

Doron F. Eghbali Tax Law

What to Do If You Cannot Pay Your Tax Bill

Sunday, February 21, 2010 by [Doron F. Eghbali](#)

We all know that if we do not pay our tax bill, the IRS heavily penalizes us. Yet, we might not afford to pay our tax bill on time. So, what could we do? In fact, assistance could come from an unlikely place: the IRS itself.

GETTING A LOAN FROM THE IRS

This might look strange to a lot of us that the IRS might be willing to help us. However, the IRS prefers to get paid in a way that it eventually gets paid and earns some interest on the loan to the possibility of not getting paid at all after a costly and protracted legal battle. This arrangement helps taxpayer and the IRS.

ADVANTAGES OF IRS LOAN

- Significantly *lower* interest rates compared to what you would pay to another lender such as your bank or credit card issuer.
- Usually, *most* people who apply are approved, subject to some limitations explained later.

HOW DOES IT WORK?

1. **File Your Taxes by April 15:** This is very important to still file your taxes by April 15, 2010.
2. **Include [Form 9465](#):** This is the Installment Agreement Request Request. On this form, you could suggest your own payment plan to the IRS.
3. **Get Approved Automatically :** The IRS, usually, automatically approves your request if you owe less than \$25,000 and propose to pay it off in 60 months. If you owe more than \$25,000 or need more time than 60 months, then the IRS will require you to file some financial disclosure forms. However, the IRS is still flexible and reasonable in approving your proposed terms.

COSTS ASSOCIATED WITH BORROWING

- **Approval Notice:** When you receive your approval notice which should usually happen within 30 days of your filing, you will be charged a one time set-up fee of \$52, if you agree to automatic payments from your checking account.
- **Interest on Deferred Payment:** Not surprisingly, the IRS charges 4% interest rate annually, subject to quarterly adjustments, on deferred payments.
- **Failure to Pay Charge:** The IRS each month also charges .25% failure to pay penalty.
- **TOTAL COSTS:** These costs equate to 7% annual interest rates.

COMPARISON OF IRS LOAN AND OTHER ALTERNATIVES

- **Credit Card Comparison:** 7% annual interest is much less than what you would pay on your credit card outstanding balances.
- **IRS Penalty:** If you do not pay, the IRS smacks you with a 5% failure to pay penalty. Such penalty will accrue until it equals 25% of your unpaid tax balance.