To help struggling taxpayers who owe back taxes, the Internal Revenue Service (IRS) recently unveiled a series of new steps to help people get a "fresh start," to use the phrase invoked by the IRS Commissioner, with their tax liabilities. The general idea is to recognize the challenging economic environment the country faces while also keeping the tax revenue flowing in at acceptable levels. The focus is on changes to the tax lien system and other collection tools already used by the IRS that will make paying taxes a little easier on taxpayers.

Tax Lien Thresholds

The IRS will significantly increase the dollar thresholds for when liens are filed to a new dollar amount that will be in keeping with inflationary changes that have occurred since the number was last revised. Currently, liens are automatically filed at certain dollar levels for people with past-due balances.

A federal tax lien is no trivial matter. It gives the IRS a legal claim to a taxpayer’s property for the amount of an unpaid tax debt, and it can establish priority rights against certain other creditors. Since a tax lien can also adversely affect a taxpayer’s credit rating, taxpayers are well advised to arrange for the payment of taxes as quickly as possible.

Tax Lien Withdrawals

The IRS will make it easier for taxpayers to obtain lien withdrawals under certain circumstances, including the IRS’s determination that the lien filing was premature or that the taxpayer has agreed to an installment payment plan. To facilitate the withdrawal process, the IRS will also streamline its internal procedures to allow collection personnel to withdraw the liens.

Direct Debit Installment Agreements and Liens

The IRS is making other important changes to liens when taxpayers enter into a Direct Debit Installment Agreement (DDIA). For taxpayers with unpaid assessments of $25,000 or less, the

IRS will now allow lien withdrawals in a few different situations: for a taxpayer entering into a DDIA; for a taxpayer converting a regular Installment Agreement to a DDIA; for a taxpayer already on an existing DDIA, upon the taxpayer's request; and for a taxpayer demonstrating after a probationary period that direct debit payments will be honored.

Installment Agreements and Small Businesses

The IRS has made streamlined Installment Agreements available to more small businesses by raising the dollar limit to allow more small businesses to participate. Small businesses with $25,000 or less in unpaid taxes can participate. Previously, only small businesses with under $10,000 in tax liabilities could participate. Small businesses will have 24 months to pay.

Small businesses with an unpaid assessment balance greater than $25,000 may qualify for the streamlined Installment Agreement if they pay down the balance to $25,000 or less. But small businesses will need to enroll in a DDIA in order to participate.

Offers in Compromise

The IRS is also expanding a new streamlined Offer in Compromise (OIC) program to cover a larger group of taxpayers who can use the help. Taxpayers with annual incomes of up to $100,000 can participate. Participants must have a tax liability of less than $50,000, doubling the previous limit of $25,000 or less.

An OIC is an agreement between a taxpayer and the IRS that settles the taxpayer's tax liabilities for less than the full amount owed. As you might expect, it is something of a last resort. Generally, an OIC will not be agreed to by the IRS if the IRS believes, given the taxpayer's income and assets, that the liability can be paid in full as a lump sum or through a payment agreement.