



Tax Reduction Letter

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Collection Financial Standards

Disclaimer: IRS Collection Financial Standards are intended for use in calculating repayment of delinquent taxes. These Standards are effective on March 27, 2017 for purposes of federal tax administration only. Expense information for use in bankruptcy calculations can be found on the website for the U.S. Trustee Program.

We have added links below for all of the standards to enable you to download a PDF version for printing. Please note that the standards change, so if you elect to print them, check back periodically to assure you have the latest version.

General

Collection Financial Standards are used to help determine a taxpayer's ability to pay a delinquent tax liability. Allowable living 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.

National Standards for food, clothing and other items apply nationwide. Taxpayers are allowed the total National Standards amount monthly for their family size, without questioning the amount actually spent.

National Standards have also been established for minimum allowances for out-of-pocket health care expenses. Taxpayers and their dependents are allowed the standard amount monthly on a per person basis, without questioning the amount actually spent.

Maximum allowances for monthly housing and utilities and transportation, known as the Local Standards, vary by location. In most cases, the taxpayer is allowed the amount actually spent, or the local standard, whichever is less.

Generally, the total number of persons allowed for necessary living expenses should be the same as those allowed as exemptions on the taxpayer's most recent year income tax return.

If the IRS determines that the facts and circumstances of a taxpayer's situation indicate that using the standards is inadequate to provide for basic living expenses, we may allow for actual expenses. However, taxpayers must provide documentation that supports a determination that using national and local expense standards leaves them an inadequate means of providing for basic living expenses.

National Standards: Food, Clothing and Other Items

National Standards have been established for five necessary expenses: food, housekeeping supplies, apparel and services, personal care products and services, and miscellaneous.

The National Standard for Food, Clothing and Other Items includes an amount for miscellaneous expenses. This miscellaneous allowance is for expenses taxpayers may incur that are not included in any other allowable living expense items, or for any portion of expenses that exceed the Collection Financial Standards and are not allowed under a deviation.

The standards are derived from the Bureau of Labor Statistics Consumer Expenditure Survey. The survey collects information from the Nation's households and families on their buying habits (expenditures), income and household characteristics.

Additional information and the standard amounts are available on our [National Standards for Food, Clothing and Other Items web page](#). You may also [download the standards](#) in PDF format for printing.

National Standards: Out-of-Pocket Health Care Expenses

[Out-of-Pocket Health Care standards](#) have been established for out-of-pocket health care expenses including medical services, prescription drugs, and medical supplies (e.g. eyeglasses, contact lenses, etc.).

The table for health care allowances is based on Medical Expenditure Panel Survey data and uses an average amount per person for taxpayers and their dependents under 65 and those individuals that are 65 and older.

The out-of-pocket health care standard amount is allowed in addition to the amount taxpayers pay for health insurance.

You may also [download the standards](#) in PDF format for printing. Additional information and the standard amounts are available on our [Out-of-Pocket Health Care Standards web page](#).

Local Standards: Housing and Utilities

The [housing and utilities standards](#) are derived from U.S. Census Bureau, American Community Survey and BLS data, and are provided by state down to the county level. The standard for a particular county and family size includes both housing and utilities allowed for a taxpayer's primary place of residence. Housing and utilities standards are also provided for Puerto Rico.

Housing and Utilities standards include mortgage or rent, property taxes, interest, insurance, maintenance, repairs, gas, electric, water, heating oil, garbage collection, residential telephone service, cell phone service, cable television, and Internet service. The tables include five categories for one, two, three, four, and five or more persons in a household.

Additional information and the standard amounts are available by state or territory on our [Housing and Utilities Standards web page](#). You may also [download the standards](#) in PDF format for printing. Please be advised that the housing and utilities document is 108 printed pages.

Local Standards: Transportation

The [transportation standards](#) for taxpayers with a vehicle consist of two parts: nationwide figures for monthly loan or lease payments referred to as ownership costs, and additional amounts for monthly operating costs broken down by Census Region and Metropolitan Statistical Area (MSA). A conversion chart has been provided with the standards that lists the states that comprise each Census Region, as well as the counties and cities included in each MSA. The ownership cost portion of the transportation standard, although it applies nationwide, is still considered part of the Local Standards.

The ownership costs provide maximum allowances for the lease or purchase of up to two automobiles if allowed as a necessary expense. A single taxpayer is normally allowed one automobile.

The 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 costs portion of the transportation standard is used to figure the allowable transportation expense. In both of these cases, the taxpayer is allowed the amount actually spent, or the standard, whichever is less.

There is a single nationwide allowance for public transportation based on BLS expenditure data for mass transit fares for a train, bus, taxi, ferry, etc. Taxpayers with no vehicle are allowed the standard, per household, without questioning the amount actually spent.

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 taxpayer or family, or for the production of income. However, the expenses allowed would be actual expenses incurred for ownership costs, operating costs and public transportation, or the standard amounts, whichever is less.

Additional information and the standard amounts are available on our [Transportation Standards web page](#). You may also [download the standards](#) in PDF format for printing.

Six Year Rule for Repayment of Tax Liability

The Collection Financial Standards are used in cases requiring financial analysis to determine a taxpayer's ability to pay. The vast majority of installment agreements secured by Collection employees are streamlined agreements, which require little or no financial analysis and no substantiation of expenses.

In cases where taxpayers cannot full pay and do not meet the criteria for a streamlined agreement, they may still qualify for the six-year rule. The timeframe for this rule was increased in 2012 from five years to six years.

The six-year rule allows for payment of living expenses that exceed the Collection Financial Standards, and allows for other expenses, such as minimum payments on student loans or credit cards, as long as the tax liability, including penalty and interest, can be full paid in six years.

Taxpayers are required to provide financial information in these cases, but do not have to provide substantiation of reasonable expenses.

Recent Revisions March 27, 2017

There were no changes to the methodology for calculating the Collection Financial Standards for 2017.

The revised standards are effective for financial analysis conducted on or after March 27, 2017.

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