

WHAT IF YOU CAN'T PAY THE FEDERAL TAXES YOU OWE?

You have several options if you find yourself unable to pay all or part of your federal tax liability. Failure to file your return (or extend it) can result in a failure to file penalty, a failure to pay penalty and interest.

Send in Your Return

Even if you don't have enough money to pay all of the taxes due, you need to send in your return by the filing deadline. You can also file an extension request to stop the failure to file penalty.

The failure to file penalty is 5% for each month that a return is late, but not more than 25% of your tax owed. The failure to pay penalty is ½ of 1% of your unpaid taxes for each month after the due date that the tax is not paid. This penalty does not apply during the automatic 6 month extension of time to file period if you paid at least 90% of your actual tax liability by the due date of your return and pay the balance when you file the return.

If you send in your return or file an extension (even without a payment) you will avoid the failure to file penalty.

If You Need Just a Little Time

Maybe you just need to get your next pay check or wait a few weeks until the money is available. When you file your tax return, the IRS will check to see if you have paid the correct amount of taxes owed. If you have not paid all that you owe, you will receive a bill called a *Notice of Tax Due and Demand for Payment*. It will state how much you owe plus any additional interest.

If you know you'll have the money shortly after the filing deadline, it may make sense to wait to pay until you receive the bill from the IRS. The interest and penalty may be lower (10 % per annum) than the rate charged by other sources.

Use a Credit Card

It's easy to pay by credit card and you may pay a lower interest rate than that charged by the IRS (10 % per annum). It can help you to delay out-of-pocket expenses. You may also be able to take advantage of rewards or money back from your credit card issuer. Look into a balance transfer to another card to get a better interest rate.

You will be charged a convenience fee around 2.5% of the total tax bill. You should check with your card holder to see if there are any other charges or restrictions that apply.

There are three service providers that can process your tax payment by credit card:

1. Official Payments Corporation – 888-272-9829 or online at www.officialpayments.com/fed
2. Link2Gov Corporation – 888-729-1040 or online at www.pay1040.com
3. RBS WorldPay, Inc. – 888-972-9829 or online at www.payUSAtax.com

Can You Pay in Full Within 120 Days?

You may request up to 120 days of additional time to pay. There is no fee for this arrangement; however, interest and late-payment penalties will continue to accrue until the liability is paid in full. Call 800-829-1040 to establish your request to pay in full.

Get a Loan

It may be to your advantage to pay your tax liability by borrowing from a financial institution. The interest rate and bank charges may be lower than the combination of interest and penalties imposed by the IRS. Look into a home equity line of credit.

Consider An Installment Plan

This is an agreement offered by the IRS in which you make monthly payments over time in smaller, more manageable amounts generally over a period of up to 60 months. There is a one-time installment agreement fee of \$ 105. If you choose to make your monthly payments through a direct debit from your bank account, the fee is \$ 52. Monthly payments can also be made through a payroll deduction of your wages or salary, check, money order or credit card.

You will be charged interest (currently ¼ %/mo. or 3%/annum. which is half of the usual failure to pay rate) and may be charged a late payment penalty on any tax not paid by its due date, even if your request to pay in installments is granted. Interest and any applicable penalties will continue to be charged until the balance is paid in full. If your request is approved, you agree to meet all your future tax liabilities. This means that you must be able to pay your future tax liabilities in full with your timely filed return. Any refunds due to you in the future will be applied against the amount you owe.

If you wish to be considered for this plan, we can assist you with this or you can submit Form 9465, *Installment Agreement Request*, or Form 2159, *Payroll Deduction Agreement*, by calling 800-829-1040 or by visiting your local IRS office. If you owe \$25,000 or less in combined tax, interest and penalties, you may also apply online at www.irs.gov, use the pull-down menu under "I need to..." and select "Set up a Payment Plan".

Offer In Compromise

If you don't think you will ever be able to pay the tax owed the IRS may accept less than the full amount. This should only be considered for large amounts of tax as the expense of applying for an Offer in Compromise and the lack of a guarantee that any relief will be granted make this an expensive option.

Links to More Information on Federal Tax Liability

The IRS Collection Process: <http://www.irs.gov/pub/irs-pdf/p594.pdf>

Online Payment Agreement Application: <http://www.irs.gov/individuals/article/0,,id=149373,00.html>

Form 9465, Installment Agreement Request: <http://www.irs.gov/pub/irs-pdf/f9465.pdf>

Form 2159, Payroll Deduction Agreement: <http://www.irs.gov/pub/irs-pdf/f2159.pdf>

Offer in Compromise Booklet: <http://www.irs.gov/pub/irs-pdf/f656b.pdf>

WHAT IF YOU CAN'T PAY THE MONTANA STATE TAXES YOU OWE?

In cases where there is a delay in payment of your state tax liability, penalty and interest will be charged on the amount due until it is paid in full.

You may first wish to pursue some of the options outlined in the federal tax liability owed section such as paying in full when you receive your first bill in May (keep in mind that interest and penalty will be accruing during this time), using a credit card, or getting a line of credit from a bank.

The failure to file penalty is 1.2% per month, not to exceed 12%. This penalty will be waived if you file for an extension. If you do not pay the full amount of your state tax liability by the deadline, you will be charged a failure to pay penalty of 1.2% per month on the unpaid tax, not to exceed 12% of your total tax liability. Interest on your unpaid tax balance will be calculated at 8% per annum.

Request a Payment Plan

To begin the process, you will need to complete the "Request for Payment Plan" form at:

http://revenue.mt.gov/content/formsandresources/current_year_downloadable_forms/Other_Forms_Not_Yearly/Payment_Plan_Forms/Payment_Plan_Request_Application.pdf or by calling the Call Center at (866) 859-2254. You should have your most recent statement of account available for reference.

As a condition of all payment plans, you agree to be current on any other taxes during the term of your payment plan and no new tax liabilities can be added to an existing payment plan.

Here are some points to consider if you decide to establish a payment plan:

1. Typically, a payment plan is required to be set up a direct automatic deduction from a checking or savings account
2. Payment plans of less than \$ 50/month or for longer than 12 months are typically not accepted
3. Penalties and interest will continue to accrue and must be included in all payment plans

Links to More Information on Montana State Tax Liability

Request a Payment Plan Form:

http://revenue.mt.gov/content/formsandresources/current_year_downloadable_forms/Other_Forms_Not_Yearly/Payment_Plan_Forms/Payment_Plan_Request_Application.pdf

Taxpayer Access Point (TAP): <https://tap.dor.met.gov>

Extension Payment Worksheet: <http://revenue.mt.gov/content/formsandresources/downloadable-forms/2010/2010-EXT-10.pdf>

We hope you have found this information to be useful. If you have any questions regarding the payment of your federal and state tax liability that were not covered, please feel free to contact us.

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