

Got a Big Tax Bill? H&R Block Explains Payment Options That Can Save You Money

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While nearly 76 percent of taxpayers received tax refunds last year averaging more than \$3,000 (1), there were still many who found themselves facing a balance due. So what happens if taxpayers can't pay their tax bills?

Taxpayers should send what they can with their tax return or extension to file by April 18 to limit IRS penalties assessed. The penalty for not paying in full is 0.5 percent of the unpaid balance per month, whereas the monthly penalty for not filing a tax return is 10 times that amount (5 percent). Interest also accrues on the unpaid tax and the penalties assessed.

When cash is not available to pay taxes owed, some taxpayers turn to plastic. Taxpayers who use credit cards often face double-digit interest rates and must pay IRS service providers' processing fees between 1.90 and 2.35 percent.

"There are many options for taxpayers to explore before entering into an agreement with the IRS. For some taxpayers, the best bet may be borrowing money from family or friends," said Elaine Smith, H&R Block tax professional and enrolled agent. Only enrolled agents, certified public accountants and lawyers may represent taxpayers before the IRS for matters including collection and audit.

When other options are not available, the IRS has payment solutions for taxpayers with tax bills bigger than they can handle.

Payment plan with IRS allows for paying over five years

Taxpayers can work with the IRS on these payment solutions, based on how long it will take them to pay.

If a taxpayer has a \$1,000 tax liability on the due date of the return, but does not pay it until Oct. 17, the interest will be approximately \$21, and the failure-to-pay penalty will be \$30 (\$1,000 x 0.5% for 6 months), for a total of \$51. (2) There is no installment agreement necessary if the taxpayer can pay the full balance within 120 days.

IRS extensions to pay and installment agreements are debts that may appear on a credit report, but do not cause the same harm to credit ratings as property liens.

The IRS is increasing its efforts to help taxpayers with tax bills bigger than they can pay in a lump sum. This year the IRS doubled the amount of taxes due -- from \$5,000 to \$10,000 -- before it will issue a property lien. As a result, far fewer taxpayers will face this collection method.

Paying less than what is owed is rare and calls for special circumstances

An IRS offer in compromise (OIC) settles a tax debt for less than the amount owed. The IRS will negotiate with eligible taxpayers to collect what it can. However, typically less than 1 percent of all offers are accepted, and the application process can take up to two years. During this time, further collection measures are not taken, yet penalties and interest accrue on the balance.

The IRS weighs present and future earnings when deciding OICs, instead of just prior years' earnings. Starting this tax season, taxpayers must have tax liability of less than \$50,000 to participate (the former limit was \$25,000). Taxpayers must be current on filing tax returns, not in bankruptcy, and meet one of these three conditions to be eligible:

- Taxpayer's assets and income combined equal less than tax debt owed
- Taxpayer believes the tax debt assessed is incorrect and there is no legal decision on the matter
- The full tax debt is owed and is collectible, but a special circumstance exists, such as serious illness or the likelihood to deplete finances.

For a more detailed explanation of resources available for taxpayers unable to pay their tax bill in one lump sum, read the balance due options chart created by The Tax Institute at H&R Block.

Taxpayers who can't file by the deadline or are concerned their return won't be right if they hurry, shouldn't settle for less than filing an accurate tax return. To help these taxpayers, participating H&R Block offices are offering free extensions to file through the April 18 tax filing deadline. For more information about applying for a free extension at an H&R Block office, visit www.hrblock.com or call 800-HRBLOCK.

H&R Block provides guaranteed, income tax return preparation services through its company-owned and franchise offices, and the H&R Block At Home online and desktop solutions. For an online tutorial, join H&R Block's Get It Right Community tax forum, and visit its Facebook and Twitter pages.

(1) IRS 2010 Filing Season Statistics (2) This assumes no payments are made until the extended due date of the return in October

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