



NATIONAL FOUNDATION FOR
CREDIT COUNSELING

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NFCC PRESS RELEASE

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SHOULD AMERICA'S LOVE WITH CHARGING EXTEND TO TAXES?

NFCC Offers Options to Those Who Cannot Pay Tax Liability by April 15

Silver Spring, MD – It's always good to have options. It's even better to choose the right option, particularly when it involves paying your federal income tax obligation.

With April 15th fast approaching, many are discovering that they have a tax liability they are not prepared to pay. "Consumers who find themselves in this predicament do have some options," said Gail Cunningham, spokesperson for the National Foundation for Credit Counseling (NFCC), but it is critical to select the payment plan that is right for you."

If you cannot pay your tax bill by midnight on April 15, and you make no other arrangements, the IRS will obviously consider your payment, or lack of, as late. Because your balance owed is subject to interest and a monthly late payment penalty, it is in your best interest to pay in full as soon as you can to minimize the additional charges.

Options:

You may consider financing the full payment of your tax liability through loans, such as a home equity or personal loan from a financial institution, or obtaining a cash advance through your credit card. Believe it or not, the interest rate and any applicable fees charged by a bank or credit card can be lower than the combination of interest and penalties imposed by the Internal Revenue Code.

Contact the IRS. They offer multiple payment agreements based on your circumstances. Some are short-term, while others are structured to stretch the payments over a longer period of time through an installment payment plan.

If you don't find these options appealing, you can pay the amount due by credit card. That's right, Uncle Sam now allows you to charge your taxes, and at first glance this might appear to be the best alternative.

Before opting to charge the amount of your tax liability, the NFCC suggests that you consider the following benefits and drawbacks associated with this option:

Benefits:

- Paying your taxes by credit card gives you the opportunity to pay Uncle Sam by April 15 even if you don't have the money available to make the payment. The payment date will be the date the charge was authorized, but you have the flexibility of paying off the debt over time to your card issuer.
- Even though you can arrange a payment plan through the IRS, when you charge your taxes you do so without the hassle of filling out forms.

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- It's convenient. Payments can be made by phone, Internet or when e-filing.
- You might be able to earn rewards by charging the amount due. If you have a cash-back rewards card, or a card through which you can earn miles or points, charging a large amount could reap nice benefits.

Drawbacks:

- According to the Taxpayer Relief Act of 1997, the IRS is restricted from paying the transaction fee normally associated with credit card charges. Therefore, the IRS outsources the credit card payments to a number of companies which are set up to accept tax liability payments. They pass the transaction fee, now renamed a Convenience Fee, along to consumers. Although the fees vary by service provider, they are all based on the amount of the payment at a rate of between 1.95 percent and 2.35 percent of the total charged. For example, if you owe \$5,000 in taxes, your fee to charge them to your credit card could be \$100 or more. This fee obviously eats into any rewards you might earn.
- Payments to the IRS may not be eligible to earn rewards. Your issuer may not allow IRS payments as part of their rewards program, or the rewards may be tied to certain categories, one of which is not taxes. Be sure to check with your issuer before you make the charge if earning rewards is part of your reason for charging your taxes.
- Even if you are allowed to earn rewards through this charge, you need to determine if the rewards are greater than any potential fees assessed. Many cash-back cards cap rewards at 1 percent. Therefore, in the \$5,000 scenario above, you could only earn \$50. You'll have paid \$100 in fees, and only earn \$50 in rewards, not a winning situation.
- The IRS charge will be treated like any other charge to your card. Interest can be added on, late fees will apply, and if the charge puts you over your credit limit, an over-limit fee will be tacked on. Thus, the longer you take to pay your credit card balance, the larger your original IRS debt becomes due to the additional interest and fees.
- If the amount you charge is large, it may utilize a significant amount of your credit line, thus limiting your access to credit for other necessities. Further, if too large a percentage of your credit line is used, it could lower your credit score.
- Since no one knows what tomorrow holds, be aware that income taxes most often cannot be included in a bankruptcy, even if they've been charged to a credit card.

“Additionally, some creditors are now paying close attention to the charging patterns of their customers, and could consider someone an increased risk if they charge their taxes,” continued Cunningham. “This could result in punitive term changes to your account in the form of an increased interest rate or a lowered credit line. Consumers need to weigh the considerable downsides to paying their taxes with their credit card before selecting this option.”

If you're having trouble finding the money to pay your federal income taxes, reach out to a trained and certified credit counselor at an NFCC Member Agency. To find the location closest to you, call (800) 388-2227, or go online to www.DebtAdvice.org. For assistance in Spanish, call (800) 682-9832.

The National Foundation for Credit Counseling (NFCC), founded in 1951, is the nation's largest and longest serving national nonprofit credit counseling organization. The NFCC's mission is to promote the national agenda for financially responsible behavior and build capacity for its members to deliver the highest quality financial education and counseling services. NFCC Members annually help more than three million consumers through close to 850 community-based offices nationwide. For free and affordable confidential advice through a reputable NFCC Member, call (800) 388-2227, (en Español (800) 682-9832) or visit www.nfcc.org.