

# **NON-BANKRUPTCY ALTERNATIVES** **FOR CONSUMERS**

**MATERIALS BY AND PRESENTED BY**

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1. **Financial Crisis Management.**

Not every person who comes into your office is a candidate for bankruptcy, nor should that person be placed into bankruptcy just because you are a bankruptcy attorney.

Analysis of each client's needs and desires is essential. It is not our job as attorneys to put a square peg into a round hole.

When a client comes into your office, they are usually facing a financial difficulty. You have generally advertised and brought them in under the pretense of providing bankruptcy assistance. After your analysis, the problem may arise that for various reasons the client is not a candidate for bankruptcy or the burden of filing outweighs the benefits. At this point; the average practitioner will say "I'm sorry, I can't help you Ms. Smith – have a nice day".

The issue is what should the client do now? You just dismissed a potential client from your office and did not solve their problems.

Non-bankruptcy alternatives do exist that allow you to assist a client who otherwise now feels completely lost.

Options to deal with mortgage arrearages when a client is behind on their mortgage and have come to you for the express purpose of saving their home exist. Chapter 13 bankruptcy is usually the solution most of us think of to cure arrears and save a home from foreclosure. The problem with Chapter 13 is its restrictive nature, i.e., car payments must be at acceptable

levels and no payments for items that are not necessary for an effective reorganization. In addition, tax refunds generally must be sent to the trustee and the overall process is restrictive and burdensome. Those negatives, combined with the requirement that many cases must run 60 months creates a reason to pursue a non-bankruptcy alternative to Chapter 13.

2. **Potential Solutions.**

(A) **Negotiation of a Loan Modification is Probably the Best Chance in this Situation.**

- (i) While Chapter 13 allows an arrearage to be cured over 60 months, if a foreclosure is not imminent or if your client has received a Notice Pursuant to MCL 600.3205 (3205 Notice) regarding forthcoming foreclosure and the time to respond has not passed, the results of a loan modification may be more beneficial than a Chapter 13 to your client.
- (ii) Remember a Chapter 13 requires your client to be able to afford the current mortgage payments, plus an amount necessary to cure the pre-petition arrearage over time, plus, plus, plus. A loan modification generally restores a client to current status on the loan, can re-amortize it over a maximum of 40 years and can reduce interest rate to as low as 2% for first mortgages and 1% for second mortgages. Thus, potential modification will generally free up more cash for the client who can now use their funds they have available to clear up other debt, still possibly filing Chapter 13 or Chapter 7 but not putting the house into the Chapter 13 plan payments.

(B) **Negotiation of a Forbearance Agreement.**

Sometimes loan modification is not needed. Your client has a favorable interest rate, a decent payment and could afford the mortgage payment and even more, they have just fallen behind due to an unforeseen event. Rather than forcing the issue and putting them into a Chapter 13, a short term repayment and forbearance plan can be negotiated with the lender. Often without formal and massive amounts of paperwork, a repayment plan can be created which will usually be between 3 to 6 months long. This allows your client to bring their home payments current without filing Chapter 13.

(C) **Sometimes Your Client Wants to Give up Their House (Values have Fallen, Jobs Have Been Lost).**

This is becoming a common situation in the State of Michigan. Bankruptcy Chapter 7 is often thought of as the solution. The problem that seems to come up is that the client wants a Chapter 7 but does not qualify or better yet, they filed in September, 2005 because they thought the opportunity to file was going to be gone forever.

(D) **What Can You Do?**

- (i) Negotiation of a deed-in-lieu of foreclosure is an available option. This is the process whereby the borrower surrenders the property to the lender often in exchange for forgiveness of the outstanding debt. Valuation of the property is an essential part of the negotiation. This must be coupled with an attempt to negotiate forgiveness of any deficiency balance. Be aware that the forgiveness of the debt may be a taxable event.
- (ii) A deed-in-lieu is often not possible if a second mortgage exists on a property. I have found that a possible solution to this is to negotiate a buy out of the debt with the second mortgage company. Often the lender has no equity to which this loan attaches. If the first forecloses, they will often never recover a dime. Thus in order to grant a release the lien and forgive the remaining debt on a second mortgage, the holder of a second will take pennies on the dollar.

**3. An Additional Alternative to Bankruptcy in Dealing with the Housing Industry is to Negotiate a Short Sale with Regard to the Real Estate.**

- (A) A short sale is a purchase of the property in question for less than is owed on the property. This is usually able to be accomplished if the property has been marketed for at least 120 days and the lender determines that the property is not worth what is owed. A ready, willing and able buyer must be found and the purchase offer and acceptance must be contingent upon the lender's acceptance. If there is a second mortgage, the lender holding the second mortgage will often require funds to be given them from the proceeds. The borrower will never be entitled to any of the proceeds, but the end result may be that all debts are satisfied and any deficiency on the second mortgage will be forgiven. Be aware, a short sale is usually not allowed to be a relative of the borrower. Also, be aware that one lender's definition of a relation may be different from another.
  - (i) Caveat you must be particularly aware that a short sale does not always result in forgiveness of all debt. You must balance the benefits of the short sale with the client's ability to live with property for at least 6 months after a foreclosure sale. You must also watch out for the timing of the forgiveness of the debt as the tax ramification of same may be devastating. This issue will be discussed below.

**4. Opportunity Exists Today in the Housing Market.**

- (A) With the new Michigan foreclosure statute, a homeowner who intends to walk away from the house can usually reside in a property for over 12 months for free. Free from the date they stop paying on the mortgage. Usually, a lender will not begin foreclosure until the borrower is 90 to 120 days behind, they will then often send out a 30 day breach letter giving the borrower 30 days to bring the loan current (not all mortgages

require this breach letter), then a 3205 Notice will be issued by the lender and, if properly responded to, the lender can then not begin foreclosure for 90 days. Subsequently, a foreclosure notice must be published for 5 weeks, the sale would occur, and the borrower would have a 6 month right of redemption. After expiration of the redemption, it usually takes at least 30 days to evict the borrower. Thus, the average home loan from the time payments to a lender terminates until the borrower has to exit the home is 12 ½ months. 18 ½ if the property is over 3 acres. Note, in order to qualify for a “3205” 90 day extension, it must be a primary residence and the borrower could not have previously entered into a qualified loan modification within the previous 12 months.

- (B) Borrowers who are disgusted at the loss of all equity in their home can take advantage of their free place to live to effectively save money and get their equity out though living free.

**5. Opportunity Exists Today in the Credit Card Market Without Impacting Credit Scores.**

Avoiding Bankruptcy through two proven methods of self reorganization is also possible, but the key to the success is creating cash flow to deal with the paying down of debt. Many of the programs on television and the books on debt management discuss how to get out of debt when you have money to pay the payments, unfortunately, the methods always seem to gloss over the ability to find money in one’s budget.

As bankruptcy practitioners, we are capable of reviewing potential clients and budgets and making sweeping generalizations that a person can or can not afford to pay his or her bills. The problem with the analysis is that it is black or white. We find ourselves saying “Mrs. Smith, you qualify for a Chapter 13 because you have funds left over after you pay all your household expenses” or “Mrs. Smith, you qualify for a Chapter 7 case because your regular household expenses far exceeds your income and you have no funds with which to reorganize”.

Unfortunately the real world is not black and white, it is often shades of gray. In order to create a non-bankruptcy alternative for most people, you must overcome two major impediments. The first is the psychological/mental impact on your client and the second is the ability to find budgeted funds to pay off or down your client’s debt.

Mentally, the biggest impediment I find that exists among my clients is that they have no ability to rationally analyze their situation. Quite often they spend the time dealing with their debt by putting out fires rather than addressing the problems logically.

The putting out of economic fires quite often leads to my list of top mistakes a client can make:

- (A) Burying your head in the sand.

- (B) Paying credit cards before mortgage payments.
- (C) Borrowing from/cashing out an IRA/401(k) and exempt assets to pay credit cards.
- (D) Borrowing from/cashing out an IRA/401(k) and exempt assets to pay mortgage payments.
- (E) Hearing only what you want to hear.
- (F) Believing what is too good to be true, to be true.
- (G) Panicking.
- (H) Thinking you can figure out what to do on your own.
- (I) Blaming your spouse.
- (J) Doing nothing for fear of the wrong choices.

The impact of these mistakes is the inability to create/find the resources necessary to eliminate the debt. As such, I have all of my clients do an analysis of their spending. The spending analysis does require discipline, but if the client is truly interested in getting out of debt, by analyzing their spending as set forth below, they will be able to find the funds necessary to get out of debt.

Financially, the following analysis helps to create the needed funds to get a client out of debt, while solving the mental anxiety that the client has. The solution starts with a complete budget analysis:

### **Budget Analysis Work Sheet**

#### **Definitions:**

1. **Necessary Spending:** That which is required for food and shelter and to get to and from work.
2. **Undecided Spending:** That spending which rises to a level of importance which you can not mentally justify as Not- Necessary
3. **Not Necessary Spending:** That which is in no way necessary, but can and does bring satisfaction to the spender.

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Necessary Spending	Undecided Spending	Not Necessary Spending
Mortgage	Hair Cut and Colored	Eating Out
Electric Bill	Lunch out between Appointments	Starbucks
Water Bill	Cell phone vs Home Phone	Bottled Water
Gasoline	Cable	Golf
Car Payment	Pet expenses	Sports Tickets
Car Insurance		Shopping
Replacement Clothing		Movies
Credit Card Minimums		
Groceries		

The analysis above is done over a ninety day period. The desired goal is to have the client first see how and where their money is being spent during the first thirty (30) days. The goal during the second thirty (30) days is to prioritize the not necessary spending so that those funds which are spent on Not- Necessary spending are not wasted and so that the client gets the greatest possible satisfaction out of the funds expended and reduces the spending on things that give us only fleeting satisfaction. By example, enjoyment of a cup of coffee from Starbucks does not bring the same level of enjoyment as taking your child to the movies. The movie event has greater satisfaction and the memories last much longer than the coffee. After the sixty (60) days are up, the goal is to understand what the Necessary spending budget is and know that it can not be changed. Seeing these expenses on paper are often shocking to the client. Analysis of the Not- Necessary spending section is even more shocking, when a client sees that funds totaled at the end of a thirty (30) day period, they are stunned. It is easy to justify spending \$3.00 on a cup of coffee, but it is not easy to justify spending the total amount in the Not Necessary category.

In the last thirty (30) days, I ask my clients to reduce their Not Necessary spending by 20%. In order to do this, we determine the amount, then I have them open a savings account and when they get paid they put a pro rata share of the 20% into the savings account and do not touch it. At the same time, I ask them to prioritize the Not Necessary spending and make sure that they are spending with the goal of long term satisfaction. This 20% carve out becomes a permanent event. First the funds will be utilized to create an emergency fund for the future, then the funds will be utilized to get the client out of debt and then they will be utilized for the future.

The above indicated exercise is often the mental solution to a client's financial difficulties as it empowers them to save money, something that they often have not been able to do for many years or ever. Further, it provides them the needed ability to see that they can resolve their debt issues potentially without filing a bankruptcy.

The proper use of the indicated funds is necessary to get the client out of debt. Through the above indicated method, you have created funds to help get a client out of debt, and there are two respected methods of doing so which I will discuss.

Note that the methods of getting out of debt discussed below will have no negative effect on the client's credit report and score. Getting out of debt requires "Pig headed determination and dedication". Most methods can work if you free up enough income and apply it diligently to your debts, but the key to getting out of debt in the quickest and most effective manner is to create the proper plan utilizing the ability to manipulate debt.

My favorite method is referred to as the avalanche approach.

- (A) With the debt avalanche method, you pay off your debts by interest rate, paying the debts with the highest interest rates first. You start at the top and work your way down. Specifically, the method requires taking the highest interest rate debt and paying the minimum monthly payment, plus the 20% of the not necessary spending that the client has begun to save. Once the first card is paid off, then you take the minimum payment from card one, plus the 20% savings from not necessary spending plus the minimum payment to card 2 and apply it to the next highest interest rate debt until it is paid off and continue to do so until all debts are repaid.

An Alternative method which is not as mathematically effective, but has greater short term success is the snowball approach:

- (A) Using the debt snowball approach, you order your debts by size and pay off the smallest first, on the theory that eliminating a specific debt is the reward that keeps you working the program. The method is effectively the same as the avalanche approach, but you target the lowest balance debt rather than the highest interest rate debt. This method is recommended by the personal-finance advisor, Dave Ramsey.

An additional note to make the above methods more effective is for the client to "opt out" of the credit card. Most credit card companies have a method of allowing a person to fix an interest rate at a lower rate than the card is currently scheduled if the client opts out. This method does not have a negative impact on the persons credit score, but does cause the card to be no longer able to be used. The benefit of opting out is that the credit card provider still reports positively to the credit reporting agencies.

Lower interest rates will help you get out of debt faster, so you want to investigate the possibility of getting lower interest rates on each of your debts. Possible solutions include:

- (A) Balance transfer offers or personal loans. You might be able to get a lower credit card interest rate by via a balance transfer however, be aware of the hidden fees regarding transfers and the be aware of the often temporary nature of the offer.

- (B) Personal loans from your bank or credit union are often more beneficial than the rates associated with credit cards. The aforementioned loans are typically fixed rate loans and are not adjustable like the credit cards are. Be aware that credit card lenders are arbitrarily increasing credit card rates even if you have a perfect payment history with them and have never been late on a payment. Reducing the risk of a significant interest rate swing can have a considerable impact on mental stability and can help eliminate debt sooner.

### 6. Opportunity Exists Today in the Credit Card Market While Impacting Credit Scores.

The previous methods of dealing with credit card debt were specifically created to eliminate debt without impacting or only slightly impacting one's credit score. More aggressive methods of addressing debt are also possible.

Quite often, I meet with a potential client who has significant funds to pay debt, but not sufficient funds to pay all of their debt burden. By example, I may meet with a doctor or a self employed business person who is used to making \$400,000.00 per year but due to the current economic times is only earning \$200,000.00. Both are a significant amount of earnings, unfortunately, the lower income is still significantly less than is needed to continue to allow the client to maintain their lifestyle.

Frequently this arena where individuals still make substantial income yet can no longer meet their debt burdens is often looked at without any sympathy for the individual in debt. You often hear comments about such situations like: Well they should have paid their bills..... Maybe he shouldn't have bought the boat..... I hope they choke on their Mercedes...etc. If you feel that way, by all means, ignore this section of the materials. If you don't lack sympathy for those who are in an economic crisis such as described above, realize that there are great opportunities to address the debt.

Quite often the analysis of a client's economic situation leads one to conclude that if the client were put into a Chapter 13 case, they would be able to pay off all of their credit card debt over 5 years. If this amount is sizeable enough, it is often worth while to negotiate settlement of the debts instead of filing a bankruptcy.

Most credit card lenders and banks will negotiate small, if not insignificant payoffs of debt. The client's overall ability to pay the debts or at least maintain the minimum monthly payments on the debt often has little or nothing to do with the settlement. Most lenders will settle accounts that are in default for 50% and some will go as low as 10%. Thus, if your client can create a fund of money to work with or has a source of funds to work with, they will be able to settle their debts for pennies on the dollar. The average credit card takes between 120 to 180 days of default to be in a position to negotiate the best possible settlement.

Rehabilitation of credit can begin immediately after the settlement of debt, however, a client needs to be made specifically aware of the possible tax ramifications of debt settlement.

**7. Tax Ramifications of Debt Settlement.**

As bad as things can be and as complicated as some of the strategies to deal with debt may be – tax consequences are an important issue that you need to be aware of and on which clients must be properly advised.

In general, If a lender cancels debt in excess of the FMV of the property or if a credit card is settled for less than the debt – you have ordinary income on the excess and it is a taxable event UNLESS you fit within an exception

**Exceptions:**

- (A) If you've filed for bankruptcy relief – no income. Specifically, debt cancelled pursuant to a bankruptcy is not considered income as the borrower is deemed to be insolvent for IRS purposes.
- (B) You do not include a canceled debt in income to the extent you were insolvent immediately prior to the cancellation of the debt.:
  - Liabilities > Assets (all assets, including retirement accounts and pensions)
- (C) Qualified Principal Residence Indebtedness (Part of the Economic Stabilization Act – good through 2012)
  - Includes any debt secured by your principal residence if tied to the acquisition, construction or improvement of the principal residence.
  - Excludes the amount of the refinance that is used for other reasons (paying down credit card debt, etc).
  - “Principal residence” – “is the home where you ordinarily live most of the time.” (Can only have one at a time).

**8. Solutions and Settlement/Elimination of Tax Problems.**

- (A) If a Revenue Officer is not assigned to the Taxpayer's case, he/she will deal directly with collections. The Taxpayer would call 1-800-829-7650 and deal with an individual in the Automated Collection Systems.

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- (B) The Taxpayer can request an installment agreement or he/she can request to be declared Currently Not Collectible. (Before the IRS will entertain any agreement the Taxpayer usually must be compliant with all of their tax filings. The Service usually requires that the Taxpayer file any missing returns.)
- (C) Streamlined Installment Agreement: If a Taxpayer owes less than \$25,000 (and is filing compliant), he/she qualifies for a streamlined agreement. In order to determine the amount of payment you take the total liability and divide by 60 (5 years).
- (D) If the Taxpayer owes more than \$25,000, he/she must complete either the form 433-A, Collection Information Statement for Wage Earners or the 433-B, Collection Information Statement for Businesses. These forms require the Taxpayer to provide a detailed picture of their income and expenses. The Taxpayer will also be required to substantiate income and expenses. The IRS will review the income and expenses in order to determine the Taxpayer's ability to pay. The most frustrating part for most Taxpayers is that the IRS has a set of National Standards capping expenses for mortgages/rent, utilities, car payments, gas, etc. which are often far less than the amount of the actual expenses. There are a few things that can be done, but usually this takes the help of someone knowledgeable with the IRM. For example, there is a provision in the IRM that allows the Taxpayers a year to adjust expenses down to the standards.
- (E) A Taxpayer almost always has the right to request and hold a Collection Due Process Hearing prior to any levy action. (I say almost always because if there is substantial tax liability involved and the IRS fears the Taxpayer may leave the country the right to a Collection Due Process hearing may be denied) However, the Taxpayer must do so timely. The IRS will issue Reminder Notices, Important Notices, Urgent Notices and then the Final Notice of Intent to Levy and Your Right to a Collection Due Process Hearing. (When the Taxpayer starts receiving these notices it is because either a tax return was filed with an amount owing or the IRS filed the return (Substitute for Return) for the Taxpayer and there is an amount owing.) The Final Notice is the Notice that gives the Taxpayer the right to file for a CDP Hearing. The Taxpayer must file for the CDP Hearing within 30 days from the date of the Final Notice. It is always a good idea to do so by certified mail and have the receipt date stamped at the post office.

The IRS will then send the Taxpayer a notice acknowledging receipt of the request. An individual will contact the Taxpayer or representative prior to scheduling the hearing to determine if resolution can be made. At that time, I request that the request be forwarded to Appeals so the hearing can be scheduled. An Appeals Officer will be assigned to the case and he/she will send a letter to the Taxpayer with a date and time for a telephone conference. A Taxpayer can request that the hearing be face-to-face, which means that the Appeals Officer may have to send the request to a local branch.

Prior to the Hearing, the Appeals Officer will request that the Taxpayer forward information to him/her. Filing a timely CDP stops the IRS from levying the Taxpayer for the tax period at issue. The information requested will depend on what the Taxpayer is trying to accomplish. If the Taxpayer would like an IA or CNC, he/she must forward the 433-A or 433-B along with supporting documents. If the Taxpayer would like penalty abatement this would be the time to submit the reasonable cause argument.

If a resolution is not reached, the Appeals Officer will issue a Notice of Determination. The Taxpayer has 30 days from the date of that Notice to file a Petition with the US Tax Court.

## 9. Offers in Compromise.

### (A) There are Three (3) Types of Offer in Compromise:

1. **Doubt as to Liability:** There are better ways to handle doubt as to liability, so an OIC is not recommended.
2. **Effective Tax Administration:** Offers based on this are very rarely if ever accepted. An example of an OIC that would fall into this category is a family that wouldn't qualify under doubt as to collectability as they have equity in their home. However, they have a child with a serious medical condition that they need the money for a surgery. If they are in the process of refinancing and have bills for this future surgery, they may qualify.
3. **Doubt as to Collectability:** This is the most common type of OIC filed. The IRS will examine the Taxpayers assets, income and expenses keeping in strict conformity of the national standards. If the calculation shows that the Taxpayers ability to pay is less than the amount due, the IRS will accept an OIC.

### (B) There are Three (3) Types of Payment Terms for the OIC:

1. **Lump Sum Cash Offer:** The amount must be paid within 5 months from acceptance. This is the only type of OIC we file. With this type of Offer the Taxpayer pays the realizable value of their assets plus the amount the IRS could collect as an IA per month times 48 months.
2. **Short Term Periodic Payment Offer:** The Taxpayer must pay the offer within 24 months of the date the offer was made. The Taxpayer continues to make payment throughout the offer investigation. Personally, I do not like this approach. If the OIC is rejected the client does not get their money back plus instead of using 48 months of IA payments you use 60 months or the remainder of the statute of limitation, whichever is shorter.

3. **Deferred Periodic Payment Offer:** The Taxpayer is required to pay the offer amount over the remaining statutory period. I don't like this option because the Taxpayer ends up paying more than he/she would under an IA.

(C) **Filing an Offer in Compromise:**

1. File all tax returns which you are required to file and wait for all civil penalties to be assessed against you.
2. Check the Statute of Limitations for your tax liability. The SOL is 10 years from the date of assessment, but there are factors that can extend this. If the SOL is nearing, an OIC may not be appropriate as it extends the time for collection. The SOL is extended for the time period it takes to process the OIC plus 6 months. The IRS must process an OIC within 24 months or it is deemed accepted.
3. Prepare form 433-A or 433-B keeping in mind the national standards.
4. Prepare form 656, Offer in Compromise.
5. The Taxpayer must pay \$150 filing fee plus 20% of the proposed Offer.
6. An Offer Specialist will be assigned. This person will contact the Taxpayer with questions and make a decision. We almost always Protest this decision. There are many reasons for this. The main two reasons are that the individuals at this level have a heavy workload and are pressured to close cases. The other reason is that we are likely to get a better result by continuing up the chain. At the next level the individuals often focus solely on the issues that the Taxpayer disagrees with. This means that they do not usually go back and change what the first person allowed. Also, as you move up the chain the people working the cases typically become more knowledgeable. This is beneficial for us as attorneys when we know the rules. Quite often the individuals at the lower level misinterpret the rules.
7. Protest the Offer Specialist's decision.
8. If an OIC is accepted, the Taxpayer must pay as agreed. Also, a Taxpayer must be in compliance with his/her filing and paying obligations for the next 5 years of the OIC will be revoked and the liability reinstated.

(D) **Determining Ability to Pay:**

1. **Determine the Taxpayer's Assets.**

- (A) If the Taxpayer has equity in his/her home, the IRS will require 80% of the equity. (There are different calculation if only one spouse is liable for the taxes.).
- (B) If the Taxpayer has a 401K, investments, life insurance with a cash value, etc., the IRS will require whatever the amount due minus any taxes that would have to be paid.
- (C) If the Taxpayer has boats or vehicles, the IRS will require 80% of the equity.
- (D) Dissipated Assets – Anything that the Taxpayer had since he/she incurred the tax liability can be considered a dissipated asset. If the Taxpayer received proceeds from a life insurance policy, removed money from a 401K, refinanced a home, sold a business, etc. the IRS will consider it to be a current asset and include it in the calculation. The logic is that if you had money at a time when you owed the IRS you should have paid the IRS. There are possible exceptions. If you took out money from your 401K for a necessary medical procedure, it may not be considered dissipated. If you paid your credit card bills, it will be a dissipated asset.

2. **Determine the Taxpayer’s Monthly Ability to Pay:**

- (A) All income is counted even if it is not taxable. (child support).
- (B) Food and Clothing at the national standard.
- (C) Housing and utilities not to exceed the national standard.
- (D) Vehicle ownership costs not to exceed the national standard – The Taxpayer will only be allowed 1 vehicle if single and 2 if married. I also make sure that the car payments will continue on through the 48 months. If a car is going to be paid off prior to that (even a lease), the IRS will make calculation adjustments. For example, if a \$200 car payment will end at month 20, the IRS will take that \$200 and multiply it by the remaining 28 months. This amount will be added to the OIC amount as ability to pay.
- (E) Gas/insurance not to exceed the national standard.
- (F) Health Insurance.

- (G) Out-of-pocket health care costs.
- (H) Court ordered payments.
- (I) Child/dependent care.
- (J) Life insurance – Usually only term is accepted.
- (K) Taxes.
- (L) Other Secured debt.

The IRS will then add the value of the assets and the net realizable income for the 48 months to determine the OIC amount.

The main misconception that people have with respect to the OIC is that the IRS wants to make a settlement. There is no monetary number that the IRS will accept. A Taxpayer either fits into the calculation or he doesn't. There is no magic number. It is important to remember that negotiating with an IRS employee is not like two individuals negotiating over a business dispute. Since the money does not go into the employee's pocket, they stick to the formula.

One of the most important thing to note about the OIC process is that there are numerous companies advertising the OIC. I have taken a lot phone calls from people interested in the OIC that have contacted these companies and every single person said that they were told they qualified for an OIC by these companies. However the IRS accepts less than 30% of the Offers filed each year.

10. **Psychological effects of debt.**

- (A) **When dealing with a client who is in debt, remember to watch out for signs of depression:**

Debt related depression cannot always be solved with a bankruptcy. If you notice that your client seems depressed, you should advise them to seek medical attention or counseling from a trained professional counselor such as a psychologist or psychiatrist. Oftentimes depression and addictions are what lead to a clients debt, while sometimes incurring debt is used as a coping method to deal with a client's depression. This can become a vicious cycle that will not be solved by bankruptcy.

It is important to note that while the solutions you provide may be of significant assistance to your client, they may not be the complete solution to their financial problems. If you eliminate the debt, but the underlying cause of the debt was due to depression or some other psychological problem, the solution provided will be nothing more than a band-aid on a gaping wound.