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IRS gives Leeway to those Owing Back Taxes

In a move to help financially strapped taxpayers make a fresh start, the IRS will implement a few new regulations. The agency plans to file fewer tax liens and make it easier to get tax liens withdrawn, which in turn clears taxpayers' credit records of the bad mark. This marks the latest effort by the IRS to go easier on taxpayers in this difficult economy.

In light of the fact that the number of tax liens has skyrocketed to 1.1 million in 2009, an alarming 550% increase from 1999, this is a welcome move. Even the National Taxpayer Advocate, an independent voice representing the interests of taxpayers within the IRS, Nancy E. Olson agrees. She said in a statement, that the IRS is making a "significant step in the right direction" but that it's not clear how many taxpayers will be spared liens under the new policy.

Most tax experts also lauded the IRS' latest initiative, although some are of the opinion that the IRS could do even more to help taxpayers. Under the new regulations, the IRS will only file a tax lien if the amount of taxes you owe exceeds \$10,000 (it was \$5,000 under the previous regulation).

Another regulation states that if you owe \$25,000 or less, the IRS will issue a tax lien withdrawal once the taxes have been paid up or you enter a

direct debit installment agreement with the IRS. Such a withdrawal would effectively wipe out the incidence of the lien from the taxpayer's credit record. This means it would be as though the lien was never issued.

In the past, a taxpayer had to apply to get the tax lien withdrawn and even so, the IRS rarely approved. The IRS would typically grant only a tax lien release which does not erase the negative information from a taxpayer's credit record. According to FICO (Fair Isaac and Company, a credit bureau), this is as good as having the tax bill unpaid because both would mean the taxpayer has reneged on his tax obligations.

With the new regulations in place, you will have your lien withdrawn once you change from a standard installment plan to a direct debit one. After a probation period of making debt payments, the IRS will withdraw the lien. Once a tax lien has been withdrawn all the major credit bureaus will similarly delete withdrawn liens from their records. Information on your credit record will play a crucial role when you apply for credit from lenders.

But if you have a lot of other negative information on your credit record, the lien withdrawal may not have a significant effect on your credit score.