



Federal Liabilities Subject to Offset from a Federal Refund

By Zachary Lyda, Esq.

The Department of Treasury's Bureau of the Fiscal Service (BFS), through the Treasury Offset Program (TOP), is authorized to intercept federal tax refunds to satisfy certain delinquent debts. This authority is derived from multiple statutes, including 26 U.S.C. § 6402 and 31 U.S.C. § 3720A.

Federal Liabilities Subject to Offset

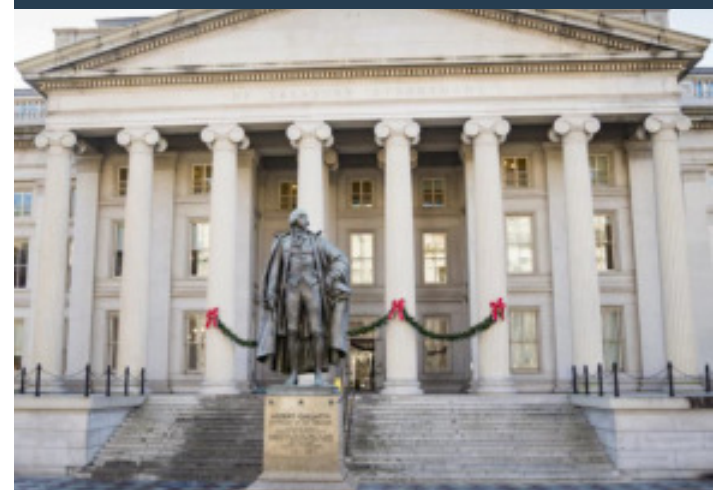
Administered by the Department of Treasury's BFS. Refunds may be offset to pay the following liabilities:

- Past-Due child support¹
- Federal agency non-tax debts²
- State income tax obligations³
- Unemployment compensation debts owed to a state, specifically:
 - Compensation paid due to fraud⁴
 - Contributions owing to a state fund that weren't paid⁵
 - Benefit overpayments due to a claimant's failure to report earnings⁶
 - Delinquent employer unemployment compensation taxes⁷

Federal law requires all State Workforce Agencies (SWAs) to participate in TOP to recover these categories of unemployment compensation debt. This mandate was established through Public Law No. 110-328 and reinforced by the Bipartisan Budget Act of 2013 (Pub. L. 113-67). As clarified by IRS guidance issued on November 5, 2015, all entities defined as a "person" under 26 U.S.C. § 7701(a)(1) are subject to recovery of these debts under 26 U.S.C. § 6402.⁸

Types of Payments Subject to Offset

Info@AskFrost.com





Depending on the type of debt owed, TOP may offset a wide range of federal and state payments, including:⁹

- Tax refunds
- Wages, including military pay
- Retirement payments, including military retirement and OPM annuities
- Contractor or vendor payments
- Travel advances and reimbursements
- Certain federal benefit payments, such as:
 - Black Lung (Part B) benefits
 - Railroad Retirement benefits (except Tier 2)
 - Social Security benefits (excluding Supplemental Security Income)
- Other federal payments, unless specifically exempted
- Certain state payments

Injured Spouse Claim

If a joint return is filed and the debt subject to offset is owed solely by one spouse, the non-liable spouse may request the return of their portion of the refund from the IRS.¹⁰

SBA Debt Collection via IRS Tax Refund Offset

Under 13 C.F.R. § 140.2(b)(3), the Small Business Administration (SBA) may request that the IRS reduce a debtor’s tax refund by the amount of a delinquent debt. This offset is authorized by 31 U.S.C. § 3720A. SBA debts eligible for offset include those arising from loans made or guaranteed by the United States, as well as debts from fees, leases, rents, royalties, services, sales of property, overpayment, fines, penalties, damages, interest, and forfeitures.¹¹

A debt is considered past-due if it has been reduced to judgment, accelerated, or has been delinquent for at least 90 days. SBA must first pursue administrative and salary offsets before initiating a tax refund offset.¹²

Government Pension Offset (GPO) – Repealed

The Social Security Fairness Act of 2023 (P.L. 118-273), signed into law on January 5, 2025, repealed the GPO for benefits payable for January 2024 and later. Prior to repeal, the GPO reduced Social Security spousal or survivor benefits for individuals receiving a government pension based on non-covered employment (i.e. work not subject to Social Security taxes).¹³

Although GPO no longer applies to benefits payable from January 2024 onward, it previously impacted refund offsets when Social Security benefits were used to satisfy obligations such as Medicare Part B premiums.¹⁴ The repeal does not affect other offset mechanisms under TOP.

Quick Reference: Treasury Offset Program

Payment Offset or levied	Debt Collected	Amount Deducted
Federal tax refund	Federal non-tax debts	100%
	Child Support debts	
	State income tax debts	
	State Unemployment debts	
Social Security: Black Lung; Railroad Retirement (benefit payments; may not be offset for child support or other State debts)	Federal non-tax debts	Lesser of 15% or amount over \$750,000
	Federal tax debts (levy)	15%
	Federal non-tax debts	15%
	Child support debts	50%-65%
Federal salary	Federal tax debts (levy)	15%
Federal non-tax non-salary non-benefit (includes civil service retirement, travel, vendor, etc.)	Federal non-tax debts	100% except as otherwise provided by law (25% for retirement)
	Child support debts	
	Federal tax debts (levy)	100% except as otherwise provided by law
	State debts	
State payments (tax refunds, vendor, etc.)	Federal non-tax debts	100%





Quick Reference: Treasury Offset Program with Statutory and Regulatory Authority16

Payment Offset or levied	Debt Collected	Statutory Authority	Regulatory Authority	Amount Deducted
Federal tax refund	Federal non-tax debts	26 U.S.C. § 6402(d) 31 U.S.C § 3720A	31 C.F.R. § 285.2	100%
	Child Support debts	26 U.S.C. § 6402(c) 42 U.S.C. § 664	31 C.F.R. § 285.3 45 C.F.R. § 303.72	
	State income tax debts	26 U.S.C. § 6402(e)	31 C.F.R. § 285.8	
	State unemployment compensation debts	26 U.S.C. § 6402(f)		
Social Security: Black Lung; Railroad Retirement (benefit payments; may not be offset for child support or other State debts)	Federal non-tax debts	31 U.S.C. § 3716	31 C.F.R. § 285.4	Lesser of 15% or amount over \$750,000
	Federal tax debts (levy)	26 U.S.C. § 6331(h)	N/A	15%
	Federal non-tax debts	5 U.S.C. § 5514 31 U.S.C. § 3716	5 C.F.R. § 550.1101 31 C.F.R. § 285.7	15%
Federal salary	Federal non-tax debts	31 U.S.C. § 3716(h)	31 C.F.R. § 285.1 State law & regulations HHS procedures	50%-65%
	Federal tax debts (levy)	26 U.S.C. § 6331(h)	N/A	15%
Federal non-tax non-salary non-benefit (includes civil service retirement, travel, vendor, etc.)	Federal non-tax debts	31 U.S.C. § 3716	Federal Claims Collection Standards (31 C.F.R. Parts 900-904) 31 C.F.R. § 285.2 Creditor agency regulations	100% except as otherwise provided by law (25% for retirement)
	Child support debts	31 U.S.C. § 3716(h)	31 C.F.R. § 285.1	

