# Passports and Tax Debt

## What to do if the IRS grounds your client

By Randall Brody, EA

As a tax professional, you're no stranger to navigating turbulence. You're the captain of a financial aircraft, directing clients through foggy regulations, over towering tax codes and around stormy IRS encounters. One tempest that might not be on your radar, however, is the grounding of your client's passport due to unpaid tax liabilities. Imagine the shock of your clients when they're told they can't jet off to that dream vacation because they're on the IRS's naughty list.

This article provides a basic introduction to the complex interplay between taxes and travel rights.

## Expanded power

The IRS, traditionally associated with calculating taxes and enforcing compliance, has seen its powers significantly expand in recent years. With passage of the *Fixing America's Surface Transportation (FAST) Act* in 2015, the IRS gained the authority to influence an individual's passport privileges.

If your client owes a significant tax debt, termed "seriously delinquent," they might have unexpected consequences. If your client neglects any tax debts, their international travel plans could be upended.

## The CP508C

In layman's terms, the CP508C notice is the IRS's version of a reality check. This notice means the IRS has identified your client's tax debt as meeting the definition of seriously delinquent in IRC §7345, and provided that information to the U.S. Department of State. The U.S. Department of State generally will not renew the passport or issue a new passport after receiving this certification from the IRS, and they may revoke or place limitations on your client's current passport.

For a taxpayer, every envelope that arrives in the mail can feel like an unwelcome gust of wind, ready to throw them off course. A CP508C notice is a significant red flag, but it doesn't mean the end of your client's journey. Your clients have rights, and they can exercise them to tackle their tax debts. As their tax professional, you can help them understand these rights and how to use them in their favor.

### The client's role

The IRS advises those who receive a CP508C notice to:

- Read it carefully, as it explains the amount due, due date, what you need to know, and what you need to do to prevent the U.S. Department of State from denying, revoking or limiting your passport.
- If you have any questions or disagree with the notice, contact the IRS within 30 days from the date of the notice at the toll-free number at the top right corner.
- Keep the notice in your permanent records.

### The tax professional's role

As a tax professional, your role is multi-faceted. You aren't just a compliance officer; you're also a trusted advisor who guides your clients through their financial journey. This involves addressing their immediate concerns, such as resolving tax debts and helping them plan for the future.

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When dealing with tax-related passport issues, your knowledge and experience can make all the difference. You can provide valuable insights into navigating the tax debt resolution process, formulating an effective response to IRS notices and managing communication with the IRS.

Start by helping your client craft a response that effectively communicates their circumstances and intentions to resolve the debt. Remember, communication is key. The IRS is more likely to work with taxpayers who are proactive in settling their debts.

## The path to resolution

Tax resolution can be a long and complex process, especially when it comes to seriously delinquent tax debts. Working with you, your clients can establish a feasible payment plan that suits their financial circumstances, ensuring their rights are protected and their tax debts do not unduly burden them. Let's look at a few strategies.

Before anything else, understand the implications of a CP508C Notice. Recognize that it's a signal from the IRS that your client's tax debt has been declared as "seriously delinquent." It means the IRS has reported this to the State Department, which could affect your client's passport privileges.

Review your client's financial records to confirm the validity of the tax debt in question. The "seriously delinquent" tax debt threshold is adjusted annually for inflation; currently, the threshold is $59,000. The IRS includes penalties and interest in this calculation.

Certainly, understanding the nuances of the exceptions to the definition of "seriously delinquent tax debt" is essential for any taxpayer concerned about potential passport denial or revocation. The term "seriously delinquent tax debt" might sound intimidating, but there are specific exceptions to this classification, as outlined in §7345(b)(2). These exceptions ensure that certain taxpayers do not unjustly lose their passport privileges.

To start, a seriously delinquent tax debt does not encompass a debt being actively addressed through an installment or compromise agreement. Nor does it include a debt where collections have been suspended because the individual has requested a collection due process hearing or has sought innocent spouse relief.

Furthermore, the IRS has outlined additional scenarios where it will refrain from certifying a debt as seriously delinquent. These scenarios include taxpayers in bankruptcy, victims of tax-related identity theft, individuals whose accounts are deemed currently non-collectible due to hardship, those residing in federally declared disaster areas, and those who have specific requests pending with the IRS (like an installment agreement or an offer in compromise). Importantly, for our brave individuals serving in combat zones, the IRS will delay notifying the State Department about their seriously delinquent tax debt. Thus, their passport remains untouched during their period of service. This comprehensive approach ensures that taxpayers dealing with specific hardships or actively addressing their debts are not unduly punished.

Communicate with the IRS on behalf of your client to clarify the nature and amount of the outstanding debt and the best ways to address the situation. Be proactive and cooperative, since the IRS tends to be more amenable to taxpayers who try to resolve their debts.

There are several ways to resolve a seriously delinquent tax debt, including:

- **Pay the debt in full.** The most straightforward way out of this quagmire is to pay the debt in full. Now, we understand not everyone has a pot of gold at the end of a rainbow. But if they do, this might be a good time to cash it in.
- **Enter into a payment plan with the IRS.** If full payment is out of reach, setting up an installment agreement with the IRS is a great way to chip away at the debt. It's like buying a car on installment but with less joy and no new car smell. An installment agreement will allow the taxpayer to pay their debt over time. It's important to ensure that the terms of this agreement are manageable for your client and that they can make these payments consistently.
- **Make an offer in compromise with the IRS.** In some cases, the IRS may accept a reduced sum to settle the debt. This isn't a garage sale, though; professional guidance is crucial to navigate this negotiation. This is the IRS's version of "Let's Make a Deal." You offer a lump sum or short-term payment plan that's less than the full debt; if the IRS accepts it, your client's debt is settled. However, it's important to note that not everyone qualifies for an offer in compromise. The IRS will examine your client's income, expenses, asset equity and ability to pay when determining whether they qualify.
- **Request innocent spouse relief**. Clients whose tax debt is primarily due to the actions of a current or former spouse may be eligible for innocent spouse relief. It's a tricky road, but a worthwhile avenue to explore.

Once the tax debt is resolved (either fully paid or arranged into a payment plan), the IRS will reverse the certification within 30 days and inform the State Department of the resolution. However, it's good practice to follow up with the IRS to ensure this has been done.

## When to enlist additional help

Now that we've discussed possible options, let's address the elephant in the room. These options aren't exactly easy. They involve rigorous negotiation, an understanding of complex tax laws and the patience of a saint. If you are an unenrolled preparer, it's an uphill battle to wrestle with these issues alone.

This is where you need to enlist the aid of a third party. Calling on the help of a credentialed tax professional (i.e., EA, CPA) is key to successfully resolving your client's issue. These professionals have specialized knowledge, IRS representation rights and an uncanny ability to decode tax jargon into everyday language.

If you're starting to feel like you're out of your depth, it might be time to consider partnering with one of these experts. After all, it's not just about solving the problem at hand, it's about providing the best service possible to your clients. If you're working with a client facing a passport revocation, partnering with an EA or CPA could be just the ticket.

## Preventing future turbulence

As a tax professional, your role goes beyond helping your clients become compliant with tax laws. It's also to guide them toward proactive tax and financial planning. After all, preventing a problem is always easier than trying to fix it.

Guide your clients toward better financial habits. Help them understand the importance of timely tax payments and the implications of ignoring their tax obligations. Teach them about the IRS's power to affect their passport status and how to avoid falling into the "seriously delinquent" category.

Understanding the factors that can trigger passport issues due to tax debts is crucial. This includes:

- **Knowing the threshold.** The FAST Act sets a threshold of $59,000 for seriously delinquent tax debts, adjusted annually for inflation. Inform your clients about this limit and help them understand its implications.
- **Understanding the legal processes.** Guide your clients through the legal processes of handling seriously delinquent tax debts. This includes understanding IRS notices, formulating responses and navigating the resolution process.
- **Planning for the future.** Encourage your clients to proactively manage their tax obligations. This includes making timely payments, seeking professional advice for complex tax situations and planning for the future to avoid tax delinquency.

## Conclusion

Tax debt doesn't have to ground your clients. With a deep understanding of the laws, an active approach and a solid partnership with credentialed professionals, if needed, you can help your clients keep their passports — and their dreams of world travel — alive. Remember, taxes might be inevitable, but passport revocation due to tax debt? That's a destination we can avoid. ▸

### About the author

Income tax expert Randall Brody, founder of Tax Samaritan and Peace of Mind Tax Help, specializes in solving tax problems for expats. Brody has removed over $800 million in tax debt for more than 9,500 taxpayers. Visit https://www.TaxSamaritan.com/TaxTips to subscribe to his free tax tips and advice.

## Additional tips

- Even if a client has received a CP508C notice, their passport won't be revoked immediately. There's a window of opportunity to resolve the issue.
- Innocent spouse relief, installment agreements, offers in compromise are terms that might sound like legal mumbo-jumbo to your clients. Breaking it down into simple, relatable terms can ease their anxiety.
- Encourage your clients to keep you informed about any IRS notices they receive. Prompt action can prevent small tax issues from escalating into massive headaches.
- If not already a credentialed preparer, consider enrolling in a credentialing program yourself. Representing your clients before the IRS can elevate your services to a new level.