Part 5. Collecting Process

Chapter 15. Financial Analysis

Section 1. Financial Analysis Handbook

5.15.1 Financial Analysis Handbook

Manual Transmittal

July 24, 2019

Purpose

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

Material Changes

(1) IRM 5.15.1.1.7, Related Resources was revised to update IRM references.

(2) IRM 5.15.1.2(3), Overview and Expectations updated to include consistent language with IRM 5.8.5.3(2), Taxpayer Submitted Documents.

(3) IRM 5.15.1.4, Verifying Financial Information changed to include virtual currency language.

(4) IRM 5.15.1.6, Internal Sources and Online Research revised to include virtual currency to the IRPTRO. Also added the Employer Identification Number Graph Database (EINGDB) as a resource and updated the YK1 title.

(5) IRM 5.15.1.8(7), Allowable Expense Overview section was updated to include tax legislation changes from the Tax Cuts and Jobs Act, TCJA or tax reform that suspends personal exemptions. The word "exemptions" was changed to "dependents"..

(6) IRM 5.15.1.10, Local Standards section was updated to include tax legislation changes from the Tax Cuts and Jobs Act, TCJA or tax reform that suspends personal exemptions. The word "exemptions" was changed to "dependents"..

(7) IRM 5.15.1.19, Determining Business Income to include reporting requirement language for virtual currency.

(8) IRM 5.15.1.26, Securities was updated to include a new virtual currency subsection 5.14.1.26.1.

(9) IRM 5.15.1.31, Real Estate section was updated to provide guidance for timeshare or vacation share valuations.

Effect on Other Documents

This supersedes IRM 5.15.1 dated August 29, 2018.

Audience

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

Effective Date

(07-24-2019)

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Small Business/Self Employed

5.15.1.1 (08-29-2018)

Program Scope and Objectives

1. This IRM provides instructions for securing, verifying and analyzing financial information. This analysis provides the basis for determining a taxpayer's ability to pay delinquent tax liabilities, which enables Collection employees to make appropriate collection decisions to resolve cases.
2. **Audience**: Collection employees are the primary users of this IRM.
3. **Policy Owner**: Director, Collection Policy, SB/SE is the policy owner of this IRM.
4. **Program Owner**: SBSE Collection Policy, SB/SE is the program owner of this IRM.
5. **Primary Stakeholders**: Collection employees and managers are the primary stakeholders for this IRM.
6. **Program Goals**: This guidance contains procedures for effective taxpayer contact for Collection employees. Following these procedures ensures the protection of taxpayer rights, emphasizes employee safety and protection, and leads to timely and effective case resolution.

5.15.1.1.1 (08-29-2018)

Background

1. This section provides procedural guidance to be followed by Collection employees when securing, verifying and analyzing financial information. This analysis provides the basis for determining a taxpayer's ability to pay delinquent tax liabilities, which enables Collection employees to make appropriate collection decisions to resolve cases. These procedures are based on and consistent with the Internal Revenue Code and Regulations.

5.15.1.1.2 (08-29-2018)

Authority

1. The following authorities provide the basis for these guidelines:

   - IRC 6103
   - IRC 6323(c)
   - IRC 6323(d)
   - IRC 6672
   - IRC 6901
   - Bankruptcy Code section 341
   - 26 C.F.R. 301.6343-1(b)(4)

5.15.1.1.3 (08-29-2018)

Responsibilities

1. Director, Collection has executive oversight for all Collection programs.

2. Director, Headquarters Collection has executive oversight for all Headquarters Collection programs.

3. Director, Collection Policy is responsible for the policies and procedures within the Financial Analysis program.

4. Director, Field Collection has executive oversight for all Field Collection programs.

5. Field Collection Area Directors, territory managers and group managers are responsible for ensuring compliance by field personnel with these procedures.

6. Revenue officers and other IRS Collection personnel are responsible for reading, following and implementing the procedures listed in this IRM.

5.15.1.1.4 (08-29-2018)

Program Management and Review

1. Program Reviews: Operational reviews are conducted by the Collection Area Directors and Territory Managers annually to evaluate program delivery and conformance to administrative and program requirements. Group managers participate in one or more Embedded Quality (EQ) consistency reviews each year to assist in rating EQ attributes. Group managers perform annual and periodic case and performance reviews as described in IRM 1.4.50, *Resource Guide for Managers, Collection Group Manager, Territory Manager and Area Director Operational Aid*. Collection Policy performs periodic program reviews to identify trends and opportunities for improvement.

2. Program Reports: Collection managers utilize reports generated from the Integrated Collection System (ICS) and the ENTITY Case Management System to monitor and track inventory assignments and timely and appropriate case actions. Reports from the Embedded Quality Review system provide review information for managerial use in guiding revenue officers to promote timeliness, effectiveness, and accuracy of case actions.

3. Program Effectiveness: National Quality Reviews and consistency reviews are routinely conducted to measure program consistency, effectiveness in case actions, and compliance with policy and procedures. Trends reported in these reviews are used to promote and improve program effectiveness. Trends, recommendations and corrective actions issued during the course of program and operational reviews are used to identify opportunities for improvement and achieve program goals.

5.15.1.1.5 (08-29-2018)

Program Controls

1. Collection managers verify program and procedural compliance by conducting case consultations, case reviews, performance reviews, and security reviews. Prescribed internal controls are detailed in IRM 1.4.50, *Resource Guide for Managers, Collection Group Manager, Territory Manager and Area Director Operational Aid*, which communicates responsibility to Collection managers for promoting quality case work and required internal controls. The ICS, ENTITY Case Management, Embedded Quality Review, and National Quality Review

Systems provide the case access, data and reports used by managers to monitor internal controls.

5.15.1.1.6 (08-29-2018)

Terms/Definitions/Acronyms

1. The table below lists common terms, definitions and acronyms used in this section.

Acronym	Definition
ACS	Automated Collection System
ALE	Allowable Living Expense
ATAT	Abusive Tax Avoidance Transactions
BLS	Bureau of Labor Statistics
BMF	Business Master File
BRTVUE	Business Returns Transaction View
CCCS	Consumer Credit Counseling Services
CIS	Collection Information Statement
CNC	Currently Not Collectible
CPI	Consumer Price Indexes
CSED	Collection Statute Expiration Date
DHS	Department of Homeland Security
EIA	Energy Information Administration
FAA	Federal Aviation Administration
FBAR	Foreign Bank and Financial Account Report

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Acronym	Definition
FCQ	FinCen Query
FMV	Fair Market Value
FPLP	Federal Payment Levy Program
FTA	Fraud Technical Advisor
FTD	Federal Tax Deposit
IA	Installment Agreement
ICS	Integrated Collection System
IGM	Interim Guidance Memorandum
IMF	Individual Master File
IRC	Internal Revenue Code
IRM	Internal Revenue Manual
IRPTR	Information Returns Transcript File On Line
LITC	Low Income Taxpayer Clinic
LLC	Limited Liability Company
LLP	Limited Liability Partnerships
MCAR	Mutual Collection Assistance Requests
MOU	Memorandum of Understanding
NFTL	Notice of Federal Tax Lien
NOL	Net Operating Loss

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Acronym	Definition
PALS	Property Appraisal Liquidation Specialist
QSV	Quick Sale Value
RTVUE	Return Review
TBOR	Taxpayer Bill of Rights
TECS	Treasury Enforcement Communications System
TFRP	Trust Fund Recovery Penalty
UNAX	Unauthorized Access

5.15.1.1.7 (07-24-2019)

Related Resources

1. IRM resources:
   - IRM 5.1.18.5, *Department of Motor Vehicles*
   - IRM 5.1.18.12, *United States Passport Office*
   - IRM 5.1.18.13, *Treasury Enforcement Communications System*
   - IRM 5.1.18.17, *Foreign Bank and Financial Account Report*
   - IRM 5.1.18.19, *Consumer Credit Reports*
   - IRM 5.1.21, *Collecting from Limited Liability Companies*
   - IRM 5.7, *Trust Fund Compliance*
   - IRM 5.7.5.2, *Collectibility*
   - IRM 5.7.8, *In-Business Repeater or Pyramiding Taxpayers*
   - IRM 5.8, *Offer in Compromise*
   - IRM 5.8.1, *Offer in Compromise, Overview*
   - IRM 5.10, *Seizure and Sale*
   - IRM 5.10.1, *Pre-Seizure Considerations*

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- IRM 5.10.1.4, *Will Pay, Can't Pay and Won't Pay Factors*
- IRM 5.11, *Notice of Levy*
- IRM 5.11.6.3, *Funds in Pension or Retirement Plans*
- IRM 5.11.6.6, *Federal Contractors*
- IRM 5.11.6.7.2, *Medicare Payments Paid to Providers*
- IRM 5.12, *Federal Tax Liens*
- IRM 5.12.2, *Notice of Lien Determinations*
- IRM 5.12.10.6.2.2, *Subordination to Reverse Mortgages*
- IRM 5.14.1, *Securing Installment Agreements*
- IRM 5.14.1.4.1, *Six-Year Rule and One-Year Rule*
- IRM 5.14.2.2.1, *Partial Payment Installment Agreement Requirements*
- IRM 5.16.1, *Currently Not Collectible*
- IRM 5.16.1.2.9, *Hardship*
- IRM 5.17.1.2, *Local Law Section*
- IRM 5.17.2.5.2.1, *Community Property*
- IRM 5.17.2.6, *Priority of Tax Liens: Specially Protected Competing Interests*
- IRM 5.17.2.6.6.1, *Commercial Transaction Financing Agreements*
- IRM 5.17.3 ,*Levy and Sale*
- IRM 5.17.3.10.19, *Pension and Retirement Benefits*
- IRM 5.17.7.1.1.3, *Partners/Members*
- IRM 5.17.14, *Fraudulent Transfers and Transferee and Other Third Party Liability*
- IRM 13.1.7.2, *Taxpayer Advocate Case Criteria*
- IRM 25.1, *Fraud Handbook*
- IRM 25.5, *Summons*
- IRM 25.27, *Third Party Contacts*

2. The IRS adopted the Taxpayer Bill of Rights (TBOR) in June 2014. Employees are responsible for being familiar with and acting in accordance with taxpayer rights. See IRC 7803(a)(3), Execution of Duties in Accord with Taxpayer Rights. For additional information, see Taxpayer Bill of Rights

3. Web resources:

- Allowable Living Expense web page:http://mysbse.web.irs.gov/collection/toolsprocesses/AllowExp/default.aspx
- Collection Financial Standards:https://www.irs.gov/businesses/small-businesses-self-employed/collection-financial-standards

5.15.1.2 (07-24-2019)

Overview and Expectations

1. An interview should be conducted in order to determine the appropriate case resolution. Request full payment of the tax liability. Encourage taxpayers to pay off the tax liability as quickly as possible. If taxpayers are unable to pay in full (and do not qualify for a Guaranteed, Streamlined or In-Business Trust Fund Express Installment Agreement) secure a complete Collection Information Statement (CIS). If a taxpayer needs assistance preparing a financial statement and is not represented, he or she may be eligible for assistance from a Low Income Taxpayer Clinic (LITC).

Note:

If a taxpayer states during any interview that he or she wishes to consult with an authorized representative, the employee will suspend the interview to permit such consultation. See IRM 5.1.10.7.1, *Rights During Interviews*

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2. The taxpayer's financial information may be secured on:

a. Form 433-A, *Collection Information Statement for Wage Earners and Self-Employed Individuals*

b. Form 433-B, *Collection Information Statement for Businesses*

c. Form 433-F, *Collection Information Statement* - Used by the Automated Collection System (ACS) and the campuses for individuals.

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Revenue officers may use Form 433-F:
• For Trust Fund Recovery Penalty (TFRP) investigations when the individual is a wage earner and the potential TFRP is less than $100,000. See IRM 5.7.5.2, *Collectibility*, and
• For self-employed and individual wage earners who owe for IMF liabilities only, with an aggregate balance of assessments less than $250,000.

Exception:

Form 433-F cannot be used for Offer-in-Compromise cases or for cases designated as Abusive Tax Avoidance Transactions (ATAT).

d. A business taxpayer's own financial statement (income statement and balance sheet) can be used as a substitute for the income and expense section of the Collection Information Statement.

Reminder:

Cases on partnerships and single member owner limited liability companies (LLCs), where the individual owner is identified as the liable taxpayer, require an analysis of the business income and allowable business expenses reported on Form 433-B, as well as the individual income and allowable living expenses of the partners or owner reported on Form 433-A. Cases on LLCs, where the LLC is identified as the liable taxpayer, require an analysis of business income and allowable business expenses reported on Form 433-B. In some cases, Form 433-A may be needed to determine a reasonable compensation for the owner to be reported on Form 433-B.

3. A CIS submitted by a taxpayer should reflect information no older than the prior six months. If during the investigation of the case, the information becomes older than 12 months, update the information. Updates can usually be pen and ink changes initialed and dated by the taxpayer and/or revenue officer. If during the investigation, the financial information becomes older than 12 months and it appears significant changes have occurred, a request for updated information may be appropriate. Additional supporting documents should be secured when appropriate. If there is reason to believe that the taxpayer's situation may have significantly changed, secure a new CIS.

4. Revenue officers will attempt to secure, review and discuss financial statements in the field. If you are unable to secure a financial statement on the initial contact, schedule a face-to-face follow-up appointment to complete, review and discuss the financial statement at the taxpayer’s business, residence

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or representative's office. If meeting with the taxpayer at their place of business or residence will put the revenue officer at risk, schedule the appointment at the revenue officer's post of duty and document the case history. If the taxpayer's representative has a valid power of attorney on file, refer to section (9) below.

Note:

The revenue officer has the discretion to provide the financial statement to the taxpayer in advance when there is a planned field visit with the taxpayer to discuss the CIS during the interview.

Exception:

If travel costs are a concern, discuss the case with your manager and document the case history if a field call will not be made. For example, if travel is limited or restricted by the budget, or if due to the distance for a follow-up field visit, it would not be an efficient and economical use of travel funds.

Note:

Tax examiners in Field Collection are exempt from the requirement to make field calls.

5. While some aspects of the financial statement review process, such as securing financial information, can occur by phone or correspondence, a face-to-face meeting with the taxpayer and/or the taxpayer's representative, while in the field, is preferred to effectively facilitate the verification/validation of the financial statements provided. The physical verification of the business assets is required at some point early in the financial statement review process and should be conducted in the presence of the taxpayer and/or the taxpayer's representative.

6. If the taxpayer refuses to meet face-to-face with the revenue officer to complete, review and discuss the CIS, but agrees to provide financial information, the CIS may be secured by phone or correspondence. In these situations, the revenue officer must make a field call to verify business assets unless a field call will put the revenue officer at risk. The field call to verify assets, should be conducted in the presence of the taxpayer and/or the taxpayer's representative. If the taxpayer's representative has a valid power of attorney on file, refer to section (9) below.

7. If the taxpayer is unable to complete a financial statement at the time of the initial contact (e.g. health issue, scheduling conflict, taxpayer is out of town,

taxpayer wants to confirm IRS employee's identity, etc.), but can meet face-to-face with the revenue officer within a reasonable amount of time (e.g., 2-3 weeks) that does not constitute refusal to meet. The face-to-face meeting should be rescheduled for the future date. If a face-to-face meeting is not conducted, the revenue officer must document the reason the financial statement was not secured during a face-to-face meeting in the ICS history.

Reminder:

Verification of assets through on-line or courthouse records does not replace the physical verification of assets during a field call.

8. If the taxpayer refuses to complete the financial statement, follow the guidance in IRM 5.1.10.3(10),*Taxpayer Contacts, Initial Contact.*

9. When the taxpayer is represented, the revenue officer will interview the taxpayer's representative at the representative's office or via phone, if the representative is not local, to complete, review and discuss the financial statement. Once the financial statement has been secured and business assets are disclosed, schedule a meeting with the taxpayer and the representative to view the business assets. If the representative is not local, ask the representative to travel to the taxpayer's business to view the assets or to participate via phone, with the taxpayer present, to view the business assets. Visiting the taxpayer's business, assessing the operation and viewing the assets will contribute to an informed collectibility determination.

10. If the representative states their efforts to secure the information needed to complete the CIS have been unsuccessful, advise the representative that the appropriate enforcement action and/or administrative actions will be taken and document the ICS history. See guidance in IRM 5.17.6.,*Legal Reference Guide for Revenue Officer, Summonses.*

11. The Allowable Living Expense (ALE) Standards, also known as the Collection Financial Standards, include national and local standards, which are guidelines established by the Service to provide consistency in certain expense allowances such as food and household expenses, medical expenses, housing and transportation. Reference to these standards will be found throughout this section. *Exhibit 5.15.1-2* provides instructions for on-line access to the actual standards.

12. The standard amounts set forth in the national and local guidelines are designed to account for basic living expenses. In some cases, based on a taxpayer's individual facts and circumstances, it will be appropriate to deviate

from the standard amount when failure to do so will cause the taxpayer economic hardship (See IRM 5.15.1.1(8)). The taxpayer must provide reasonable substantiation of all expenses claimed that exceed the standard amount.

Note:

Substantiation can consist of credible verbal communication or written documentation received from the taxpayer. Both types of substantiation should be thoroughly documented in the case history.

Example:

Taxpayer's income dropped significantly from the prior year and taxpayer explains that he went though a divorce and is no longer claiming two incomes. Verbal substantiation supporting the drop in income should be documented in the case history.

Document the case file accordingly. For example:

- Bank statements or canceled checks
- Credit card vouchers
- Rent/lease receipts and lease agreements
- Payment coupons
- Court orders
- Contracts
- Future expenses, e.g., the birth of a child or the necessary replacement of a car that will increase expenses
- Taxpayer statements or written communications
- Tax statements and tax returns that will provide evidence of actual expenses

Example:

A taxpayer with physical disabilities or an unusually large family requires a housing cost that is not anticipated by the local standard. The taxpayer is required to provide copies of mortgage or rent payments, utility bills and maintenance costs to verify the necessary amount.

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13. Economic hardship occurs when a taxpayer is unable to pay reasonable basic living expenses. The determination of a reasonable amount for basic living expenses will be made by the Commissioner and will vary according to the unique circumstances of the individual taxpayer. Unique circumstances, however, do not include the maintenance of an affluent or luxurious standard of living. (26 C.F.R. 301.6343-1(b)(4)).

Reminder:

If a collection employee and taxpayer disagree about an economic hardship determination, the taxpayer should be referred to the Taxpayer Advocate Service. (See IRM 13.1.7.2, *Taxpayer Advocate Case Criteria.*)

14. The Allowable Living Expense standards are not applicable to corporations, partnerships, Limited Liability Companies (LLC) (where the LLC is identified as the liable taxpayer), or for any business expenses. Allowable business expenses are the costs of carrying on a business or trade. Generally, they must be necessary for operation of the business. Use bank statements, tax returns or other records to verify business income and expenses. Request additional documentation if assets, liabilities, expenses or income appear questionable.

15. Analysis and verification of a CIS should take place shortly after obtaining the CIS. The ability to pay determination based on a thorough financial analysis will be communicated to the taxpayer within a reasonable amount of time after obtaining the CIS.

16. Emphasize to the taxpayer how much the Service expects from them rather than how the Service expects them to spend their money.

. Advise the taxpayer that the Service expects a payment equal to the amount in excess of necessary expenses and any allowable conditional expenses and, explain to the taxpayer how the amount expected was calculated.

a. Advise the taxpayer that he/she is responsible for determining what buying or spending modifications are needed in order to pay their liabilities. Do not tell the taxpayer what he/she can or cannot own or spend.

17. The analysis of a taxpayer's financial condition provides a basis to make one or more of the following decisions:

. Request payment in full or in part from available assets.

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a. Make a notice of lien determination (IRM 5.12.2, *Notice of Lien Determinations*).

b. Initiate enforcement action if assets are available to pay the liability and the taxpayer is unwilling to voluntarily convert assets to cash (IRM 5.10.1, *Pre-Seizure Considerations*).

c. Enter into an Installment Agreement (IRM 5.14.1, *Securing Installment Agreements*).

d. Report the account Currently Not Collectible (IRM 5.16.1, *Currently Not Collectible*).

e. Explain the Offer in Compromise provisions. In cases where an offer in compromise appears to be a viable solution to a tax delinquency, the Service employee assigned the case will discuss the compromise alternative with the taxpayer and, when necessary, assist in preparing the required forms (IRM 5.8.1, *Overview*).

18. If during the course of conducting a financial investigation, the taxpayer continues to accrue tax liabilities for additional tax periods (for example, a sole proprietorship that continues to fail to make federal tax deposits), enforced collection action should be considered, when appropriate. See IRM 5.7.8, *In-Business Repeater or Pyramiding Taxpayers*. For hardship situations, see IRM 5.16.1.2.9, *Hardship*.

5.15.1.3 (08-29-2018)

Analyzing Financial Information

1. Analyze the income and expenses to determine the amount of disposable income (gross income less all allowable expenses) available to apply to the tax liability.

2. Analyze assets to resolve the balance due accounts.

a. Request immediate payment if the taxpayer has cash equal to the total liability.

b. Identify key sources of funds.

c. Identify liquid assets which can be pledged as security or readily converted to cash. (For example, equipment or factoring accounts receivable.)

d. Consider unencumbered assets, equity in encumbered assets, interests in estates and trusts, and lines of credits from which money may be borrowed to make payment.

e. Consider taxpayer's ability to get an unsecured loan.

f. Determine the priority of the Notice of Federal Tax Lien when considering whether to allow or disallow payments to other creditors. See IRM 5.17.2.6 , *Priority of Tax Liens: Specially Protected Competing Interests*.

3. In some cases, payments on expense items are not due in regular monthly increments. Average necessary living expense items with varying monthly payments over 12 months.

Example:

Car insurance may be paid monthly, quarterly, twice a year or yearly. For purposes of calculating monthly income compute the total cost for the year and divide by 12.

4. Exceptions to verifying and allowing certain expenses or excessive expenses when securing an installment agreement may apply. See IRM 5.14.1.4.1, *Six-Year Rule and One-Year Rule*.

5.15.1.4 (07-24-2019)

Verifying Financial Information

1. When conducting interviews to secure and/or review financial statements, ask pertinent questions to determine as much as possible about the taxpayer's financial condition and document the results. For example:

a. How the taxpayer generates income, both foreign and domestic

b. The nature of their business process

c. The main products/services, type of customers, wholesale vs. retail, etc.

d. Major suppliers and competitors

e. Assets held in the name of the taxpayer or on their behalf, both foreign and domestic

f. Personal assets or investments like stocks, mutual funds, certificate of deposits, IRAs, 401(k) plans.

g. Virtual currency which includes cryptocurrency (e.g. Bitcoin, Ethereum, Ripple, and Litecoin)

h. Type of internet presence the taxpayer may have

2. Observe and document the physical layout of the business, the number of employees, the type and location of equipment, machinery, vehicles and inventory. A brief tour of the business premises may help to gauge the business operation and the condition of assets.

Note:

Tax examiners in Field Collection are exempt from the requirement to make field calls.

3. A thorough verification of the CIS involves reviewing information available from internal sources and requesting that the taxpayer provide additional information or documents that are necessary to determine reasonable collection potential. Consider contacting third parties to verify or obtain information (see IRM 25.27, *Third Party Contacts*.)

4. Collection issues that have been previously addressed during a balance due investigation by field personnel in the preceding 12 months will not be re-examined unless there is convincing evidence that such reinvestigation is absolutely necessary.

Example:

If the previous revenue officer has completed a full CIS analysis within the last 12 months including verification of assets, income, and expenses and has made a determination of the Fair Market Value of assets, equity in assets and monthly ability to pay, the information should not be reinvestigated unless there is reason to believe the taxpayer's situation has significantly changed.

5. A taxpayer is not required to substantiate expenses that are categorized as National Standards unless they exceed the Standard.

Exception:

If a taxpayer claims more than the total allowable amount for the five categories of National Standards for Food, Clothing and Other Items, the taxpayer is only required to substantiate expenses for the categories that exceed the standards. The standard amounts will be allowed for the remaining categories without substantiation.

6. A taxpayer may be required to substantiate expenses that are categorized as Local Standards or Other Expenses (See *IRM 5.15.1.10*, *Local Standards*, and *IRM 5.15.1.11*, *Other Expenses.*)

7. Substantiation of expense amounts could include the following items: bank statements, credit cards vouchers, rent/lease receipts and leases, payment coupons, court orders, contracts, and canceled checks. Document how obligations are being met and the source of funds. Taxpayers who own real estate should provide documents showing the monthly payment, the purchase price, date of purchase, and the principal amount due. When obtaining documents for substantiation, ask the taxpayer for copies, not original documents. If necessary, secure telephone numbers and contact names of creditors. These can be used if verification is necessary.

8. When analyzing expenses for a business taxpayer, ensure that business expenses are not included under personal expenses. Compare Form 433-A and Form 433-B to income tax returns to verify assets and income or analyze bank deposits.

Example:

Taxpayer claims the lease payment of an automobile for business. That expense will not be allowed as part of the transportation expense on Form 433-A. If a taxpayer claims a vehicle for both business and personal use, ensure that the allowable expense is not duplicated.

9. Secure third party information such as bank deposit records, government agency records, competitors or suppliers to determine the source of funds of the taxpayer. Ensure that third party notice requirements are met (refer to IRM 25.27, *Third Party Contacts*.) Use summons authority to secure leads to assets and income (refer to IRM 25.5.1, *Summons*.)

10. Compare income to expenses. If expenses exceed income, ask the taxpayer probing questions to determine alternate sources of income that may be supplementing his/her income. Look for and consider:

- "Non-cash expenses" such as depreciation or amortization of assets
- "Book value" vs. Fair Market Value (FMV)
- Non-payment of accounts receivables (in dispute)
- Down-sizing/insolvent (a viable business)
- Roommate(s) or rental income
- Commingling of funds between related or unrelated entities

Examine prior year returns to detect sporadic income. Review bank deposits for at least 3 months to determine the taxpayer's stated income.

5.15.1.5 (11-17-2014)

Shared Expenses

1. Generally, when determining ability to pay, a taxpayer is only allowed the expenses he/she is required to pay. There may be cases where a taxpayer lives with a non-liable person (i.e., spouse, domestic partner, boyfriend/girlfriend) and bills are paid from commingled funds/joint checking account. In these cases, 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 allowable portion of the shared household income and expenses.

2. Although the assets and income of a non-liable person may be reviewed to determine the taxpayer's portion of the shared household income and expenses, they are generally not 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. The non-liable spouse can seek assistance from the Taxpayer Advocate Service.

Reminder:

Community Property States: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. In addition, Alaska is an opt-in community property state; property is separate property unless both parties agree to make it community property through a community property agreement or a community property trust. The territories of Puerto Rico, Guam and the Commonwealth of the Northern Mariana Islands also allow property to be owned as community property. See IRM 5.17.2.5.2.1, *Community Property*.

Note:

Since the facts of each individual case and state law determine if the taxpayer has a property right or right of reimbursement, Revenue Officers and Advisory should seek Counsel advice when these types of issues arise in determining the taxpayer’s interest for calculating income or equity in assets and any other collection alternative calculations.

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3. 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. Determine what percentage of the total household income the taxpayer contributes, i.e., taxpayer's income divided by total household income.

c. Determine allowable expenses.

d. Determine which expenses are shared and which expenses are the sole responsibility of the taxpayer, e.g., child support, allowable educational loan, union dues.

e. Apply the taxpayer's percentage of income to the shared expenses.

Note:

The investigating employees should judge each case based on its own applicable facts and circumstances.

f. Verify the taxpayer actually contributes at least this amount to the total household expense. National Standard expenses do not require verification unless the taxpayer claims more than the standard amount.

g. Do not allow the taxpayer any amount paid toward a non-liable person's discretionary expenses.

Example:

Taxpayer's income of $20,000 plus non-liable person's income of $5,000 equals household income of $25,000. Divide the taxpayer's income of $20,000 by household income of $25,000 to determine the taxpayer's share of the household income which would be 80% in this instance. Multiply the taxpayer's allowable shared expenses by the calculated household income percentage of 80%. This represents the taxpayer's shared allowable expenses. The taxpayer would also be allowed 100% of expenses which are his/her sole responsibility, unless they are expenses covered by the Allowable Living Expense standards.

4. 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 use their income to pay the liable spouse's tax debt (IRM 5.15.1.4(2)). Calculations of allowable expenses will depend on the circumstances of each taxpayer. The

method used to calculate the liable taxpayer's ability to pay must be documented in the case history.

Example:

One method for calculating the liable taxpayer's ability to pay is to determine the income percentages as stated in IRM 5.15.1.4(3). After determining the percentage of income of the liable taxpayer, that percentage is multiplied against the ALE standard amounts for the household. If the taxpayer's calculated percentage amount for National Standards for Food, Clothing and Other Items and for Out-of-Pocket Health Care Costs, is less than the standard amount for one person, the liable taxpayer will be allowed the standard amount. For the other ALE expenses (Transportation and Housing/Utilities), the liable taxpayer will be allowed the calculated percentage amount or the standard amount, whichever is less. The calculated percentage can also be applied to other shared expenses, such as family health insurance. Consideration should also be given to any separate expenses the liable taxpayer may be solely responsible for paying, such as alimony, child care, etc.

Family of 4	Actual Amount Claimed	Maximum Allowable Amount for Family of 4	Maximum Allowable Amount for one Taxpayer	Taxpayer's Percentage of Total Income and Expenses	Taxpayer Expenses Allowed for Computation
Gross Monthly Income	$6667 non-liable person $1667 liable taxpayer $8333 total income			20% ($1667/$8333)	
National Standard for Misc.	$1370	$1370	$565	$274 ($1370 x .20)	$565 the greater amount

Family of 4	Actual Amount Claimed	Maximum Allowable Amount for Family of 4	Maximum Allowable Amount for one Taxpayer	Taxpayer's Percentage of Total Income and Expenses	Taxpayer Expenses Allowed for Computation
Housing and Utilities	$2256	$2465	$1635	$451 ($2256 x .20)	$451 the lesser amount
Ownership Costs - Car 1	$525 owned jointly	$517	$517	$105 ($525 x .20)	$105 the lesser amount
Ownership Costs - Car 2	$480 owned jointly	$517	0 (See Note below)	$96 ($480 x .20)	$96 the lesser amount
Operating Costs - Both cars	$500	$488	$244	$100 ($500 x .20)	$100 the lesser amount
Out-of-pocket Health Care	$200	$240	$60	$40 ($200 x .20)	$60 the greater amount
Health Insurance	$400 for family paid by non-liable person			$80 ($400 x .20)	$80
Taxes	$1800 non-liable person $400				$400

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Family of 4	Actual Amount Claimed	Maximum Allowable Amount for Family of 4	Maximum Allowable Amount for one Taxpayer	Taxpayer's Percentage of Total Income and Expenses	Taxpayer Expenses Allowed for Computation
	liable taxpayer				
Child Support Payments	$300 liable taxpayer				$300
Court Ordered Payments	$100 non-liable person				

Note:

If the vehicles are not owned jointly, the liable taxpayer would be allowed actual expenses paid for the vehicle he/she owns. The percentage method can be applied if two vehicles are jointly owned, but the maximum expense allowed for the liable taxpayer will be the standard amount for one vehicle.

5. 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 is divided equitably between co-habitants, 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 or expense information of the non-liable person(s). Verification of expenses the taxpayer pays should be requested if the expenses appear unreasonable. The investigating employees should exercise sound judgment in these situations to determine which approach is more 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.

Example:

Taxpayer shares expenses with a roommate. In this situation the taxpayer receives the full National Standard for one person and the full Out of Pocket Health Care Standard for one person. The taxpayer would receive the amount actually paid up to the maximum amount of the Local Housing and Utility Standard and Local Transportation Standard.

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 the revenue officer's 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.

5.15.1.6 (07-24-2019)

Internal Sources and Online Research

1. When required, verify as much of the financial statement as possible through internal sources and online research (see table below).

2. When internal locator services are not available, or a discrepancy is indicated, request that the taxpayer provide reasonable information necessary to support the financial statement or verify using external sources (*IRM 5.15.1.7, External Sources*.)

3. Consider researching the information sources listed below to verify the CIS, in situations where a CIS is required. Tailor your research to the facts and circumstances of each case.

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Internal Sources	Review
ENMOD and INOLES	Identify cross-reference TIN's for related business activity not declared on the CIS.
SUMRY, IMFOL and BMFOL	Verify full compliance.
RTVUE (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: a. Schedule A: itemized deductions such as mortgage interest b. Schedule B: interest and dividends c. Schedule C: self employment income d. Schedule D: capital gains or losses e. Schedule E: rental or other investment income, net operating loss deduction f. Schedule F : farm income g. Schedule K-1: partnership income/interest
BRTVU (BMF) or copy of last filed income tax return (1120)	• Compare the amount of reported income to that declared on the CIS. • Compare the value of assets and the amount of reported depreciation to the asset values declared on the CIS. The true value of an asset may not be shown on Form 4562, *Depreciation and Amortization (Including Information on Listed Property)* or the depreciation work papers. • Check the location of depreciable assets.
IRPTRO and/or copy of older year income tax returns	• 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 that property has been recently sold or transferred. • Identify assets not reported on CIS such as certificates of deposit, investment accounts, virtual currency which includes cryptocurrency (e.g. Bitcoin, Ethereum, Ripple, and Litecoin) etc. • Verify sources of income, such as employers, bank accounts, retirement accounts. • Identify recently dissipated assets.

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Internal Sources	Review
	• Identify income reported on Form 1099-K, Payment Card and Third Party Network Transactions. • Identify Foreign Bank and Financial Account Report (FBAR) transactions.
Foreign Bank and Financial Account Report (FBAR)	• Check IRPTR to see if the taxpayer filed a Report of Foreign Bank and Financial Accounts, FinCEN Form 114 (formally TD F 90-22.1), which indicates the taxpayer has a financial interest in, or signature authority over, a foreign financial account that has an aggregate value greater than $10,000, at any time during a calendar year. • Conduct Financial Crimes Enforcement Network Query (FCQ) research for specific information reported on the FBAR. See IRM 5.1.18.17, *Foreign Bank and Financial Account Report*.
State Motor Vehicle Records via online research	• Identify motor vehicles registered to the taxpayer but not declared on the CIS. See IRM 5.1.18.5, *Department of Motor Vehicles*. • Check for ownership in business names or lien holders. Note: Ownership of a trailer may lead to additional assets such as boats or jet skis
Real Estate Records via online research	• Check courthouse records for grantor/grantee, mechanic liens, mortgagee/mortgagor, divorce records, death certificate, and registered wills. • Identify real property titled to the taxpayer but not declared on the CIS. • Identify property held by transferee, nominee or alter ego (IRM 5.17.14, *Fraudulent Transfers and Transferee and Other Third Party Liability*.) Note: Check for ownership in business names on tax assessment records.

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Internal Sources	Review
Credit Bureau Reports	• Identify past residences and employers. • Verify competing lien holders, balances due and payment history. • Identify property not listed on CIS. • Identify other creditors as leads to undisclosed assets. • Identify financial institutions which the taxpayer has conducted business with, both past and present. • Look for entities and associations with foreign banks and corporations. • See IRM 5.1.18.19, *Consumer Credit Reports,* for requirements and procedures for ordering credit reports.
Online Locator Service	• Identify current real property, transferred or sold property. • Identify vehicle ownership. • Identify interest in partnerships, corporations or other businesses. • Identify potential third parties residing with the taxpayer. • Look for vessels and crafts registered with the Federal Aviation Administration (FAA).
Other Internet Sources	• Look for income sources and assets on a taxpayer's web site. • Determine the value of assets when traditional sources have been unproductive. • Identify undisclosed business activity and assets. • Locate a taxpayer when traditional sources have been unproductive. • Gather news articles and publications on high profile taxpayers. • Secure general information about a taxpayer's industry, such as financial data and the legal environment for that type of business.

Internal Sources	Review
YK1 Information (Also known as a Graph Database)	• Identify related entities, including shareholders and partners. • Look for an analysis of the relationships between the associated entities. • Identify "footprints" which may indicate shelter activity. • Look for a visual representation of structure and linkages between the taxpayer and related entities.
Employer Identification Number Graph Database (EINGDB)	• EINGDB was designed to help investigate EIN-centric relationships. • Graphs data from the Compliance Data Warehouse (CDW). • Identifies linkages between individuals, businesses, and preparers that are not easily detected. • Identifies completely different businesses that the taxpayer engages in, made connections to the same employees, multiple businesses, etc. • Identifies patterns of noncompliance.

5.15.1.7 (07-24-2019)

External Sources

1. Request appropriate documentation from the chart below to verify the CIS. Do not make a blanket request for information. Tailor your request to each taxpayer's specific situation. Do not require the taxpayer to provide information that is available from internal or online sources.

Documentation	Review
Wage statements for the prior three months if the taxpayer is a wage earner. A statement with current year to date figures is also acceptable.	• Compare average earnings to the income declared on the CIS. • Verify adequate tax withholding. • Identify payroll deductions to ensure the expense is necessary and not claimed again on the CIS. • Identify deductions to savings accounts, credit union accounts, retirement accounts, savings bonds and loans.

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Documentation	Review
Proof of gross income (invoices, accounts receivable, commission statements, etc.) for the prior three months if the taxpayer is self-employed.	• Compare average earnings to the income declared on the CIS. • Identify deductions to ensure the expense is necessary and only claimed once on the CIS (for personal or business, not both.)
Annual Report to Shareholders, Meeting Minutes, and Stock Ledger Books if the taxpayer is a closely-held corporation.	To determine the value of closely held stock that is either not traded publicly or for which there is no established market, consider the following methods of valuing the company and assign a proportion of the company's value to the taxpayer's stock: • Secure and verify a CIS for the corporation or partnership. • Review recent year's annual report to stockholders, stockholder meeting minutes and stock ledger books. • Review recent year's corporate income tax returns. • Identify other stockholders, consider relationship to taxpayer (relative). • Review stock book and verify total amount of stock issued and outstanding. The Property Appraisal Liquidation Specialist (PALS) assigned to your area may be able to provide appraisal services when the FMV is not easily determinable, or request an appraisal of the business as a going concern by a qualified and impartial appraiser.
Bank statements for the last three months. Cancelled checks and credit card statements for the last three months.	• Compare deposit amounts to income reported on tax return and CIS. • Identify source of deposits. • Verify amount and frequency of declared expenses. • Identify unnecessary expenses. • Look for unusual activity.

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Documentation	Review
	• Reconcile with other sources, e.g., tax returns and statements, invoices/bills, and taxpayer statements.
Retirement account statements, brokerage account statements, securities or other investments, annuity accounts, lottery winnings, trust information, inheritance and insurance proceeds.	Identify the type, conditions for withdrawal, sale or borrowing, and current market value.
Life Insurance Policies	• Identify the type, conditions for borrowing or cancellation and the current loan and cash values. • Verify the amount of required premiums and whether they are being paid. • Identify source of funds used to pay.
Motor vehicle (vessel or craft) purchase or lease contracts, the pay off amount from the lender.	• Verify equity, monthly payment expense, date of final payment and term of contract. • Check loan applications.
Real estate, warranty or mortgage deeds, HUD closing statements, quit claims, the pay off amount from the lender.	• Identify the type of ownership, amount of equity, monthly payment expense, and date of final payment. • Evaluate potential sale value.
Homeowner or renter insurance policies and riders.	• Compare the insured value to the value declared on the CIS. • Identify high value personal items such as jewelry, antiques or works of art.
Financial statement recently provided to lending institutions or others.	• Compare the financial information submitted to others with that declared on the CIS. • Check mortgage companies. • Check other lenders or creditors.
Divorce Court Orders	• Verify disposition of assets in the property settlement.

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Documentation	Review
	• Secure copy of interlocutory agreement.
Court orders for child support and proof of payment.	• Verify responsibility for child support and that the payments are actually being made. • Check dependents claimed on Form 1040.
Bankruptcy Court Documents	• If appropriate consult with a Field Insolvency caseworker to review Schedules, Statement of Financial Affairs, Statement of Monthly Income and Means Test Calculation, and Other Court Documents such as motions, pleadings or filings from third parties. • Verify income and expenses. • Look for exempt, excluded or abandoned assets. • Review conversations of meetings with the taxpayer, the representative and possible third parties. • Review any statements made by the taxpayer to the bankruptcy trustee and creditors at the meeting of creditors and equity security holders, held pursuant to Bankruptcy Code section 341.
United States Passport Office	Passport checks may provide the following information: • The last known mailing and/or permanent address of the applicant • Applicant's occupation • Applicant's employer • Applicant's phone number • Emergency contact's name, address and phone number • Spouse's name and birthplace See IRM 5.1.18.12 , *United States Passport Office*.
Treasury Enforcement Communications System (TECS)	TECS is a database maintained by the Department of Homeland Security (DHS), and is used extensively by

Documentation	Review
	the law enforcement community. It contains information about individuals and businesses suspected of, or involved in, violations of federal law. For IRS Field Collection, TECS provides two sources to help make contact with taxpayers or locate assets. See IRM 5.1.18.13, *Treasury Enforcement Communications System*.
Utility Companies	Utility company information can: • Determine who occupies a certain building when there is an indication that the taxpayer resides at an address • Provide a taxpayer's new address if the taxpayer transferred services from an old address to a new one

5.15.1.8 (07-24-2019)

Allowable Expense 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 his or her 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. The Allowable Living Expense (ALE) Standards, also known as Collection Financial Standards, provide for a taxpayer's and his or her family's health and welfare and/or 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. The total necessary expenses establish the minimum a taxpayer and family needs to live.

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Reminder:

The ALE standards are not applicable to corporations, partnerships, LLCs, (where the LLC is identified as the liable taxpayer), or for any business expenses.

3. The 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 international taxpayers. Collection employees should not use any other non-ALE figures as pre-determined guideline figures or arbitrarily select any location in the United States as a starting point 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.

4. **National Standards**: These establish standards for Food, Clothing and Other Items and Out-of-Pocket Health Care Expenses.

a. *Food, Clothing and Other Items* - These establish reasonable amounts for five necessary expenses: food, housekeeping supplies, apparel and services, personal care products and services, and miscellaneous. These standards come from the Bureau of Labor Statistics (BLS) Consumer Expenditure Survey. Taxpayers are allowed the total National Standards amount monthly for their family size, without questioning the amounts they actually spend.

Note:

All five expenses are included in one total national standard amount.

b. *Out-of-Pocket Health Care Expenses* - These establish reasonable amounts for out-of-pocket health care costs including medical services, prescription drugs, and medical supplies (e.g., eyeglasses, contact lenses). The table for health care allowances is based on Medical Expenditure Panel Survey data. Taxpayers and their dependents are allowed the standard amount monthly on a per person basis, without questioning the amounts they actually spend.

5. **Local Standards**: These establish standards for two necessary expenses: 1) housing and utilities and 2) transportation. Taxpayers will normally be allowed the local standard or the amount actually paid monthly, whichever is less.

. *Housing and Utilities* - Standards are established for each county within a state and are derived from Census and BLS data. The standard for a particular county and family size includes both housing and utilities allowed for a taxpayer's primary place of residence. Housing and Utilities standards include mortgage (including interest) or rent, property taxes, insurance, maintenance, repairs, gas, electric, water, heating oil, garbage collection, cable television, internet services, telephone and cell phone.

a. *Transportation* - 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. Operating costs include maintenance, repairs, insurance, fuel, registrations, licenses, inspections, parking and tolls. If a taxpayer has a car payment, the allowable ownership cost added to the allowable operating cost equals the allowable transportation expense. If a taxpayer has a car, but no car payment only the operating cost portion of the transportation standard is used to figure the allowable transportation expense. There is a single nationwide allowance for public transportation for taxpayers with no vehicle.

Note:

Vehicle Operating standards are based on actual consumer expenditure data obtained from the United States Bureau of Labor Statistics (BLS) which are adjusted with Consumer Price Indexes (CPI) to allow for projected increases throughout the year. (These CPI are used to adjust all ALE standards.) Vehicle operating standards are not based on average commuting distances. Fuel costs, which are part of Vehicle Operating Costs, have a separate fuel price adjustment which is based on Energy Information Administration (EIA) data which allows for projected fuel price increases.

6. National and local expense standards are guidelines. If it is determined a standard amount is inadequate to provide for a specific taxpayer's basic living expenses, allow a deviation. Require the taxpayer to provide reasonable substantiation and document the case file.

Note:

If the taxpayer or the Service believes reviewing the last three months of expenses are not reflective of the actual yearly expenditures, additional months, up to one year, may be reviewed.

7. Generally, the total number of persons allowed for national standard expenses should be the same as those allowed as total dependents and

taxpayers claimed on the taxpayer's current year income tax return. Verify that the dependents claimed on the taxpayer's income tax return meet the dependency requirements of the IRC. There may be reasonable exceptions. Fully document the reasons for any exceptions. For example, foster children or children for whom adoption is pending.

8. A deviation from the local standard is not allowed merely because it is inconvenient for the taxpayer to dispose of valued assets or reduce excessive necessary expenses.

9. Other Necessary Expenses - These expenses meet the necessary expense test and normally are allowed. The amount allowed must be reasonable considering the taxpayer's individual facts and circumstances.

10. Other Conditional Expenses - These expenses **may not** meet the necessary expense test, but may be allowable based on the circumstances of an individual case. Other conditional expenses may also be allowable if the taxpayer qualifies for the six-year rule and one-year rule. See IRM 5.14.1.4.1, *Six-Year Rule and One-Year Rule.*.

5.15.1.9 (08-29-2018)

National Standards

1. **National Standards: Food, Clothing and Other Items** - These include the following expenses:

a. Apparel and services. Includes shoes and clothing, laundry and dry cleaning, and shoe repair.

b. Food. Includes all meals, home and away.

c. Housekeeping supplies. Includes laundry and cleaning supplies; other household products such as cleaning and toilet tissue, paper towels and napkins; lawn and garden supplies; postage and stationery; and other miscellaneous household supplies.

d. 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.

e. Miscellaneous. Is a percentage of the 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. Some examples include credit card payments, occupational expenses, bank fees and charges, reading material, school books and supplies for elementary through high school age dependents, etc. The miscellaneous allowance can also be used for any portion of expenses that exceed the ALE standards and are not allowed under a deviation.

2. Allow taxpayers the national standard amount for their family size without questioning the amount actually spent.

Note:

Money amounts in all the Allowable Living Expense examples are for illustrative purposes only. Check the ALE web page at http://mysbse.web.irs.gov/Collection/toolsprocesses/AllowExp/default.aspx for current expense amounts.

Example:

National Standard Expense amount is $1,100 - The taxpayer’s actual expenditures are: housekeeping supplies - $100, clothing - $100, food - $500, personal care products - $100, and miscellaneous - $200 (Total Expenses - $1,000). The taxpayer is allowed the national standard amount of $1,100, even though the amount claimed was less.

3. A taxpayer who claims more than the total allowed by the national standards must provide documentation to substantiate and justify as necessary those expenses that exceed the total national standard amounts. Deviations from the standard amount are not allowed for miscellaneous expenses.

Example:

National Standard Expense amount is $1,100. The taxpayer's actual expenditures are: housekeeping supplies - $100, clothing - $100, food - $700, personal care products - $100, and miscellaneous - $200 (Total Expenses - $1,200). The taxpayer is allowed the national standard amount of $1,100, unless the higher amount is justified as necessary. In this example the taxpayer has claimed a higher food expense than allowed. Justification would be based on prescribed or required dietary needs. The taxpayer must substantiate and verify only the food expense. The taxpayer is not required to verify expenses for all five categories if a higher expense is claimed for one category. The standard amounts will be allowed for the remaining categories.

4. All deviations from the national standard expenses for food, clothing and other items must be verified, reasonable and documented in the case history.

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5. **National Standards: Out of Pocket Health Care Expenses** – These include:

. Medical services,

a. Prescription drugs, and

b. Medical supplies (e.g., eyeglasses, contact lenses).

Medical procedures of a purely cosmetic nature, such as plastic surgery or elective dental work are generally not allowed.

6. The out-of-pocket health care standard amount is allowed in addition to the amount taxpayers pay for health insurance or individual shared responsibility payment if applicable.

7. Taxpayers and their dependents are allowed the standard amount monthly on a per person basis, without questioning the amounts they actually spend. Taxpayer verification of out-of-pocket expenses is not required unless the amount claimed exceeds the standard.

8. Taxpayers who claim more than the total allowed by the out-of-pocket health care standard, may be allowed more than the standard if they provide documentation to substantiate and justify the additional expenses. This situation may be encountered in situations involving taxpayers with no health insurance.

9. All deviations from the national standards for out-of-pocket health care expenses must be verified, reasonable and documented in the case history.

5.15.1.10 (07-24-2019)

Local Standards

1. Local standards include the following expenses:

a. **Housing and Utilities** - Housing expenses include: mortgage (including interest) or rent, property taxes, necessary maintenance and repair, homeowner's or renter's insurance, homeowner dues and condominium fees. The utilities include gas, electricity, water, heating oil, bottled gas, trash and garbage collection, wood and other fuels, septic cleaning, cable television, internet services, telephone and cell phone. Usually, these expenses are considered necessary only for the primary place of residence. Any other housing expenses should be allowed only if, based on a taxpayer's individual facts and circumstances, disallowance will cause the taxpayer economic hardship.

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- Generally the total number of persons allowed for determining family size should be the same as those allowed as total dependents and taxpayers claimed on the taxpayer's most recent year tax return. There may be reasonable exceptions, such as foster children or children for whom adoption is pending.

- An allowance for cell phone, cable television and internet service expenses is included in the Housing and Utilities standard.

- Taxpayers are allowed the standard amount for housing and utilities or the amount actually claimed and *verified* by the taxpayer, whichever is less. If the amount claimed is more than the total allowed by housing and utilities standards, the taxpayer must provide documentation to substantiate those expenses are necessary.

- When deciding if a deviation is appropriate, consider the cost of moving to a new residence; the increased cost of transportation to work and school that will result from moving to lower-cost housing and the tax consequences. The tax consequence is the difference between the benefit the taxpayer currently derives from the interest and property tax deductions on Schedule A to the benefit the taxpayer would derive without the same or adjusted expense.

- All deviations from the housing and utilities standards must be verified, reasonable and documented in the case history.

b. **Transportation** - This includes vehicle insurance, vehicle payment (lease or purchase), maintenance, fuel, state and local registration, required inspection, parking fees, tolls, driver's license and public transportation. Public transportation includes mass transit fares for a train, bus, taxi, etc., both within and between cities.

- 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.

- When determining the allowable amounts, allow the full *ownership* standard amount, or the amount actually claimed and *verified* by the taxpayer, whichever is less. Allow the full *operating* standard amount, or the amount actually claimed by the taxpayer, whichever is less. Substantiation for the operating allowance is not required unless the amount claimed exceeds the standard.

- 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. See *Exhibit 5.15.1-1*, Question 16.

- If a taxpayer owns a vehicle and uses public transportation, expenses may be allowed for both, provided they are needed for the health and welfare of the individual or family, or for the production of income. However, the expenses allowed would be actual expenses incurred. Documentation would not be required unless the amount claimed exceeded the standards.

- If a taxpayer has a car, but no car payment, only the operating costs portion of the transportation standard is used to figure the allowable transportation expense.

- A single taxpayer is normally allowed ownership and operating costs for one vehicle. The taxpayer is allowed the standard for ownership and operating costs, or the amounts actually spent, whichever is less.
- If a husband and wife own two vehicles, they are allowed the amount claimed for each vehicle up to the maximum allowances for ownership and operating expenses. The taxpayers are allowed the standard for ownership and operating costs, or the amounts actually spent, whichever is less.

Note:

Money amounts in the Allowable Living Expense examples below are for illustrative purposes only.

2. **Example 1:** If the loan payment for each car is below the standard allowable amount and the operating costs for both cars are below the standard allowable amount, they are allowed the amount claimed.

	Claimed	**Standard**	**Allowed**
1st Car Ownership	$427	$478	$427
2nd Car Ownership	$470	$478	$470
Total Ownership Allowed			**$897**
Total Operating (for 2 cars)	$325	$340	**$325**
Total Ownership and Operating Allowed			**$1,222**

3. **Example 2:** If the loan payment for each car exceeds the standard allowable amount and the operating costs for both cars exceed the standard allowable amount, they are limited to the standard allowable amount unless the claimed amount is substantiated and verified as necessary.

	Claimed	Standard	Allowed
1st Car Ownership	$525	$478	$478
2nd Car Ownership	$480	$478	$478
Total Ownership Allowed			**$956**
Total Operating (for 2 cars)	$380	$340	**$340**
Total Ownership and Operating Allowed			**$1,296**

4. **Example 3:** If the loan payment for one vehicle exceeds the standard allowable amount for one car and the second loan payment is less than the standard allowable amount for one car, the allowable amounts are calculated separately.

	Claimed	Standard	Allowed
1st Car Ownership	$550	$478	$478
2nd Car Ownership	$460	$478	$460
Total Ownership Allowed			**$938**
Total Operating (for 2 cars)	$360	$340	**$340**
Total Ownership and Operating Allowed			**$1,278**

5. Example:

6.

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

- If a taxpayer claims higher amounts of operating costs because he commutes long distances to reach his place of employment, he may be allowed greater than the standard. The additional operating expense would generally meet the production of income test and therefore be allowed if the taxpayer provides substantiation.

- If the amount claimed is more than the total allowed by any of the transportation standards, the taxpayer must provide documentation to verify and substantiate that those expenses are necessary. All deviations from the transportation standards must be verified, reasonable and documented in the case history.

5.15.1.11 (08-29-2018)

Other Expenses

1. Other expenses may be necessary or conditional. Other necessary expenses meet the necessary expense test and normally are allowed. The amount allowed must be reasonable considering the taxpayer's individual facts and circumstances. Other Conditional Expenses **may not** meet the necessary expense test, but may be allowable based on the circumstances of an individual case.
2. There may be circumstances where expenses may be allowed even if they do not meet the necessary expense test. If the IRS tax liability including accruals can be paid within six years and within the CSED, all expenses may be allowed if they are reasonable. If the taxpayer cannot pay within six years, it may be appropriate to allow the taxpayer up to one year in order to modify or eliminate one or more expenses. See *IRM 5.15.1.3*, *Analyzing Financial Information*.
3. If other conditional expenses are determined to be necessary and, therefore allowable, document the reasons for the decision in your history.

Expense Item	Expense is Necessary:	Notes/Tips
Accounting and legal fees	• The fees are for representation before the Service (i.e., to resolve current balances due, delinquent returns,	• Fees related to business operations (i.e., reported on Schedule C) should not be claimed as personal expenses. • Fees may vary; an accountant will charge less for a wage earner with

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Expense Item	Expense is Necessary:	Notes/Tips
	examinations, etc.), or • The fees meet the necessary expense test. • The amount should not be excessive and must be reasonable given the complexity of the case.	all returns filed that just needs a CIS completed, than he/she would charge for a self-employed individual that needs several returns prepared along with a CIS. Fees vary across the country so allowable amounts may also differ depending on where the taxpayer lives.
Charitable contributions *(Donations to tax exempt organizations)*	If it is a condition of employment or meets the necessary expense test. Example: A minister is required to tithe according to his employment contract.	Disallow any other charitable contributions that are not considered necessary. Example: Review the employment contract.
Child Care *(Baby-sitting, day care, nursery and preschool)*	If it meets the necessary expense test. Only reasonable amounts are allowed.	Cost of child care can vary greatly. Do not allow unusually large child care expense if more reasonable alternatives are available. Consider the age of the child and if both parents work.
Court-Ordered Payments*(Alimony, child support, including orders made by the state, and other court ordered payments)*	If alimony and child support payments are court ordered and being paid, they are allowable. If payments are not being made, do not allow the expense unless the non-	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 Item	Expense is Necessary:	Notes/Tips
	payment was due to temporary job loss or illness. Restitution payments made to other victims pursuant to a court order are allowable expenses.	expense.) See *Exhibit 5.15.1-1*, Question 15.
Dependent Care *(For the care of the elderly, invalid, or handicapped.)*	If there is no alternative to the taxpayer paying the expense.	
Education	If it is required for a physically or mentally challenged child and no public education providing similar services is available. Education expenses are also allowed for the taxpayer if required as a condition of employment.	**Example:** An attorney must take a certain amount of education credits each year or they will not be accredited and could eventually lose their license to practice before the State Bar. A teacher could lose their position or in some states their pay is commensurate with their education credits.
Involuntary Deductions	If it is a requirement of the job; e.g., union dues, uniforms, work shoes.	To determine monthly expenses, the total out of pocket expenses would be divided by 12.
Life Insurance	If it is a term policy on the life of the taxpayer only.	If there are whole life policies, these should be reviewed as an asset for borrowing against or liquidating. Life insurance used as an investment is not a necessary expense.
Secured or legally perfected debts	If it meets the necessary expense test.	Taxpayer must substantiate that the payments are being made.
Credit Card Debts	• Credit cards are generally	• If a taxpayer is paying for necessary expenses

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Expense Item	Expense is Necessary:	Notes/Tips
	considered a method of payment, rather than a specific expense. A taxpayer may be paying for necessary living expenses using cash or a credit card, e.g. food, clothing, gas, etc. Consequently, payments for the portion of the credit card debt reflecting necessary living expenses are provided for as allowable expenses under the national and local standards. • It is important that taxpayers be informed of the above, and be advised that the IRS National Standards for Food, Clothing and Other Items provides an amount for miscellaneous	that exceed the standards, and those expenses are justified, a deviation under the expense item on Form 433-A, *Collection Information Statement for Wage Earners and Self-Employed Individuals,* should be allowed. • If a credit card payment is only partially allowed or not allowed at all, the taxpayer should be advised that the IRS allows an amount monthly for miscellaneous expenses that can be used to make credit card payments. See *Exhibit 5.15.1-1*, Questions 19-21.

Expense Item	Expense is Necessary:	Notes/Tips
	expenses that can be applied to credit card debt. • Generally, minimum payments on credit cards are allowed under the six-year rule.	
Other Unsecured Debts	If the taxpayer substantiates and justifies the expense, the minimum payment may be allowed. The necessary expense test of health and welfare and/or production of income must be met. Except for payments required for the production of income, payments on unsecured debts will not be allowed if the tax liability, including projected accruals, can be paid in full within 90 days.	Examples of unsecured debts which may be necessary expenses include: payments required for the production of income such as payments to suppliers and payments on lines of credit needed for business, and payment of debts incurred in order to pay a federal tax liability.
Current Year Taxes	If it is for current federal, FICA, Medicare, state and local taxes.	Current taxes are allowed regardless of whether the taxpayer made them in the past or not.
Delinquent State and Local Taxes	Payments for delinquent state and local (county or municipal) tax liabilities may be allowed in certain circumstances: • When a taxpayer does	See IRM 5.15.1.10(4) and *Exhibit 5.15.1-1*, Question 18 for additional guidance.

Expense Item	Expense is Necessary:	Notes/Tips
	not have the ability to full pay the tax liability. • When a taxpayer provides complete financial information. • When a taxpayer provides verification of the state or local tax liability, and agreement if applicable	
Optional Telephones and Telephone Services *(pre-paid long distance telephone cards/minutes or pre-paid cellular cards/minutes)*	If it meets the necessary expense test.	
Student Loans	If it is guaranteed by the federal government and only for the taxpayer's post-high school education. • Taxpayers must substantiate that the payments are being made. • Taxpayers who have student loan	• Taxpayers with student loan debt, who have not yet made arrangements to repay the loan, should be allowed 10 days to set up a payment plan for the student loan and provide verification so the loan payment can be allowed.

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Expense Item	Expense is Necessary:	Notes/Tips
	debt, but are unable to make payments on the debt because they are suffering an economic hardship or have medical problems, should be advised to request a deferment or forbearance of the student loan payments. • The Installment Agreement (IA) amount will be established without allowing for a student loan payment. • Taxpayers must be advised that if they later make arrangements to pay the student loan, they can request the installment agreement be revised.	• Additional time may be allowed if a taxpayer has extenuating circumstances. • Taxpayers must be advised that if they do not respond by the due date, the IA amount will be established without allowing for a student loan payment. • Taxpayers must also be advised that if they later make arrangements to pay the student loan, they can request the installment agreement be revised.

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Expense Item	Expense is Necessary:	Notes/Tips
Repayment of loans made 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.	

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

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

d. Follow the procedures in this table to determine the allowable payment for delinquent state or local tax debts.

IF	AND	THEN
the taxpayer **does not** have an existing agreement for payment of the delinquent state or local tax debts,	provides a complete Collection Information Statement (CIS) and verification of state or local tax debts,	follow procedures in IRM 5.15.1.10(4)(b) to determine the calculated percentage amount that will be listed as the allowable monthly payment for delinquent state or local taxes on the CIS.
the taxpayer has an existing agreement for delinquent state or local tax debts, and that agreement was	the payment amount on the state or local agreement is **less** than the	the monthly amount due on the existing state or local agreement will be listed as the allowable delinquent state or local tax payment on

IF	AND	THEN
established **after** the earliest IRS date of assessment,	calculated percentage amount,	the CIS. The payment to IRS will be increased by the amount allowed for the monthly state or local payment one month after the date the state or local liability is scheduled to be fully paid.
the taxpayer has an existing agreement for delinquent state or local tax debts, which was established **after** the earliest IRS date of assessment,	the payment amount on the agreement, is **more** 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 he/she can use the amount IRS allows for Miscellaneous expenses under National Standards to pay the additional amount due for the delinquent state or local tax payment. The payment to IRS will be increased by the amount allowed for the monthly state or local payment one month after the date the state or local liability is scheduled to be fully paid.
the taxpayer has an existing agreement for delinquent state or local tax debts, which was established **prior to** the earliest IRS date of assessment,	allowing the amount on the existing state or local agreement will not result in the case being reported uncollectible,	allow the existing state or local tax payment and increase the IRS payment one month after the date the state or local liability is scheduled to be fully paid. See IRM 5.15.1.10(4)(c) and (d) if allowing the state payment will result in the account being reported

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IF	AND	THEN
		Currently Not Collectible (CNC) due to hardship.

e. Follow these procedures to calculate an allowable payment amount for delinquent state or local tax debts.

1) Determine net disposable income on Form 433-A, *Collection Information Statement for Wage Earners or Self-Employed Individuals*, or Form 433-F, *Collection Information Statement*. Do not include any amount that is being paid for outstanding state or local tax liabilities in the calculation. Net disposable income is the difference between gross income and allowable living expenses.

Note:

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

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

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

Example 1:

Category	**Amount/Percentage**
IRS Tax Liability	$10,000.00
State or Local Tax Liability	$5,000.00
Total	$15,000.00
IRS percentage	10,000.00/15,000.00 = .67

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

Note:

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

Example 2:

Category	Amount/Percentage
IRS Tax Liability	$1,000.00
State or Local Tax Liability	$500.00
Total	$1,500.00
IRS percentage	1,000.00/1,500.00 = .67
State or Local percentage	500.00/1,500.00 = .33

Category	Amount/Percentage
Taxpayer's net disposable income	$35.00
IRS Payment (35 x .67)	$23.45 (Actual IRS IA payment = $25.00)
State or Local Payment (35 x .33)	$11.55 (Actual State or Local IA payment = $10.00)

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

AND	THEN
the taxpayer does not have an existing agreement for the delinquent state or local tax debts,	a payment for delinquent state or local taxes **will not** be allowed. Advise the taxpayer that he/she can use the amount the IRS allows for Miscellaneous expenses under National Standards to pay the delinquent state or local tax payment.
the taxpayer has an existing agreement for the delinquent state or local tax debts, which was established **after** the earliest IRS date of assessment,	a payment for delinquent state or local taxes **will not** be allowed. Advise the taxpayer that he/she can use the amount the IRS allows for Miscellaneous expenses under National Standards to pay the delinquent state or local tax payment.
the taxpayer has an existing agreement for delinquent state or local tax debts, which was established **prior to** the earliest IRS date of assessment,	the amount allowed for state or local taxes on the CIS should be reduced to allow for an IRS Installment Agreement payment . Advise the taxpayer that he/she can use the amount the IRS allows for Miscellaneous expenses under National Standards to pay the additional amount due for the delinquent state or local tax payment. The payment to the IRS will be

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AND	THEN
	increased by the amount allowed for the monthly state or local payment one month after the date that the state or local liability is scheduled to be full paid.

g. Example:

h.

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

j. Note:

k.

l. Document all calculations in the case history.

m. Allowing payments for delinquent state or local taxes when establishing an Installment Agreement has no effect on lien or levy priorities. This guidance only impacts determinations of ability to pay. Employees should use existing procedures and lien law to determine the IRS interest in assets. If a taxpayer refuses to establish an Installment Agreement or defaults on an Installment Agreement, IRS employees should follow existing procedures and lien law to determine the appropriate course of action, including pursuing collection.

n. Minimal payments for delinquent state or local taxes are allowed for Installment Agreements using the six-year rule. If the six-year rule applies, taxpayers are required to provide financial information, but do not have to provide substantiation of reasonable expenses. If the taxpayer meets all other requirements for the six-year rule, the amount claimed for state or local taxes may be allowed. Employees would not be required to obtain verification of the state payment or calculate an amount due based on the percentage basis discussed above.

o. If a state already has a Federal/State Memorandum of Understanding (MOU) for establishing joint Federal and State agreements, follow the MOU guidelines.

5.15.1.12 (08-29-2018)

Determining Individual Income

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

Caution:

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

2. Income consists of the following:

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

IF	**THEN**
Paid weekly	multiply weekly gross wages by 4.3
Paid biweekly (every 2 weeks)	multiply biweekly gross wages by 2.17
If income is sporadic or seasonal	use the annual income figure from the Form W-2 or the Form 1040 and divide by 12 to determine the average monthly income

b. **Interest and Dividends** - Includes any interest or dividend that the taxpayer receives or that is credited to an account and can be withdrawn by the taxpayer and used for household expenses. The annual total should be divided by 12 to determine the average monthly income. Look for brokerage accounts for dividends from publicly traded corporations and look for undisclosed bank accounts for interest payers.

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IF	AND	THEN
the interest bearing accounts are used as an asset	the taxpayer will be withdrawing the funds from the account to reduce the tax liability	the dividends or interest should not be used in the income stream

c. **Net Income from Self-Employment or Schedule C** - The amount the taxpayer earned after paying ordinary and necessary business expenses. This amount may be determined from an analysis of the income and expense section of Form 433-A or Form 433-B. It may also be determined using the net profit on Schedule C from the most recent year's Form 1040 if all duplicate deductions are eliminated (e.g., expenses for business use of home already included in Allowable Living Expense for Housing and Utilities). Deductions for depletion and depreciation on Schedule C are not cash expenses and these amounts must be added back to the net income figure. In addition, interest cannot be deducted if it is already included in any other installment payments allowed. If the net business income is a loss, enter **zero**. Do not enter a negative number. The income and expense information provided must reflect a sufficient time frame to accurately determine the monthly average that could be expected for the entire year.

d. **Net Rental Income** - The amount earned after paying ordinary and necessary monthly rental expenses. If using Schedule E from the most recent year's Form 1040, do not include depreciation or depletion as an expense item. If net rental income is a loss, enter a **zero**. Do not enter a negative number.

e. **Pensions** - Includes Social Security, IRA, profit sharing plans, etc. Pensions could be used as an asset or as part of the income stream. See *IRM 5.15.1.18*

Note:

Discretion should be used in determining if pension income should be levied. For additional guidance on levying pensions, see IRM 5.11.6, *Notice of Levy in Special Cases*

f. **Child Support** - Include the actual amount received in addition to other debts or bills the non-custodial parent is paying pursuant to a child support order. For example, the court order assigns $200 a week for support but also requires all medical bills to be paid. The child support income would include the $200.00 plus any additive support payments received for medical bills.

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g. **Alimony** - Include the assigned payments made by the non-resident spouse. However, consider if other bills are being paid, such as the mortgage, and adjust the allowable expenses accordingly.

h. **Other** - This could include payments from a trust account, royalties, renting a room, gambling winnings, sale of property, rent or oil subsidies, etc. Tax return information could include various sources of income.

i. A rent subsidy paid directly to the taxpayer from a government agency should be reflected as income on Form 433-A and the full amount of rent paid should be deducted as an expense under housing and utilities. A subsidy paid directly to a landlord by a government agency should not be included in income on Form 433-A, and the taxpayer should only report the actual expenses he or she pays for rent under housing and utilities.

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