

Allowable Living Expense Changes Reduced for \$70,000 Annual Income Taxpayers

On August 30, 2007, the IRS issued Headliner Volume #210 (see IRS.gov) announcing that it had revised the methodology of computing “Allowable Living Expense” standards used in collection determinations. The actual standards were disclosed on October 1. Last month’s column discussed how such standards are used by the IRS and Taxpayers in determining how and to what extent back taxes will be paid. It also discussed the anticipated impact of the changes to those standards. This month’s column takes a closer look at the new standards in the context of the completion of lines 35 through 38 of page 6 for Form 433-A. Form 433-A is used to provide financial disclosure to the IRS.



“The foundation of installment agreements and Offers in Compromise is the determination of the “excess” funds a Taxpayer has each month.”

**IRS
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of living” increase to those in single-member households and those in two-person households appear to be benefiting from a generous 20 percent increase as exhibited in the sampling of the three geographical areas.

Line 35 – Food, Clothing and Misc.

The allowance for food, clothing and miscellaneous expenses is referred to as the National Standards and the IRS rarely deviates from these amounts. These, along with the other Allowable Expense standards, can be found at www.irs.gov by searching for “Collection Financial Standards”.

Under the old standards a family of four could be allowed as little as \$856 per month and as much as \$1,546 per month depending on the family’s monthly income. Now, a family of four will be allowed \$1,331 per month. That amounts to an increase of nearly 56 percent for the lowest income families and a 14 percent reduction for those with annual income of \$70,000 or more. A comparison of the old and new amounts is on the chart to the right.

The items highlighted in the chart on the right reflect the “losers” from the changes. Essentially, the “losers” are those:

- With income above \$70,000 per year.
- Living in a one-person household with income above \$20,000 per year.

Line 36 – Housing & Utilities

The pre-October 1 standards provided three different expense levels for each county, one level for households of two or less, another for households of three, and a third level for households of four or more. The new standards will provide five different levels for each county varying from household sizes of one to five or more.

In last month’s article, I expressed my opinion that such a revamping would hurt those living alone. However, as you can see from the tables on page 15, the changes provide a small “cost

Allowable Living Expense Changes

Household Size	1	2	3	4	5
Less Than \$833 Per Month					
-February 1, 2008	387	575	802	826	994
-October 1, 2007	494	825	1,123	1,331	1,577
-Percentage Increase	34.9%	80.0%	40.0%	58.9%	58.7%
\$833 to \$1,546 Per Month					
-February 1, 2008	409	585	808	860	1,038
-October 1, 2007	484	825	1,123	1,331	1,577
-Percentage Increase	20.8%	55.9%	39.0%	48.8%	51.8%
\$1,546 to \$1,858 Per Month					
-February 1, 2008	481	827	812	908	1,088
-October 1, 2007	484	825	1,123	1,331	1,577
-Percentage Increase	7.2%	47.9%	38.5%	42.2%	48.9%
\$1,857 to \$2,490 Per Month					
-February 1, 2008	463	679	819	941	1,112
-October 1, 2007	494	825	1,123	1,331	1,577
-Percentage Increase	-8.5%	36.2%	37.1%	41.4%	41.8%
\$2,500 to \$3,333 Per Month					
-February 1, 2008	508	744	924	1,042	1,224
-October 1, 2007	494	825	1,123	1,331	1,577
-Percentage Increase	-11.2%	24.8%	21.6%	27.1%	28.8%
\$3,334 to \$4,199 Per Month					
-February 1, 2008	821	825	937	1,063	1,288
-October 1, 2007	494	825	1,123	1,331	1,577
-Percentage Increase	-39.7%	2.3%	10.4%	10.8%	12.1%
\$4,197 to \$5,833 Per Month					
-February 1, 2008	703	904	1,017	1,203	1,407
-October 1, 2007	494	825	1,123	1,331	1,577
-Percentage Increase	-30.7%	2.3%	10.4%	10.8%	12.1%
\$5,834 and over Per Month					
-February 1, 2008	916	1,208	1,388	1,548	1,782
-October 1, 2007	494	825	1,123	1,331	1,577
-Percentage Increase	-46.1%	-29.2%	-17.9%	-13.8%	-10.9%

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HOUSING					
<u>Household Size</u>	1	2	3	4	5 or more
<u>Rockland County, NY</u>					
-February 1, 2006	2,016	2,016	2,371	2,727	2,727
-October 1, 2007	2,068	2,429	2,559	2,853	2,899
-Percentage Increase	2.6%	20.5%	7.9%	4.6%	6.3%
<u>Scotts Bluff, NE</u>					
-February 1, 2006	818	818	963	1,107	1,107
-October 1, 2007	843	990	1,043	1,163	1,182
-Percentage Increase	3.1%	21.0%	8.3%	5.1%	6.8%
<u>Maricopa County, AZ</u>					
-February 1, 2006	1,154	1,154	1,358	1,562	1,562
-October 1, 2007	1,192	1,400	1,475	1,645	1,671
-Percentage Increase	3.3%	21.3%	8.6%	5.3%	7.0%

In analyzing housing costs, I prefer to provide the IRS a very detailed breakdown. An example of such is as follows:

<u>Housing & Utilities</u>	
-Mortgage	1,828
-Real Estate Taxes	1,533
-Gas	100
-Electric	471
-Sewer & Water	50
-Insurance	67
-Telephone	120
-Excess over National Standards	<u>(1,316)</u>
	2,853

<u>38 Health Care</u>	
-Insurance – Parent	545
-Insurance - Child	200
-Medical Deductibles/Copays - Parent	236
-Medical Deductibles/Copays – Child	31
-Other Out of Pocket Medical/Optical	141
-Dental Bills	125
-ABC Counseling (\$90 per week)	390
-Prescription Medicines	
:CVS Pharmacy - Parent	43
:Walgreens – Parent	4
:Walgreens – Child	1

	1,716

Line 37 – Transportation

The Transportation standards have been, and continue to be, based upon three factors:

- Automobile Ownership Costs
- Automobile Operating Costs
- Public Transportation Costs

TRANSPORTATION	Public Transportation	One Car		Two Cars	
		Ownership	Operation	Ownership	Operation
A					
<u>Rockland County, NY</u>					
-February 1, 2006	313	471	402	803	484
-October 1, 2007	163	478	268	956	536
-Percentage Increase	-47.9%	1.5%	-33.3%	19.1%	10.7%
<u>Scotts Bluff, NE</u>					
-February 1, 2006	199	471	275	803	358
-October 1, 2007	163	478	173	956	346
-Percentage Increase	-18.1%	1.5%	-37.1%	19.1%	-3.4%
<u>Maricopa County, AZ</u>					
-February 1, 2006	275	471	351	803	433
-October 1, 2007	163	478	225	956	450
-Percentage Increase	-40.7%	1.5%	-35.9%	19.1%	3.9%

A - Ownership Expenses are allowed only when there is a car loan or lease payment currently being paid by the Taxpayer.

Two Car Benefits

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However, the application of these factors has changed. The new standards put most people who have only one car or rely upon public transportation at a significant disadvantage from the old standards. As you will see in the sampling on the left, a reduction in allowances of more than 30 percent is not unusual. Those owning two cars will, generally, be in a better position under the new rules.

The IRS has failed to provide a clear statement of their assumption of the number of commuting miles driven by each Taxpayer in setting the operating expense allowances. In addition, they provided no guidance to their Revenue Officers on this issue. Accordingly, it will be difficult to negotiate for larger operating cost allowances incurred by unusually long commutes.

Line 38 – Health Care

Under the pre-October 1 rules, one had to itemize and document all medical expenses. For the most part this is likely to continue. However, the IRS is providing allowances for medical expenses that will not require documentation. The new standards provide a monthly amount per person in the household. For individuals under the age of 65, the monthly floor is \$54 per person. For those aged 65 and older, the monthly floor is \$144 per person which I found to be surprisingly high. If you choose to provide detail to the IRS to document large medical expenses, a sample format is in the "Health Care" chart.

I have found that by breaking down expenditures into a greater number of smaller categories, it becomes easier to document each component. Accordingly, this will increase the odds of the IRS accepting the expenditure because it is easier to define and communicate the information to the IRS. ☺

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