



Tax Tips You Can Use, Apr 2006

Should I file my return if I can't pay the taxes owed?

By Kathleen Crawford, EA

By now, most people have already filed their 2005 tax returns. This article is for the people who ask the question: "I owe money and I can't pay, should I just not file my return?". It is always in your best interest to file tax returns on time whether you can pay your taxes or not. I say that as an advocate for the taxpayer not an IRS agent in disguise. There are at least three reasons why you should always file your tax returns on time – using an extension if needed. For this article I am only discussing federal tax returns. And remember, if your income is below the minimum required for filing, none of this information applies to you.

The first reason is that there are "fail to file" penalties. If a tax return is filed late and has tax due, then, in addition to interest and "fail-to-pay" penalties, a "fail-to-file" penalty can be assessed. This penalty can be substantial if your return is very (years) late. If you have a VERY good reason for the lateness, you can petition for waiver of the penalty, but only after you have paid all of tax.

The second reason to file your tax returns on time, is that if you don't file your return, the IRS may do it for you. Today, almost all wages, interest earned, brokerage information, and 1099 income amounts are reported to the IRS. Unless you have a cash business, the IRS already knows how much money you made. If you do not file, eventually the IRS computer will look at your income and create a "Substitute For Return". If a refund is due, the IRS will do nothing. If, after looking at your income with minimal deductions, you owe money, then the IRS will send you a bill for what it thinks you owe. Most of the time it will be more than you actually would owe if you did your own return and took all of the deductions you are entitled to take. If you don't file your own return in response to the bill, the IRS will collect the tax as calculated on the Substitute For Return.

The third reason to file your tax returns on time is that it starts the clock ticking. In most cases, there is a ten-year time limit to collect federal income taxes owed. The clock starts when the return is filed. A tax return filed during February, March and April has a file date of April 15. If you don't file, the ten-year time limit clock does not start until you do file.

So the bottom line is that it is in your best interest to file your tax returns, whether you can pay the tax due by April 15 or not. Filing an extension by April 15 can preserve your ability to file on time.

The fine print is that this article is for information only. Please call Kathy or a tax professional for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.

