

Penalties and Interest

Penalties are assessed for a variety of reasons by the IRS. Interest is assessed on the penalties as well. Some of the more common penalties for individual taxpayers follow.

- Failure to File Penalty
 - Applies when you don't file your tax return by the due date. Normally, there is no penalty for filing late, or for not filing at all, if you are due a refund.
 - The Failure to File penalty is 5% of the unpaid taxes for each month or part of a month that a return is late.
 - The penalty will not exceed 25% of your unpaid taxes, meaning that after 5 months the penalty will stop.
 - The Failure to File Penalty is reduced by the Failure to Pay penalty if both are applied in the same month. The effect of this is that the maximum combined penalty will be 5% a month.
 - There is minimum Failure to File Penalty if your return is over 60 days late. The minimum is the lesser of 100% of the taxes that are required to be shown on the return, or \$450. (2022 taxes that should be filed in 2023.)
- Failure to Pay Penalty
 - There are two possible calculations for Failure to Pay.
 1. If you fail to pay the amount shown on your tax return:
 - The Failure to Pay Penalty is 0.5% of the unpaid taxes for each month or part of the month the tax remains unpaid, to a maximum of 25% of your unpaid taxes.
 - If both a Failure to File Penalty and a Failure to Pay Penalty are applied in the same month, the Failure to File Penalty will be reduced by the Failure to Pay Penalty for that month. So, a Failure to File Penalty of 4.5% and a Failure to Pay Penalty of 0.5% would be assessed.
 - If you filed your tax return on time and you have an approved Payment Plan, the Failure to Pay Penalty is reduced to 0.25%.
 2. Failure to pay tax that you did not report on your tax return.
 - The penalty begins after the due date that the IRS gives when they tell you how much you owe. This is generally 21 days after the date of the notice.
 - The penalties are the same as #1 above. Again, you can reduce the penalty by 0.25% if you have an approved payment plan.
- For additional information on penalties, see [the IRS Guidance](#).
- Interest.
 - Interest accrues daily on all amounts owed including taxes, penalties, and interest.
 - An extension to file is not an extension to pay.
 - The interest rate is the Federal Short Term Interest rate plus 3%. It is adjusted quarterly. As of August, 2023, it was 8%.
- Examples.
 - Say you file your taxes on time and owe \$1000 that you cannot pay. You get a payment plan and pay off what you owe in 5 months. The Failure to Pay Penalty is, roughly $(.25\% \times \$1000) + (.25\% \times \$800) + (.25\% \times \$600) + (.25\% \times 400) + (.25\% \times \$200) = \$7.50$. The interest is $(8\% \times 1000 / 12) + (8\% \times \$800 / 12)$ etc = \$20. So it would cost you \$27.50 to be 5 months late if you owed \$1000 and made monthly payments of \$200.
 - Now let's say that you owed \$1000 but did not file. The 5% per month in penalties would cost you \$50 a month, or \$250, but because of the minimum it would actually cost \$450. Then the 8% interest would cost another \$33. You would owe \$483. The next months would add about \$10 in

interest plus \$50 in Failure To Pay Penalty, \$60 total. Each month thereafter, that \$60 will go up by about \$0.40 each month due to compounding.

- o Best advice: File, even if you can't pay. If you can't pay, apply for a payment plan. Note--these calculations are probably not precise but should be exemplary.

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