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TAX & ADVISORY

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You missed the deadline. Now what?

Missing a tax deadline doesn't have to spiral, but the next few moves matter. Here's what it costs, what the IRS actually does next, and the steps that stop the bleeding.

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First, find yourself on this page.

The right move depends entirely on where you stand. Most people find their situation is more manageable than they feared.

You're owed a refund

No late-filing penalty applies when the IRS owes *you*. But you have three years from the original due date to claim a refund. After that it's gone. (IRC §6511)

$0

in late-filing penalties

You owe, and didn't file or extend

The most expensive place to be. Two penalties run at once, plus interest. The most useful thing you can do is file something today.

5.0%

per month combined, plus interest

You extended, and you owe

Extending stopped the failure-to-file penalty. But an extension buys time to *file*, never time to *pay*. Interest and the payment penalty have run since April.

0.5%

per month, plus interest

You haven't filed for several years

Multiple unfiled years compound penalties and draw attention. Liens can attach to your property and credit. This needs a deliberate plan, and it gets cheaper the sooner it starts.

Up to 25%

failure-to-file penalty, per return

> **Worth knowing right now.** The IRS almost always writes first, and will never demand immediate payment by gift card or wire, or threaten arrest. If someone calls making those demands, hang up. (The IRS and its collection agencies do call about existing accounts, but only after writing.)

What it actually costs to wait.

Penalties are calculated on what you *owe*, not on what you failed to file.

PENALTY	RATE	WHAT STOPS IT
Failure to file IRC §6651(a)(1)	5% per month max 25%	Filing your return, even with an estimate. You can amend later.
Failure to pay IRC §6651(a)(2)	0.5% per month max 25%	Paying your balance in full.
Interest IRC §6621, compounded daily	7% per year Q4 2026; federal short-term rate + 3 points, reset quarterly	Paying your balance in full.
Both penalties at once IRC §6651(c)(1)	5.0% per month 4.5% + 0.5%, not 5.5%	Filing immediately drops it to 0.5%.

> **The detail almost everyone gets wrong.** When both apply in the same month, the filing penalty is *reduced* by the payment penalty, so the month costs 5.0%, not 5.5%. Filing stops growing after five months at 22.5%; payment keeps going.

What that looks like on $10,000 owed

No return filed, no extension, at the current 7% interest rate.

ELAPSED	FAILURE TO FILE	FAILURE TO PAY	INTEREST	TOTAL
1 month	$450	$50	~$58	**~$558**
3 months	$1,350	$150	~$174	**~$1,674**
5 months	$2,250 (capped)	$250	~$291	**~$2,791**

If you owe a smaller amount, read this

More than **60 days** late, the filing penalty becomes the **lesser of $525 or 100% of the tax owed** instead of the percentage. Owe $600 and file three months late? That isn't $81. It's $525.

What happens when you ignore the notices.

The IRS is methodical rather than fast. The process is real, and it escalates in a predictable order.

01 **Penalties and interest start accruing**

The clock starts the day after the deadline. This phase is silent, with no letters yet, but the meter is running. Acting here is the cheapest it will ever be.

02 **The IRS mails a CP14, your first balance-due notice**

This is the official notice that you owe. Opening it and responding is the single most valuable thing you can do. Putting it in a drawer is the single most expensive.

03 **Escalating reminders: CP501, CP503, CP504**

A series of increasingly urgent letters. The CP504 is a Notice of Intent to Levy, the last warning before enforcement. State agencies, including California's FTB, often move faster and more aggressively than the IRS.

04 **Lien, levy, or passport restriction**

A federal tax lien attaches to your property and damages your credit. A levy can take money from bank accounts and wages directly. Owing more than roughly $66,000 (the 2026 figure, adjusted each year) can also get your passport denied or revoked.

> **Tax debt doesn't quietly expire.** The IRS generally has ten years from the date of assessment to collect. That's a long time for a balance to grow.

Whether tax debt can be resolved through bankruptcy is a legal question with strict timing rules, and it's outside what I do. If that's on your mind, talk to a bankruptcy attorney before you assume either way.

There is always a path forward.

The IRS offers several legitimate resolution routes. Which one fits depends on your balance, what you can actually pay, and how current your filings are.

01 **File immediately, even with an estimate**
A reasonable estimate stops the failure-to-file penalty now and drops your monthly cost from 5.0% to 0.5%. You can amend later.

02 **Short-term payment plan, up to 180 days**
Combined balance under $100,000? Request up to 180 days online at IRS.gov. No financial disclosure, no setup fee.

03 **Installment agreement**
Up to 72 months, available online for combined balances of $50,000 or less once all required returns are filed. Worth knowing: while the agreement is in effect, the failure-to-pay penalty is **cut in half, to 0.25% per month**.

04 **Currently Not Collectible status**
If paying would leave you unable to cover basic living expenses, the IRS can pause collection. Interest still accrues; levies stop. Requires documentation.

05 **Offer in Compromise**
The "pennies on the dollar" settlement. Rare in reality: the IRS accepts offers only from taxpayers who genuinely cannot pay now or in future. Be wary of any firm that promises it up front.

Penalty relief is changing in 2027, and it's getting easier

With a clean record for the prior three years, a one-time slip may cost you no penalty at all. The mechanism is changing:

Returns due on or after January 1, 2027. The new **Automatic Exemption from Penalty** applies automatically during processing. No form, no request, no phone call.

Older returns. First Time Abate still covers eligible earlier returns, but it is **not** automatic. Someone has to ask.

IRS Fact Sheet FS-2026-12 (July 2026)

You don't have to work this out alone.

The worry is almost always worse than the situation itself. Most cases are manageable, but only once someone looks at the file.

> *Every week you wait makes it more expensive. That's the whole reason this guide is short.*

Brandon Mondragon · Founder, Mondragon Tax & Advisory

Book a free 30-minute call

We'll go through what you owe, which penalties are running, and which routes fit. You'll leave with a clear picture and a plan. No pitch, no pressure.

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What I can and can't do: I prepare returns, work out where you stand, tell you which relief you're likely to qualify for, and prepare the paperwork. As a CTEC Registered Tax Preparer I don't represent clients before the IRS; if yours needs that, I'll say so and refer you.

Sources: IRC §§6651, 6621, 6511, 7345; IRS FS-2026-12 (July 2026); Rev. Rul. 2026-15; IRS Pub. 594. This guide is for informational and educational purposes only. It does not constitute specific legal, tax, or financial advice for your individual situation, and reading it does not create a client relationship. An engagement letter is required to establish one. Mondragon Tax & Advisory is not a CPA firm and does not provide attest services or legal advice. Brandon Mondragon is a California Tax Education Council (CTEC) Registered Tax Preparer, #A360990. Rates, thresholds, and IRS procedures change; figures are current as of the date on the cover.