

5.15.1.8 (10-02-2009)

National Standards

1. National Standards: Food, Clothing and Other Items include the following expenses:

- A. Apparel and services. Includes shoes and clothing, laundry and dry cleaning, and shoe repair.
- B. Food. Includes all meals, home and away.
- C. Housekeeping supplies. Includes laundry and cleaning supplies; other household products such as cleaning and toilet tissue, paper towels and napkins; lawn and garden supplies; postage and stationery; and other miscellaneous household supplies.
- D. Personal care products and services. Includes hair care products, haircuts and beautician services, oral hygiene products and articles, shaving needs, cosmetics, perfume, bath preparations, deodorants, feminine hygiene products, electric personal care appliances, personal care services, and repair of personal care appliances.
- E. Miscellaneous. Is a percentage of the other categories and is based on BLS data.

2. Allow taxpayers the total national standard amount for their family size without questioning the amount actually spent.

Note:

Money amounts in all the Allowable Living Expense examples are for illustrative purposes only. Check the ALE web page at <http://myssbe.web.irs.gov/Collections/AllowExp/default.aspx> for current expense amounts.

Example:

National Standard Expense amount is \$1,100. The taxpayer's actual expenditures are: housekeeping supplies - \$100, clothing - \$100, food - \$500, personal care products - \$100, and miscellaneous - \$200 (Total Expenses - \$1,000). The taxpayer is allowed the national standard amount of \$1,100, even though the amount claimed was less.

3. A taxpayer who claims more than the total allowed by the national standards must provide documentation to substantiate and justify as necessary those expenses that exceed the total national standard amounts.

Example:

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National Standard Expense amount is \$1,100 - The taxpayer's actual expenditures are: housekeeping supplies - \$100, clothing - \$100, food - \$500, personal care products - \$100, and miscellaneous - \$200 (Total Expenses - \$1,000). The taxpayer is allowed the national standard amount of \$1,100, even though the amount claimed was less.

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Example:

National Standard Expense amount is \$1,100. The taxpayer's actual expenditures are: housekeeping supplies - \$100, clothing - \$100, food - \$700, personal care products - \$100, and miscellaneous - \$200 (Total Expenses - \$1,200). The taxpayer is allowed the national standard amount of \$1,100, unless the higher amount is justified as necessary. In this example the taxpayer has claimed a higher food expense than allowed. Justification would be based on prescribed or required dietary needs. The taxpayer must substantiate and verify only the food expense. The taxpayer is not required to verify expenses for all five categories if a higher expense is claimed for one category. The standard amounts will be allowed for the remaining categories.

4. All deviations from the national standard expenses for food, clothing and other items must be verified, reasonable and documented in the case history.
5. National Standards: Out of Pocket Health Care Expenses – These include medical services, prescription drugs, and medical supplies (e.g., eyeglasses, contact lenses). Elective procedures such as plastic surgery or elective dental work are generally not allowed.
6. The out-of-pocket health care standard amount is allowed in addition to the amount taxpayers pay for health insurance.
7. Taxpayers and their dependents are allowed the standard amount monthly on a per person basis, without questioning the amounts they actually spend. Taxpayer verification of out-of-pocket expenses is not required unless the amount claimed exceeds the standard.
8. Taxpayers who claim more than the total allowed by the out-of-pocket health care standard, may be allowed more than the standard if they provide documentation to substantiate and justify the additional expenses. This situation may be encountered in situations involving taxpayers with no health insurance.
9. All deviations from the national standards for out-of-pocket health care expenses must be verified, reasonable and documented in the case history.

5.15.1.9 (10-02-2009) Local Standards

1. Local standards include the following expenses:
 - A. Housing and Utilities. Housing expenses include: mortgage (including interest) or rent, property taxes, necessary maintenance and repair, homeowner's or renter's insurance, homeowner dues and condominium fees. The utilities include gas, electricity, water, heating oil, bottled gas, trash and garbage collection, wood and other fuels, septic cleaning, telephone and cell phone. Usually, these expenses are considered necessary only for the primary place of residence. Any other housing expenses should be allowed only if, based on a taxpayer's individual facts and circumstances, disallowance will cause the taxpayer economic hardship.
 - Generally the total number of persons allowed for determining family size should be the same as those allowed as exemptions on the taxpayer's most recent year tax return. There may be reasonable exceptions, such as foster children or children for whom adoption is pending.
 - An allowance for cell phone expenses has been included in the Housing and Utility standards. If a taxpayer claims a separate cell phone expense on the financial statement, the amount would be added to the housing and utility expense claimed and subject to the allowable amount for the Housing and Utility standards. Ensure the taxpayer is not duplicating this expense.

- Taxpayers are allowed the standard amount for housing and utilities or the amount actually spent, whichever is less. If the amount claimed is more than the total allowed by housing and utilities standards, the taxpayer must provide documentation to substantiate those expenses are necessary.
 - When deciding if a deviation is appropriate, consider the cost of moving to a new residence; the increased cost of transportation to work and school that will result from moving to lower-cost housing and the tax consequences. The tax consequence is the difference between the benefit the taxpayer currently derives from the interest and property tax deductions on Schedule A to the benefit the taxpayer would derive without the same or adjusted expense.
 - All deviations from the housing and utilities standards must be verified, reasonable and documented in the case history.
- B. Transportation. This includes vehicle insurance, vehicle payment (lease or purchase), maintenance, fuel, state and local registration, required inspection, parking fees, tolls, driver's license and public transportation. Public transportation includes mass transit fares for a train, bus, taxi, etc., both within and between cities.
- Transportation expenses are considered necessary when they are used by taxpayers and their families to provide for their health and welfare and/or the production of income. Employees are expected to exercise appropriate judgment in determining whether claimed transportation expenses meet these standards. Expenses that appear to be excessive should be questioned and, in appropriate situations, disallowed.
 - When determining the allowable amounts, allow the full *ownership* standard amount, or the amount actually claimed and *verified* by the taxpayer, whichever is less. Allow the full *operating* standard amount, or the amount actually claimed by the taxpayer, whichever is less. Substantiation for the operating allowance is not required unless the amount claimed exceeds the standard.
 - There is a single nationwide allowance for public transportation. This allowance is established as a floor for individuals with no vehicle. Taxpayers with no vehicle are allowed the standard, per household, without questioning the amount actually spent. The taxpayer is not required to provide documentation unless the amount claimed exceeds the standard.
 - 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 individual or family, or for the production of income. However, the expenses allowed would be actual expenses incurred. Documentation would not be required unless the amount claimed exceeded the standards.
 - Consider availability of public transportation if car payments (purchase or lease) will prevent the tax liability from being paid in part or full. Public transportation could be an option if it does not significantly increase commuting time and its use is not unrealistic. You should also consider the age, health and needs of minor children when requesting the taxpayer use public transportation in lieu of vehicle expenses.
 - 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.
 - A single taxpayer is normally allowed ownership and operating costs for one vehicle. The taxpayer is allowed the standard for ownership and operating costs, or the amounts actually spent, whichever is less.
 - If a husband and wife own two vehicles, they are allowed the amount claimed for each vehicle up to the maximum allowances for ownership and operating expenses. The taxpayers are allowed the standard for ownership and operating costs, or the amounts actually spent, whichever is less.

Example 1: If the loan payment for each car is below the standard allowable amount and the operating costs for both cars are below the standard allowable amount, they are allowed the amount claimed.

	Claimed	Standard	Allowed
1st Car Ownership	\$427	\$478	\$427
2nd Car Ownership	\$470	\$478	\$470
Total Ownership Allowed			\$897
Total Operating (for 2 cars)	\$325	\$340	\$325
Total Ownership and Operating Allowed			\$1,222

Example 2: If the loan payment for each car exceeds the standard allowable amount and the operating costs for both cars exceed the standard allowable amount, they are limited to the standard allowable amount unless the claimed amount is substantiated and verified as necessary.

	Claimed	Standard	Allowed
1st Car Ownership	\$525	\$478	\$478
2nd Car Ownership	\$480	\$478	\$478
Total Ownership Allowed			\$956
Total Operating (for 2 cars)	\$380	\$340	\$340
Total Ownership and Operating Allowed			\$1,296

Example 3: If the loan payment for one vehicle exceeds the standard allowable amount for one car and the second loan payment is less than the standard allowable amount for one car, the allowable amounts are calculated separately.

	Claimed	Standard	Allowed
1st Car Ownership	\$550	\$478	\$478
2nd Car Ownership	\$460	\$478	\$460
Total Ownership Allowed			\$938

Total Operating (for 2 cars)	\$360	\$340	\$340
Total Ownership and Operating Allowed	\$1,278		

Example:

If a taxpayer takes a train to work, but drives a vehicle from home to the train station, the actual expenses incurred for vehicle ownership and operating costs and the train fare would be allowable.

- If a taxpayer claims higher amounts of operating costs because he commutes long distances to reach his place of employment, he may be allowed greater than the standard. The additional operating expense would generally meet the production of income test and therefore be allowed if the taxpayer provides substantiation.
- If the amount claimed is more than the total allowed by any of the transportation standards, the taxpayer must provide documentation to verify and substantiate that those expenses are necessary. All deviations from the transportation standards must be verified, reasonable and documented in the case history.

5.15.1.10 (10-02-2009)**Other Expenses**

1. Other expenses may be considered if they meet the necessary expense test - they must provide for the health and welfare of the taxpayer and/or his or her family or they must be for the production of income. This is determined based on the facts and circumstances of each case.
2. If other expenses are determined to be necessary and, therefore allowable, document the reasons for the decision in your history.
3. The amount allowed for excessive necessary or conditional expenses depends on the taxpayer's ability to full pay the liability plus projected accruals within five years and on the taxpayer's individual facts and circumstances. If the liability plus accruals can be paid within 5 years, it may be appropriate to allow the taxpayer the excessive necessary and conditional expenses. If the taxpayer cannot pay within 5 years, it may be appropriate to allow the taxpayer the excessive necessary and conditional expenses for up to one year in order to modify or eliminate the expense. (See IRM 5.14.1, *Installment Agreements*)

Expense Item	Expense is Necessary:	Notes/Tips
Accounting and legal fees.	If representation before the Service is needed or meets the necessary expense test. Amount must be reasonable.	Disallow accounting or legal fees that are not related to remaining current, solving the current liability or do not meet the necessary expense test.
Charitable contributions (Donations to tax exempt organizations)	If it is a condition of employment or meets the necessary expense test. Example: A minister is required to tithe according to his employment contract.	Disallow any other charitable contributions that are not considered necessary. Example: Review the employment contract.
Child Care (Baby-sitting, day care, nursery and preschool)	If it meets the necessary expense test. Only reasonable amounts are allowed.	Cost of child care can vary greatly. Do not allow unusually large child care expense if more reasonable alternatives are available. Consider the age of the child and if both parents work.
Court-Ordered Payments (Alimony, child support, including orders made by the state, and other court ordered payments)	If alimony and child support payments are court ordered, reasonable in amount, and being paid, they are allowable. If payments are not being made, do not allow the expense unless the non-payment was due to temporary job loss or illness.	Review the court order. Payments that are included in a state court order are not necessarily allowable (such as a child's college tuition that would not otherwise be allowable as a necessary expense). See Exhibit 5.15.1-1, Question 16.
Dependent Care (For the care of the elderly, invalid, or handicapped.)	If there is no alternative to the taxpayer paying the expense.	
Education	If it is required for a physically or mentally challenged child and no public education providing similar services is available. Education expenses are also allowed for the taxpayer if required as a condition of employment.	Example: An attorney must take so many education credits each year or they will not be accredited and could eventually lose their license to practice before the State Bar. A teacher could lose their position or in some states their pay is commensurate with their education credits.
Involuntary Deductions	If it is a requirement of the job; e.g., union dues, uniforms, work shoes.	To determine monthly expenses, the total out of pocket expenses would be divided by 12.
Life Insurance	If it is a term policy on the life of the taxpayer only.	If there are whole life policies, these should be reviewed as an asset for borrowing against or liquidating. Life insurance used as an investment is not a necessary expense.
Secured or legally perfected debts	If it meets the necessary expense test.	Taxpayer must substantiate that the payments are being made.
Unsecured Debts	If the taxpayer substantiates and justifies the expense, the minimum payment may be allowed. The necessary expense test of health and welfare and/or production of income must be met. Except for payments required for the production of income, payments on unsecured debts will not be allowed if the tax liability, including projected accruals, can be paid in full within 90 days.	Examples of unsecured debts which may be necessary expenses include: Payments required for the production of income such as payments to suppliers and payments on lines of credit needed for business and payment of debts incurred in order to pay a federal tax liability.
Taxes	If it is for current federal, FICA, Medicare, state and local taxes.	Current taxes are allowed regardless of whether the taxpayer made them in the past or not. Delinquent state and local taxes are allowable depending on the priority of the FTL and/or Service agreement with the state and local taxing agencies.
Optional Telephones and Telephone Services (Pager, Call waiting, caller	If it meets the necessary expense test.	