



What To Do if You Can't Pay Your Taxes



Wehner Accounting & Tax, Inc.
2744 Del Rio Place, Ste. 200
Davis, CA 95618
530-908-1761 - phone
530-231-0284 - fax
www.wehnercpa.com

What To Do If You Can't Pay Your Taxes

Do not panic! Here are some ideas for getting your tax bill paid and minimizing interest and penalties.

File your tax return on time. Individual income taxes are due and payable in full on April 15. If you expect to owe, you may be tempted to postpone filing until you have the money or decide not to file the return at all.

- If you cannot file your personal tax return by April 15, you can apply for an automatic six-month extension of time to file. Tax returns filed after April 15 are subject to the late-filing penalty if no extension is in place.
- The automatic six-month extension is obtained by filing Form 4868. This is only an extension of time to file, not of time to pay.
- Be sure to file the return before the extension expires. Missing the tax return due date (including extensions) makes you subject to the late filing penalty, which can be as much as 25% of the amount of tax due.
- To avoid the late-payment penalty, pay at least 90% of your tax liability by April 15 and pay in full by the extension date of October 15. Otherwise, the late payment penalty can also be as much as 25% of the amount due.

Pay as much as you can with your tax return. Even if you cannot pay the entire amount, pay as much as possible when you file your tax return.

- Every dollar you pay reduces the late payment penalty and cuts down on interest charges.
- The same principle holds if you owe because of an audit or IRS notice. Pay as much as you can as early as you can.

Consider getting a loan or using your credit card to pay your tax balance in full. The interest rate and fees charged by a lender or credit card company might be lower than the interest and penalties the IRS can charge you.

- Be sure to calculate the total cost of a bank or credit card loan before choosing this option.
- The bank or credit card interest you pay will generally not be tax deductible.

Ask the IRS for more time to pay. The IRS may grant you a short additional period (60–180 days) to pay your taxes in full. Interest and penalty accrue on the unpaid amount.

- Call the IRS at 800-829-1040, or
- Use the IRS Online Payment Agreement application at www.irs.gov.

Request an extension of time to pay by filing Form 9465, *Installment Agreement Request*. You may attach Form 9465 to your tax return or file it by itself. Do not file Form 9465 if you can pay your entire balance due within 180 days or if you request an Online Payment Agreement.

- On Form 9465, you specify the payment amount and monthly due date. You may make an initial payment with Form 9465. If the IRS approves your request, you can have up to 72 months to pay. Interest accrues during the payment period, but penalties might be abated.
- If the amount you owe is between \$25,000 and \$50,000, you must agree to payments by direct debit and provide bank information.
- If you owe \$10,000 or less, and the IRS agrees that you are not able to pay in full, your request will be automatically approved if all the following are true.
 - You agree to pay in full within three years.
 - You have no other IRS installment agreements in place.
 - You have filed on time and paid your taxes for the previous five years.
 - You agree to comply with the tax laws.
- If you owe more than \$50,000, you must attach Form 433-F, *Collection Information Statement*, to Form 9465 in order to determine the monthly payment amount.



What To Do if You Can't Pay Your Taxes

Installment Agreement User Fees

Direct debit via online payment agreement.....	\$31
Direct debit without online payment agreement.....	\$107
Online payment agreement without direct debit.....	\$130
No online payment agreement and no direct debit.....	\$225
Change an existing installment agreement.....	\$89
Installment agreements reinstated or restructured through an online payment arrangement.....	\$10
Low-income reduced fee by IRS notice or Form 13844, <i>Application for Reduced User Fee for Installment Agreements</i>	\$43*

* For a taxpayer with AGI at or below 250% of the federal poverty level, the IRS will waive or reimburse user fees if certain conditions are met.

Request an extension of time to pay using the IRS Online Payment Agreement application at www.irs.gov.

Instead of filing Form 9465, you may set up an installment agreement online. The terms of the IRS Online Payment Agreement are similar to the terms for Form 9465.

You are eligible to apply online if:

- You owe no more than \$50,000 in combined taxes, interest, and penalties, and
- You have filed all required tax returns.

Keep your installment agreement.

- Make your payments on time.
- Stay current in your tax filings.

There may be a reinstatement fee if your plan goes into default. If you receive a notice of intent to terminate your installment agreement, contact the IRS immediately. Generally, the IRS will not take enforced collection actions:

- When a payment plan is being considered,
- While a payment plan is in effect,
- For 30 days after a request is rejected or terminated, or
- During the period the IRS evaluates an appeal of a rejected or terminated agreement.

Consider making an offer in compromise. After you have considered all payment options, you may find that you cannot pay your tax debt or that doing so will create financial hardship.

- **Offer in compromise (OIC).** An offer in compromise allows you to settle (compromise) your tax debt for less than the full amount you owe. The IRS considers your unique set of facts and circumstances, including:
 - Your true ability to pay,
 - Your income and expenses, and
 - Your equity in your assets.

Generally, the IRS will not accept an offer if you can pay your tax debt in full with an installment agreement or lump sum payment.

- **Eligibility.** In order for the IRS to consider your offer in compromise, you must be current with all tax filing and payment requirements and may not be in any open bankruptcy proceedings. See the IRS online pre-qualifier tool at: https://irs.treasury.gov/oic_pre_qualifier/

- **Making an offer.**

- Complete Form 656, *Offer in Compromise*,
- Complete Form 433-A (OIC), *Collection Information Statement for Wage Earners and Self-Employed Individuals*, or Form 433-B (OIC), *Collection Information Statement of Businesses*,
- Submit the nonrefundable \$205 application fee, unless low-income certification is met,
- Submit the nonrefundable initial offer payment, unless low-income certification is met, and
- Select a payment option.

Payment Options

Option	Requirements
Lump sum cash	<ul style="list-style-type: none"> • 20% of the total paid with offer. • Remaining balance paid in five or fewer payments and within five months of acceptance of the offer.
Periodic payment	<ul style="list-style-type: none"> • First payment paid with offer.* • Remaining balance paid monthly within six to 24 months. • Monthly payments continue while IRS is evaluating offer.*

* Except individuals meeting the low-income certification guidelines.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

Copyright © 2024 Tax Materials, Inc.
All Rights Reserved