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WHEN YOU CAN'T PAY YOUR TAXES.....

By Victor Sy, CPA, MBA

What do you do when you can't pay your taxes?

1. Get a loan,
2. Charge it,
3. Apply for Offer in Compromise (OIC), or
4. Request an installment plan.

1. **Get a Loan.** Of course, I'd rather deal with a bank than the IRS. But an unsecured bank loan will certainly be at a higher rate of interest. Besides, it's not tax deductible. But a mortgage on my house is. The rate on a mortgage will also be lower than that charged by the IRS. It is also spread over 15 – 30 years. This is therefore a first choice in raising funds to pay off tax debts of homeowners.

2. **Just Say, "Charge It."** You can charge some tax liabilities to MasterCard, Visa, American Express, or Discover cards by dialing 1-800-272-9829 or 1-888-729-1040 or by going online at www.officialpayments.com or www.PAY1040.com. You can pay three types of tax debts with credit cards:

- a. Current year balance on your personal income tax (tax due at time of filing),
- b. Expected balance when you file an extension,
- c. Estimated tax payments (quarterly vouchers).

There are three negatives with this type of payment. First, the rates are higher, much higher. Second, there is a convenience fee of about 2.49% of the amount of payment. Third, the interests and fees are personal in nature and are therefore not deductible.

3. **Submit an Offer in Compromise (OIC).** If you can no longer pay tax delinquencies that have accumulated, this is a good choice. The advantage is to payoff liabilities at less than their full balances. The disadvantage is the number of forms and documentation that you have to provide. It's expensive to prepare and negotiate. It also gives them a road map to what you own. Discuss this option with your accountant to see if it's worth a try and if you are good candidate for OIC.

4. **Request for Installment Agreement (I/A).** This payment plan is a good second choice. The IRS is required to accept it if:

- a. The amount is under \$10,000 and can be paid within three years,
- b. You have not entered into any installment plan for the last five years, and
- c. You are current with all your tax filing and paying obligations.

There is another advantage: the failure to pay penalty is cut in half from ½% to ¼% per month. Beware into prolonging your payment period to the full three years. You could be starting a vicious cycle if you owe more taxes next year and the year after. Limit the payment period to 12 months if you can.

Attach Form 9465 to the front of your current tax return. Beware also that it takes the IRS weeks before the installment is approved. Do not wait for that approval. Send in your first payment anyway with a copy of Form 9465 and a \$43 use fee. Failure to pay this first or any other installment can put the whole plan into default. The installment plan is gone. IRS will then demand a full payment.

5. Oh, yes, you do have one last option - **do nothing** – no extensions, no payments. This is easiest way for you. It's also the easiest way for them to assess you with delinquency penalties. ☹