Here's what to do if you owe money to the IRS

If you're caught off guard by a big bill, here's what to do.

Beth Braverman (https://considerable.com/contributor/beth-braverman/) | 1 day ago

If you're like most Americans, you're used to getting a pretty big check from the IRS after you've filed your taxes.

Though you're likely paying less in taxes this year thanks to the 2017 overhaul of the tax code, your withholdings for last year's income may not have reflected the changes. There's also new limits on what you can deduct in state and property taxes. So even if you've previously received a refund, you may find that you now owe the government money.

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File on time

Refund or no, the IRS wants your tax forms by tax day.

If you don't have the paperwork ready by April 15, you can always file for a six-month extension. But there's no extension to pay what's owed.

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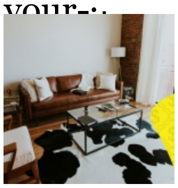

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If you file on time but pay late, you'll incur a penalty of half a percent per month on the amount owed, plus interest (6%, compounded semi-annually). But if you file late (https://ttlc.intuit.com/questions/2547642-what-s-the-irs-penalty-if-i-miss-the-april-filing-deadline)without requesting an extension, you'll owe a penalty of 5% of unpaid taxes for each month that you're late for up to five months, plus interest.

So even if you can't pay your full bill, at least file and pay what you can: Anything you can pay on time will reduce the amount of interest you'll ultimately have to pay.

"The IRS just wants to be assured that they're going to be paid," says Cindy Hockenberry, enrolled agent and director of tax research and government relations with the National Association of Tax Professionals. "If you show them that you understand what you owe and you're going to make good on it, they'll work with you."

Decide how you'll pay

One way or another, the IRS will get its money. But if you can't pay the whole bill now, there are a few options to consider.

One option is to pay it off with a credit card with a zero-interest or low-interest introductory rate. That way, you incur little or no interest, and you might earn rewards (https://considerable.com/these-are-the-best-credit-cards-for-people-in-their-50s-and-60s/).

Keep in mind that you'll have to fork over a fee of about 2% of the bill in order to pay by card—and you should have a plan to pay the debt off before the introductory rate expires.

Another option is to sign up for an installment plan (https://www.irs.gov/payments/payment-plans-installment-agreements%23q03) with the IRS. You'll continue accruing fees and interest until the debt is paid off, but you don't have to worry about big interest charges down the line.

Short-term installments plans, paid off within six months or less, are free to set up, while longer-term plans have some fees, ranging from $31 to $225, depending on whether you sign up for direct debit and whether you enroll online or by phone (fees are waived for low-income taxpayers).

Make adjustments for next year

If you were caught by surprise by a tax bill, it may be time to adjust your withholdings.

In general, the fewer allowances you claim, the more taxes you'll pay throughout the year. This calculator (https://www.irs.gov/individuals/irs-withholding-calculator) from the IRS can help. As a freelance worker, you can cut down your end-of-the-year tax bill by increasing the amount you pay in estimated quarterly taxes.

"You want to analyze your taxes and see why you had such a big bill," says

Jackie Perlman, principal tax research analyst with The Tax Institute at H&R Block. “Then you want to make adjustments so that you’re covered and don’t run into it again next year.”

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