THINGS TO KNOW IF YOU OWE A SUBSTANTIAL AMOUNT OF TAXES TO EITHER THE IRS OR VIRGINIA

If you owe a substantial amount for your 2024 taxes, we want you to understand what might happen.

Both the IRS and Virginia expect people to pay their taxes throughout the year, either through withholding or by making quarterly estimated payments. Just paying what is due by April 15 is not what is expected. You may receive a letter from the IRS or Virginia indicating that you did not make sufficient estimated payments, and you may be subject to an "underpayment penalty." At TaxAide, we do not have the information necessary to assess whether you are subject to this penalty, because there are a number of ways that a person with a substantial underpayment might not be subject to the penalty. So, you may receive a letter from the IRS or Virginia about an underpayment sometime in the future. If the letter comes, it will tell you how much you owe and how to pay it. It is important that you understand that by the time you come to TaxAide to prepare your taxes, there is nothing we can do at that point to eliminate your potential underpayment penalty. Your last withholding was done by the end of 2024 and your last estimated tax payment for the year was due by January 15, 2025.

Withholding is paid throughout the year, from things like your paycheck, your Social Security payments, your retirement withdrawals, or your pension checks. Paying through withholding is a better choice, because withholding is treated as being paid throughout the year, regardless of when it was actually withheld. The IRS has online tools that help you figure out if and by how much you should increase your withholding, especially if you are married or have a lot of investment income in addition to your paychecks or pension checks. There is a link from the main IRS.gov website, and here is the direct link to the estimator:
https://www.irs.gov/individuals/tax-withholding-estimator

If you don't receive a paycheck or other vehicle to have tax withheld, or you would prefer to make estimated payments, we can help you prepare estimated payment vouchers for the current tax year to help avoid a repetition of the underpayment situation. The vouchers we prepare are for your convenience. The amount put on the vouchers is not binding on you. We recommend you use the vouchers as a reminder to pay and that you make your payments online, which is more secure and ensures that your payment does not get lost in the mail. The main IRS.gov website has a link for payments, labeled "make a payment." Virginia offers a similar service, go to this site for information: https://www.tax.virginia.gov/individual-income-tax-payment-options

If you have a substantial underpayment, we recommend that you pay your tax balance due as soon as possible in order to minimize the penalty amount, instead of waiting for the April 15th deadline. The penalty is calculated from the date of underpayment until the date paid. If you choose to have the IRS withdraw funds from your bank account, you can choose your desired payment date when we prepare your return. Alternatively, you can set up a payment online directly with the IRS or Virginia using the links noted above. You should receive any penalty notice from the IRS a few months after you file your return. In addition to the penalty, interest will accrue on the penalty amount. To save additional interest charges, we recommend you pay this penalty as soon as you receive the IRS notice.

There are several ways that the penalty is avoided. The easiest one, which applies to MOST of our clients, is to be sure that your withholding payments total at least the amount of your “total tax” liability for the previous year. This number is on line 24 of your federal form 1040 and on line 18 at the bottom of the left column of the first page of your Virginia return, labeled “net amount of tax.” So, if your total tax for 2024 is $5,000, and you have at least $5,000 withheld from your income in 2025, you are usually in the clear. If your income is over $150,000, different rules apply to you.

We understand that the IRS and Virginia may not have been assessing underpayment penalties for and during the covid years. We have had several reports from clients that received underpayment penalty letters from the IRS and Virginia for tax year 2023. Therefore, don’t assume that just because you didn’t get an underpayment penalty in the past that you won’t get one for this year.

If you receive an underpayment penalty letter, you can ask the IRS or Virginia to waive the penalty. We cannot represent you before the IRS or Virginia, but we can provide you with input on your draft waiver request. Please contact us at [FILL IN CONTACT INFORMATION FOR THE SITE, PHONE AND EMAIL or say “contact our National office by phone at 888-227-7669 or email taxaide@aarp.org.”] Our volunteers do not work year-round, but there is at least one person at every site who can be reached during the off-season.