

Let's Make a Deal: Michigan Has New Powers to Settle Tax Debts

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Taxpayers with outstanding debts owed to the State of Michigan can settle those debts under an offer-in-compromise program that took effect earlier this year. In order to qualify for the program, a taxpayer must have filed tax returns for the period they are seeking relief, not have a pending bankruptcy proceeding, and the time period to appeal the assessment must have expired.

This program is too new to judge how frequently the department will accept offers submitted by taxpayers, or the terms on which offers will be accepted. One situation particularly well-suited to this program are situations where the taxpayer can demonstrate that the tax assessment was issued in error, in which case a minimum \$100 offer may be sufficient to eliminate the outstanding tax debt. Of course, all situations will be evaluated on a case-by-case basis.

Delinquent taxpayers may offer a compromise in the following circumstances:

- **If doubt exists about the taxpayer's liability:** This requires the taxpayer to submit evidence that satisfies the Department of Treasury that he would have prevailed in a contested case if his right to appeal had not expired. Also, the tax at-issue must not have been the subject of a final decision by the Tax Tribunal or a court.
- **If doubt exists about the collectability of the debt:** This requires the Treasury Department to be satisfied that the offer is the most that can reasonably be expected to be collected based upon the taxpayer's current income and assets, and the taxpayer does not have reasonable prospects of acquiring additional income or assets to fully satisfy the debt within a reasonable time.
- **A federal offer-in-compromise has been granted for the same taxpayer and tax period.**

Taxpayers may submit applications based on both doubt regarding liability and doubt regarding collectability for the same debt. In that case, the department will review the application based on doubt regarding liability first. An application must include a financial information disclosure and a payment of \$100 or 20 percent of the settlement offer, whichever is greater. Taxpayers claiming doubts about collectability should expect to provide more extensive financial disclosures.

A successful offer may result in the taxpayer being granted an installment plan to repay the debt. These installment agreements generally will be less than two years, although a longer plan may be granted if the circumstances warrant it.

The statute that created the program requires the Department of Treasury to periodically disclose the nature and amount of the compromise offers that are accepted, but does not permit or require it to disclose the identity of the taxpayers whose offers were accepted. The department can revoke a previously accepted offer if a taxpayer conceals or provides misleading information, or if the taxpayer fails to comply with the terms and conditions of the compromise, including continued filing of required returns and remitting payments.

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