

IRS PENALTIES: A SUMMARY

Paying Late (FTP: Failure to Pay Penalty)

.5% of the unpaid tax for each month or part of a month after the due date that the tax isn't paid, up to 25% of the unpaid tax.

Filing Late (FTF: Failure to File Penalty)

5.0% of the unpaid tax for each month or part of a month that a return is late, not to exceed 25% of the unpaid tax, with a minimum FTF penalty applicable to returns not filed within 60 days of the due date, including extensions (the lesser of \$135 or 100% of the net amount due).

Example:

Tax return and tax is due April 15th but filed and paid on May 20th. The penalty is 11% of tax due (includes a 1% FTP penalty).

Importance of Filing on Time

The 25% limitation on penalties applies to the first five months, thereafter individuals incur a failure-to-pay penalty of .5% a month for 45 more months (an additional 22.5%). Thus the combined penalties can reach a total of 47.5%.

If the return is not filed within 60 days of the proper due date, including extensions, the penalty will be no less than \$135 or 100% of the tax due on the return, whichever is lower.

In addition, interest, compounded daily, is charged on any unpaid tax from the due date of the return until the payment date.

Interest rates are determined every three months and are equal to the federal short-term rate plus 3%.

