

Failure to File and Failure to Pay: Are You Headed for T-R-O-U-B-L-E?

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The old saying goes, “There are only two certainties in life: death and taxes.” Have you ever wondered what would happen if you filed your tax return late or worse, did not file at all? Well, you are looking for trouble if you do not file your tax return.

If you do not file an income tax return, the IRS will gather all the transmitted tax documents and create a “substitute return” for you. If they show you are due a refund, nothing further will be done. Surprised? If they show you owe money, they will begin sending you collection letters.



And, if that is not bad enough, there will be a penalty for not filing your return equaling 5% per month up to 25% of the tax due. Then, there is another penalty of .5% per month up to 25% of the tax due for failure to pay the tax. An example is if you owe \$1000, it will cost you \$250 penalty for not filing, but only a \$5 penalty for not paying. And then, don't forget they tack on interest to that number!

If you qualify for a refund and wait more than 3 years to file your return, the IRS will take that refund away, because the statute of limitations expires. Don't expect them to send you a reminder letter!

In addition to the penalties you are charged for not filing your return, you also increase your chances of being audited. For example, if you file on time, you have a 3% chance of an audit. If you don't file on time, your chance of being audited increases to 50%...Yikes!

There have been many high profile cases about celebrities not filing or paying their taxes. Here is a short list of people that owe or have owed the IRS:

- Toni Braxton = \$400,000; •Val Kilmer = \$500,000 and has a lien on his New Mexico property;
- Pamela Anderson = \$700,000; •Wesley Snipes = \$2.7 million and is serving three years in jail;
- Marc Anthony = \$3.4 million; •Nicholas Cage = \$14 million



The general rule is to file on time (okay to file up to the extension deadline) since the consequences are harsher for not filing than not paying the tax due.

- For individuals, file by April 15th or October 15th with the approved extension.
- For corporations, file by March 15th or September 15th with the approved extension.

Don't put yourself in a position of grief. Even if you are not ready to file, file something and you can amend the return later.