the taxpayer provide additional information that has **not** been requested by the person with the control base, such as bank statements, pay stubs, etc.
- (6) If conducting a telephone call or face-to-face contact, you must attempt to secure as much financial information as possible during the contact. Most taxpayers should be able to provide income and expense information during the initial contact.
- If the taxpayer requested an IA that does not meet SIA criteria and you cannot secure any financial information immediately (verbally or by the Document Upload Tool (DUT) or eFax during the phone contact), follow instructions provided in (6) below.
  - If the taxpayer requested an IA that does not meet SIA criteria and you can secure **some but not all** of the financial information immediately (verbally or by fax during the phone contact), follow the instructions in the table below.
  - If financial information is needed for any other reason (possible CNC or hardship determination), follow the instructions in the table below.

**Reminder:** If income can be verified through internal sources or the only source of income is from Social Security or Unemployment, there is normally no need to request substantiation. Similarly, if taxpayers expenses are within local and national standards there should be no need to request substantiation. If substantiation is required, verbal substantiation of the item is normally sufficient. If the verbal explanation from the taxpayer is acceptable, thoroughly document the taxpayer's explanation in detail. **Only request paper substantiation if the taxpayer is unable to explain the discrepancy.**

**Caution:** You should never consider email secure. Do not include taxpayer, SBU, or PII information in email messages or attachments unless you use IRS approved encryption technology. See IRM 1.10.3.2.1, Secure Messaging & Encryption.

**Instructions for when taxpayer is unable to provide all required financial information for face to face and telephone contact**

If ...	Then ...
<b>ACS,</b>	<p>If additional information/substantiation is needed, request it via fax or DUT while on the phone to resolve the case.</p> <ol style="list-style-type: none"> <li>Provide the taxpayer with an appropriate deadline to submit the information being requested. If the taxpayer states they <b>will fax or upload the information</b> and is unable to do so while on the call – allow five days from date of telephone call.</li> <li>If the taxpayer <b>cannot fax or upload</b> the information, advise the taxpayer to send <b>ONLY</b> the information that is missing or needed (i.e., substantiation) to resolve/complete the case to the appropriate ACSS site (or fax, if appropriate) and include their name and TIN with the information. Add 15 calendar days to the due date given the taxpayer. <ul style="list-style-type: none"> <li>If the taxpayer indicates they will <b>call back</b>, allow 5 days.</li> <li>If the taxpayer indicates <b>they will mail</b> the required information - provide the appropriate ACSS address per state mapping. <i>SERP - SB/SE Consolidated State Mapping for ACS Support and Collection Due Process - CPLG (irs.gov)</i>. Add 15 calendar days to the due date given the taxpayer.</li> </ul> </li> </ol> <p><b>Note:</b> If the taxpayer does not respond, proceed with the next action.</p> <p><b>Example:</b> <b>Levy, NFTL, Independent Review, LT11, Final Notice -- Notice of intent to levy</b> and your notice of a right to a hearing (sent certified, return receipt requested), etc.</p>
<b>Field Assistance,</b>	<p>Direct the taxpayer to bring documents back to the TAC.</p> <ul style="list-style-type: none"> <li>If they are unable to, advise them to call ACS toll-free number depending on the case status, or to send <b>ONLY</b> the information that is missing or needed (i.e., substantiation) to resolve/complete the case to the CSCO <i>SERP - Service Center Addresses for Collection Operations - Who/Where (irs.gov)</i> or ACSS site <i>SERP - SB/SE Consolidated State Mapping for ACS Support and Collection Due Process - CPLG (irs.gov)</i> and include their name and TIN with the information.</li> <li>Provide the taxpayer with an appropriate deadline to submit the information being requested, 15 days for information being mailed.</li> </ul>

(7) If the taxpayer cannot provide **any** information while on a call, they may either:

- Call back with the information - allow five days; or
- Complete and mail a paper Form 433-F, Collection/Information Statement, to appropriate CSCO site (notice status only) based on state mapping *SERP - Service Center Addresses for Collection Operations - Who/Where (irs.gov)* or appropriate ACSS site (status 22, 24 only) based on state mapping *SERP - SB/SE Consolidated State Mapping for*



*ACS Support and Collection Due Process - CPLG (irs.gov)* - add 15 calendar days to the due date given the taxpayer.

**Exception:** If the call is related to a hardship levy release: **SB/SE** is required to address the issue over the phone, for Taxpayer Services (TS) (formerly Wage and Investment (W&I) follow IRM 5.19.4.4.10(4), Levy Release: General Information.

- (8) Once financial information is provided, CSCO and ACSS employees are required to control and work all cases to completion. This includes attempts to obtain verification or required substantiation. See IRM 21.3.3.4.1, Case Control and Inventory Management.
- (9) For paper case processing, immediately associate taxpayer responses with the suspended case and resolve. If unable to resolve, do the following:

If ...	Then ...
ACSS,	<ul style="list-style-type: none"> <li>a. Attempt to contact the taxpayer by phone or issue the appropriate correspondex letter to request additional information; if making a phone attempt and contact is not made with the taxpayer, you must follow-up with a letter requesting additional information . Allow 30 days from the date of the letter issuance for the taxpayer to respond.</li> <li>b. Update current AMS control to <b>S</b> status with a follow-up for 45 days then suspend case. Suspend the case on ACS for the appropriate number of cycles; Input "TOS5, XX,IAPND or TOS4, XX, SUBRQST" (XX = the number of days the case will be in suspense (45).</li> <li>c. If the taxpayer does not respond by the end of the suspense period of 45 days, follow instructions in paragraph (10) below.</li> </ul>
CSCO,	<ul style="list-style-type: none"> <li>a. Attempt to contact the taxpayer by phone or issue the appropriate Correspondex letter to request additional information; if making phone attempt and contact is not made with the taxpayer, you must follow-up with a letter requesting additional information. Allow 30 days from the date of the letter issuance for the taxpayer to respond.</li> <li>b. Update current AMS control to "S" status with follow-up for 45 days then suspend case. <b>Note:</b> A manual CC <i>STAUP</i> is not normally required; AMS is programmed to take the appropriate action(s).</li> <li>c. If the taxpayer does not respond by the end of the suspense period, follow instructions in paragraph (10) below.</li> </ul>

- (10) When corresponding with the taxpayer, provide a contact name, hours of operation, return address, and a telephone number for contact. Leave AMS history regarding the information/substantiation requested and why the information has been requested, IRM 5.19.1.6.4.7, Pending IA Criteria. ACSS employees should provide your contact information when available or your team's contact information.



**Note:** CSCO and ACSS employees receiving information requested during phone contact should complete the financial analysis. Do not forward the information to an ACS employee who previously worked with the taxpayer. **Only** CSCO and ACSS employees control and work financial cases to resolution.

- (11) If attempts at contact are unsuccessful, telephone and correspondence is issued with no response from the taxpayer and suspense time has passed, proceed with the next appropriate action.

**Example:** Levy, NFTL, Independent Review, *LT11*, Final Notice -- Notice of intent to levy and your notice of a right to a hearing (sent certified, return receipt requested), etc.

- (12) If the AAB (CC *SUMRY*) (including prior CNCs, Notice Status, ST 23, etc.) **is** **allow National and Local Standards, NO substantiation or verification is required.** Base the IA amount on the result of the financial analysis unless the taxpayer agrees to SIA.

#

- (13) If a taxpayer needs assistance preparing a financial statement and does not have a representative, they may be eligible for assistance from a Low Income Taxpayer Clinic (LITC). LITCs:
- Represents low income individuals in resolving controversies with IRS, including audits, appeals, tax collection disputes, and litigation.
  - Provide services to taxpayers who speak English as a second language, including education about taxpayer rights and responsibilities, and consultations on individual tax issues.
  - Provides services for free or no more than a nominal fee.
  - Receive funding from the IRS, and the program receives oversight from the National Taxpayer Advocate (NTA), but the clinics are wholly independent of the IRS.
  - Are typically located in each state, Puerto Rico, and the District of Columbia, but occasionally there are geographic areas underserved. For a complete list of LITCs, languages in which assistance is provided, and contact information, see Pub 4134, Low Income Taxpayer Clinic List.

**Note:** The Taxpayer First Act (TFA) section 1402 provides that, "Notwithstanding any other provision of law, officers and employees of the Department of the Treasury may advise taxpayers of the availability of, and eligibility requirements for receiving, advice and assistance from one or more specific qualified low-income taxpayer clinics receiving funding under this section, and provide information regarding the location of, and contact information for, such clinics".

- (14) Refer taxpayers to the Taxpayer Advocate Service (TAS) when the contact meets TAS criteria see IRM 13.1.7, Taxpayer Advocate Service (TAS) Case Criteria, and you cannot resolve the taxpayer's issue the same day. TAS provides assistance to taxpayer's who are experiencing economic harm, who are seeking help in resolving tax problems that the IRS has not been able to resolve through normal channels or believe that an IRS system or procedure is not working as it should. See IRM 5.19.1.3.2.3, Taxpayer Advocate Service (TAS) , for further information about referring taxpayers to TAS.

5.19.13.3.1  
(08-14-2023)  
**Income Determination**

- (1) Generally all household income is used to determine the taxpayer's ability to pay. In cases where a liable taxpayer lives with a non-liable person refer to IRM 5.19.13.3.2.1, Shared Expenses.
- (2) Income consists of:
  - Wages,
  - Interest and dividends (Schedule *B*, Interest and Ordinary Dividends),
  - Net income from business (Schedule *C*, Profit or Loss From Business, Schedule *E*, Supplemental Income and Loss, and Schedule *F*, Profit or Loss From Farming),
  - Net rental income (Schedule *E*, Supplemental Income and Loss),
  - Pensions (Form 1099-R),
  - Child support,
  - Alimony, and
  - Reverse mortgage payments.
- (3) Wages include:
  - Salary,
  - Tips,
  - Meal allowance,
  - Parking allowance, and
  - Any other money or compensation received by the taxpayer as an employee for services rendered.
- (4) To calculate gross wages or salaries, take the following actions to ensure an accurate average monthly income (If AMS is not available):

If ...	Then ...
Paid weekly,	Multiply weekly gross wages by 4.3.
Paid bi-weekly, or every two weeks,	Multiply bi-weekly gross wages by 2.17.
Paid semi-monthly, or twice a month,	Multiply semi-monthly gross wages by 2.
Income is sporadic or seasonal,	Use the annual income figure from Form W-2, Wage and Tax Statement, or the Form 1040, U.S. Individual Income Tax Return, and divide by 12 to determine the average monthly income.

**Note:** Apply the above calculations to the taxpayer's deductions such as child support and health insurance to arrive at the appropriate amounts based upon how the taxpayer is paid.

- (5) To determine disposable income, analyze a taxpayer's payroll deductions, ensuring they are reasonable and allowable. The only automatically allowable deductions from gross pay or income are:

- Federal taxes,
- State taxes,
- Local taxes,
- FICA,
- Medicare,
- Other mandatory retirement programs, and
- Health insurance.

- (6) Other payroll deductions must meet the necessary expense test (see IRM 5.19.13.3.2(1), Expenses Overview) and may not also be taken as an expense; for additional information, see IRM 5.19.13.3.2.2, Allowable Living Expenses.

**Example:** If there is a payroll deduction for uniforms, and it is a requirement of employment, allow the reduction to income; however, the taxpayer may not also list the uniforms as an expense.

- (7) Include any interest and/or dividends the taxpayer receives or is credited to an account and can be withdrawn by the taxpayer and used for household expenses. The annual total should be divided by twelve to determine the average monthly income.

**Note:** If interest bearing accounts are used as an asset, and the taxpayer withdraws the funds from the account to reduce the tax liability, the dividends or interest are not used in the income stream.

- (8) If the taxpayer has self-employment (SE) income, it may be from Schedules:

- C
- D
- E
- F
- K-1

- (9) If the SE schedules are complex, advise the taxpayer to complete the Form 433-A, Collection Information Statement for Wage Earners and Self-Employed Individuals, and provide a current *Profit and Loss* statement to the appropriate SBSE CSCO site: *SBSE Consolidated CSCO Sites*. Provide the form or the web address of [irs.gov](http://irs.gov) to obtain the form.

- (10) If verification is needed, use suggested methods for internal and external sources of information for financial verification. Exhibit 5.19.13-2 , Verify Financial Statement.

- (11) Net income from a **business** is the amount the taxpayer earned after paying ordinary and necessary **business expenses**. This amount may be determined from an analysis of the Schedule C, Profit or Loss From Business, from the prior year Form 1040, U. S. Individual Income Tax Return. Net Income from **rental properties** is the amount the taxpayer earned after paying ordinary and necessary **rental expenses**. This amount may be determined from an analysis of the Schedule E, Supplemental Income and Loss, from the prior year Form 1040, U. S. Individual Income Tax Return.

- If the net business is a loss, enter "0"; do not use a negative number.
- If the income is less than in previous years, ask the taxpayer to provide an explanation.

- Additional income may be found on Schedule *D*, Capital Gains or Losses, and Schedule *F*, Profit or Loss From Farming.
- Any depreciation, or amortization, should be added back into the Schedule *C*, Profit or Loss From Business, Schedule *E*, Supplemental Income and Loss, or Schedule *F*, Profit or Loss From Farming, net income. Depreciation or amortization expenses related to those assets, cannot be claimed
- Interest payments are allowable if they are paid by the taxpayer and not included in any other deductions allowed. Ensure business expenses are not also included in any other under personal expenses.

**Note:** The taxpayer cannot claim the same vehicle expenses for **both** personal and business use (double dipping). If a vehicle is used for business and personal, determine the total cost of ownership and operating expenses for the vehicle. Deduct the amount already claimed on Schedule *C*, Profit or Loss From Business. The difference is the amount allowed on Forms Form 433-F, Collection Information Statement, or Form 433-H, Installment Agreement Request and Collection Information Statement, if it does not exceed the standard amount. If it exceeds the standard amount, the taxpayer would have to substantiate the additional amount as necessary for personal use.

(12) Although not all-inclusive, pensions include:

- Social security,
- IRA, and
- Profit sharing plans.

(13) Pensions could be used as an asset or as part of the income stream. See IRM 5.15.1.18, Business Expenses, and IRM 5.15.1.28(2)-(4), Retirement or Profit Sharing Plans.

(14) Child support includes the actual amount received in addition to other debts or bills the former spouse is paying. If the non-liable spouse is directly paying the medical expenses of the child, the liable spouse cannot claim the medical allowable living expense.

**Example:** The non-liable spouse is directly paying the doctor bill and not reimbursing the liable spouse.

(15) Alimony includes the assigned payments made by the ex-spouse; however, consider if other bills are being paid by the ex-spouse, such as mortgage, and adjust the taxpayer's expenses accordingly.

(16) Although the list below is not all-inclusive, other income could include:

- Payments from a trust account,
- Royalties,
- Renting a room,
- Gambling winnings,
- Sale of property,
- Internet sales, and
- Digital Assets(e.g. Bitcoin, Ethereum, Litecoin, Ripple).

- (17) Tax return information could include various sources of income. See Pub 17, Your Federal Income Tax For Individuals, Part Two, Income and Adjustments to Income.

**Note:** CSCO & ACSS: When working correspondence if taxpayer did not include a source of income and during research all income sources including outcall attempts have been exhausted, continue working financial case to resolution using available information.

5.19.13.3.2  
(08-14-2023)  
**Expenses Overview**

- (1) Allowable expenses include those expenses that meet the necessary expense test. The necessary expense test is defined as expenses that are necessary to provide for a taxpayer's and their family's health and welfare and/or production of income. There are three types of allowable expenses:

- Allowable Living Expenses - based on National and Local Standards.
- Other Necessary Expenses - expenses that meet the necessary expense test, and are normally allowed.
- Other Conditional Expenses - expenses, which may not meet the necessary expense test, but may be allowable based on the circumstances of an individual case.

- (2) Regardless of the necessary expense test, taxpayers may be allowed all expenses claimed, if the tax liability, including projected accruals, can be fully paid within six (6) years and within the CSED. See IRM 5.19.13.3.5, Full Payment in Six Years (6 Year Rule).

**Reminder:** Only request substantiation if considering allowing the expense.

- (3) If the taxpayer provides a payoff date for an asset, such as a vehicle, revise the IA amount in the future if an asset will be paid off in 12 months or less. Determine the number of months, plus one, and set the second IA amount to include the additional payment.

**Example:** It is now December 2022, an asset with a payment of \$200 will full pay in November 2023. Set up the IA for what the financial determines is appropriate based upon income and expenses today, with a second payment amount to increase by \$200 in December 2023.

- (4) In some cases, payments on expense items are not due in regular, monthly, increments. Calculate the average of expense items with varying monthly payments over twelve months, unless the variation is excessive.

**Example:** Car insurance may be paid monthly, quarterly, twice a year or yearly. For purposes of calculating monthly expenses, compute the total cost for the year and divide by 12. Inform taxpayers they are responsible for putting enough money aside to ensure tax payments are made during months large payments on other liabilities must be made.

5.19.13.3.2.1  
(11-01-2024)  
**Shared Expenses**

- (1) When determining ability to pay, a taxpayer is generally only allowed the expenses they are required to pay. In cases where a taxpayer lives with a non-liable person, it may be necessary to review other income into the household and any expenses shared with the non-liable person in order to determine the taxpayer's proportionate share of the total household income and expenses.

**Exception:** Single taxpayers with a roommate are allowed expenses they actually pay up to the standard amount. Clearly document AMS.

- (2) Although the assets and income of a non-liable person may be reviewed to determine the taxpayer's proportionate share of the total household income and expenses, they are not generally included when calculating the amount the taxpayer can pay. One notable exception is community property states. Follow the community property laws in these states to determine what assets and income of the otherwise non-liable spouse are subject to collection of the tax.

**Reminder:** Community property laws affect how taxpayers calculate their income on a federal tax return if when married, live in a community property state or country, and file separate returns. Community property laws also affect registered domestic partners domiciled in certain states. The law of the state or country where the taxpayer lives will determine if the taxpayer has community property, community income, or both. See Pub 555, Community Property.

- (3) The following states and territories have community property laws:

- Alaska,

**Note:** Alaska is an "opt-in" state in which married taxpayers by written agreement may elect to have all or part of their property treated as community property.

- Arizona,
- California,
- Guam,
- Idaho,
- Louisiana,
- Nevada,
- New Mexico,
- Puerto Rico,
- Texas,
- Washington, and
- Wisconsin.

- (4) Regardless of whether community property laws apply, secure sufficient information concerning the non-liable person to determine the taxpayer's proportionate share of the total household income and expenses. Review the entire household's information and:

- a. Determine the total actual household income and expenses.
- b. AMS will compute what percentage of the total household income the taxpayer contributes.
- c. Input all allowable household expense amounts on AMS.
- d. Determine which expenses are shared and which expenses are the sole responsibility of the taxpayer (uncheck shared expense box(es) for those expenses which are the liable spouse's sole responsibility).

**Example:** Child support, allowable educational loan, union dues.

**Note:** The National Out-of-Pocket Health Care Standard allowed would be the above calculated percentage multiplied against the Out-of-

Pocket Health Care Standards for the household or the Out-of-Pocket Health Care Standard for one person, whichever is greater. However, in all allowable expenses except the National Standards, the liable spouse can only claim the amount they actually pay.

- e. AMS will apply the taxpayer's percentage of income to the overall shared expense amount.
- f. Expenses claimed for national and local standards are allowed up to the maximum standard amounts without verification. Verification and **substantiation is only required when expense amounts exceed the standard amount, and consideration of the amount will be given once substantiated.** See IRM 5.19.13.3.5, Full Payment in Six (6) Years (6 Year Rule), for further guidance.
- g. Do not allow the taxpayer any amount paid toward a non-liable person's discretionary expenses.

**Caution:** If an internal verification is conducted on the non-liable person, this information cannot be provided to the taxpayer. This is not an Unauthorized Access (UNAX ) violation if duties require the inspection or disclosure of this information for tax administration purposes. However, it is a disclosure violation under IRC 6103 if any information is shared with someone other than the non-liable person in question, unless consent to disclose the information is obtained from the non-liable person.

- (5) Shared expense calculations between spouses are used when the parties live in a separate property state; or State law permits the parties to separate their incomes; and the non-liable spouse does not agree to have their income considered in the repayment of the liable spouse's tax debt. If the non-liable spouse does not agree to have their income considered in the repayment amount, determine the income percentages per paragraph (2) above.

**Note:** Consideration should also be given to any separate expenses the liable spouse may be solely responsible for paying, such as alimony, child care etc.

- (6) When the taxpayer can provide documentation that income is not commingled (as in the case of roommates who share housing) and responsibility for household expenses are divided equitably between cohabitants (as documented by rental agreements, bank statement analysis, etc.), the total allowable expense should not exceed the total allowable housing standard for the taxpayer. In this situation, it would not be necessary to obtain the income information of the non-liable person(s), however sufficient financial information must be secured to verify the total household expenses and prove that the taxpayer is paying their proportionate share. The investigating employees should exercise sound judgment in these situations to determine which approach is most appropriate, based on the facts of each case.

**Note:** In the situation, where the taxpayer is renting an apartment or room, and the owner of the property is the non-liable person, the rental agreement or signed statement from the owner of the property should support the decision to not require the owner to divulge any personal information regarding income or household expenses. In these cases, the investigating employee should accept the information provided by the taxpayer and make a determination based on that information.



5.19.13.3.2.2  
(06-06-2019)  
**Allowable Living Expenses**

- (1) Allowable Living Expenses (ALE), also known as Collection Financial Standards, provide for a taxpayer's and their family's, health and welfare and/or the production of income. These expenses must be reasonable in amount for the size of the family and the geographic location, as well as any unique individual circumstances. These expenses establish the minimum amount on which a taxpayer needs to live, and must be reasonable IRM 5.15.1.8, Allowable Expense Overview, and Exhibit 5.19.13-1, Questions and Answers to Assist in Financial Statement Processing.
- (2) Generally, the total number of persons allowed when determining allowable living expenses should be the same as those allowed to be claimed as dependents on the taxpayer's current year income tax return. There may be reasonable exceptions. Fully document the reasonable exceptions, such as foster children or children for whom adoption is pending, or parents for whom the taxpayer is providing care in their home.
- (3) ALE standards are guidelines. If it is determined a standard amount is inadequate to provide for a specific taxpayer's basic living expenses, allow the higher expense with substantiation. All expenses allowed that exceed the National and Local Standards must be verified, reasonable and documented on AMS. Request substantiation of amounts **only** if they are going to be allowed.

**Note:** If the tax liability including projected accruals can be paid in six (6) years and within the CSED, see IRM 5.19.13.3.5, Full Payment in Six (6) Years (6 Year Rule), for further guidance.

- (4) ALE standards are **not** available for international taxpayers or the U.S. Territories, except for Housing and Utilities in Puerto Rico. In the absence of standardized figures for foreign countries, a fair and consistent approach should be applied to what is allowed as living expenses for these taxpayers. Employees should not use any other non-ALE figures as pre-determined guideline figures or arbitrarily select any location in the United States for allowances. In those cases where there are no ALE standards or leverage to enforce collection of a balance due, the taxpayers' submission of living expenses should generally be accepted, provided they appear reasonable.

5.19.13.3.2.3  
(08-14-2023)  
**National Standards:  
Food, Clothing and  
Other Items**

- (1) A number of necessary expenses are categorized as National Standards; these standards establish reasonable amounts for:
  - **Food:** Includes all meals, home or away,
  - **Housekeeping supplies:** Includes postage and stationary; laundry and cleaning supplies; other household products; cleansing and toilet tissue, paper towels and napkins; lawn and garden supplies; and miscellaneous household supplies,
  - **Apparel and Services:** Includes shoes and clothing; laundry and dry cleaning, and shoe repair,
  - **Personal Care Products and Services:** Includes hair care products; haircuts and beautician services; oral hygiene products and articles; shaving needs; cosmetics, perfume; bath preparations, deodorants, feminine hygiene products, electric personal care appliances, personal care services, and repair of personal care appliances, and
  - **Miscellaneous Allowance:** Is a percentage of other categories and is based on Bureau of Labor Statistics (BLS) data. The miscellaneous allowance has been established for living expenses not included in any



other standards or allowable expense items, such as credit card payments, occupational expenses, bank fees and charges, reading materials, school books and supplies for elementary through high school age dependents, etc. The miscellaneous allowance can also be used for any portion of the expenses that exceed the ALE standards and are not allowed under a deviation.

- (2) The national standards come from the Bureau of Labor Statistics (BLS) Consumer Expenditure Survey (CES) and are updated yearly.
- (3) Allow taxpayers the national standards amounts for their family size without questioning the amount actually spent. For additional information, refer to the *SB/SE Allowable Expense Lookup Tool*. Substantiation is **only** required **IF** the taxpayer claims more than the national standards amounts **and** consideration is being given to allowing the additional expense.

**Note:** If the tax liability including projected accruals can be paid in six (6) years and within the CSED, see IRM 5.19.13.3.5, Full Payment in Six (6) Years (6 Year Rule), for further guidance.

**Note:** When securing financial information related to national standards, first provide the taxpayer with the total national standard we can allow. Tell the taxpayer this includes expenses for:

- Food,
- Housekeeping supplies,
- Apparel and services,
- Personal care products and services, and
- Miscellaneous items.

**Reminder:** Ask the taxpayer if they expend more than the maximum allowed. If the taxpayer does not expend more, you do not have to go through each expense item. Just allow the total maximum standard. If the taxpayer does not expend more than the total national standard, input the total amount claimed by the taxpayer in the food box on AMS. If the taxpayer states they expend more than the overall national standard, you must cover each individual standard, and record on the AMS financial screen. If the total amount claimed for all five categories is more than the total national standards, the taxpayer must only substantiate those individual expenses exceeding the standard.

**Example:** The National Standard is \$1,288; the taxpayer's expenses are:

National Standard Expenses ...	Taxpayer's Claimed Expenses ...
Housekeeping supplies	\$100
Clothing	\$100
Food	\$500
Personal Care Products	\$100
Miscellaneous	\$200

The total taxpayer expenses being claimed equal \$1,000.

We are required to allow the maximum National Standard of \$1,288 in this scenario, even though the amount claimed was less.

**Example:** The National Standard is \$1,288; the taxpayer's expenses are:

National Standard Expenses ...	Taxpayer's Claimed Expenses ...
Housekeeping supplies	\$100
Clothing	\$100
Food	\$800
Miscellaneous	\$200
Personal care	\$100

The total taxpayer expenses claimed equal \$1300.

We can only allow the National Standard of \$1,288, unless the expenses claimed over the National Standard, in this case the food expense, are reasonable and substantiation is received that justifies the additional expense. (See example in next paragraph.)

- (4) A taxpayer who claims expenses that total more than allowed by the national standards and are considered reasonable; meeting the necessary expense test, providing for a taxpayer and their families health, welfare and/or production of income, should provide substantiation or reasonable explanation to justify the individual expenses exceeding the national standard amount, such as keeping two homes when they commute for employment etc. All deviations from the national standards should be explained and must be reasonable and documented on AMS.

**Example:** A taxpayer claims more for food than allowed and all other expenses meet or do not exceed the national standard amount. Justification is based on special prescribed or required dietary needs. The taxpayer must substantiate only the food expense before it can be allowed.

**Example:** The taxpayer is **not** required to verify expenses for all five categories if a higher expense is claimed in just one category; the standard amounts are allowed for the remaining categories. In the scenario above, the taxpayer is required to provide verification for the higher food expense, and would be allowed the standard amounts for housekeeping supplies, apparel and services, personal care products, and miscellaneous expenses.

**Reminder:** If an amount the taxpayer provides is substantiated at a higher amount than was originally indicated, allow the substantiated amount.

**Example:** On the Form 433's or during discussion, the taxpayer indicates their food expense is \$200 more than the standard, and when actually substantiated they are able to show it is \$300 above the standard - allow \$300, the substantiated amount.

5.19.13.3.2.4  
(06-10-2015)

**National Standard:  
Out-of-Pocket Health  
Care Expenses**

- (1) The table for out-of-pocket health care expenses is based on the Medical Expenditure Panel Survey data.
- (2) Out-of-pocket health care expenses include:
  - Medical services,
  - Prescription drugs, and
  - Medical supplies, including eyeglasses and contact lenses.
- (3) Elective procedures, such as plastic surgery or elective dental work, are generally not allowed.
- (4) Taxpayers and their dependents are allowed the total health care standard amount monthly on a per person basis without questioning the amount actually spent. The health care standard is established as a floor on a per-person basis. Taxpayer documentation of out-of-pocket health care expenses is not required unless the amount claimed exceeds the standard.
- (5) The out-of-pocket health care standard is allowed in addition to the amount taxpayers pay for health insurance premiums.
- (6) Taxpayers with *no health insurance* that claim more than the total allowed by the out-of-pocket health care standard, may also be allowed more than the standard if they provide documentation to substantiate and justify the additional expenses.

**Note:** If the tax liability including projected accruals can be paid in six (6) years and within the CSED, see IRM 5.19.13.3.5, Full Payment in Six (6) Years (6 Year Rule), for further guidance.

- (7) All deviations from the national standards for out-of-pocket health care expenses must be substantiated, reasonable and documented on AMS.

5.19.13.3.2.5  
(10-01-2019)

**Local Standards for  
Determining Expenses**

- (1) For some expenses, the national standards are not feasible: housing and utilities, and transportation are determined locally.
- (2) Unlike the national standards, the local standards for housing, utilities and transportation normally serve as a cap. As a general rule, the taxpayer is allowed the lesser of the local standard or the amount actually paid.

**Note:** A taxpayer claiming more than the total allowed by the local standards must substantiate any expenses exceeding the standard amount that does not meet the necessary expense test - **but only if the amount substantiated will be considered once substantiated.** All expenses exceeding the local standards must be documented on AMS Substantiation screen. Consider the information provided on the Collection Information Statement (Form 433 A, F, or H) as well as information obtained verbally.

**Example:** The local standard for housing and utility expenses for a taxpayer is \$1,889. The taxpayer claims and substantiates expenses meeting the necessary expense test totaling \$2,100 per month. Allow \$2,100 per month when completing the financial statement input.

**Note:** If the tax liability including projected accruals can be paid in six (6) years and within the CSED, see IRM 5.19.13.3.5, Full Payment in Six (6) Years (6 Year Rule), for further guidance

- (3) Provide explanation to the taxpayer if an expense is partially or fully disallowed. It is the taxpayer's responsibility to determine which expenses they need to modify or eliminate. **Before disallowing an expense, consider the overall impact to the taxpayer's financial situation:**

- The increased cost of transportation to work and school resulting from moving to lower-cost housing.
- The tax consequences resulting from selling a home; someone moving from an owned home to a rented home lose the tax advantages of itemizing interest and possibly incur a capital gain tax liability.
- The cost of moving to a new residence.

**Note:** For Local Standards covering items such as housing and utilities, and transportation: If the taxpayer's expenses are below or do not exceed the maximum national standard allowed under the Food/Personal Care, Housing and Utilities and/or Transportation expenses, you do not need to itemize each expense on the AMS IRS recognized Expense screen. You may leave it blank because the AMS Financial system will pick up the standard or the taxpayer's amount automatically, whichever is lower. Only enter an amount in the IRS recognized column if it is more than the standard and the higher amount is going to be allowed due to meeting the necessary expense test or having been sufficiently explained or will be substantiated by the taxpayer.

5.19.13.3.2.5.1  
(11-25-2014)

**Housing and Utility  
Expenses**

- (1) The housing and utilities standards are derived from census and Bureau of Labor Statistics (BLS) data, and are provided by state, down to county, level. The standard for a particular county and family size includes both housing and utilities allowed for a taxpayer's primary place of residence; for additional information, refer to the *SB/SE Allowable Expense Lookup Tool*.

- (2) Housing includes:

- Monthly rent or mortgage payment,
- Property taxes,
- Homeowner's or renter's insurance,
- Necessary maintenance and repair, and
- Homeowner dues and condominium fees.

- (3) Utilities include:

- Gas,
- Electricity,
- Water,
- Fuel oil, coal, bottled gas,
- Trash and garbage collection,
- Wood and other fuels,
- Septic cleaning,
- Telephone,
- Cell phone,
- Internet Services, and Cable Television

- (4) The housing and utility standard includes an allowance for cell phones, cable television and internet services; ensure the taxpayer is not allowed these expenses separately on the financial statement.

5.19.13.3.2.5.2  
(04-03-2020)

**Transportation Expenses**

- (1) The transportation standards provide the basis for determining the amount allowed to own and operate a vehicle, as well as for public transportation. For additional information, refer to the *SB/SE Allowable Expense Lookup Tool*.
- (2) The transportation standards consist of nationwide figures for loan or lease payments referred to as ownership costs, and additional amounts for operating costs broken down by Census Region and Metropolitan Statistical Area (MSA). Transportation costs are derived from Census and BLS data.
- (3) Operating costs include:
  - Insurance,
  - Registration fees and inspections,
  - Normal maintenance and repairs,
  - Fuel,
  - Parking, and
  - Tolls.
- (4) Public transportation costs include mass transit fares for a train, bus, taxi, etc., both within and between cities.
- (5) Transportation expenses are considered necessary when they are used by **taxpayers and their families** to provide for their health and welfare and/or the production of income. Employees are expected to exercise appropriate judgment in determining whether claimed transportation expenses meet these standards. Expenses that appear to be excessive should be questioned and, in appropriate situations, disallowed.
- (6) When determining the allowable transportation amounts, you only allow the actual expenses being paid by the taxpayer or the maximum standard whichever is less for both ownership and operating costs. Substantiation for either ownership or operating expenses is not required unless the amount claimed exceeds the maximum standard allowed.
- (7) Additional considerations for ownership and operating costs are:
  - a. A single taxpayer is allowed ownership and operating costs for only one vehicle.
  - b. If the primary and secondary spouses own two vehicles, they are allowed the amount claimed for each vehicle up to the maximum allowances for ownership and operating expenses.

**Note:** On a shared expense calculation, if the liable taxpayer pays the ownership costs from their separate funds, they are allowed the total ownership costs (and the shared expense box must be unchecked). If the ownership costs are not coming from separate funds the shared percentage applies to the ownership of both cars (and the shared expense box must remain checked). In both situations, the operating cost of all cars are applied the shared percentage.

- c. If a self-employed taxpayer is claiming car/truck expenses on Schedule C, Profit or Loss From Business, ensure the same expenses are not also included under personal expenses; it may be necessary to include only a

portion of the expenses attributed to personal use under allowable transportation expenses. Excessive expenses may not be allowed for that vehicle.

- (8) If a taxpayer has a car, but no car payment is checked on the AMS Asset screen as a necessary expense, only the operating costs portion of the transportation standard is used to figure the allowable transportation expense. The taxpayer is allowed the amount actually spent or the standard, whichever is less.
- (9) If a taxpayer does not own a car, there is a single nationwide allowance for public transportation; this allowance is established as a “floor” for individuals with no vehicle. Taxpayers with no vehicle are allowed the standard, per household, without questioning the amount actually spent. The taxpayer is not required to provide documentation unless the amount claimed exceeds the standard.
- (10) If a taxpayer owns a vehicle and uses public transportation, both ownership and operating expenses may be allowed, along with public transportation, provided they are needed for the health and welfare of the individual or family, or for the production of income; however, the expenses allowed are the **actual** expenses incurred. Documentation is not required unless the amount claimed exceeds the standards.

**Example:** 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 actual cost for train fare, are allowable.

- (11) If a taxpayer claims higher amounts of operating costs because they commute long distances to reach their place of employment, they may be allowed more than the standard.

**Reminder:** The additional operating expense would generally meet the production of income test and therefore be allowed if the taxpayer provides substantiation.

- (12) If the amount claimed is more than the total allowed by any of the transportation standards, the taxpayer must provide documentation to substantiate that those expenses are necessary. All transportation standards above the maximum amount must be substantiated, reasonable and will be documented on AMS on the Substantiation screen
- (13) If the tax liability including projected accruals can be paid in six (6) years and within the CSED, see IRM 5.19.13.3.5, Full Payment in Six (6) Years (6 Year Rule), for further guidance.

5.19.13.3.2.6  
(08-14-2023)  
**Other Necessary  
Expenses**

- (1) Other necessary expenses may be considered if they meet the necessary expense test; **they must provide for the health and welfare of the taxpayer and/or their family, or they must be for the production of income.** This is determined based on the facts and circumstances of each 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. See IRM 5.19.13.3.5, Full Payment in Six (6)

Years (6 Year Rule). 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 5.19.13.3.6, Eliminating Excessive Expenses Within One Year.

- (3) The following are examples of some expenses that may be determined other necessary expenses:

Expense	Expense is Necessary If...	Notes/Tips
Accounting and legal fees,	<ol style="list-style-type: none"> <li>Representation before the IRS (i.e., to resolve current balances due, delinquent returns, examinations, etc.).</li> <li>The fees must meet the necessary expense test.</li> <li>The amount should not be excessive and must be reasonable given the complexity of the case. <b>Note:</b> An accountant will charge less for a wage earner with all returns filed that just needs the collection paperwork completed, than they would charge for a self-employed individual that needs several returns prepared along with the collection paperwork.</li> <li>Fees vary across the country so allowable amounts may also differ depending on where the taxpayer lives.</li> </ol>	<ol style="list-style-type: none"> <li>Fees related to business operations (i.e., reported on Schedule C, Profit or Loss From Business) should not be claimed as personal expenses. <b>Note:</b> Ask if the fee is continual or one time payment.</li> </ol>
Charitable contributions, <b>Example:</b> Donations to tax exempt organizations.	<p>Meets the necessary expense test or is a condition of employment, <b>Example:</b> A minister is required to tithe according to their employment contract.</p>	<ol style="list-style-type: none"> <li>Disallow any other charitable contributions not considered necessary.</li> <li>Review the employment contract</li> </ol>
Child Care, <b>Note:</b> Baby-sitting, day care, nursery, and pre-school.	<ol style="list-style-type: none"> <li>Meets the necessary expense test; only reasonable amounts are allowed.</li> <li>Costs of child care can vary greatly; do not allow unusually large child care expenses if more reasonable alternatives are available.</li> </ol>	<ol style="list-style-type: none"> <li>Ask how old the child is.</li> <li>Find out if the taxpayer's spouse is employed.</li> </ol>



Expense	Expense is Necessary If...	Notes/Tips
Court-ordered Payments (Alimony, child support, including orders made by the state, and other court ordered payments),	<ol style="list-style-type: none"> <li>1. If alimony and child support payments are court-ordered, reasonable in amount, and being paid, they are allowable.</li> <li>2. If payments are not being made, do not allow the expense unless the nonpayment was due to temporary job loss or illness.</li> <li>3. Restitution payments made to other victims pursuant to a court order are allowable expenses.</li> </ol>	<p>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.)</p> <p><b>Note:</b> Court-ordered payments may include conditional expenses that are not classified as alimony or child support, such as private school, college tuition, dance lessons, etc. Apply the same rules as other conditional expenses, as these must be considered reasonable and may or may not be allowed.</p>
Dependent Care, <b>Example:</b> For the care of the elderly, invalid or handicapped.	There is no alternative to the taxpayer paying the expense.	Not Applicable
Education,	<ol style="list-style-type: none"> <li>1. Required for a physically or mentally challenged child and no public education providing similar services is available.</li> <li>2. Allowed only for the taxpayer and only if required as a condition of employment.</li> </ol>	<b>Example:</b> A teacher whose employment is conditional upon completion of a graduate program.
Involuntary Deductions,	They are union dues, uniforms, work shoes, etc. that are a condition of employment,	Verify it is a requirement of the job. To determine monthly expenses, the total out of pocket expenses would be divided by 12.
Life insurance,	<ol style="list-style-type: none"> <li>1. Is limited to term policies on the life of the taxpayer only.</li> <li>2. Life insurance used as an investment is <b>not</b> a necessary expense.</li> </ol>	Check on whole life policy; whole life policies should be reviewed as an asset for borrowing against.
Secured or legally perfected debts,	Allow if it meets the necessary expense test,	The taxpayer <b>must</b> substantiate the payments are being made.



Expense	Expense is Necessary If...	Notes/Tips
Credit Card Debts,	<ol style="list-style-type: none"> <li>1. Minimum credit card payments are allowed under the six-year rule.</li> <li>2. Credit cards are generally considered a method of payment. A taxpayer may pay for necessary living expenses using cash or a credit card.</li> </ol>	<ol style="list-style-type: none"> <li>1. If a credit card is used to pay for personal expenses such as food, clothing, gas, insurance - these expenses are already being allowed on the financial statement.</li> <li>2. If a taxpayer is paying for necessary expenses that exceed the standards, and those expenses are justified, a deviation under the expense item on the financial statement should be allowed.</li> <li>3. If a credit card payment is only partially allowed or not allowed at all, the taxpayer should be advised that IRS allows an amount monthly for miscellaneous expenses that can be used to pay credit card payments.</li> </ol>

Expense	Expense is Necessary If...	Notes/Tips
Current Year Taxes,	<p>1. Current federal, FICA, Medicare, state* and local taxes are allowed regardless of whether the taxpayer made them in the past or not.</p> <p><b>Note:</b> If the taxpayer is a wage employee, place withholding amounts on the AMS Income screen in the appropriate box.</p> <p><b>Note:</b> If the taxpayer is self-employed or has non-wage income, allow estimated tax payments on the AMS financial screens and document AMS comments that this expense was allowed.</p> <p><b>Note:</b> The following states do not have a state income tax:</p> <ul style="list-style-type: none"> <li>• Alaska (AK)</li> <li>• Florida (FL)</li> <li>• Nevada (NV)</li> <li>• South Dakota (SD)</li> <li>• Texas (TX)</li> <li>• Washington (WA)</li> <li>• Wyoming (WY)</li> </ul> <p><b>Note:</b> New Hampshire and Tennessee do not impose a general income tax on an individual's earned income. Rather, these states tax gross interest and dividend income above certain thresholds.</p>	Federal taxes do not need to be verified if the amounts are within 20% of the amounts on CC <i>IRPTR</i> , CC <i>RTVUE</i> , CC <i>BRTVU</i> or CC <i>TRDBV</i>
Delinquent State or Local Taxes,	<p>Payments for delinquent state and local (county or municipal) tax liabilities may be allowed in certain circumstances:</p> <ol style="list-style-type: none"> <li>1. When a taxpayer does not have the ability to full pay the tax liability.</li> <li>2. When a taxpayer provides complete financial information.</li> <li>3. When a taxpayer provides verification of the state or local tax liability and agreement (if applicable).</li> </ol>	See paragraph (4) below, for determining allowable amount.

Expense	Expense is Necessary If...	Notes/Tips
Optional telephones and telephone services, <b>Example:</b> Pager, call waiting, caller identification, or long distance.	Must meet the necessary expense test or full pay within six (6) years and within the CSED.	Not Applicable
Student loans,	See paragraph (5) below.	Not Applicable
Repayment of loans for payment of Federal taxes,	If the IRS has received the proceeds of the loan and the taxpayer can document the loan, the payment amount should be allowed.	Not Applicable

- (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 the tax liability.
  - When a taxpayer is cooperative and provides complete financial information.
  - When a taxpayer advises IRS that they owe delinquent state or local taxes and provides verification of the state or local tax liability and agreement (if applicable).
- (5) Follow the procedures in this table to determine the allowable payment for delinquent state or local tax debts:

If ...	And ...	Then ...
The taxpayer <b>does not</b> have an existing agreement for payment of the delinquent state or local tax debts,	Provides a complete CIS and verification of state or local tax debts,	Follow procedures under <b>Determining Allowable Payments for Delinquent State or Local Tax Debts</b> below to establish the calculated percentage amount that will be listed as the allowable monthly payment for delinquent state or local taxes on the CIS.

If ...	And ...	Then ...
The taxpayer has an existing agreement for delinquent state or local tax debts, and that agreement was established <b>after</b> the earliest IRS date of assessment,	The payment amount on the state or local agreement is <b>less</b> 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 full paid.
The taxpayer has an existing agreement for delinquent state or local tax debts, which was established <b>after</b> the earliest IRS date of assessment,	The payment amount on the agreement, is <b>more</b> than the calculated percentage amount,	The amount listed as the delinquent state or local tax payment on the CIS will be the calculated percentage amount. Advise the taxpayer that they 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 full paid.
The taxpayer has an existing agreement for delinquent state or local tax debts, which was established <b>prior to</b> 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 explanation below if allowing the state payment will result in the account being reported Currently Not Collectible.

(6) **Determining Allowable Payments for Delinquent State or Local Tax Debts**

- Determine net disposable income on a Collection Information Statement (CIS), Form Form 433-A, Collection Information Statement for Wage Earners and Self-Employed Individuals, or Form Form 433-F, Collection/Information Statement, and/or Form 433-H, Installment Agreement Request and Collection Information Statement , 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.

- Calculate the dollar amounts for IRS and state or local payments based on the total liability owed to each agency (including penalties and interest to date)
- Use the net disposable income and a percentage of IRS and state liabilities to total liability to calculate the payment amounts.

**Example: Examples of Determining Percentage and Allowable Payments for Delinquent State or Local Tax Debts**

Type of Liability	Amount
IRS Liability	\$10,000.00
State or Local Liability	\$5,000.00
Total	\$15,000.00

Type of Liability	Percentage
IRS	$10,000.00/15,000.00 = .67$
State or Local	$5,000.00/15,000.00 = .33$

Type of Payment	IA Payment Amount
Taxpayer's net disposable income	\$400.00
IRS Payment (400 x .67)	\$268.00
State or Local Payment (400 x .33)	\$132.00

If allowing even a minimal payment for delinquent state or local taxes will result in the account being reported CNC 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 <b>will not</b> be allowed. Advise the taxpayer that they can use the amount 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 <b>after</b> the earliest IRS date of assessment,	A payment for delinquent state or local taxes <b>will not</b> be allowed. Advise the taxpayer that they can use the amount IRS allows for Miscellaneous expenses under National Standards to pay the delinquent state or local tax payment.

If allowing even a minimal payment for delinquent state or local taxes will result in the account being reported CNC due to hardship, and ...	Then ...
The taxpayer has an existing agreement for delinquent state or local tax debts, which was established <b>prior to</b> the earliest IRS date of assessment,	<p>The amount allowed for state and local taxes on the CIS will be reduced to allow for an IRS IA payment. Advise the taxpayer that they 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.</p> <p>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.</p>

**Reminder:** Calculations must be documented in the AMS history.

**Note:** Allowing payments for delinquent state or local taxes when establishing an IA has no effect on NFTL or levy priorities. This guidance only impacts determinations of ability to pay. If the taxpayer refuses to establish an IA or defaults on an IA, IRS employees should follow existing procedures to pursue collection.

**Caution:** Minimum payments for delinquent state and local taxes are allowed for IAs 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 as discussed above.

- (7) Student loans - Payments for student loans may be allowed in certain circumstances:

If ...	Then ...
Taxpayers with student loan debt, who have not yet made arrangements to repay the loan,	<p>Allow 10 days to set up a payment plan for the student loan and provide verification so the loan payment can be allowed.</p> <p>Additional time may be allowed if a taxpayer has extenuating circumstances.</p> <p><b>Advise taxpayer of the following:</b></p> <ul style="list-style-type: none"> <li>• If they do not respond by the due date, the IA amount will be established without allowing for a student loan payment.</li> <li>• If they later make arrangements to pay the student loan, they can request the IA be revised.</li> </ul>
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	<p>The IA amount will be established without allowing for a student loan payment.</p> <p><b>Advise Taxpayer of the following:</b></p> <ul style="list-style-type: none"> <li>• To request a deferment or forbearance of the student loan payments.</li> <li>• That if they later make arrangements to pay the student loan, they can request the IA be revised.</li> </ul>

5.19.13.3.2.7  
(11-25-2014)

#### Conditional Expenses

- (1) Conditional expenses **may not** meet the necessary expense test of providing for a taxpayer and their family's health and welfare and/or the production of income, but may be allowable based on the circumstances of an individual case. Any substantiation received from the taxpayer or internal verification must be clearly documented in the AMS narrative. Conditional expenses are allowable, without substantiation if the tax liability, including projected accruals, can be paid in full within six (6) years and within the CSED. The following are conditional expenses:

If ...	Then ...
Accounting and Legal Fees,	Fees are necessary only if they are for representation before the IRS to resolve current balances due, delinquent returns, examinations, etc., or they meet the necessary expense test of health and welfare and/or production of income. Fees related to business operations (i.e., reported on <i>Schedule C</i> , Profit or Loss From Business) should not be claimed as personal expenses.
Charitable Contribution,	These expenses include donations to tax exempt organizations, such as: civic organizations, religious organizations (tithing and educational), and medical services or associations.
Education,	Expenses for private elementary, secondary and public and private college education.
Housing,	Housing other than the principal residence is not a necessary expense. <b>Example:</b> Housing deemed not necessary include vacation property, owned, rented, leased, or time-share. Other costs associated with housing are usually conditional; for example, pool service and gardening are optional and can be done by a taxpayer, as opposed to the kinds of home maintenance, such as roof repair or plumbing, which would qualify as necessary.
Life Insurance,	Life insurance used as an investment is a conditional expense. Ask the taxpayer whether it's possible to suspend payments on whole or investment life insurance policies in order to apply the money to the tax liability. If the policy has a cash value, ask the taxpayer to obtain it; if the taxpayer will not voluntarily obtain it, consider enforcement. Consider if the payoff of the policy is high compared to the lifestyle of the beneficiaries. Expensive premiums must be justified. Whole life/investment insurance is considered a conditional expense.
Retirement,	Voluntary payments.
Secured or Legally Perfected Debts,	Meets necessary expense test and is filed, executed and superior to the federal tax NFTL.
Transportation,	Transportation not needed for family health and welfare and /or the production of income is not a necessary expense. Vehicles other than necessary vehicles are considered conditional expenses. <b>Example:</b> Conditional transportation expenses are multiple and recreational vehicles.



If ...	Then ...
Unsecured Debts,	<p>Allow payments on unsecured debts if the tax liability, including projected accruals, will be paid within six (6) years; otherwise, payments must come from the total amount allowed under the National Standards. Do not allow payments on unsecured debts, including credit cards, if omitting them permits the taxpayer to pay in full within 90 days.</p> <p><b>Note:</b> Credit cards are generally considered a method of payment, rather than a specific expense.</p>

- (2) When a taxpayer owes both delinquent federal taxes and state or local taxes, and does not have the ability to full pay the liabilities, monthly payments to state or local taxing authorities may be allowed in certain circumstances. (See IRM 5.19.13.3.2.6(4), Other Necessary Expenses.)

5.19.13.3.3  
(11-01-2024)  
**Asset/Income/Expense  
Verification and  
Substantiation**

- (1) If verification and substantiation is required per IRM 5.19.13.2, Authority Levels for Financial Analysis, Verification, and Substantiation, compare the taxpayer's financial statement to information available via internal sources. Research of the Corporate Files On-Line (CFOL) (CC *IRPTR*, CC *TRDBV* and CC *RTVUE/CC BRTVU*) is **required** when verifying financial income information the taxpayer provided. For a list of internal sources available for your use: see Exhibit 5.19.13-2, Verify Financial Statement.

**Example:** The taxpayer states they have no assets. Internal research of a prior year return shows mortgage interest. The discrepancy would need to be addressed.

- (2) Verification of income through IRS research of internal sources is **ONLY** required when completing a financial statement input or on certain types of
- (3) If verification is needed, use suggested methods for internal and external sources of information for financial verification. See Exhibit 5.19.13-2 , Verify Financial Statement.

**Note:** If the taxpayer has an accountant, an Income Statement covering the most current year can be used.

- (4) Paper substantiation from the taxpayer, faxed, uploaded or mailed, is required, if the amount claimed for income or any expenses appears to be unreasonable (per employee judgment) or the expense amounts claimed exceed the ALE standards.

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**Reminder:** Paper substantiation should **also** be secured in cases where the taxpayer's explanation does not correspond to the internal sources verified.

**Exception:** Paper substantiation is **not** required if allowing these other expenses will result in a NSIA. However, employees should use sound judgment to determine if the taxpayer's verbal or written justifications for income/expense discrepancies provide adequate substantiation.

**Reminder:** **DO NOT** direct the taxpayer to send all or part of the following information in general, or when being asked to complete the Form 433. Items should only be requested if during the process of financial input on the AMS screens the items being substantiated will be allowed.

(5) Examples of items which may be requested for substantiation of expenses over the standard or to verify other necessary expenses that do not appear on the taxpayer's wage and earning statement include, but are not limited to, copies of items such as:

- Bank statements or canceled checks, to prove child support payments are being made if they are not on the taxpayer's wage and earning statement.
- Credit card statements, to confirm payment of necessary expenses by credit card.
- Rent/lease receipts and lease agreements, only if the amount they claim is substantially over the standard and is going to be allowed if substantiated.
- Court orders and proof of payments, for child support or other court ordered payments that do not appear on the taxpayer's wage and earning statement.
- Future expenses.

**Example:** The birth of a child or the necessary replacement of a car increases expenses.

- Payroll check stubs, if income or court ordered payments require verification.

**Example:** Current year-to-date figures, Form 1099, Form 1040, U.S. Individual Income Tax Return, Form W-2, etc., Wage and Tax Statement.

- (6) Substantiation of other necessary expenses may be required if the expense cannot be verified through internal sources.

**Note:** Substantiation should ONLY be requested for expenses which will be allowed if substantiation is provided.

**Reminder:** DO NOT require the taxpayer to prove they are paying living expenses such as rent, utilities, car payments, etc.

- (7) Any verbal/internal verification or paper substantiation received from the taxpayer must be clearly documented on the AMS financial screens. Substantiation of income and/or expenses can include, but is not limited to:

- Verbal information received during telephone contact with the taxpayer,
- Bank statements or canceled checks providing proof of payments being made,
- Credit card vouchers,
- Rent/Lease receipts and lease agreements,
- Payment coupons,
- Court order; must provide proof of payments,
- Contracts,
- Future expenses, or

**Example:** The birth of a child or the necessary replacement of a car.

- Payroll check stubs with current year-to-date figures, Form 1099, Form 1040, U.S. Individual Income Tax Return, Form W-2, Wage and Tax Statement, etc.

- (8) Send cases awaiting substantiation from the taxpayer:

- To the appropriate ACS inventory if an ACS case, *or*
- CC *STAUP* if in Notice Status.
- Field Assistance makes an appointment for the taxpayer to return to the TAC or advises the taxpayer to return to the TAC by a specific date.

- (9) When obtaining documents for substantiation, ask the taxpayer for copies, not original documents. Telephone numbers of creditors and person to contact may be secured if verification is necessary.

- a. If the taxpayer has the supporting documents available, encourage the taxpayer to fax or upload the information while on the call. If faxing or uploading while on the call is not possible, give the taxpayer the appropriate ACSS address to mail the documents. Field Assistance must request the taxpayer return to the TAC with the documentation.

**Exception:** Call site employees are to accept faxes or uploads during a call if a levy is in place.

**Note:** If the taxpayer does not have the supporting documents available during the call, ask the taxpayer if they would agree to establish the IA at the higher monthly payment amount shown on AMS. Inform them when their substantiation is received we will make a determination if the documentation submitted supports allowing the additional expenses. If the documents support the lower IA amount, we will allow the lower monthly payment without incurring a restructuring fee.

- b. If the taxpayer claims immediate economic hardship from a levy, interview taxpayer to obtain financial information. Input to AMS Financial screens. Ask the taxpayer to provide all necessary supporting documentation while on the phone.

**Example:** The taxpayer provides a financial statement, which shows they have no ability to pay. If the taxpayer claims any conditional expenses or expenses that exceed the ALEs, ask the taxpayer to provide the necessary supporting documentation. Once it is received and you verify that it supports the taxpayer's financial statement, then release the levy. See IRM 5.19.4.4.10, Levy Release: General Information. See IRM 5.19.17.2.4, CNC Unable to Pay – Hardship, to report the account CNC due to hardship.

**Example:** The taxpayer provides a financial statement, which shows they have an ability to pay of \$100 per month, and they didn't claim conditional expenses or expenses that exceeded the ALEs. However, the taxpayer is experiencing an immediate economic hardship (they received a cut-off notice from their electric company.) Ask the taxpayer to submit the disconnect notice. Once it is received and you verify it supports the taxpayer's claim of economic hardship, then release the levy in full or in part to relieve the immediate economic hardship. See IRM 5.19.4.4.10, Levy Release: General Information. See IRM 5.19.1.6.4, IAs, or IRM 5.19.1.6.5, PPIA, to establish an IA or PPIA.

- c. If substantiation is mailed, provide the taxpayer with the appropriate deadline to return information and the appropriate ACSS address. Generally, the taxpayer should be allowed no more than 30 days to provide requested substantiation. However, actual deadlines may vary, based upon the taxpayer's circumstances and the information requested. Some appropriate deadlines are:

**Example:** Ten days to get substantiation for documents that may be readily available, such as, court-ordered, student loan, state tax or medical payments. (You may need to allow additional time if the taxpayer states the documents are not readily available.)

**Example:** 30 days if the taxpayer is attempting to borrow.

**Note:** Add 15 calendar days to the due date given the taxpayer.

**Example:** The number of follow-up days is the number of days given as the due date, 30 days if the taxpayer is attempting to borrow, plus 15 additional days ensuring we receive the correspondence; the correct follow up date is 45 days from today.

- (10) If the taxpayer does not respond by the follow up date, take the following actions:

- a. If the original IA request met Pending IA criteria and additional information was not received, follow rejection procedures. For Pending IA criteria, see IRM 5.19.1.6.4.7, Pending IA Criteria. For Rejection procedures, see IRM 5.19.1.6.4.9, IA Rejection Criteria.

- b. If the original IA request did not meet Pending IA criteria and additional information was not received as requested, allow the account to continue with normal collection activity.
- c. If the account is in Notice Status, input CC *STAUP* 2200.
- d. If the account is in ST 22, proceed with the next case action.

**Example:** Levy, NFTL, LT11, Final Notice -- Notice of intent to levy and your notice of a right to a hearing (sent certified, return receipt requested), etc.

- (11) If a taxpayer calls or writes with additional financial information, or requested substantiation, you are **not** required to repeat the tiered interview if it was previously documented clearly.

**Example:** AMS History clearly documents a request was made of the taxpayer to full pay, ability to borrow, etc.

- a. If financial information is on AMS and was obtained **within** the last twelve months, you are **not** required to take a complete financial statement. Review and update the previous financial information obtained, **DO NOT** refer the taxpayer to the employee originally taking the financial information. AMS recalculates the payment amount. Ensure requirements are met, and continue the financial statement interview.
  - b. When ACSS or CSCO receives documents to support a financial statement and clarification or additional documentation is needed for case resolution, attempt to contact the taxpayer by phone or issue the appropriate Correspondex letter requesting the additional needed documentation; advise the taxpayer to respond within 30 days and allow 45 days for follow up. Follow procedures in IRM 5.19.13.3(11), Securing Financial Statements.
- (12) If the taxpayer is still missing any required information, do not give more opportunities to provide the missing documentation. Document this action accordingly and take the next appropriate action.

5.19.13.3.4  
(08-14-2023)  
**Making the Collection  
Decision**

- (1) The analysis of the taxpayer's financial condition provides a basis for making one or more of the following decisions:
  - a. Request payment in full or a partial payment based on the liquid equity in available assets,
  - b. IA. See IRM 5.19.1.6.4, IAs,
  - c. PPIA. See IRM 5.19.1.6.5, PPIAs,
  - d. CNC. When financial analysis indicates no means of payment, see IRM 5.19.17.2, Currently not Collectible (CNC) Procedures, or
  - e. OIC. For OIC information, see IRM 5.19.17.3, Offer in Compromise (OIC) Procedures.

**Reminder:** Make a **NFTL** determination if the AAB due *SUMRY* is \$10,000 or more. See IRM 5.19.4.5, Notice of Federal Tax Lien Determinations and Filing Criteria.

- (2) Request immediate full payment if the **completed** financial statement shows the taxpayer has the ability to borrow or liquidate such as:
  - The taxpayer has cash equal to the tax liability.

- The taxpayer has unencumbered assets, equity in encumbered assets, interest in estates and trusts, and lines of credit from which money may be borrowed to make payment in full.
- The taxpayer has other assets which may be pledged or readily converted to cash.
- Stocks, Certificates of Deposit, IRAs, and some 401(k) retirement plans can be liquidated or borrowed against
- Digital Assets which includes cryptocurrency (e.g. Bitcoin, Ethereum, Ripple, and Litecoin)

**Reminder:** Also take into account interest in assets:

- Is the government's interest in assets protected?
- Will the value of assets increase or decrease?
- Will the taxpayer's interest in assets change?

**Note:** See IRM 5.19.4.6, Procedures for Filing Liens.

- (3) If the taxpayer has asset(s) or equity in an asset that will **only partially pay** the liability, follow the instructions in the table below:

If ...	And ...	Then ...
If the taxpayer has liquid assets (cash, CD, money market, IRA, stocks/bonds, digital assets which includes cryptocurrency (e.g. Bitcoin, Ripple, Litecoin, etc.) that will <b>partially pay</b> the liability,	Not Applicable	Ask the taxpayer to use the liquid asset(s) to partially pay the liability.
If the taxpayer has non-liquid assets that will <b>partially pay</b> the liability (if the asset was sold or the taxpayer was able to secure a loan),	The taxpayer has: <ul style="list-style-type: none"> <li>• Defaulted on a previous IA for the balance(s) due, or</li> <li>• Requested to add another period to an existing IA,</li> </ul>	Ask the taxpayer to liquidate or borrow to make the partial payment.
If the taxpayer has non-liquid assets that will <b>partially pay</b> the liability (if the asset was sold or the taxpayer was able to secure a loan),	The taxpayer has <b>not</b> : <ul style="list-style-type: none"> <li>• Defaulted on a previous IA for the balance(s) due, or</li> <li>• Requested to add another period to an existing IA,</li> </ul>	Do not ask the taxpayer to liquidate or borrow to make the partial payment.

**Note:** If the taxpayer refuses, see paragraph (9) below.

- (4) If liquidation of any asset(s) or equity in an asset will result in full pay or a substantial partial payment, explore the option with the taxpayer unless,
- Factors such as advanced age, ill-health, or other special circumstances are determined to prevent the liquidation of the assets, and/or
  - They qualify for Guaranteed, Streamlined, or In-Business Trust Fund agreements.

**Note:** It is not appropriate to ask a taxpayer to liquidate or borrow against an asset if doing so will create an economic hardship for the taxpayer.

- (5) Before a **complete determination** can be made, **ALL** financial statement information provided by the taxpayer **must** be input to AMS. Consider whether the financial statement shows that the taxpayer has either assets to full pay or sufficient equity to borrow. AMS Financial screens perform systemic calculations to assist you with determining an accurate final case disposition. See Exhibit 5.19.13-3, AMS Financial Statement Processing.
- Base the case resolution decision on the amount of disposable household income available to apply to the tax liability.
  - Gross income less allowable expenses equals disposable income.
  - If expenses exceed income, ask the taxpayer for an explanation.
  - **Document all case actions including any deviation from the systemic calculations on AMS. If processing cannot be completed, and a resolution determined, the documentation will be required at a future date for case resolution. Documentation will also prevent unnecessary contact with the taxpayer.**

**Note:** Always “Save and Create History” for any financial information input on AMS.

**Reminder:** If the taxpayer agrees to borrow against an asset, but can only partially pay the tax liability, the resulting loan payment is an allowable expense when calculating the taxpayer’s ability to pay the remaining tax liability.

- (6) If the taxpayer agrees to an initial Voluntary Lump Sum Payment (VLSP) reducing the AAB (CC *SUMRY*) to an amount fitting Streamlined IA criteria, see IRM 5.19.1.6.4.21, VLSP.
- (7) Consider the one-year and or six (6) year rule when arriving at an appropriate amount based upon the individual taxpayer’s financial information. See IRM 5.19.13.3.5, Full Payment in Six (6) Years (6 Year Rule), and IRM 5.19.13.3.6, Eliminating Excessive Expenses Within One Year.
- If the taxpayer claims conditional expenses **and meets** the six (6) year rule or the one-year rule, grant the IA.
  - If the taxpayer claims conditional expenses *but does not meet* the six (6) year rule or one-year rule, request the higher payment amount determined through financial analysis. If the taxpayer does not agree, then follow Independent Review procedures. See IRM 5.19.1.6.4.9, IA Rejection Criteria.
- (8) Emphasize to the taxpayer how much we expect them to pay, rather than how we expect them to spend their money:



- a. Do not inform the taxpayer they cannot own, for example, a boat or summer cabin.
  - b. Tell the taxpayer they are responsible for determining what modifications or eliminations must be made to their expenses in order to pay their tax liabilities.
- (9) If the taxpayer **refuses** to liquidate or borrow against assets (and the circumstances in paragraph (3) above do not apply), and the request **meets** Pending IA criteria, IRM 5.19.1.6.4.7, Pending IA Criteria, then follow Independent Review procedures. See IRM 5.19.1.6.4.10, Proposal to Reject IA to Independent Review.
- Exception:** If it appears the taxpayer is trying to delay collection (and the circumstances in paragraph (3) above do not apply), follow instructions in IRM 5.19.1.6.4.9, IA Rejection Criteria.
- (10) If the taxpayer requests a DDIA, follow IRM 5.19.1.6.4.13, DDIA. If the taxpayer requests a PDIA, follow IRM 5.19.1.6.4.14, Form 2159, Payroll Deduction Agreement.
- (11) If the financial analysis shows that the taxpayer has **no** ability to pay, but the taxpayer **requests** an IA, establish the requested NSIA or PPIA with a back up CNC.
- (12) All case resolutions determined using financial statement processing to determine the taxpayer's ability to pay **require managerial approval** and **NFTL** determination, when appropriate. See IRM 5.19.13.2, Authority Levels for Financial Analysis, Verification, and Substantiation.
- (13) If a determination is made **not** to file the **NFTL**, follow IRM 5.19.4.5.2, Do Not File Decisions.
- (14) For additional information, see Exhibit 5.19.13-1, Questions and Answers to Assist in Financial Statement Processing.

5.19.13.3.5  
(07-22-2016)  
**Full Payment in Six (6)  
Years (6 Year Rule)**

- (1) When a taxpayer is unable to full pay immediately and a non-Streamlined IA is being considered, the taxpayer may qualify for the six (6) year rule. **All expenses may be allowed if:**
- a. The taxpayer establishes they can stay current in all tax requirements.
  - b. Tax liability, including projected accruals, will be paid within six (6) years AND the liability will be full paid within the CSED.
  - c. Amounts are reasonable.

**Example:** The taxpayer is currently making \$4,000 a month car payments on a \$200,000 car. Even though the tax liability will be paid within the six (6) years, the expense is not reasonable. If the additional expenses are reasonable, they may be allowed.

**Reminder:** Do not tell the taxpayer how to spend their money; it is up to the taxpayer to determine how to meet their expenses based on what their statement allows.



- d. If the financial statement shows the taxpayer cannot full pay within six years, the amounts allowed for one or more conditional expense items may be reduced so the liability can be full paid within six years, if the taxpayer concurs.
- e. Taxpayers are required to provide financial information in these cases, but do not have to provide substantiation of reasonable expenses.

**Caution:** An IA established under the six (6) year rule is an NSIA. As such, a complete financial analysis must be done prior to establishing the IA, and equity in assets must be addressed in accordance with IRM 5.19.13.3.4, Making the Collection Decision.

- (2) Use IAT Compliance Suite Payment Calculator, IDRS CC *ICOMP* F or Decision IA to compute the projected accruals to ensure the six (6) year rule is met and the liability will be full paid within the CSED.
- (3) If the taxpayer can pay the entire tax liability including the projected accruals within six (6) years AND within the CSED, **all** expense(s) (including minimum credit card payments) may be allowed.
  - The necessary expense test of providing for a taxpayer and their family's health and welfare or the production of income is not necessary.
  - Substantiation is not required. Refer to IRM 5.19.13.3.2.7(1), Conditional Expenses. See IRM 5.19.13.3.3, Asset/Income/Expense Verification and Substantiation.
- (4) Excessive necessary and non-allowable conditional expenses incurred after the assessment of the tax liability are not covered by the six (6) year rule. If you feel a taxpayer acted to reduce their ability to pay, enforcement action against the post-assessment assets or not allowing the expenses **may be appropriate**.

**Reminder:** The Six (6) Year Rule is not applicable to corporations, partnerships, Limited Liability Companies (LLC), where the LLC is identified as the liable taxpayer, or any BMF expenses. The Six (6) Year rule is also not applicable for BMF liabilities owed by in-business sole proprietors or LLCs, where the individual owner is identified as the liable taxpayer.

5.19.13.3.6  
(11-25-2014)  
**Eliminating Excessive Expenses Within One Year**

- (1) Taxpayers who cannot full pay their accounts within six (6) years may be given up to one year to modify or eliminate excessive necessary and/or non-allowable conditional expenses. By modifying or eliminating some conditional expenses, a taxpayer may fall within the six (6) year limit to full pay their liability; this enables a taxpayer to retain some conditional expenses. When allowing the one-year rule, the IA **must** still full pay within a total of 72 months (six (6) year rule).

**Caution:** An IA established under the one year rule is an NSIA. As such, a complete financial analysis must be done prior to establishing the IA, and equity in assets must be addressed in accordance with IRM 5.19.13.3.4, Making the Collection Decision.

- (2) For a determined period of time, not to exceed one year, an IA is established for an amount, even if minimal, which can be paid until the date the excessive

or non-allowable expenses are modified or eliminated. The taxpayer must agree to the increased payment amount.

- (3) An IA must include a payment increase at the date a taxpayer is expected to modify or eliminate excessive necessary or non-allowable conditional expenses.
- (4) Taxpayers are responsible for determining how best to adjust or eliminate expenses.
- (5) If the taxpayer was given a year to eliminate conditional expenses, fails to adjust the expenses and the account defaults, do not automatically allow the additional expenses. If the taxpayer contacts IRS requesting additional time, grant additional time only in an unexpected or unusual circumstance or based on a change in their financial condition such as loss of a job or birth of a child, etc.
- (6) Document the basis for the exception. Normally, the one-year rule is only given once. If the taxpayer did not reduce the expenses as promised, do not allow the additional expenses again unless there are unusual circumstances. AMS comments must be documented. Always save and create history.

**Example:** The taxpayer pays tuition for private school of \$1,000 per month; the taxpayer requested an IA of \$100 per month, which would not full pay by the CSED. The one-year rule is invoked because the \$1,000 tuition payment is a conditional expense. In one year, the installment payment increases to \$1,100.

**Reminder:** The One Year Rule is not applicable to corporations, partnerships, Limited Liability Companies (LLC), where the LLC is identified as the liable taxpayer, or any BMF expenses. The One Year rule is also not applicable for BMF liabilities owed by in-business sole proprietors or LLCs, where the individual owner is identified as the liable taxpayer.

**Exhibit 5.19.13-1 (08-14-2023)**
**Questions and Answers to Assist in Financial Statement Processing**

Questions	Answers
<b>Question 1:</b> If, as a condition of employment, a minister is to tithe, a business executive is required to contribute to a charity, or an employee is required to contribute to a pension plan, will these expenses be allowed?	<b>Answer 1:</b> Yes. The only thing to consider is whether the amount being contributed equals the amount actually required and does not include a voluntary portion.
<b>Question 2:</b> A taxpayer has a child in a university. They already paid the university \$25,000 for tuition and housing for the school year and they intend to pay another \$25,000 next July for the following school year. Should this expense be allowed?	<b>Answer 2:</b> Yes, if the taxpayer can pay the liability plus accruals within six years, and prior to the CSED. Otherwise, the expense will not be allowable. The taxpayer may be eligible for an allowable expense to cover the child's enrollment at a local college if the reduced education expense could make it possible for the taxpayer to take advantage of the six-year rule. When an expense is not allowed the taxpayer is responsible for deciding what expense modifications or eliminations are needed to pay the tax liability.
<b>Question 3:</b> A taxpayer is living in an apartment which rents for \$2,000 per month. The lease has another six months to run. The lease agreement includes a termination penalty equal to the lesser of two months rent or the monthly rent due for the balance of the lease. The taxpayer has a \$500 security deposit. Local rental data indicated that an acceptable rental apartment in the same general neighborhood can be rented to house the family at a cost of \$1,500 per month. The taxpayer cannot full pay within six years. Should the taxpayer be required to move to cheaper living quarters as a condition of an IA?	<b>Answer 3:</b> Since breaking the lease would cost more than keeping it until expiration, an IA may be granted which allows the taxpayer to live in their present quarters for the balance of the lease but which requires an increase of \$500 in the seventh month.

**Exhibit 5.19.13-1 (Cont. 1) (08-14-2023)****Questions and Answers to Assist in Financial Statement Processing**

Questions	Answers
<p><b>Question 4:</b> A taxpayer is a commissioned sales person living in a home with a \$3,000 monthly mortgage. The property was purchased in 2002 at the peak of the local real estate market and has lost approximately 25% of its value in that time due to local market declines. The present value is approximately equal to the mortgage balance. A single family home of a size adequate to house the family is available in a middle class neighborhood convenient to work and schools for \$1,800 per month, including utilities. If the taxpayer remains in their home, income and expenses are approximately equal, leaving no disposable income to apply to the delinquent federal taxes. Should the account be reported CNC?</p>	<p><b>Answer 4:</b> Maybe. The difference between the cost of renting and owning indicates that a significant payment can be made if the residence were sold; however, the loss of equity, as well as the costs of sale and moving should be considered. Options for resolution may include:</p> <ul style="list-style-type: none"> <li>• Recommending the taxpayer try to restructure their mortgage to reduce the monthly payment,</li> <li>• Asking the taxpayer to sell the property if there is adequate equity for the taxpayer to pay the mortgage, costs of sale and moving costs,</li> <li>• Securing an IA for a minimal amount until the taxpayer can adjust expenses (See IRM 5.19.1.6.6, Manually Monitored Installment Agreements, MMIA, or</li> <li>• Recommending the account be reported CNC with a mandatory follow-up if property values are expected to increase.</li> </ul>
<p><b>Question 5:</b> A taxpayer claims that they need more for food than the amount provided by the National Standards because they have five teenage children. Can they get an increased amount?</p>	<p><b>Answer 5:</b> Yes, if they can fully pay the tax liability plus accruals within six years, and prior to the CSED. Otherwise, they have to substantiate and justify the higher food expenses included within the National Standards. They would still be allowed the standard amounts for housekeeping supplies, apparel and services, personal care products and miscellaneous.</p>
<p><b>Question 6:</b> Should a self-employed taxpayer who is currently making contributions to an Individual Retirement Account (IRA) be allowed to continue the contributions if it will take seven years for them to fully pay the tax liabilities?</p>	<p><b>Answer 6:</b> The IRA payments would not be listed on Form 433-F as an allowable expense. Advise the taxpayer that if they wish to continue making IRA payments, they must divert the money from allowed expenses, or use the amount allowed for miscellaneous expenses.</p>

**Exhibit 5.19.13-1 (Cont. 2) (08-14-2023)**

**Questions and Answers to Assist in Financial Statement Processing**

Questions	Answers
<p><b>Question 7:</b> A married couple owes a joint tax liability. They have submitted a Form 433-F, Collection/Information Statement. The financial analysis indicates that it will take a four-year IA to fully pay the tax liability. The primary spouse is a truck driver who is responsible for their own food and lodging expenses on the road. They usually pay as they goes with a personal credit card. They request that this monthly payment be allowed. Should this expense be allowed?</p>	<p><b>Answer 7:</b> The expenses for food and lodging are allowed as business expenses. These expenses should not appear on the personal expense section of 433-F, Collection/Information Statement. The business expenses would have already been deducted from business income to arrive at personal income. How the expenses are paid, cash or credit card, do not change the financial analysis. If the taxpayer needs to pay an additional amount on their credit card, they should be told that the IRS includes a monthly Miscellaneous allowance under the National Standards to be used for any expenses not included as allowable in the determination of ability to pay.</p>
<p><b>Question 8:</b> A taxpayer completed a CIS which indicates that they can fully pay the liability plus accruals within six years. Since the assessment of the tax liability, they purchased a car for personal use, which has increased their expenses by \$2,000 a month. Should the provisions of the six-year or the one-year rule apply?</p>	<p><b>Answer 8:</b> If it appears the taxpayer was aware of the tax liability and still committed part of their disposable income to excessive or conditional expenses, the IRS is not obligated to allow these expenses even though the liability could be fully paid within six years. The excessive car payment would not be an allowable expense. Allow the standard amount for ownership costs on the CIS.</p>
<p><b>Question 9:</b> A taxpayer is starting the second year of two-year lease for a luxury car. Car payments are \$1,200 a month. Should the taxpayer be allowed this expense?</p>	<p><b>Answer 9:</b> Maybe. The taxpayer must justify the expenses in excess of the local transportation standards. There are rare exceptions where an occupation may require a luxury car. The type of car can also depend on the location. A real estate agent will probably drive a more expensive car if they are working a suburb with very expensive homes rather than a middle class suburb. If the taxpayer could be expected to drive a more reasonably priced car, then steps should be taken to eliminate the expense. Ask the taxpayer what the penalty would be to return the car to the dealer. With only one year left on the contract, the penalty may or may not be negligible compared to the amount the IRS could receive if the taxpayer leased a moderately-priced car. If the car payment of \$1,200 is allowed, the IA amount should be increased when the lease is scheduled to expire in one year.</p>

**Exhibit 5.19.13-1 (Cont. 3) (08-14-2023)****Questions and Answers to Assist in Financial Statement Processing**

Questions	Answers
<b>Question 10:</b> A taxpayer has a child in a parochial school. Should the taxpayer be allowed this expense?	<b>Answer 10:</b> Yes, if the taxpayer can pay the liability plus accruals within six years, and prior to the CSED. Otherwise, the expense will be allowed only if it is for a physically or mentally challenged child and no public education providing similar services is available. If the expense is not to be included among allowable expenses, tell the taxpayer that they are responsible for deciding what expense modifications or eliminations are needed to pay the tax liability.
<b>Question 11:</b> Because of budget constraints, a public school district has begun charging fees for certain services which were previously provided for free. Should a taxpayer be allowed the expense of paying these fees?	<b>Answer 11:</b> Yes, if the fees are required of all children in the school district. Fees for optional services, such as music lessons, are allowable if the tax liability including projected accruals will be paid within six years.
<b>Question 12:</b> An area has an arrangement with Consumer Credit Counseling Services (CCCS) in which CCCS submits IA proposals on behalf of the taxpayer. Are these cases subject to the allowable expense procedures?	<b>Answer 12:</b> Yes, unless the agreement falls under the Streamlined IA procedures. Any IA in which financial analysis is required will be subject to the allowable expense guidelines. The area office must share allowable expense procedures with CCCS.

**Exhibit 5.19.13-2 (08-14-2023)**

**Verify Financial Statement**

1. Verify as much of the financial statement as possible through internal sources.
2. When internal locator services resources are not available, or indicate a discrepancy, request the taxpayer provide reasonable information necessary to support their financial statement.
3. Regardless of the amount of the liability, consider the following if available:

Internal Sources	Review
CC <i>ENMOD</i> and CC <i>INOLES</i> ,	Identify cross-reference TINs for related business activity not declared on the CIS.
CC <i>SUMRY</i> , CC <i>IMFOL</i> and CC <i>BM-FOL</i> ,	Verify full compliance.
CC <i>RTVUE</i> and CC <i>CTRDBV</i> (IMF) or copy of the last filed return (1040),	Compare the amount of reported income to that declared on the CIS. Identify past sources of income including: Schedule <i>A</i> , Itemized Deductions, such as mortgage interest, Schedule <i>B</i> , Interest and Ordinary Dividends, Schedule <i>C</i> , Profit or Loss From Business, Schedule <i>D</i> , Capital Gains or Losses, Schedule <i>E</i> , Supplemental Income and Loss, Schedule <i>F</i> , Profit or Loss From Farming, and Schedule <i>K-1</i> , Partner's Share of Income, Deductions, Credits, etc.
CC <i>IRPTRO</i> and/or copy of an older year income tax return,	Compare real estate tax and mortgage interest deductions to the amount declared on the CIS.  Higher amounts may indicate present or past property ownership not declared on the CIS.  Lower amounts may indicate property was recently sold or transferred.  Identify accounts not reported on the CIS such as certificates of deposit, investment accounts, digital assets which includes cryptocurrency (e.g., Bitcoin, Ethereum, Ripple, and Litecoin), etc.  Verify sources of income, such as employers, bank accounts, and retirement accounts.  Identify recently dissipated assets.



**Exhibit 5.19.13-2 (Cont. 1) (08-14-2023)**  
**Verify Financial Statement**

Internal Sources	Review
CC BRTVU(BMF) or copy of the most recently filed income tax return (Form 1120, U.S. Corporation Income Tax Return),	<p>Compare the amount of reported income to that declared on the CIS.</p> <p>Compare the value of assets and the amount of reported depreciation to the asset values declared on the CIS.</p> <p>The true value of an asset may not be shown on the depreciation schedules.</p>
State Motor Vehicle Records,	<p>Identify motor vehicles registered to the taxpayer, but not declared on the CIS.</p> <p><b>Reminder:</b> Check for ownership in business names or lien holders; ownership of a trailer may lead to assets such as boats or jet skis.</p>
Real Estate Records,	<p>Identify real property titled to the taxpayer, but not declared in the CIS.</p> <p>Identify property held by transferee, nominee or alter ego.</p> <p><b>Reminder:</b> Check for ownership in business names or tax assessment records; check courthouse records for grantor/grantee, mechanic liens, state tax liens, divorce records, death certificates, registered wills, and Uniform Commercial Code (UCC) filings.</p>
Credit Bureau Reports,	<p>Identify past residences and employers.</p> <p>Verify competing lien holders, balances due, and payment history.</p> <p>Identify property not listed on the CIS.</p> <p>Identify other creditors as leads for undisclosed assets.</p>
Asset and Locator Services,	<p>Identify current real property, transferred property, or sold property.</p> <p>Identify vehicle, vessel or aircraft ownership.</p> <p>Identify interests in partnerships, corporations or other businesses.</p> <p>Identify potential third parties residing with taxpayer.</p>

## Exhibit 5.19.13-3 (11-02-2020)

### AMS Financial Statement Processing

Highlights of AMS Financial statement processing functionality.

The **ENTITY** screen provides the following functionality:

- Completes systemic generation of a history item indicating when the financial statement was originally created.
- Used to select what actions were taken when updating any financial information.
- Enter taxpayer's monthly IA proposal amount.
- Enter IRS suggested minimum monthly payment amount if SIA criteria is met.
- Input of comparable ZIP Code if the ZIP Code is not on file to generate appropriate allowable expenses.
- Will provide a message if the address is international and no standards will display.
- Input of "Action Items" providing history on the status of the financial statement

The **ACCOUNTS** screen provides the following functionality:

- Entry of whole dollar amounts.
- Input of bank, credit cards, lines of credit and other types of accounts.
- *Amount to Be Paid to IRS Now* field systemically generates to the SUMMARY under Ability to Pay.
- Text box to document justification for determinations made, pertinent statement processing information such as NFTL filing, or the reason items indicated by the complete input of the statement on AMS were not pursued.

The **REAL ESTATE** screen provides the following information and functionality as it relates to ownership of property:

- Current Value.
- Final payment date.
- Equity is systemically calculated based on current value and balance owed.
- If equity is determined, the SUBSTANTIATION screen will indicate a loan request is required.
- A check box for primary residence which meets the necessary expense test, if checked will generate to the EXPENSE screen. If a vacation home and the box is not checked the expense will move to *Other Expenses*.
- Text box to document taxpayer's ability to borrow or other pertinent information for future case actions or determinations.

The **ASSET** screen provides the following functionality:

- Equity calculation based on current value and balance owed.
- A check box when the first and second vehicle meets the necessary expense test, which will then generate to the EXPENSE screen under *Transportation*.
- Text box to document reasons for any actions taken as a result of the financial statement input on AMS, including requests to borrow or why the taxpayer cannot borrow.

The **CREDIT CARDS** screen contains the following:

- Includes major credit cards only.
- When an amount is determined as *Paid to IRS Now*, it generates to the SUMMARY screen under *Ability to Pay*.

The **INCOME** screen provides the following functionality for calculation purposes:

**Exhibit 5.19.13-3 (Cont. 1) (11-02-2020)****AMS Financial Statement Processing**

- Length of employment.
  - Annual wage income that can be verified through internal sources for each wage source.
  - When non-wage information (Alimony, Child Support, Rental Income etc.) and how often paid is selected, AMS will compute the monthly, annual and total annual income.
  - Available monthly income of the non-liable spouse.
- #
- PPIA Requirements.
- Amount substantiated, which is generated from SUBSTANTIATION screen when substantiation has been received and what income information was accepted.
  - Grand total of IRS recognized available monthly income, based on all income and expenses, which may determine CNC criteria.
  - Text box to document explanation of income discrepancy or other pertinent case information.

The **EXPENSES** screen allows the following:

- Entering of actual amounts when the taxpayer indicates they do not expend more than the maximum allowable national standard.
- Shared expense check boxes for non-liable spouse consideration of expenses, percentages generate
- Amount substantiated generates to EXPENSES screen when substantiation is received and accepted on the SUBSTANTIATION screen.
- Transportation is separated into three sections to capture vehicle ownership, operating and public transportation costs.
- Generates maximum allowable expense for public transportation if the taxpayer does not own a vehicle.

**Note:** Vehicle ownership costs generates from ASSET screen when vehicles meet necessary expense test box is checked.

- Utilities section lists what should be considered, including cell phones, cable television, real estate taxes and insurance when not entered on REAL ESTATE screen.
- Out of pocket health care includes prescription drugs, medical services such as doctor bills and co-pays, and medical supplies such as eyeglasses or contact lenses.
- Final payment date is provided for necessary/conditional expenses.
- Calculates taxpayer's percentage of household expenses when a non-liable spouse is involved, all unchecked items are allowed in full, checked items have percentage applied based upon input from the INCOME screen.
- IRS recognized amount field populates when amounts are greater than allowable standard and indicates when substantiation is required.

**Note:** International cases that do not have allowable national standards will generate based upon the taxpayer's amount.

The **SUBSTANTIATION** screen (previously the Proof screen) includes the following added options:

- Application request date.
- Lender response date and options for loan request results.
- Other items previously input that require substantiation.
- Once substantiation is accepted the monthly allowable amount determined and entered into the substantiated column figures then generate to appropriate financial screens.

**Note:** When an expense exceeds maximum allowable amount; all expenses considered reasonable; and the 1 or six (6) year rule apply, substantiation is not required. The SUBSTANTIATION screen will appear after the SUMMARY screen when the 1 or six (6) year rule apply.

**Exhibit 5.19.13-3 (Cont. 2) (11-02-2020)**  
**AMS Financial Statement Processing**

The **SUMMARY** and **SUMMARY ABILITY TO MAKE PAYMENTS** screens include the following additions:

- Ability to pay is checked when AMS calculations determine funds are available to make lump sum payments.
- Ability to borrow is checked when AMS calculations determine there is sufficient equity to require an attempt to borrow.  
**Note:** Record the dollar amount being requested as a lump sum payment or amount of loan requested.
- The ABILITY TO MAKE MONTHLY PAYMENTS screen requires only one field be entered manually.  
**Note:** The amount is determined using IAT Compliance Suite Payment Calculator, Decision IA or CC *ICOMP* where the balance is paid in full, plus accruals within six (6) years and within Collection Statute Expiration Date (CSED).
- Once the date is entered on the ABILITY TO MAKE MONTHLY PAYMENTS screen a qualifying statement generates; taxpayer meets six (6) year rule, taxpayer meets 1 year rule and the amount of the payment.  
**Note:** If one of the above applies, AMS will indicate to go to the SUBSTANTIATION screen to check of the 1 or six (6) year rule applied and no substantiation is required or if there are unreasonable expenses and substantiation is required.
- Generation of a qualifying statement appears when the grand total of available income, minus taxpayer expenses is less than IAT Compliance Suite Payment Calculator, Decision IA or CC *ICOMP* amount previously entered.
- The ability to increase payments data will systemically list, in date order, any expense where the payoff date was entered on EXPENSE screens.
- When considering the future payoff of an asset, consider the amount if the amount will be available in 12 months or less. Determine the number of months, plus one, and set the second IA amount to include the increased payment.  
**Note:** Only two payment increases are allowed which are determined by having one or two boxes checked under ABILITY TO INCREASE PAYMENTS list.
- CNC is systemically generated based on gross wages, plus other income is less than total allowable expenses plus any taxes from wages.
- IA with backup CNC is indicated by AMS and the taxpayer is requesting to make payments.
- Record **ALL** additional pertinent information utilized in making a final determination.

