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Marc A. Hebert's 'Money \$ense': Help! I can't pay my tax bill

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THIS YEAR'S tax season is a little different. The federal tax filing deadline has been extended to May 17. For some taxpayers, the return may show that you owe money. What happens if you don't have the funds to pay?

The first thing to do is not to panic. You can't ignore the situation, but there's no need to panic. Ignoring the situation may add interest and penalties to the amount due. Ignore it long enough and the IRS might take a bit of your paycheck to cover the bill.



With this in mind, there are a few things you can do. Start by paying what you can along with the return. The IRS will send you a bill for the balance. This could take 45 days or more for you to receive. If your cash flow issue is a short-term one, maybe by the time you get your bill, you will have the cash to pay it. Keep in mind that interest and penalties will keep accruing.

If you don't think that is a likely outcome, a trip to the nearest IRS office with an explanation of the situation might help. You can also try a telephone call to the IRS. You might find that you qualify to enter into a short-term agreement to pay the full amount in 60 or 120 days. You should be aware that the unpaid balance continues to accrue interest and penalties, so the overall amount you pay will be higher.

Don't be misled by the word extension, either. An extension gives you more time to file but not to pay. By filing your return, you may avoid some subsequent penalties.

Given this, it might be time to look at some alternative ways to pay your tax bill. Perhaps using a credit card is an option. It is best to use one with a lower rate. Be sure to compare the interest rate on the card with the interest and penalties the IRS will charge you. The IRS may prove to be the less expensive option. To pay by credit card, check out the IRS website. It will give a list of payment processors and any fees they charge.

Another alternative may be to borrow from a relative or a friend. Make sure to have a payment plan in place. You might also be able to take out an unsecured bank loan or use a home equity line of credit.

The IRS also may allow you to pay by installments. These agreements are not often accepted if the total amount of your tax, interest, and penalties is \$10,000 or less. There are a few other requirements to meet, as well. If you are considering this option, contact the IRS and explain your situation. You will receive Form 9465, Installment Agreement Request to fill out. There is a fee associated with processing this form. Generally, repayment is over a 72-month time period. While penalties and interest aren't avoided, you can avoid a more severe collection effort.

You might propose an offer in compromise. Once again, you must meet certain criteria. This is done on Form 656 and amounts to a negotiated settlement between the taxpayer and the service. There are no guarantees the IRS will accept your proposal and there could be a lot of paperwork to submit your case. Keep in mind there is an application fee.

A final thought you might have if you cannot pay your taxes is to just declare bankruptcy. However, many taxes aren't eliminated by bankruptcy. Bankruptcy may suspend the IRS collection activity. If you have reduced other debt, you might be able to pay your tax bill. This is not a step to take lightly. Make sure you discuss your situation with a qualified bankruptcy attorney.

Marc A. Hebert, MS, CFP, is a senior member and president of the wealth management and financial planning firm The Harbor Group of Bedford. Email questions to Marc at mhebert@harborgroup.com. Your question and his response might appear in a future column.

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