



THE IRS TAX DEBT COLLECTION PROCESS



tax defense
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Disclaimer – This is a free guide that should be used for general information purposes only. It is not affiliated with or endorsed by the IRS. Nothing in this guide should be construed as legal advice. Before enrolling in any tax relief program, we strongly recommend seeking the advice of a tax resolution specialist. Visit www.taxdefensenetwork.com to schedule a free consultation or to learn more about your tax relief options.



Introduction

This guide provides a brief overview of the IRS collection process, including the actions it may take against you when you are unable or unwilling to pay your tax debt. It is for educational purposes only and should not be taken as legal advice. If you are being threatened with IRS collection actions, we strongly encourage you to speak with a tax professional as soon as possible.

What Can Trigger The Collection Process?

Each year, millions of Americans find themselves with a balance due when filing their taxes. If you fail to submit the amount due at the time of filing, the IRS will send you a bill. This first notice will explain how much you owe, including any penalties and interest, and request payment in full. This is the start of the collection process.

There are many reasons why the IRS may initiate the collection process, such as:

- ✘ You did not file a tax return on time.
- ✘ The balance due was not paid in full.
- ✘ Penalties and interest were added to your balance.
- ✘ A tax audit resulted in additional tax debt.
- ✘ You did not respond to a notice or never received one (due to a change of address).

If your taxes remain unpaid, the IRS will use any means at its disposal to collect the debt. In general, the IRS has 10 years (known as the statute of limitations) to collect back taxes from the date of assessment. As time runs out, the collection actions will become more aggressive – unless you take steps to remedy your tax debt.

The IRS Collection Process

The IRS is the largest collection agency in the United States. Although it may have relaxed collection efforts during the COVID-19 pandemic, it's now ramping up tax enforcement and targeting those who owe back taxes.

Steps From Billing to Collection

There are three steps the IRS takes from initial billing until it moves to more aggressive collection actions.

1

Initial Billing

Based on your tax return or an SFR (Substitute for Return), the IRS will send you a bill ([CP14](#)) detailing what you owe, plus any penalties and interest, and how to pay it.

2

Subsequent Billing

If you do not pay, the IRS will send additional notices alerting you to the tax debt owed. This may include [CP501](#), [CP503](#), and [CP504](#) (Notice of Intent to Levy).

3

Final Notice

After you receive the "Final Notice, Notice of Intent to Levy and Notice of Rights to a Hearing" ([LT11 or L1058](#)), the IRS will move forward with more aggressive collection actions.

Notices are typically sent out every five weeks, which means you may have several months before the IRS attempts to collect your back taxes through other methods.

IRS Collection Methods

If you ignore the final demand for payment and do not take any steps to address your existing tax debt, however, the IRS will pursue other ways to collect your back taxes, including:

-  [Liens](#)
-  [Levies](#)
-  [Wage Garnishment](#)

In some cases, you may have a small window of time to stop or prevent these actions from happening. Don't risk losing your paycheck or your property. Contact a tax professional before things escalate to this level.

IRS Liens

An IRS tax lien is a legal claim against your current and/or future property. This may include but is not limited to your home, vehicles, bank accounts, retirement accounts, or even your business. A tax lien does not give the IRS ownership of your property. It does, however, give the IRS the right to receive proceeds from the sale of your property.

Tax liens arise automatically when a taxpayer fails to pay their back taxes after receiving notices and the final demand. When the IRS files a Notice of Federal Tax Lien (NFTL) with local and/or state authorities, it is notifying all other creditors of its interest in the property. Although tax liens are no longer included in your credit report, they are part of public records and can make securing a loan and other credit difficult. Employers, landlords, and others may also access this information.

Once a tax lien is in place, it will typically remain in place until you pay the tax debt, or it becomes unenforceable due to the statute of limitations. Under certain circumstances, however, the IRS may also release, withdraw, or discharge a tax lien.

If you receive a Notice of Federal Tax Lien, contact a tax professional ASAP!

Releasing, Withdrawing, or Discharging a Lien

A **release** of a federal tax lien means that the IRS has cleared both the lien for your tax debt and the public notice. This generally happens when one of the following occurs:

- ✚ You paid your tax debt in full.
- ✚ Payment of your taxes is guaranteed by a bond.
- ✚ The IRS accepted your Offer in Compromise, and you met the payment terms.
- ✚ The statute of limitations for collecting the debt has expired.

A **withdrawal**, on the other hand, is like the lien never existed. This is done for only a few reasons and rarely occurs. If you owe less than \$25,000 and enter into a direct debit payment plan for 72 months, however, you may request a lien withdrawal after the third payment clears.

You may be able to remove specific property from a tax lien through a **discharge**. The IRS may grant a discharge when:

- ✚ The property in question is worthless.
- ✚ Your other property is worth double the amount you owe.
- ✚ You agree to sell the property and place the proceeds in escrow.
- ✚ A third party provides a bond or deposit equal to the IRS lien interest.

A discharge may also be granted if you pay an amount equal to the interest in the property.

IRS Levies

An IRS levy is much more serious than a tax lien. It gives the IRS the right to take possession of your property and sell it to pay off your tax debt. A levy will generally be issued only after the following things have happened:

- ✚ The IRS assessed the tax and issued a bill,
- ✚ You neglected or refused to pay the taxes owed, and
- ✚ You received a Final Notice of Intent to Levy and Notice of Your Right to a Hearing.

You should receive the Notice of Your Right to a Hearing at least 30 days before the IRS seizes your property. In certain situations, however, you may not receive the hearing notice. This generally happens when the collection of the tax is in jeopardy, or a state tax refund is anticipated. If a levy is served under these exceptions, the IRS will send a letter explaining the seizure and your appeal rights after the levy is issued.

What Property Can The IRS Take?

There is a wide variety of personal property the IRS can seize under a levy.

Wages, Salary, and Commissions

If the IRS levies your wages, salary, or commissions, it will continue to take your paychecks until the debt is paid in full, the statute of limitations for collections has run out, or you have made other payment arrangements.

Financial Accounts

When the IRS issues a bank levy, the bank will hold any available funds (up to the amount owed to the IRS) and give you 21 days to resolve the issue. If no resolution is reached, the money (plus interest) is sent to the IRS after the 21-day hold. Examples of financial accounts the IRS can levy include:

- ✚ Checking
- ✚ Savings
- ✚ Retirement (IRAs, 401(k) accounts, etc.)
- ✚ Accounts receivable
- ✚ Stocks
- ✚ Bonds
- ✚ Cash-value life insurance policies

Tangible Property

Your home, vehicles, jewelry, artwork, and just about anything else of value are up for grabs if you owe the IRS. There are certain limitations, however, on the seizure of your primary residence and certain business assets. Before selling the property, you'll receive a fair market value determination and a notice of sale from the IRS. If there's any money left after paying your tax debt, the IRS will explain how to get a refund.



Wage Garnishment

Wage garnishment, also known as a wage levy, is a common collection method used by the IRS. Unlike most other levies, however, wage garnishment is not a one-time event. If the IRS seizes your wages due to unpaid taxes, it will continue to take your paychecks until:

- ✚ You make other payment arrangements to cover your tax debt,
- ✚ The amount owed is paid in full, or
- ✚ The wage levy is released.

A portion of your wages may be exempt from garnishment. This is determined based on the standard deduction and number of dependents you are allowed for the year the wage levy is served.

Your employer will provide you with a Statement of Dependents and Filing Status to complete. It must be returned within three (3) days, or the IRS will figure your exempt amount as though you are married filing separately with no dependents. If you collect wages from more than one source, your additional income could be levied at 100 percent. This may include, but is not limited to, commissions and bonuses that are paid separately from your regular paycheck.

If the IRS determines that wage garnishment will create a financial hardship, it may release the wage levy. Your tax debt, however, will remain until you make arrangements to resolve it.

Private Collection Agencies

In some cases, the IRS will assign your delinquent account to a private debt collection agency. When this happens, you will receive notification of the assignment, as well as [Publication 4518](#), *What You Can Expect When the IRS Assigns You to a Private Collection Agency*. The notice will contain the name and contact information of the collection agency. It will also include a unique 10-digit Taxpayer Identification Number that you'll need when communicating with the agency. You can learn more about private debt collection and the IRS by visiting <https://www.irs.gov/businesses/small-businesses-self-employed/private-debt-collection>.

What To Do If You Get an IRS Tax Bill

If you receive a bill from the IRS, don't ignore it. Read over the letter/notice and pay close attention to any deadline dates. If your notice/letter requires a response by a specific date, you'll want to comply to ensure penalties and interest are minimized, and your appeal rights are preserved. Always keep a copy of the correspondence for your records.

If You Agree With The Information...

Once you review the bill and determine the information is accurate, you'll need to pay the bill in full by the due date. If this is not possible, pay as much as you can to reduce penalties and interest fees. Next, you'll want to make arrangements to pay the remaining balance.

Depending on your specific situation, you may qualify for:

- ✚ **An IRS installment agreement.** This allows you to pay off the remaining balance over several months or years.
- ✚ **Offer in Compromise.** In some cases, you may be able to settle your tax debt for less than you owe.
- ✚ **Currently Not Collectible (CNC) status.** If you are facing extreme financial hardship, the IRS may suspend collection actions against you and not require any payment until your situation improves.

If you're currently going through bankruptcy, you should contact the IRS immediately. You can call the number on the letter/notice or 1-800-973-0424. Although the IRS won't eliminate the tax debt owed, it may temporarily suspend collection actions.

To determine which course of action is best for you, speak with a tax professional. They can review the specifics of your case and help you find the best way to resolve your tax debt.

**Don't panic if you receive a letter/notice from the IRS.
Call Tax Defense Network for help!**

If You Disagree With The Information...

If you believe the information in the letter/notice is inaccurate, call the number on your letter/notice or visit your local IRS office. You'll need to provide evidence to support your claim that the assessed tax amount is incorrect. If the IRS determines there was an error, your account will be adjusted, and you'll receive a revised bill.

Tax Defense Network Can Help

Dealing with tax debt can be scary, especially if you are facing IRS collection actions. But, you don't have to deal with the IRS alone.

Since 2007, Tax Defense Network has helped thousands of taxpayers find affordable solutions for their tax problems. Our team of experienced tax professionals can provide expert advice and help guide you through the IRS collection process.

Tax Defense Network Tax Debt Services

The first step in your journey to tax debt freedom begins with our free initial consultation. After we get to know you and the specifics of your case, we'll work to get you back on track with the IRS. This may include one or more of the following tax debt services:

- **Tax lien removal**
- **Tax levy removal**
- **Wage garnishment assistance**
- **Installment agreement setup**
- **Offer in Compromise negotiation**
- **Preparing & filing past due tax returns**

If you received an IRS collection notice/letter, contact us as soon as possible to ensure your rights are protected. You have a limited window of time to address the issues at hand. Our team has the expertise and experience needed to get you the best results.

Visit TaxDefenseNetwork.com to schedule your free consultation today!

