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IRS Goes Easy on Debtors

The IRS has announced several new rules designed to make life easier for tax debtors. IRS Commissioner Doug Shulman said the new rules are in view of the worst recession in a generation. The IRS is also making efforts to put itself in the shoes of the taxpayers. While the rules have received approvals from some tax experts but the National Taxpayer Advocate, Nina Olson gave a more reserved response, saying the changes were “a step in the right direction” but “are not sufficient to address the problems we have seen.”

The rule that affects the most taxpayers is the one pertaining to liens. Previously, upon settling all tax debts, the IRS would issue a ‘lien release’. This meant that the lien is left on the taxpayer’s credit record for seven years after settlement. But under the new rule, the IRS would issue a ‘lien withdrawal’ upon full payment of all outstanding taxes, interests and penalties. A lien withdrawal will cancel the lien from the taxpayer’s credit record immediately. This would be very essential for obtaining credit as a lien would reduce your credit score by 100 points at FICO, a credit scoring agency. You would need at least 700 points out of a maximum of 850 to qualify for loans at the best interest rates so having 100 points is quite substantial.

In fact, under the new rule, you might not even have to fully settle your tax debt to receive a lien withdrawal if your tax debt does not exceed $25,000 and you are willing to sign a direct debit installment agreement with the IRS. A direct debit installment agreement allows the IRS to withdraw a fixed amount from your bank account every month to pay off your remaining tax liability. You may make a direct debit installment agreement at the IRS website, www.irs.gov.

The new rule also stipulates that the IRS cannot file a lien against you unless your tax debt exceeds $10,000. The previous limit was $5,000.

Besides liens, the new rules involve small businesses. Small business owners with not more than $25,000 in unsettled tax debts can make a streamlined installment agreement with the IRS. But you have to arrange with your bank to make monthly payments to the IRS to pay off your debts within 24 months.

There are also new rules affecting Offers in Compromise. Taxpayers who earn as much as $100,000 a year may qualify for an Offer in Compromise if the outstanding tax liability does not exceed $50,000.