



**Wood** LLP

# Tax Alert



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THE TAX LAWYER

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### Beware Those Enticing 'Pennies On The Dollar' Tax Relief Deals

I'll bet you've seen the TV ads from tax services claiming they'll settle your tax debts for 'pennies on the dollar.' I love infomercials, and admit I have succumbed to innovative kitchen tools, blenders, food steamers, nostalgic music collections, sham-wows, 2 little giant ladders, Snuggles, pet brushes, solar lighting, the sharpest knives ever, and considerable other gear. But I have my standards, shying away from no-money down real estate kits and personal power courses.

Whether I'm in a buying mood or not, I like *watching*, hearing gushing testimonials, staged kitchen-table amazement at how *incredibly* easy that healthy vegetable dip was to make. Everyone seems so *happy*. I can't help but be up in the intoxicating enthusiasm of some aspiring [Ron Popeil](#) proselytizing over cleaners or rotisserie chicken. Yet I flinch when I see 'pennies on the dollar' tax relief deals hawked no less fervently.



The problem is that I'm a tax lawyer. Installment agreements and offers in compromise with the IRS and most states have always been possible. Many TV spots exhort viewers that the IRS has made a 'limited time special offer.' Yet not much has changed for years. I guess the limited time deal fits the home-shopping-network-mantra: sell *immediately*. Yet unlike the double order of sham-wows you might get if you order in the next 20 minutes, you rarely get something special if you sign up right away for tax relief.

In fact, the IRS and the government have long voiced concern that some people are getting fleeced. [American Tax Relief](#) was shut down, a [scam that collected more than \\$60 million](#) over 4 years. The up-front fees evidently ranged from \$3,200 to \$25,000, with little actual work allegedly done. California [sued](#) tax deal maven Roni Deutsch to collect \$34 million in restitution for clients she allegedly swindled. She too was closed down.

There must be good tax resolution shops somewhere, but be careful, check references, and do some due diligence of your own. Consider whether competent but less flamboyant tax professionals

might better help you through the process. Whoever you hire, read up on the system *before* you jump in. It is worth asking if [you can really settle your tax debt with the IRS for pennies on the dollar](#)? Plus, why spend money to have someone walk you through completing a financial statement form you can do yourself?

The IRS's [Form 656-B](#), Offer in Compromise Booklet contains information, worksheets, and all forms necessary to file an offer in compromise. The IRS also has very good information on its [website](#). Much tax collection work is about how much money you have, your income stream, and your expenses. Pennies on the dollar deals aren't likely to be accepted if you can pay.

Take [Estate of Joseph L. Mangiardi v. Commissioner](#). Mr. Mangiardi died with a trust worth \$4.5 million and IRAs worth \$3.4 million, but the estate figured it owed estate tax of more than \$2.5 million. The IRS had to get in line. First, the IRAs went to Mangiardi's nine kids. Then, over four years, the estate asked for six extensions of time to pay the tax. By that point, the trust was a measly \$542,714.

Three years later, with the IRS still standing in line, the estate offered to settle the estate tax debt for \$700,000. In a kind of turn-out-your-pockets serendipity, that was the remaining value of the trust. Gee, IRS, this is all we've got left, so please accept it and don't claim we still owe \$2.5 million! This may sound appealing if you watch a lot of TV.

In fact, if you're an infomercial fan you'll be thinking that this tax debt should settle for a few thousand dollars at most. Nope. The IRS rejected the \$700,000 offer because it planned to go after the children who had received the IRAs. In court, the estate claimed the IRS had abused its discretion in failing to properly consider the settlement offer.

The Tax Court said the IRS was right, and so did the [Court of Appeals](#). The IRS went after the children, and that was that. Pennies on the dollar might work if you are really destitute, have no assets, no income, and no prospects. Otherwise, it's a hard sell.

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