Internal Revenue Manual Section 5.8.5.22.1 (10-22-2010)

Necessary Expenses

1. A necessary expense is one that is necessary for the production of income or for the health and welfare of the taxpayer's family. IRM 5.15.1, *Financial Analysis Handbook*, discusses the national and local expense standards, which serve as guidelines to provide accuracy and consistency in determining a taxpayer's basic living expenses. The standards are available on the IRS web site and are periodically updated.

2. Taxpayers are allowed the National Standard Expense amount for their family size, without questioning the amount actually spent. If the total amount claimed is more than the total allowed by the National Standards, the taxpayer must provide documentation to substantiate and justify that the allowed expenses are inadequate to provide basic living expenses. All deviations from the national standards must be verified, reasonable and documented in the case history.

3. National and local expense standards are guidelines. If it is determined a standard amount is inadequate to provide for a specific taxpayer's basic living expenses, allow a deviation. Require the taxpayer to provide reasonable substantiation and document the case file.

   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.

   Example:
   The taxpayer is living in a home with a $2,250 monthly housing expense, including utilities. The present fair market value of the house is approximately equal to the mortgage balance. The local standard allowance is $1,800 per month. If the taxpayer remains in his home, income and expenses are approximately equal, leaving no disposable income in the calculation of future income value. If the taxpayer is unable to restructure their mortgage payment and the equity in the property is insufficient to pay the costs of selling their current home, related moving expenses, and purchasing or renting a new home that would allow for monthly payments within the national standard, the taxpayer may be allowed a housing amount that exceeds the standard.

   See IRM 5.15.1.7, *Allowable Expense Overview*.

4. Generally, the total number of persons allowed for national standard expenses should be the same as those allowed as dependents on the taxpayer's current year income tax return. There may be reasonable exceptions. Fully document the reasons for any exceptions.

   Example:
   Foster children or children for whom adoption is pending.

   Example:
   Custodial parent released the dependency exemption to ex-spouse.

5. A deviation from the standards should not be considered merely because it is inconvenient for the taxpayer to dispose of high value assets. In some situations, taxpayer's may be expected to make life-style choices that will facilitate collection of the delinquent tax.