

Paying Your Taxes with a Credit Card

April 11, 2016 – It is mid-April, which means that it's time to file your income taxes. For many, this means that it's also time to look forward to a tax refund. But what if you underpaid your taxes in 2015 and you owe the government money? And what if you don't have that money handy? If you have access to available credit, you may be able to pay your taxes using a credit card. Before you do that, you should also know that it may not be the most economical means for you to pay the IRS.

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Most taxing authorities in the United States will allow you to pay your taxes using a credit card. This is true for income taxes, property taxes and virtually any other tax you can imagine. But paying taxes in this manner isn't the same as a purchase at a store. That's because taxing authorities won't absorb any of the bank charges; which could add 2.5% or more to what you actually owe.

In the case of the IRS, it is actually illegal for the agency to pay any credit card fees. So if you owe \$10,000 and use a credit card to pay the bill, you'll pay hundreds of dollars more to cover the banking fees. In addition to these fees, you'll also be hit with interest on the amount you charge unless you pay your bill in full every month. Using the same \$10,000 example, if you are making minimum payments monthly, you will actually wind up paying thousands of dollars in interest.

Anyone who finds themselves in this situation needs to do a little homework to find the most economical solution for making payment. Whether or not you realize it, you do have some options.

The IRS will work with you if you find you need additional time to pay your taxes. If you can pay within the next four

months, and you owe less than \$25,000, they will typically offer you a grace period. You will have to pay interest on the money that you owe, but you may be able to avoid penalties depending upon your circumstances.

If this isn't an option, you can get on a monthly payment plan with the agency. In that case, you are likely to face both interest and penalties but you will be allowed to make smaller monthly payments over a negotiated term. Typically, the money will be automatically taken out of your bank account. Note: If you agree to get on a payment plan with the IRS, you want to make sure that you don't miss any payments. That could void your agreement with them and leave you in a world of hurt.

The IRS can provide you with an estimate of what it will cost you to pay your bill in full on a payment plan. They can also provide you an estimate of your payment cost "minus interest charges" for making your payment on a credit card. From there, it is up to you to determine which method will save you the most money.

by Jim Malmberg

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