



Tax Reduction Letter

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Internal Revenue Manual Section 5.8.5.7 (09-30-2013)

Cash

1. Use the amount listed on the Form 433-A (OIC) for the amount of cash in the taxpayer's bank accounts. Reduce the total amount listed by \$1,000.

Note:

The \$1,000 reduction only applies to individual bank accounts.

Exception:

If the total amount listed on the Form 433-A (OIC) is over \$1,000 and you have reason to believe the money will be used to pay for the taxpayer's monthly allowable living expenses, do not include it on the AET.

2. Review checking account statements over a reasonable period of time, generally three months for wage earners and six months for taxpayers who are non wage earners.. Look for any unusual activity, such as deposits in excess of reported income, withdrawals, transfers, or checks for expenses not reflected on the CIS. The OE/OS should discuss any inconsistencies with the taxpayer.

Example:

(1) The taxpayer lists \$10,000 on Form 433-A (OIC) The taxpayer's allowable living expenses are \$3,000. Include \$6,000 (\$10,000 less \$1,000 less \$3,000) as an asset value on the AET.

Example:

(2) The taxpayer lists \$3,000 on the Form 433-A (OIC) and his allowable living expenses are \$2,700. Do not include any amount on the AET since the \$300 difference is less than \$1000.

3. Review savings account statements over a reasonable period of time, generally three months.
 - If the account has little withdrawal activity, use the ending balance on the latest statement, less \$1,000 if not previously applied to another account, as the asset value for the AET.
 - If it is apparent that the account is used for paying monthly living expenses, treat it as a checking account and follow the instructions in paragraphs (1) and (2) above to determine its value.
4. If analysis of the bank statement reveals large amounts of recently expended funds, *IRM 5.8.5.18, Dissipation of Assets*, for a full discussion of the treatment of dissipated assets.
5. If the taxpayer offers the balances of accounts (for example, certificate of deposit, savings bonds, etc.) to fund the offer, allow for any penalty for early withdrawal and the expected current year tax consequence.

6. Include any deposits made with the offer as an asset on the AET. Deposits are refundable, and must be considered an asset.
7. For funds on deposit with the OIC, allow as an encumbrance any amount borrowed if the monies must be repaid. Appropriate documentation must be provided.
8. Document AOIC or ICS with how the value of cash listed on the Asset/Equity Table was determined.