

Paying the IRS - Paying Individual Tax in Installments

Most individuals try to arrange matters so that they won't have to pay any additional taxes when they file their income tax returns. However, things don't always work out as planned and it's possible to find not only that there is tax to pay at filing time but also that there is insufficient cash to pay. Fortunately, in recent years, the IRS has made it easier to pay delinquent taxes in monthly installments.

To do this you complete IRS Form 9465, Installment Payment Agreement, and attach it to your return. You may file electronically. But in any event you have to supply information such as the name of your bank and the amount and date of the proposed monthly payment. You will not need a financial statement for amounts under \$10,000. If the IRS approves the request, there will be a \$43 fee. The decision usually comes within thirty days.

In an effort to enhance taxpayer compliance, the 1998 IRS Restructuring and Reform Act requires the IRS to enter into an installment payment agreement if the tax liability is no greater than \$10,000. The only requirements to take advantage of this "automatic" right to an installment agreement are that (1) over the previous five tax years you have not failed to file a tax return, pay income tax, or have already entered into another installment agreement, and (2) the IRS determines that you are unable to pay the liability in full when due.

When you enter into an installment agreement you must agree to make the monthly payments on time. You also must agree to meet all future tax liabilities. As a result you should arrange for your withholding from salary or wages and payments of estimated tax to be sufficient to ensure that taxes will be paid in full when a future year return is timely filed.

The IRS can terminate an agreement if you don't timely pay an installment (and for other reasons). But it will give you thirty days to respond to its intention to terminate and an agreement that is terminated can be reinstated. There is a \$24 fee for restructuring or reinstating an installment agreement.

It's important to be aware that even if an installment payment request is granted by the IRS, interest and a reduced late payment penalty of .25% per month applies to any balance due. Therefore, to minimize interest and penalty charges, you should timely file the return and pay as much tax as possible with the return before making an installment payment request.

Once you take into account these interest and penalty charges, it may be less costly to borrow funds from an alternative source and use them to pay your tax rather than asking the IRS to allow installment payments. Please contact us if you would like more information or if we can help you figure out an installment payment arrangement that is best for you.