Tax day is just around the corner. This year, you have until April 17th to file your tax return and to pay any taxes due. For the last few years, you have been able to pay your taxes with a credit card. Though it is tempting to pay the bill with a credit card and get miles (or other rewards) for your payment, take a good look before you commit.

You may not realize that there is a significant processing fee added to your tax bill when you pay with a credit card. Credit card charges are processed by a third party provider, not the IRS. These companies charge a processing fee ranging from 1.89% to 3.93%. On the good side, the fee is a deductible business or individual expense, if you itemize deductions.

Let’s get down to the specifics. If you owe $5000, the fee at 2.35% (the average processing fee) will amount to $117.50. This amount rolls onto your balance along with the tax bill. Depending on your interest rate, this can be a costly way to pay your taxes. If you pay it off over 6 months with a credit card that charges 15% (an average rate), the payment each month will be $891 for a total of $5346.

Even if you pay the balance before the end of the month, you will still pay a hefty fee. The rewards or miles have to be extensive for this payment method to work to your advantage.

If you don’t have the money to pay your tax bill right now, check into installment options from the IRS. They will charge interest, but it is still much less than what a credit card will cost.
Here are some things to remember if you feel you should pay by credit card.

- Payment can be made through tax preparation software, a tax professional, or through a payment by phone or online.
- Account numbers **should not** be written on the return or form.
- The payment date will be the date the charge is authorized.
- Payments cannot be cancelled.
- In the event the service provider fails to forward the tax payment to the Treasury, the taxpayer will be responsible for the tax payment and for any penalties and interest.

A better choice for many people is to pay by debit card. But it also comes with a fee—$3.89. That is much easier to swallow than the convenience fees that come with the use of credit cards.

Maybe the old fashioned way is the least costly. Write a check to pay your bill, as long as you have the money in the bank.

If there is a big difference between your tax bill and what you have already paid in, take a good look at your withholding. You might need to decrease the number of exemptions, withhold at a higher rate (such as single instead of married), or even withhold additional money each pay check.

By the same token, if you have a large refund, you might want to adjust your withholding to a lower rate. This will allow you to keep more money in your pocket through the year.

Make changes as necessary so that your tax bill or refund is more reasonable. A great goal is to try and get as close to zero as possible. That way, you have control of your money through the year and if you owe, you know that you won’t have to dig as deep for the remainder of the bill.

This is the old adage: there are only two inevitable things—death and taxes. Taxes are due each year. Make sure you make tax decisions that are to your financial benefit.

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