

IRS to give Tax Lien holders a break!

Until recently a tax lien, paid or unpaid, could haunt your credit report for a long time. Depending on what state you live in, a paid tax lien could stay on your credit report for 7-10 years and an unpaid lien could stay on indefinitely. In February 2011, the IRS announced a plan to give consumers with tax liabilities a break. These changes could mean tens of thousands of people would no longer be burdened by tax liens.

The first IRS action was to raise the lien threshold from \$5,000 to \$10,000. Next, the IRS stated they could “withdraw” a lien once the taxpayer paid the lien in full and made a request for the lien to be withdrawn. Once the lien was released, the IRS would no longer have a claim to the asset. The taxpayer at this time could also request that the lien be removed from the credit report.

The IRS could also agree to withdraw a tax lien if the taxpayer owed less than \$25,000 and arranged to enter into a “direct debit installment agreement” with the IRS in which the payments are automatically deducted from an account every month. After a probationary period of payments (determined by the IRS) they could agree to withdraw the lien.

The IRS also raised the threshold from \$10,000 to \$25,000 for small businesses that owe back taxes and want to participate in an installment repayment plan. This would allow hundreds of small businesses to take part in a program they weren't qualified for prior to the new plan.

The IRS has revamped their “Offer In Compromise” (OIC). This program allows the IRS to settle a debt for less than what is owed if they do not feel the taxpayer would ever be able to repay the full amount. Currently, a taxpayer must owe less than \$25,000 to qualify for this program, but the new adjustments have raised that limit to \$50,000. This program is based on annual taxpayer earnings and those allowed to participate is determined solely by the IRS.

The biggest boon to consumers with regard to these changes is that once a lien is released and withdrawn, a borrower can potentially raise their credit scores more quickly. Having a tax lien on a credit report (paid or unpaid) can easily drop a credit score over 100 points. So investigating payment options can be beneficial in the long term.

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