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Breaking News

Paying IRS by credit card may be easy but may not be smart

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For taxpayers who owe money to the government tomorrow and don't have the cash to pay up, the IRS makes it easy to do so with credit cards -- but it may not be right option for everyone.

Taxpayers can satisfy their federal and state income tax bill using Visa, MasterCard, American Express or Discover cards by either visiting www.officialpayments.com or calling 1-800-2Pay-Tax.

All taxpayers, including paper filers, electronic filers, those who use tax-preparation software and those whose returns are prepared by tax professionals may use credit cards to settle up with Uncle Sam.

It might be a great way to rack up some airline miles and get reward points from the card company, but if people end up paying taxes with a credit card because they don't have the money, they'll pay more in interest than they would if they simply made installment payments with the IRS, said Alex Kindler, a CPA with the Horovitz Rudoy & Roteman accounting firm, Downtown.

"The interest rate the IRS charges for installment payment plans [8 percent] is lower than the rate credit card companies are charging," Mr. Kindler said. "Your cost of borrowing is lower through the IRS than credit card companies, some of which charge 18 percent or more."

Also, when consumers use a credit card to buy from a merchant, the merchant has to pay a fee of about 2.5 percent to the credit card company. But the IRS is exempt from paying the fee. Instead, the fee gets added to the bill of the credit card holder.

The 2.5 percent fee is often more than the value of a credit cards' rewards points, which erases the value of using the card to get the points.

Because of the way FICO scores are calculated, another pitfall in paying a big tax bill with a credit card is that it could hurt your score by drawing down a large percentage of available credit. The convenience of paying a tax bill with a credit card might cost consumers thousands in higher interest payments on other big ticket purchases, such as a mortgage.

P.J. DiNuzzo, president of DiNuzzo Investment Advisors Inc. in Beaver, said in many cases it doesn't make sense to use a credit card to pay tax bills and that his firm generally does not recommend it.

"At first blush it may appear convenient to pay taxes with a credit card," he said. "But you need to look further at the additional costs that may not be obvious initially."