

Understanding IRS Penalties & Interest

IRS Interest & Penalties

We all dread April 15. We can't procrastinate filing our tax returns any longer. And if you end up owing, your wallet gets that much thinner.

If you don't pay, or if you make a simple mistake on your tax return, the IRS will hit you with penalties and interest. Similar to your credit card, they increase how much you owe and before you know it your total tax debt gets out of hand

How is IRS Interest Calculated?

Your credit card company may be nice enough to reduce your interest rate during tough times, but the IRS won't. The interest rate on taxes owed is compounded daily and is the federal short-term rate plus 3 percent. Just like the interest that capitalizes on your credit card bill, it keeps accruing until all the back tax, penalties and interest are fully paid. The longer you owe back taxes, the more you'll end up paying in interest. That's why resolving your tax debt early is a smart financial move.

When is a Penalty Charged?

The IRS generally charges penalties on two occasions: when you file on time but don't pay the entire amount due, and when you don't file on time and owe.

If you file on time but didn't pay the entire amount due, you'll get hit with a monthly late payment penalty of 0.5% of the tax owed for each month the tax remains unpaid. This penalty runs until the tax is fully paid or until the maximum 25% is reached. If the tax remains unpaid after the IRS issues a notice to seize your assets, the rate increases to one percent.

If you don't file on time and owe, you'll have to pay a monthly late-filing penalty of 5% of the tax owed up to five months. If you file more than 60 days late, your minimum penalty is the smaller of \$100 or 100% of the tax owed.

What if I Don't Have the Money?

If paying by credit card enables you to pay on time, you may be able to save money in the long run. Your credit card's interest rate may cost you less than the IRS' combination of interest and penalties. Paying this way can also prevent your tax debt from negatively affecting your credit score. If you're suffering a financial hardship, the IRS may suspend certain actions, such as issuing a levy, until your financial condition improves. You may even qualify for a monthly installment program.

I Already Owe Back Taxes

It's conditional, but in certain situations the IRS may eliminate the penalties on your debt. If you find yourself in debt to the IRS, hiring a legal team to represent you is your best bet. Dealing with the IRS is tough, but the professionals at www.StopIRSDebt.com can negotiate on your behalf to obtain a resolution option that's right for you.