



News Release

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IRS Offers New Penalty Relief and Expanded Installment Agreements to Taxpayers under Expanded Fresh Start Initiative

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IRS YouTube Video

Fresh Start: [English](#)

IRS Podcast

Fresh Start: [English](#)

WASHINGTON — The Internal Revenue Service today announced a major expansion of its “Fresh Start” initiative to help struggling taxpayers by taking steps to provide new penalty relief to the unemployed and making Installment Agreements available to more people.

Under the new Fresh Start provisions, part of a broader effort started at the IRS in 2008, certain taxpayers who have been unemployed for 30 days or longer will be able to avoid failure-to-pay penalties. In addition, the IRS is doubling the dollar threshold for taxpayers eligible for Installment Agreements to help more people qualify for the program.

“We have an obligation to work with taxpayers who are struggling to make ends meet,” said IRS Commissioner Doug Shulman. “This new approach makes sense for taxpayers and for the nation’s tax system, and it’s part of a wider effort we have underway to help struggling taxpayers.”

Penalty Relief

The IRS announced plans for new penalty relief for the unemployed on failure-to-pay penalties, which are one of the biggest factors a financially distressed taxpayer faces on a tax bill.

To assist those most in need, a six-month grace period on failure-to-pay penalties will be made available to certain wage earners and self-employed individuals. The request for an extension of time to pay will result in relief from the failure to pay penalty for tax year 2011 only if the tax, interest and any other penalties are fully paid by Oct. 15, 2012.

The penalty relief will be available to two categories of taxpayers:

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

This penalty relief is subject to income limits. A taxpayer's income must not exceed \$200,000 if he or she files as married filing jointly or not exceed \$100,000 if he or she files as single or head of household. This penalty relief is also restricted to taxpayers whose calendar year 2011 balance due does not exceed \$50,000.

Taxpayers meeting the eligibility criteria will need to complete a new [Form 1127A](#) to seek the 2011 penalty relief. The new form is available on IRS.gov/form1127.

The failure-to-pay penalty is generally half of 1 percent per month with an upper limit of 25 percent. Under this new relief, taxpayers can avoid that penalty until Oct. 15, 2012, which is six months beyond this year's filing deadline. However, the IRS is still legally required to charge interest on unpaid back taxes and does not have the authority to waive this charge, which is currently 3 percent on an annual basis.

Even with the new penalty relief becoming available, the IRS strongly encourages taxpayers to file their returns on time by April 17 or file for an extension. Failure-to-file penalties applied to unpaid taxes remain in effect and are generally 5 percent per month, also with a 25 percent cap.

Installment Agreements

The Fresh Start provisions also mean that more taxpayers will have the ability to use streamlined installment agreements to catch up on back taxes.

The IRS announced today that, effective immediately, the threshold for using an installment agreement without having to supply the IRS with a financial statement has been raised from \$25,000 to \$50,000. This is a significant reduction in taxpayer burden.

Taxpayers who owe up to \$50,000 in back taxes will now be able to enter into a streamlined agreement with the IRS that stretches the payment out over a series of months or years. The maximum term for streamlined installment agreements has also been raised to 72 months from the current 60-month maximum.

Taxpayers seeking installment agreements exceeding \$50,000 will still need to supply the IRS with a Collection Information Statement ([Form 433-A](#) or [Form 433-F](#)). Taxpayers may also pay down their balance due to \$50,000 or less to take advantage of this payment option.

An installment agreement is an option for those who cannot pay their entire tax bills by the due date. Penalties are reduced, although interest continues to accrue on the outstanding balance. In order to qualify for the new expanded streamlined installment agreement, a taxpayer must agree to monthly direct debit payments.

Taxpayers can set up an installment agreement with the IRS by going to the On-line Payment Agreement (OPA) page on IRS.gov and following the instructions.

These changes supplement a number of efforts to help struggling taxpayers, including the “Fresh Start” program announced last year. The initiative includes a variety of changes to help individuals and businesses pay back taxes more easily and with less burden, including the issuance of fewer tax liens.

“Our goal is to help people meet their obligations and get back on their feet financially,” Shulman said.

Input from the Internal Revenue Service Advisory Council and the IRS National Taxpayer Advocate’s office contributed to the formulation of Fresh Start.

Offers in Compromise

Under the first round of Fresh Start, the IRS expanded a new streamlined 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 that many taxpayers are still struggling to pay their bills so the agency has been working to put in place more common-sense changes to the OIC program to more closely reflect real-world situations.

For example, the IRS has more flexibility with financial analysis for determining reasonable collection potential for distressed taxpayers.

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.

Details on IRS Collection and Other 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:

- [IR-2011-20: IRS Announces New Effort to Help Struggling Taxpayers Get a Fresh Start; Major Changes Made to Lien Process](#)
- [Offer in Compromise](#)
- [Tax Tip: Ten Tips for Taxpayers Who Owe Money to the IRS](#)
- [The What If's of an Economic Downturn](#)
- [Video on How to Complete Form 656: Offer in Compromise](#)