



New IRS Fresh Start Initiative Helps Taxpayers Who Owe Taxes

IRS Tax Tip 2012-48, March 12, 2012

The Internal Revenue Service has expanded its "Fresh Start" initiative to help struggling taxpayers who owe taxes. The following four tips explain the expanded relief for taxpayers.

1. **Penalty relief** Part of the initiative relieves some unemployed taxpayers from failure-to-pay penalties. Penalties are one of the biggest factors a financially distressed taxpayer faces on a tax bill. The Fresh Start Penalty Relief Initiative gives eligible taxpayers a six-month extension to fully pay 2011 taxes. Interest still applies on the 2011 taxes from April 17, 2012 until the tax is paid, but you won't face failure-to-pay penalties if you pay your tax, interest and any other penalties in full by Oct. 15, 2012.

The penalty relief is available to two categories of taxpayers:

- * Wage earners who have been unemployed at least 30 consecutive days during 2011 or in 2012 up to this year's April 17 tax deadline.
- * Self-employed individuals who experienced a 25 percent or greater reduction in business income in 2011 due to the economy.

To qualify for this penalty relief, your adjusted gross income must not exceed \$200,000 if married filing jointly or \$100,000 if your filing status is single, married filing separately, head of household, or qualifying widower. Your 2011 balance due can not exceed \$50,000.

Taxpayers who qualify need to complete a new Form 1127A to request the 2011 penalty relief. The new form is available on www.irs.gov or by calling 1-800-829-3676 (TAX FORM).

2. **Installment agreements** An installment agreement is a payment option for those who cannot pay their entire tax bill by the due date. The Fresh Start provisions give more taxpayers the ability to use streamlined installment agreements to catch up on back taxes and also more time to pay.

The new threshold for requesting an installment agreement has been raised from \$25,000 to \$50,000. This option requires limited financial information, meaning far less burden to the taxpayer. The maximum term for streamlined installment agreements has been raised to six years from the current five-year maximum.

If your debt is more than \$50,000, you'll still need to supply the IRS with a Collection Information Statement (Form 433-A or Form 433-F). You also can pay your balance down to \$50,000 or less to qualify for this payment option.

With an installment agreement, you'll pay less in penalties, but interest continues to accrue on the outstanding balance. In order to qualify for the new expanded streamlined installment agreement, you must agree to monthly direct debit payments.

You can set up an installment agreement with the IRS through the On-line Payment Agreement (OPA) page at www.irs.gov

3. **Offer in Compromise** Under the first round of Fresh Start in 2011, the IRS expanded the Offer in Compromise (OIC) program to cover a larger group of struggling taxpayers. An Offer in Compromise is an agreement between a taxpayer and the IRS that settles the taxpayer's tax liabilities for less than the full amount owed.

The IRS recognizes many taxpayers are still struggling to pay their bills so the agency has been working on more common-sense changes to the OIC program to more closely reflect real-world situations.

Generally, an offer will not be accepted if the IRS believes that the liability can be paid in full as a lump sum or through a payment agreement. The IRS looks at the taxpayer's income and assets to make a determination regarding the taxpayer's ability to pay.

4. **More information** A series of eight short videos are available to familiarize taxpayers and practitioners with the IRS collection process. The series "Owe Taxes? Understanding IRS Collection Efforts," is available on the IRS website, www.irs.gov.

The IRS website has a variety of other online resources available to help taxpayers meet their payment obligations.

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