

FEDERAL UPDATES

IRS Cuts Red Tape on Federal Tax Lien Withdrawals

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Earlier this year IRS commissioner Dough Shulman announced a three part plan that would help struggling taxpayers with back tax issues and streamline the resolution process. The IRS *Fresh Start Initiative* outlines provisions to increase the lien filing threshold, ease the process of obtaining a lien withdrawal, and streamline the Offer in Compromise program. The second component of the initiative digs into the treatment of tax debt and its impact on a taxpayer's credit score.

First, it is essential to distinguish the difference between a lien *withdrawal* and a lien *release*. The IRS will grant a *release* within 30 days of satisfaction of a tax liability through either full payment or case resolution (ex: OIC or statute expiration). Though the lien is "released", it may remain on public record unless a *withdrawal* is both requested and obtained. Conversely, a *withdrawal* of a federal tax lien does not eliminate the debt, but removes the notice from public record which would raise the taxpayer's credit score.

Traditionally a withdrawal of a federal tax lien would be granted to a narrow window of taxpayers. Under the *Fresh Start Initiative* the IRS opens eligibility for a withdrawal to certain taxpayers after entering into a *Direct Debit Installment Agreement* (DDIA). To be eligible for this benefit a taxpayer's liability would need to be less than \$25,000, the taxpayer must be in current compliance with all filing requirements, and must have made three consecutive payments toward the liability while in the DDIA.

Some practitioners have questioned why the IRS would allow such leniency prior to case resolution or full payment on the liability. It is important to note that the IRS can and will step in to re-file the federal tax lien if payment obligations are not maintained after the conditional withdrawal is granted. In addition to re-filing the tax lien the taxpayer would become ineligible for any future withdrawal options.

Defaulting on an installment agreement may carry more risk than in the past when considering potential consequences. However, for the taxpayer who is confidently maintaining compliance and the obligations set forth in the DDIA a withdrawal through the *Fresh Start Initiative* may be an excellent resolution ultimately improving the taxpayer's credit score.