

YOU OWE THE IRS, BUT CAN'T PAY

If you can't immediately pay the IRS what you owe, you must still file your return on time. If you don't, you'll also pay a late-filing penalty along with the taxes you owe.

If you owe tax and you don't file your return on time:

- The late-filing penalty is usually 5% of the tax you owe each month -- or part of a month -- that your return is late. This applies up to a maximum of 25% of the tax owed.
- If your return is more than 60 days late, the minimum penalty for late filing is the smaller of these:
 - \$135
 - 100% of the unpaid tax

Interest

Interest is usually charged on any unpaid tax from the due date of the return until the payment date. The interest rate is the federal short-term rate plus 3%. The rate is set every three months, and interest is compounded daily.

Interest is also charged on late-filing penalties.

If you file on time but you don't pay the total amount due, you'll usually have to pay a late-payment penalty. This is 0.5% of the tax you owe per month -- or part of a month -- until the tax is paid in full. You'll be charged up to a maximum penalty of 25% of the tax due.

The 0.5% rate increases to 1% if the tax remains unpaid 10 days after the IRS issues a notice of intent to levy. If you file by the return due date, the rate decreases to 0.25% for any month an installment agreement is in effect.

However, that interest rate fluctuates.

Installment agreement

You can request an installment agreement by:

- Completing an online payment agreement
- Filing Form 9465: Installment Agreement Request

The completed document are then included with your return.

You can file an online application if you owe less than a specified amount in combined taxes, penalties, and interest. If the IRS approves your request, they'll set up a monthly payment plan to pay off what you owe.

You of course might be better off using another payment method, like a bank loan or a credit card. You should determine which payment method results in the lowest overall cost.