



Tax Reduction Letter

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Internal Revenue Manual Section 5.7.5.3 (06-28-2011)

Verification of Ability to Pay

1. The following factors will be considered when determining collectibility of the TFRP:
 - Current financial condition
 - Involvement in a bankruptcy proceeding
 - Income history and future income potential
 - Asset potential (likelihood of increase in equity in assets and taxpayer's potential to acquire assets in the future)
2. Research the taxpayer's information by using the following internal and external sources, as well as any other applicable sources, to verify and determine collectibility:

To Verify:	Use the Following Source(s):
Income	IRPTR and Employment Records
Income and assets, e.g., income tax interest deduction for real property, IRA contributions, etc.	RTVUE or BRTVUE
Addresses	INOLE
Motor Vehicles	Motor Vehicle Records
Real Estate	Property Records

3. Caution:

4. Do not request a full credit bureau check on the potentially responsible party if there is no assessment against the individual (See IRM 5.1.18.18.2, *Limitations on Ordering Consumer Credit Reports* .)
5. Below are guidelines to assist in determining whether to assert the penalty based on collectibility:

If responsible person financial analysis shows. . .	Then. . .
Any present or future ability to pay	Assess the penalty and take the appropriate collection action based on an analysis of the taxpayer's financial condition.
No present, but future ability to pay	Assess the TFRP based on future income potential and possible refund offset. Prepare a pre-assessed Form 53 and file lien if appropriate.
The responsible person cannot be located or contacted but internal research identifies assets or income sources	Assess the TFRP since there is a good possibility of some collection from the assets/income sources that were located.
No present or future income potential exists over the collection statute period	Do not assess the TFRP since the financial analysis shows there is little prospect that the taxpayer will receive any increase in income or acquire assets that will enable the Service to collect any of the penalty.