



Legal Aid Society of Orange County
Low Income Taxpayer Clinic (LITC)
2101 N. Tustin Ave., Santa Ana, CA 92705

Tax Penalties and Interest

If you owe taxes, the IRS will add penalties and interest on the amount you owe. **If you have a refund due, there is no penalty for filing late.** Penalties are calculated on the amount due. There are three separate penalties:

- Failure to File Penalty
- Failure to Pay Penalty
- Interest

Each is calculated differently. Let's take a look at each one..

Failure to File Penalty: This is calculated based on the amount of tax you owe. The penalty is **4%** for each month the tax is not paid in full, up to a total maximum penalty of **25%**. If a tax return is deemed by the IRS to be fraudulent, the monthly rate is increased to 15% and the cap to 75%.

Failure to Pay Penalty: This is calculated based on the amount of tax you owe. The penalty is **0.5%** for each month the tax is not paid in full.

Interest: The IRS will add interest on your outstanding tax debt. Interest begins to accrue on April 16th, regardless if you file an extension. Interest is compounded daily at three percentage points above the Federal short-term rate. The rate is redetermined every three months, and interest will be calculated according to the current rate. For example, the interest rate in effect for the period of September through December, 2007 was **8%**.

In addition, the California Franchise Tax Board can also assess penalties and interest for not timely filing your income tax returns. Therefore, if you owe taxes it's better to file sooner rather than later. Also, if you are going to filing your tax return late, file an extension. By filing an extension you may reduce or eliminate the Failure to File Penalty.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT THE LEGAL AID SOCIETY AT 714-571-5200 OR 1-800- 834-5001.