



From The Tax Experts  
At ALG Tax Solutions

## THE COMPREHENSIVE GUIDE ON TAX LIENS

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# The Comprehensive Guide on Tax Liens

## *Definition of a Tax Lien*

As defined by the IRS, a tax lien is the government's legal claim against your property when you neglect or fail to pay a tax debt. The lien protects the government's interest in all your property, including real estate, personal property and financial assets.

## *Difference between a Tax Lien and Tax Levy*

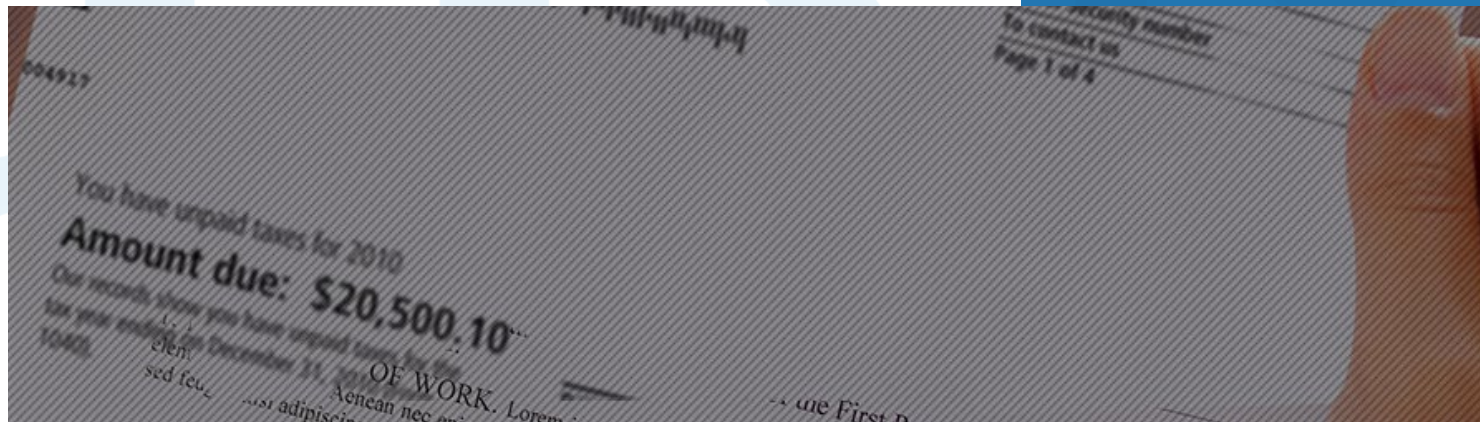
A tax lien is not a tax levy. A tax lien protects the government's interest in your property, while a tax levy is the government taking property to pay back taxes. Examples of tax levies are wage levies, bank garnishments, retirement levies, and property seizures. A tax levy is the IRS' last resort for collecting back taxes.

## TAX HELP:

The IRS has the option to seize property if the taxpayer doesn't cooperate. Lack of cooperation may include evading contact, hiding assets or not providing financial information. However, the buyer is not protected if the buyer had prior knowledge of the tax lien

## REAL RESULTS:

ALG Tax Solutions was able to assist a business client that owed approximately \$250,000 in payroll taxes, of which about \$100,000 of the balance was penalties and interest. Through the preparation of an offer in compromise, the IRS accepted a settlement of about \$160,000, which eliminated all the penalties and partially eliminated the interest.



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## How a Tax Lien Impacts You

A tax lien can be devastating financially. It...

- Lowers your credit score
- Makes it difficult to obtain a loan for large purchases
  - Some banks will not consider you for a loan
- Limits your ability to sell the business, sell business assets, or transfer business assets
- May stop banks from renewing your business loans

### *Effect of a Tax Lien on Property*

Tax liens are attached to all property registered in the county where it's recorded.

This may include the following:

- Real Estate – home, land, and commercial property
- Personal Property – car, boat, motorcycle, plane, equipment, and other business assets

## TAX HELP:

A tax lien may not stop you from selling a car. The buyer can safely purchase your car if the buyer had no knowledge of the tax lien. However, they are not protected if they have prior knowledge of the tax lien.

## IRS FACT:

There is more than \$130 billion of unpaid IRS taxes.



# Calling the IRS about the Tax Lien

Calls to the IRS can be placed during business hours Monday – Friday. The IRS is closed on the weekends and federal holidays.

## *What to expect...*

Calling the IRS is not something you can do during your lunch break. We recommend setting aside 2 – 3 hours to call the IRS. You can expect to be on hold for 30 – 120 minutes before reaching an IRS employee. Once you reach an employee, your discussion will take 30 minutes or longer.

*After making the first call to the IRS, you need to make one or more calls to follow up on your request.*

## *What to expect...*

Every time you call the IRS, you may be asked personal questions before you are able to discuss your reason for calling. Questions you can expect to be asked are: updated telephone number, name of your employer, name of your bank, etc. Why does the IRS ask these questions? They are looking for income sources. So, if your case goes into collection enforcement action, then the IRS will know which income source to levy.

## TAX HELP:

A tax professional hired to represent you may not know where you are employed or where you bank. If an IRS employee asks the tax professional those two questions, the tax professional will not be able to answer. The IRS employee will accept the tax professional not knowing the answer. However, it is expected for a taxpayer calling the IRS themselves to properly answer those questions.

## IRS FACT:

The number of “courtesy disconnects” when calling the IRS has increased from 544,000 in 2014 to 8.8 million in 2015. That is an increase of 1,500%



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# FILING OF TAX LIEN AND TAX LIEN RELEASE

## Filing of Tax Lien

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The IRS may file a tax lien if more than \$10,000 of taxes are owed. The tax lien will be recorded in the county Register of Deeds where you live or where your business is located. If you have more than one property located in different counties, the government can issue a tax lien to each county where you own property.

Once the tax lien is recorded at the county Register of Deeds, the tax lien attaches to all property registered in the county.

### *Right to Contest the Tax Lien*

You have the right to contest the Notice of Federal Tax Lien and you have 30 days to preserve this right. [Form 12153, Request for a Collection Due Process or Equivalent Hearing](#), is used to prepare your request. If Form 12153 is incorrectly prepared or is not filed within 30 days, you will lose the right to contest your tax lien.

If Form 12153 was not filed on time, you still may have the right to file for an Equivalent Hearing. However, your options for resolving this matter in an Equivalent Hearing are limited compared to a Collection Due Process Hearing.

## TAX HELP:

There are companies that gather information on all filed liens recorded at the county Register of Deeds, including tax liens. The companies then sell this information to other businesses. Many tax resolution businesses will purchase tax lien information to solicit new business.

Tax resolution businesses using tax lien information will use all sorts of tricks to solicit new business. This includes sending official looking IRS letters, sending letters in yellow or pink paper, and using scare tactics when calling people. [Click here](#) for an example of a wage garnishment letter not from the IRS.



## Tax Lien Release

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The IRS will release a tax lien within 30 days under three conditions:

1. Tax debt is fully paid
2. You fully satisfied the requirements of an [offer in compromise](#)
3. Collection Statute End Date has passed

The tax lien release is recorded in the county Register of Deeds and will no longer be attached to the property registered in the county.

### ***Collection Statute End Date***

The IRS has ten years to collect back taxes. This is called the Collection Statute End Date (CSED). Once the CSED for a given tax period has expired, the IRS will erase the tax balances owed and issue a tax lien release.

## TAX HELP:

The IRS will release all tax liens once the [offer in compromise](#) process is completed. After the tax lien is released, the taxpayer may be eligible to request a lien withdrawal.

## REAL RESULTS:

Through to an [offer in compromise](#) prepared and negotiated by ALG Tax Solutions, a client only had to pay \$9,000 to settle a tax debt of about \$170,000 due. This is a 95% reduction of taxes owed.



A background image of a man in a dark suit and white shirt, smiling slightly. The image is dark and has a fine, diagonal grid pattern overlaid on it. A solid blue horizontal band is positioned across the middle of the image, containing the main title text.

# REQUESTING TAX LIEN WITHDRAWAL

## Tax Lien Withdrawal

### *Tax Lien Withdrawal*

A tax lien withdrawal is different than a tax lien release. A tax lien release will remove the tax lien attached to property, while a tax lien withdrawal will remove the tax lien from public record. In other words, a tax lien withdrawal will remove the lien as if the lien was never filed.

## TAX HELP:

Once a tax lien is released, you may have the option to request a tax lien withdrawal, and it is financially beneficial to obtain a lien withdrawal.



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## Requesting a Tax Lien Withdrawal

Form 12277, Application for the Withdrawal of Filed Form 668(Y), Notice of Federal Tax Lien, is used to request a tax lien withdrawal. There are five reasons to request a tax lien withdrawal:

1. The IRS improperly filed the tax lien
2. The lien was released and you are compliant with your tax obligations
3. Specific direct debit installment agreements
4. Withdrawing the lien will improve the taxpayer's ability to pay the back taxes
5. It is in the best interest of the government to remove the lien

You can request for tax lien withdrawal if a specific direct debit installment agreement is set up. A direct debit installment agreement is an arrangement to pay the IRS monthly by automatic bank withdrawals.

## IRS FACT:

As part of the Highway Funding Bill passed in December of 2015, the IRS must start using 3rd party private debt collectors to collect certain unpaid back taxes.



## Direct Debit Installment Agreement

The requirements for a direct debit installment agreement to obtain a tax lien withdrawal are:

- Tax debt owed is less than \$25,000
  - You can pay down the tax debt below \$25,000
- You agree to pay the tax debit within 60 months or before the Collection Statute End Date, whichever is earlier
- Fully compliant with current tax obligations
- You never defaulted on a previous direct debit installment agreement
- Completed [Form 433D](#) is submitted
- Three consecutive direct debit payments are made

Form 433D must be prepared correctly or the IRS will not set up the automatic payments. There are even cases of experienced clients submitting Form 433D but the IRS won't set up the automatic payments due to errors on the form. The IRS still expects you to mail in payments or risk defaulting on the installment agreement.

## TAX HELP:

The rules outlined here for the direct debit installment agreement do not apply to operating businesses that owe back payroll taxes.



# REQUESTING TAX LIEN SUBORDINATION OR DISCHARGE

## Subordinate Tax Lien

There are specific situations when subordinating a tax lien may be helpful. Subordinating a tax lien is when the IRS agrees to allow a creditor to move their junior creditor position ahead of the federal's position.

The timing of when a lien attaches to the property is important. The first lien attached to property is considered senior to all other liens later filed. The second lien is considered junior to the first lien filed. The third lien is considered junior to both the first and second liens filed. The importance of each subsequent lien filing is based on the when the lien is filed.

### ***Example:***

You received a loan to purchase a home. The mortgage company immediately places a lien on a home. A year later, a tax lien is attached to the home. The lien placed by the mortgage company is senior to the tax lien. If the home is sold, the mortgage company will be paid first and any proceeds left from the sale will go to the IRS.

### ***Example 2:***

Similar to the first example, you received a loan to purchase a home. The mortgage company made an error and did not file a lien. In the mean time, an IRS tax lien attaches to your house. Later, the mortgage company realizes an error was made and files a lien. The IRS tax lien is senior to the lien filed by the mortgage company. This may be a situation where you submit a request to subordinate the IRS tax lien.



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## Subordinate Tax Lien Request

The IRS will consider a lien subordination request under two situations:

1. You pay an amount equal to the lien or interest to which the certificate subordinates the lien of the IRS
2. It is determined that subordinating the lien will increase your ability to pay the back taxes and make collecting the back taxes easier



## TAX HELP:

Get a scary looking letter about taxes? Don't know if the letter was really sent from the IRS? Read all fine print. This letter may not be from the IRS. Official IRS letters will not have any information regarding marketing, solicitation, rates, or endorsements. If the letter is not from the IRS it may also have a specific statement about not being affiliated with a government agency.



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## Discharge Tax Lien

A “discharge” removes the tax lien from specific property. The tax lien is still in place for all other property. But the IRS agreed to remove the tax lien from specific property.

### *Example:*

You own two homes. There is a tax lien attached to both homes, but you would like to sell one of the homes. You can request a lien discharge. If the discharge request is accepted, the IRS will remove the lien to allow the sale of the one home. The tax lien will remain on the other home.



## TAX HELP:

The IRS will approve a tax lien discharge request when selling a home in a short sale. The mortgage company will get all the proceeds from the sale of the home and there will be no proceeds remaining for the IRS.



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## Discharge Tax Lien Request

The IRS will consider a lien discharge request under 5 situations:

1. The value of property remaining attached by the lien is at least double the liability of the federal tax lien plus other encumbrances senior to the tax lien
2. The IRS will receive an amount not less than the value of the IRS' interest
3. Interest of the property to be discharged has no value
4. Proceeds from the property sale held in escrow are subject to the liens and claims of the IRS
5. A deposit is made or a bond is furnished in an amount equal to the value of the IRS' interest

## TAX HELP:

The ALG Tax Professionals have assisted taxpayer's in selling their home with a tax lien attached, by properly filing and negotiating a tax lien discharge request with the IRS.



# EFFECT OF BANKRUPTCY ON TAX LIENS

## Effect of Bankruptcy on Tax Liens

Filing chapter 7 bankruptcy may be a good option to discharge taxes. After the IRS taxes are discharged, the IRS taxes will be erased. However, tax liens will survive the bankruptcy filing.

The tax lien will remain on the property until either the secured portion of the tax is paid or the Collection Statute End Date expires.

## REAL RESULTS:

ALG Tax Solutions achieved a 98% reduction of taxes owed for a client through the negotiation and preparation of an offer in compromise. In the end, the client only had to pay \$500 to settle a tax debt of approximately \$35,000.



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Credit Score

# REMOVING A TAX LIEN FROM YOUR CREDIT REPORT

Average  
Poor

Income  
\$ 5,125.00  
\$ 2,556.00

## Removing a Tax Lien from Your Credit Report

A filed tax lien can have a significant impact on your credit rating and your ability to secure new loans. Generally, all tax liens filed will be listed on your credit report.

In order to get a tax lien removed from your credit report, you must get the lien withdrawn. It is not sufficient to get the lien released. A lien release means the tax debt was satisfied, but the tax lien will remain on your credit as a satisfied debt. A lien withdrawal will completely remove the tax lien from your credit report.

***Follow these three steps to remove a tax lien from your credit report:***

1. Obtain a lien release
2. Request and obtain a lien withdrawal
  - a. Note: Under specific situations, you don't need a lien release to get a lien withdrawal. (Read more in the lien withdrawal section of this eBook)
3. Submit a copy of the lien withdrawal to each credit bureau reporting the tax lien on your credit report

## IRS FACT:

The IRS doesn't report tax liens directly to the credit bureaus. The credit bureaus gather lien information from the county Register of Deeds.



# **DIFFERENCE BETWEEN IRS AND MICHIGAN TAX LIENS**

## Difference Between IRS and Michigan Tax Liens

There are significant differences on how the State of Michigan treats tax liens compared to the IRS.

1) Michigan will file a tax lien on any amount owed if you don't agree to pay the tax within 90 days, while the IRS will not file a tax lien unless the balance owed is greater than \$10,000. Also, the IRS may agree to not file a tax lien if you set up a specific direct debit installment agreement.

### ***From the Michigan Taxpayer Rights Handbook:***

The Office of Collections will file liens on Real and Personal property to protect the State's interest as a creditor. Liens will be filed even when a taxpayer has made payment arrangements and is current with all payments.

2) Michigan doesn't offer a formal lien withdrawal process. Michigan will withdraw tax liens that were placed improperly, but the state will not withdraw a lien for any other reason.

## IRS FACT:

Watch out for deceiving looking IRS letters. Most IRS letters have a similar format – The IRS address is in the top left hand corner. In the top right hand corner is a notice number, notice date, and either your full social security number or the last four digits of your social security number. [Click here](#) for an example of an IRS letter.



## Difference Between IRS and Michigan Tax Liens Cont'd.

3) Michigan will not remove a tax lien after the Collection Statue End Date (CSED) expires. Based on our interpretation of the state law, Michigan has the authority to remove a tax lien after the CSED, but the state will not exercise that authority.

This is significantly different compared to IRS tax liens since IRS tax liens are removed after the CSED expires. Michigan will not attempt to collect the tax after the CSED, but the tax lien will remain.

Furthermore, Michigan has the right to extend the term of the lien 30 days prior to the expiration of the tax lien. You will continue to owe Michigan taxes until the taxes are fully paid or you negotiate a [Michigan Offer in Compromise](#).

## TAX HELP:

New in 2015 is the [Michigan Offer in Compromise](#). The state will release all associated tax liens upon the acceptance of a Michigan Offer in Compromise.

## TAX HELP:

Every voluntary payment made to pay Michigan back taxes will extend the Collection Statute End Date another 6 years.

