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# What You Need to Know if You're Facing an IRS Civil Penalty



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Expert Contributor

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**Civil penalties are usually monetary fines imposed for those who fail to meet obligations such as filing and paying taxes.**

**Most IRS fines are assessed as a percentage of the outstanding debt rather than as a flat fee.**

**Although it is almost impossible to avoid penalties if you can't afford to pay your past-due taxes, you can take steps to minimize your liability.**

An IRS civil penalty is the fine imposed by the Internal Revenue Service on taxpayers who fail to abide by their legal regulations. This is in contrast to a [criminal penalty](#) such as jail time.....e. Although the IRS has established more than 140 civil penalties, a few are much more common than others. When you receive an IRS penalty for failure to pay or file taxes, interest accrues on the penalty amount as well as on the amount of your past due balance.

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nation Penalty

## Penalty

do not file a tax return by the annual due date, which is typically The cost of this civil penalty is 5 percent of your total tax bill for rich you failed to file your tax return, up to a maximum of 25 100 percent of your past-due balance or \$210 (the lesser of the urn is filed 60 days late.

file your taxes due to fraud, the penalty jumps to 15 percent per t 75 percent of the total tax bill. However, the IRS must present fraud for this penalty to take effect.

## Penalty

r the balance due by the deadline, you will be charged a fine of onth or partial month it is unpaid. However, if you pay 90 percent ou get an automatic six-month extension to pay the remainder. it to Levy from the IRS, the penalty is increased to 1 percent per

## nt to Levy

our taxes, the IRS will begin the process of **placing a levy on** ncy a legal claim on your home, vehicle, and/or bank account will receive a Notice of Intent to Levy when the IRS plans to seize e taxes and penalties.

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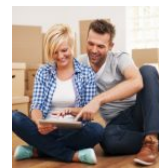
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ave 30 days to take action before the levy takes effect. The  
peal and give you instructions on how to do so. It also explains  
tions you have to **resolve your back tax issues**. You should  
**ey** who can advocate on your behalf during the appeal process if

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S include your home, car, bank accounts, wages, Social Security  
missions, and even advances from your employer for business

## alty

ors that affect your balance, you may be charged 20 percent of  
cy penalty. This fine is assessed if:

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## IRS

IRS examines your tax records carefully to discern their accuracy. Accuracy penalty if errors are found. Certain types of accuracy penalties are characterized as gross misstatements, and as such carry a fine of 40 percent. Examples include:

- Failure to file returns, in which no good faith attempt is made to follow the tax laws.

- Failure to pay more than \$5,000 or 10 percent of your total bill, whichever is greater.

- Failure to report the value of donated property or understating the value of property.

- Failure to report at least 200 percent.

- Failure to report an interest or estate at less than 65 percent of the fair market value, resulting in a penalty of \$5,000.

- Failure to report reportable transactions, which could signify tax sheltering.

## Employer Paid Withheld Taxes

Employers are required to withhold certain taxes from the paychecks of their employees and remit these funds after they are withheld. Failure to do so carries a 100 percent penalty. Penalties extend to those who shared control and custody of the funds but did not pay to the IRS including, not only the company itself, but also the company's officers and employees.

## Estimated Tax Penalty

Failure to pay estimated taxes for the year because they are withheld from our paychecks by an employer. However, freelance workers and certain other individuals and businesses are required to make estimated tax payments throughout the year. Failure to do so can result in a penalty based on the number, amount, and deadline of required estimated tax payments. Penalties cannot be waived for reasonable cause, although it may be waived in certain serious circumstances.

## Failure to Deposit Penalty

Failure to deposit taxes by the established deadline. It ranges from 2 to 10 percent per month until the deposit is completed. If notices are continuously ignored, the penalty can reach 25 percent.

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file between March 1 and August 1, and \$260 per form if you file

000 per year or \$187,500 for small businesses for \$50 penalties, businesses for \$100 penalties, and \$1,072,500 a year for small y for other businesses for \$260 penalties. Small businesses are gross receipts in the past three tax years.

nsible for filing more than 250 W2 and W3 forms, they must be e-forms on time even if you rely on a payroll company to complete

## Check Penalty

you write a check to the IRS and it is returned by your bank for equal to 2 percent of the payment amount if the check was for f \$25, or the full payment amount if the check was for less than

## Submission Penalty

olous tax return, you could face a penalty of up to \$5,000. This y those who protest the tax system and may include incomplete l.

## Provide Foreign Information

oreign corporation, you must report these shares to the IRS by carries a penalty of \$10,000 to \$50,000 for every offense and foreign tax credits. Form 5472 must be used when more than 25 res are held by foreign individuals. This form has a failure to file es by \$10,000 for every month in which you fail to file.

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erty transfers to a foreign trust, you must report this information 35% penalty. If you are required to file Form 925, failure to do so ransfer up to a maximum of \$100,000.

## Assistance Program

Free assistance for certain types of penalties, including but limited

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beyond their control, such as natural disaster, fire, serious illness or family member, or inability to obtain records. Lack of funds alone is not enough for a penalty waiver, although lack of funds caused by one of the above may qualify. You will need to provide documentation of the event in the form of tax records, hospital records, and other proof where applicable.

Abatement penalty assistance programs if you have made an **offer in compromise**, you have filed all outstanding returns or are covered by an **offer in compromise** you have not received any penalties for the previous three tax years, or you have fully paid your past-due balance before requesting assistance.

If you made a clerical or administrative mistake, you may also be eligible for back tax assistance of up to 50% of the penalty assistance due to statutory exception and is given if you can prove to the IRS. When requesting this type of abatement, you must include a copy of the original notice, the incorrect written advice you received in response, and a copy of the penalty and/or additional tax that were charged based on this mistake.

If you receive a notice of deficiency from the IRS, file **Form 843, Claim for Refund and Abatement**. If your penalty back tax assistance request is denied, you can appeal the notice. Abatement for interest is not available and the interest will continue to accrue until the tax amount is fully paid.

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## Penalties

The best way to avoid penalties is by filing your tax returns on time and paying your taxes as soon as possible. You may also want to have a **certified public accountant** prepare the return on your behalf to ensure that it is complete and accurate.

If you cannot currently afford to pay, you should apply for an extension as soon as possible. If you can resolve your tax issues, you will result in lower penalties than if you do not. These steps can include:

1. **Offer in Compromise**, which cuts your monthly late penalty in half (1% instead of 2%) and may result in a settlement, including levy of your property, as long as you make the payments.

2. **Installment Agreement**, in which you attempt to negotiate a settlement of your back taxes. Fewer than half of offers in compromise were accepted. If you are considering this route, seek the advice of a tax attorney if you plan to go this route. He or she can help you determine what is more likely to be accepted.

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for a bright financial future.

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