



NEWS RELEASE

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What an Individual Taxpayer Can Do If Not Able to Pay 2012 Taxes

Thomson Reuters tax analyst offers practical solutions to reduce the repercussions

NEW YORK, March 13, 2013— As April 15 draws near, some U.S. taxpayers are bound to discover that they owe taxes on their 2012 Form 1040. “If you owe a lot of taxes and have no idea how you are going to pay them, don’t panic,” says Robin Christian, senior tax analyst at Thomson Reuters. Although, taxpayers who fail to file and pay their taxes in a timely manner face penalties and interest charges, there are several options for paying off the balance due, advises Robin Christian. Here is a scenario of problem-solving from Christian:

As an example, Don and Donna’s 2012 tax return shows unpaid tax of \$5,000, but they do not have the cash to pay what they owe. First, they should not ignore the IRS—it will not go away-- and if they do not file their return on time, they will have to pay a late filing penalty of 5 percent of the unpaid tax amount for each month the return is late (with a cap of 25 percent), plus interest charges. If instead, they file their return (or request a filing extension) by the April 15 due date, they will still pay interest charges on the unpaid amount, but instead of a 5 percent per month late *filing* penalty, they will only have to pay a .5 percent per month late *payment* penalty until the taxes are paid. Simply by filing or extending their return, they have avoided the onerous late filing penalty.

If Don and Donna *don’t* do anything by April 15th, but file the return and pay their taxes three months later, they will owe a late filing penalty of \$750. If they extend the return and then file it and pay their taxes three months later, they would pay a late payment penalty of \$75— \$675 less than if no extension had been filed. “This shows how important it is to file or extend by April 15th even if you *don’t have the money*,” says Christian.

Christian points out that: “getting an extension is pretty easy—all you need to do is to complete and file Form 4868. You do not need to pay the taxes you owe to get an extension, but you do need to properly estimate and enter them on the appropriate lines of the form, or the extension will be disallowed.” Getting an extension will avoid a late filing penalty, but interest and the late payment penalty on the unpaid tax amount will accrue until the tax is paid.

Some taxpayers can qualify for an extension to pay the tax because of undue hardship, federally declared disaster, terrorist act, or military action. This type of approach would allow Don and Donna to avoid the failure to pay penalty but not the interest charge. “However, hardship relief is difficult to obtain,” notes Christian, “because of the restricted definition of hardship, and most taxpayers do not experience a federally declared disaster, like a hurricane or flood.”

Financing the Payment

Borrow from a bank or family member. “Since the failure to pay penalty and interest applies to late tax payments, borrowing from a family member, bank, or other lender can be less expensive than paying penalties and interest to the IRS,” says Christian. The IRS interest rate changes quarterly. For the first quarter of 2013, it is 3 percent. Tax penalties are nondeductible, and interest expense associated with an individual’s federal tax liability, whether paid to the IRS or to a commercial lender, generally is nondeductible personal interest.

Home equity loan. If Don and Donna can finance the tax payment with a home equity loan, the interest may be deductible for regular tax (but not AMT) purposes. A home equity loan is debt (other than



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acquisition debt) secured by a qualified residence. It generates deductible interest to the extent the loan does not exceed the lesser of \$100,000 (\$50,000, for married filing separately), or the fair market value (FMV) of the residence less acquisition debt. There is no limit on the number of qualified home equity loans a taxpayer can take out (as long as the loans collectively meet the \$100,000/\$50,000 or FMV limitation) and use of the debt proceeds is irrelevant unless they are used to purchase or carry tax-exempt obligations.

Credit card. Another option is paying the tax by credit card. Applicable finance charges (according to the credit card agreement) and "convenience fees" will apply, but if Don and Donna have a low interest rate card, these will be kept to a minimum until the balance is paid in full. While the interest on the credit card is nondeductible personal interest, some credit cards provide low rates, airline miles, or other incentives. For more information, go to www.irs.gov and type "paying tax by credit card" in the Search box.

Request an Installment Agreement with the IRS. A final option is to request an installment arrangement from the IRS by completing and filing Form 9465. Once filed, the IRS will notify the taxpayer if the request is approved or denied, or if additional information is needed. The IRS would charge Don and Donna a \$105 fee for entering into the agreement; however, that fee would be reduced to \$52, if the electronic funds withdrawal option is selected, and can be reduced to \$43 for certain low-income taxpayers.

Since Don and Donna owe \$50,000 or less, they can use the online payment agreement (OPA) application at www.irs.gov to request the agreement. This application is available to taxpayers who meet the \$50,000 requirement, have filed all required tax returns, and are current with their tax payments.

"The bottom line is that if you can't pay taxes you owe by April 15, either file your return or an extension and pay as much as you can to avoid penalties and interest," advises Christian. "You can then work on a solution to pay the unpaid balance. Never ignore the filing deadline."

Taxpayers should consult with a personal tax adviser before applying these or other tax strategies.

Up-to-date analyses of legislation and regulations affecting individual taxpayers are available on Thomson Reuters industry-leading, award-winning [Thomson Reuters Checkpoint](#) research platform.

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