

Countdown to April 15 -- Taxes Due, Many Need Payment Options

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Extension Plans, Installment Agreements, Friends and Family Can Help

KANSAS CITY, MO, Apr 12, 2010 (MARKETWIRE via COMTEX) --Taxpayers unable to pay their tax bills in this turbulent economy should file returns or extensions by April 15 to avoid costly penalties and interest, H&R Block advises.

"The monthly penalty for not filing a tax return is 5 percent, while the penalty for not paying in full is one-tenth of that, or 0.5 percent," said Amy McAnarney, executive director of The Tax Institute at H&R Block. "Even if taxpayers cannot pay all of their taxes, they should send what they can with their tax return or extension to file."

Taxpayers may be tempted to ignore IRS payment requests, but that will only compound their problems; IRS collection tools include property liens and wage garnishments.

Solutions close to home

Borrowing money from a 401(k) may be a good option for some taxpayers because they would not incur an early distribution penalty. Additionally, the taxpayer would pocket interest paid for the transaction.

Other taxpayers may prefer to settle their tax debt using plastic. Taxpayers who turn to credit cards often face double-digit interest rates and must pay IRS service providers' processing fees between 1.95 and 2.35 percent.

For some taxpayers, the best bet may be borrowing money from family or friends, while others may need to work out a payment plan with the IRS.

Working with the IRS Taxpayers can work with the IRS to find payment solutions, such as extensions to pay and installment agreements. Interest rates and fees depend on the route taxpayers choose.

- Taxpayers who can pay their debt within 120 days can file an extension to pay. If a \$1,000 tax debt is owed, the total amount paid over four months would be \$1,033* with penalties and interest.
- Those who need more than 120 days can use an installment agreement. If a \$1,000 tax debt is paid off in six months, the total amount paid would be \$1,066**. Tax debt must be repaid within five years through an installment agreement.

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

Solution for those with financial hardships

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, only 24 percent of OICs were accepted in FY 2008, and the application process can take up to two years.

"It's not as easy as just asking the IRS to forgive the debt," McAnarney said. "Seeking an offer in compromise is time consuming and requires as much work painting your financial picture as getting a home loan."

New this year, the IRS weighs present and future earnings when deciding OICs, instead of just prior years' earnings. Taxpayers must be current on filing tax returns, not in bankruptcy, and meet one of three conditions to be eligible:

1. Taxpayer's assets and income combined equal less than tax debt owed
2. Taxpayer believes the tax debt assessed is incorrect and there is no legal decision on the matter
3. The full tax debt is owed and is collectible, but a special circumstance

exists, such as serious illness or the likelihood to deplete finances.

Watch this H&R Block tax payment options video for more information. Visit the H&R Block Tax Media Kit for more about common late-season tax topics.

* Includes a \$20 failure-to-pay penalty and \$13 in interest. Interest is the federal short-term rate (currently 0.67 percent) plus 3 percent. ** Application fees range from \$43-\$105, example uses \$52. The failure-to-pay penalty is \$6 and interest is \$8 (up to 25 percent).

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