

Tax Day: The Consequences of Paying Taxes with Your Credit Card

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Well...it is here. Tax day. Whether you owe taxes or are getting a fat refund back you likely have made some sort of arrangements to get your tax return filed. If you owe taxes this year (or any other year for that matter) you are probably trying to figure out exactly how it is that you are going to pay those taxes. Often the IRS will set you up on a payment plan while your local state government may not be so accommodating.

The IRS now takes credit card payments for tax debts as do most state governments. For those struggling through financial difficulties a new tax debt is the last thing they need. Most are aware that tax debt is generally not eliminated in a bankruptcy case. Likewise most people are aware that credit debt is eliminated in a bankruptcy case. Because of this, some people believe that the way to get around paying taxes is to pay their tax debt with their credit cards and then file for chapter 7 bankruptcy, thus doing an end-around on the bankruptcy laws and eliminating tax debt that otherwise would not be eligible to be discharged.

But, as with most things in bankruptcy, you are not the first person to think of this and creditors, judges, lobbyists, and the people who make bankruptcy laws have closed this apparent loophole. At the urging of the credit card industry Congress amended the Bankruptcy Code to provide that debts that are incurred to pay a tax debt that would otherwise have been non-dischargeable are now also non-dischargeable. So what does this actually mean? It means that if you use your credit card to pay your taxes and then file for bankruptcy then the charge on your credit card that you used to pay the tax debt will not be eliminated.

So, if your plan was to put your tax debt on your credit card and then file bankruptcy, this plan will likely not have the end result you had hoped. However, there are some tax debts that will be eliminated in your bankruptcy. Generally speaking if your tax debt is

more than three (3) years old and was not assessed to you at anytime in the last 240 days it should be discharged in your chapter 7 bankruptcy. If you are dealing with a lot of tax debt you should meet with a bankruptcy attorney to help you evaluate what taxes can and cannot be eliminated in a bankruptcy case.

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