

How bad is it if I can't pay my tax bill?

October 6, 2015: Jim Buttonow - The Tax Institute

As the deadline to **file an extended tax return** approaches (October 15!), we are reminded that it can be daunting to face a tax bill. The most important thing is to not ignore it – then a stressful situation turns into a problem.



If you can't pay your tax bill when you file your tax return, the problem could be only a "2" if you decide to do something about it – but a "10" if you ignore it.

The IRS offers alternatives if you can't pay taxes owed. In fact, about 5 million taxpayers each year need a payment alternative. The four alternatives are:

- **An extension to pay:** You can ask the IRS for up to 120 days to pay your tax bill.
- **Payment plans:** There are several types of **payment plans** (called installment agreements), depending on your specific situation. They range from simple, streamlined agreements that can be set up online, to more complicated agreements that require you to submit documents showing your financial status.
- **Currently not collectible status:** If you can prove financial hardship – meaning you can't pay the IRS right now – the IRS will not ask you to pay until your circumstances have improved.
- **Offer in compromise (OIC):** This is a settlement of your unpaid taxes for less than the amount you owe – if you qualify. Taxpayers commonly use an OIC when they have few or no assets and have trouble paying their necessary living expenses.

The good news is, you can obtain one of these payment alternatives if you qualify AND if you contact the IRS to request it. More good news: The interest rate is currently 3% on payment plans.

Here is where the problem can turn into a "10." If you ignore your balance owed and don't make arrangements with the IRS to get one of the alternatives listed above, the IRS can levy your bank accounts and garnish your wages – all of which can put you in further financial strain. The IRS can also issue federal tax liens that can destroy your credit and make it difficult to sell property or obtain a loan.

The moral of the story: Owing and not being able to pay a tax balance isn't fun, but it's only a problem if you don't take action.

Reference link: http://blogs.hrblock.com/2015/10/06/how-bad-is-it-if-i-cant-pay-my-tax-bill/?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+HRBlockTalk+%28Block+Talk+%E2%80%93+Tax+Stories%2C+Personal+Finance+News%2C+Tips+and+Advice.%29

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