

**Options if taxpayer cannot pay the full balance due
(These options require taxpayer to file the return or extension by 4/18/11 to avoid the 5.0% penalty for NOT FILING)**

#	Payment option / Description	Fees / Cost	Taxpayer Action Required	Impact on Credit Score	Advantages / Disadvantages
1	<p>Installment Agreement with IRS - Online Payment Agreement (OPA) or Form 9465 for mailed-in application</p> <p>Installment agreement is available to taxpayers who owe \$25,000 or less in combined tax, penalties, and interest.</p> <p>Small businesses who owe \$25,000 or less can enroll in Direct Debit Installment Agreement for repayment over 24 months.</p>	<ul style="list-style-type: none"> - Application fee of \$105, or \$52 if payments are made electronically - \$43 for low-income taxpayer - Penalty on unpaid balance of 0.25% per month until fully paid if payments are made on schedule (a reduction from the 0.5% per month "failure to pay" penalty rate without an installment agreement. - Interest at short term federal rate plus 3% (interest may change each quarter). Approximate total interest is around 3.6% 	<ul style="list-style-type: none"> - Complete an online payment agreement (OPA) or Form 9465. - Installment agreement should not be made if taxpayer can pay balance due in full within 120 days (see item #3 below) - Submit above form(s) and Form 433-E required if balance exceeds \$25,000 - To apply for lower application fee, submit Form 13844. 	None	<ul style="list-style-type: none"> - Application is accepted automatically if balance due is no more than \$10,000, returns for past 5 years have been timely filed, IRS determines that taxpayer cannot pay tax owed when due, and taxpayer agrees to pay full amount within 3 years. - Payroll deductions may be used for payments (Form 2159, Payroll Deduction Agreement) - Generally, IRS can void agreement if payments are not made on schedule; however IRS will show leniency during financial hardship period such as unemployment. - Small business Direct Debit Installment Agreement available to taxpayers who file either as an individual or as a business.
2	Online debit/credit card	<ul style="list-style-type: none"> - Varies - Approximately \$3.89 to \$3.95 (debit card) or 1.90% to 2.35% of tax balance due (credit card) 	See IRS website at http://www.irs.gov/efile/article/0,,id=101316,00.html	For credit card payment, higher credit card balance could negatively impact credit score	<ul style="list-style-type: none"> - Convenient - Gives taxpayer greater control and flexibility for making payments - Taxpayer may earn points, miles, or other credit card rewards - Credit card fees to pay balance due are deductible as itemized deductions (subject to 2% of AGI) - May not be appropriate for taxpayer who already has unmanageable credit card debt
3	<p>File an "extension to file" with Form 4868 by 4/18/11 and pay balance due by the extension due date of 10/17/11.</p> <p>However, 90% of tax liability must be paid by 4/18/11</p>	<p>No late payment penalty if 90% of tax liability is paid by 4/18/11</p> <p>Interest applies until the balance is fully paid. Interest is short term federal rate plus 3% (interest may change each quarter). See IR 2011-17.</p> <p>You either must file your return or an extension to file by 4/18/11. Otherwise, you will incur a failure to file penalty of 5.0% each month (note b). Failure to pay penalty is ½ of 1% of any tax not paid by 4/18/11.</p>	<ul style="list-style-type: none"> - Make sure at least 90% of tax liability paid by 4/18/11, either through withholding or estimated tax payments. - File Form 4868 - File income tax return by 10/17/11 	None	<ul style="list-style-type: none"> - Relatively easy and convenient - Can file return any time until extended due date (10/17/11) - Avoids late filing penalty - 90% of tax liability must have been paid by 4/18/11 to avoid late payment penalty (therefore, tax liability must be calculated by that date) - Interest rate applies

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4	Short-term extension (up to 120 days) to pay balance due	- No fee - Penalty of 0.5% per month on unpaid balance - Interest at short term federal rate plus 3% (interest may change each quarter)	- Call IRS (1-800-829-1040) OR - Apply online through Online Payment Agreement	None	- Convenient for taxpayers who need a short time to pay balance due - Taxpayer avoids installment payment application fee (see #1) - Taxpayer does not avoid late payment penalty and interest
5	Apply for hardship extension to pay tax due	- No penalties, but interest calculated at short term federal rate plus 3% (interest may change each quarter)	File IRS Form 1127 , Application for Extension of Time for Payment of Tax Due to Undue Hardship	None	- No cost to apply - Can be filed only if payment of tax would cause financial hardship - Taxpayer must include statement of assets and liabilities
6	Personal loan	Depends on source	Ask / apply for loan	- Yes, if loan from bank - No, if loan from family or friends	- Could be inexpensive source of cash, depending on source
7	Borrow from 401(k) plan if plan allows Generally, limited to 50% with \$50,000 maximum; must be repaid within 5 years	Possible minimal fee but plan must charge interest	Check with plan administrator	None	- If plan allows, a loan could be a ready and inexpensive source of cash - Negative impact on future retirement savings if loan not repaid - Loan treated as taxable distribution if taxpayer leaves company or plan terminates.
8	Offer in compromise (OIC) – agreement between taxpayer and IRS that settles taxpayer’s tax liability for less than the full amount owed. Taxpayers with annual income less than \$100,000 can participate	- \$150 application fee - Must pay first payment or 20% of lump-sum offer with OIC request unless income guidelines met	File Form 656 and Form 433-A (or Form 433-F if more than \$25,000 but less than \$100,000 is owed)	None	- Taxpayer may be able to satisfy tax debt for less than full amount of tax liability - Taxpayer must provide all personal financial information to IRS, not just tax return data - Only about 20% of applications are accepted by IRS - May be considered only if all other payment options have been exhausted - Taxpayers with annual incomes less than \$100,000 can participate if their tax liability is less than \$50,000

What if taxpayer does not pay or attempt to pay balance due?

- IRS has shown a willingness to work with taxpayers in financial distress who have trouble paying a tax bill (note various options above). Recently, IRS has shown more leniencies in late tax payments under an installment agreement. IRS has also acknowledged the decline in home values as an asset when a taxpayer prepares an offer-in-compromise request.
- However, penalties for not *filing* a tax return can be severe. The late filing penalty is 5% of the balance due for each month that the return is not filed, up to a maximum of 25%. Then, the rate is .5% per month for the next 45 months.
- Other IRS remedies for non-payment of taxes can be assessed, but only if numerous collection attempts are unsuccessful
 - Lien – IRS will place a lien on the taxpayer’s property. A lien is a legal claim on the property as security for payment of tax debts
 - Levy – IRS will seize taxpayer’s property to satisfy tax debt