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What the New IRS Tax Lien Rules mean for You

Recently, the IRS has put in place new regulations pertaining to tax liens. These regulations are meant to make it easier for taxpayers to stay current with their tax obligations and reflect the IRS' efforts to decrease the number of liens.

A tax lien is a right the IRS has to first priority claims on a taxpayer's property for the amount of taxes that are unpaid. Very often there is more than one party who has claims on a taxpayer's property. But when the IRS files a federal tax lien on such property, the IRS will have first claim on it.

In fact, under a lien the IRS has the right to freeze all your bank accounts and instruct all persons or parties that owe you money to pay to the IRS instead until all your taxes are paid up.

A tax lien can also be detrimental to your credit rating and severely affect your ability to apply for credit. A lien can reduce your credit rating by as much as 100 points on the FICO rating scale and hamper your company's resources in making payroll payments.

Over the last decade, the number of tax liens has significantly increased from 168,000 in 1999 to 1.1 million in 2010. This represents almost a 100%

increase.

Here are the new regulations governing the filing of tax liens.

1. The threshold of outstanding taxes over which the IRS files a tax lien has been increased from \$5,000 to \$10,000
2. The IRS issues a tax lien withdrawal (as opposed to a lien release) upon full settlement of your taxes. A tax lien withdrawal will cancel the lien from your credit score whereas in a tax lien release the lien will remain on your credit record for 7 years after settlement of your taxes.
3. The IRS allows you to receive a lien withdrawal even if you do not fully settle your tax debt provided your outstanding taxes are not more than \$25,000 and you enter a Direct Debit Installment Agreement with the IRS.
4. The IRS has made it easier for small business owners to pay off their taxes in installments provided you owe not more than \$25,000 in unsettled taxes.
5. The IRS increases the wage limit below which you can apply for an Offer in Compromise. The ceiling is now \$100,000 a year provided your tax dues do not exceed \$50,000.

What do all these really mean for you, the taxpayer?

Firstly, despite the new rules, it does not mean the IRS will relax their aggressive attempts to collect your taxes. In fact, the new rules imply the IRS is going to be stricter on those who do not quickly settle their debt or enter into an installment agreement with them.

The new policy will also allow the IRS to file liens on taxpayers with larger debts instead of pursuing thousands of individuals who owe small amounts.