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IRS Eases Rules on Liens for Taxpayers

By Tracy Becker

In February 2011, the IRS announced important changes to its lien filing practices that lessen the negative impact on taxpayers. The new policy will significantly reduce the number of liens the IRS places on property owned by delinquent taxpayers and will make it easier for taxpayers owing \$25,000 or less to get existing liens withdrawn.

For those taking advantage of the new policy, it will significantly impact their credit scores and enable them to qualify for mortgages and other loans previously unattainable because of low credit scores caused by IRS tax liens. It is up to diligent CPAs to be proactive and guide individuals through the lien filing practices to help prevent their credit from deteriorating.

The IRS's Use of Liens

The IRS uses liens to establish a legal claim to a taxpayer's property when the taxpayer has an unpaid tax debt. A new tax lien can drop a credit score between 40 and 120 points. Tax liens can remain on credit reports for years, even once tax bills are paid and liens removed, hurting the ability of taxpayers to get loans. They can even affect taxpayers' ability to land jobs in a world where more prospective employers are checking credit scores.

Previously, even if a tax debt were paid in full, a record of the delinquency would remain on the borrower's record for seven years—severely hampering the individual's borrowing ability until the delinquency aged at least four years and was paid.

To ease the burden on taxpayers, the IRS has raised the minimum amount of tax debt that prompts the filing of a tax lien from \$5,000 to \$10,000. For those owing \$25,000 or less, the IRS will make it easier to obtain tax lien withdrawals once a taxpayer pays off the tax debt or sets up a payment plan that will end in full payment. To speed the withdrawal process, the IRS has streamlined its procedure to allow internal IRS collection personnel to withdraw the lien. No court filings are involved. But CPAs

need to know that the cleaning of the credit reports does not happen automatically.

The IRS will withdraw a lien only if the taxpayer requests a withdrawal letter in advance after the taxpayer has fully paid the taxes due or enters into a direct debit installment agreement (DDIA) in which monthly payments to the IRS are automatically withdrawn from the taxpayer's bank account. Liens will be withdrawn after a probationary period demonstrating that direct debit payments will be honored.

Under the new policy, once the IRS withdraws the lien, the borrower's credit record will be wiped clean and his credit score will improve. The new policy could increase a client's credit score by more than 100 points, which could make the difference in getting a loan and saving thousands of dollars in monthly mortgage payments.

Advising on Lien Withdrawal

Individuals need to be educated on what serious financial damage a lien can do to

TAXPAYER SUCCESS STORIES

Success Story 1

A successful lawyer wanted to purchase a \$1 million condominium in Florida as a second home. Unfortunately, he had three tax liens on his credit report and his credit score was 30 points lower than approval requirement. The author's firm advised the lawyer's accountant to have him pay the liens in full and request a withdrawal letter. The lawyer quickly paid off what he owed the government and all of the liens were removed. Once the withdrawal letter was issued, the author's firm forced the bureaus to update the deletion of the liens, and the lawyer's report reflected the new status with no public records. The result was that the lawyer's credit score increased by 80 points and he was not only approved for the loan, but also received the best rate and a reduced monthly payment.

Success Story 2

Mortgage eligibility will be particularly affected because of the strict requirements banks have enforced, and also because many mortgages today are insured by the Federal Housing Administration (FHA), which does not look kindly on borrowers who are delinquent in paying the government. A young, recently married couple were aspiring first-time home buyers who wanted to purchase a new home with an FHA loan. Because the wife had a \$7,000 tax lien, the couple was denied financing. The author's firm educated the couple's CPA on the new program, and he was able to get the couple into a payment plan, request a withdrawal letter, and ultimately had the tax lien deleted from her credit report. The couple bought the house they wanted. Without the IRS program, this couple would have had to wait about five years to pay off the lien before purchasing a home.

Success Story 3

A recently divorced woman wanted to go back to school to enhance her ability to earn a greater income. She needed to get approval for student loans and ultimately wanted to purchase a new home for her and her family. When she applied for government-insured student loan funding, she was rejected due to a \$15,000 tax lien outstanding on her credit report. Her CPA, after being educated about these tax changes, informed her of the IRS's new plan and charged her a fee to make sure the withdrawal letter was requested and an "in full" payment plan was set up. Within a short period of time, the lien was removed from her credit profile and she was on her way to a new life.

their credit score. It may trigger higher interest rates on loans and increasing monthly mortgage payments, or outright rejection for a loan or a job. Student loans, which are backed by the government, may also be rejected because of tax liens on credit reports.

Understanding these rules can save CPAs from angry clients asking, "Why didn't you know about this and tell me I was eligible? This could have saved me a fortune on a refinance or given me the opportunity to buy the house my family needed." Advising clients properly on this matter will benefit an accountant's practice because happy clients refer more business.

Individuals with a tax lien need to know the new policy, what they must do, and how they must pay in full or enter into a payment agreement via direct debit that ends in full payment. Clients must be told that if they settle for less than the full debt owed, they will not be eligible for the withdrawal of lien.

If CPAs do not want to charge a fee for this service but decide to advise clients on the process, they should send the taxpayer to the online payment agreement application on the IRS website to request a "withdrawal of lien letter" prior to entering into a DDIA. Liens will be withdrawn after a probationary period demonstrating that direct debit payments will be honored.

Liens will not be withdrawn automatically, however. Once full payment of taxes is made or the probationary period is successfully completed, the taxpayer or the CPA must take the proactive step of requesting that the bureaus remove the lien from the taxpayer's credit profile.

CPAs should advise clients to check their credit within 30 days to make sure the bureaus have updated the new IRS information on the credit profile. If the lien continues to show up, however, an accountant should seek out a credit restoration company to get the lien removed.

IRS officials state that they are trying to minimize the burden on taxpayers while collecting the proper amount of tax. But tax preparers should be there to ease a taxpayer's burden, especially when a taxpayer has taken the proactive step of entering into a direct debit agreement.

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hundreds of thousands of
dollars in interest, in addition to
enabling taxpayers to qualify for
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Installment Agreements for Small Businesses

The IRS is also making streamlined installment agreements available to more small businesses. The payment program will raise the dollar limit to \$25,000 to allow additional small businesses to par-

ticipate. Currently, only businesses with under \$10,000 in liabilities can participate. Small businesses will have 24 months to pay, but if they do so, like individual taxpayers, they must also enroll in a direct debit installment agreement.

Paying off a tax lien can save hundreds of thousands of dollars in interest, in addition to enabling taxpayers to qualify for mortgages or other loans.

It is not the act of just paying off the lien that enables the savings, but its removal from the credit report that increases the scores. It is imperative that CPAs help individuals save as much money as possible in these tough economic times and earn the credit they need and deserve. The government is willing to work with taxpayers, and accountants have a duty to do so as well. □

Tracy Becker is president of North Shore Advisory, Tarrytown, N.Y., a credit restoration and advisory company.

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