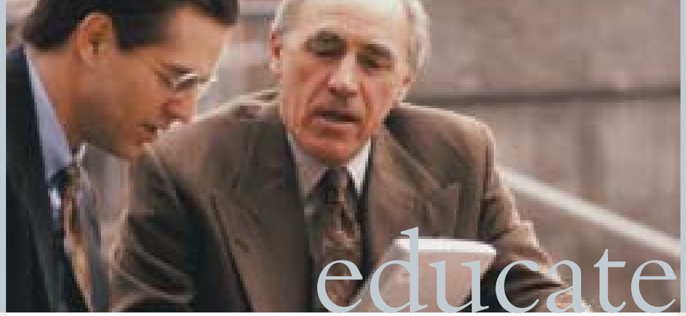

update

- Late Filing Penalty – A penalty is usually charged if the tax return is filed after the due date and the taxpayer has not filed a valid extension or the extension due date has passed. The penalty is 5% of the balance-due tax for each month (or part of a month) the return is late.
  - Maximum Penalty – The maximum penalty imposed is 25%.
  - Minimum Penalty – If your return is more than 60 days late, the minimum penalty is $100 or the balance of the tax due on your return, whichever is smaller.

  This penalty can be avoided by filing the appropriate extension or extensions and then filing the return by the extended due date.

- Late Payment Penalty – The penalty is generally $\frac{1}{2}$% of the balance-due tax not paid by the regular due date. It is charged for each month or part of a month the tax is unpaid. The maximum penalty is 25%. Taxpayers are considered to have "reasonable cause" for the period covered by an automatic extension if at least 90% of their actual tax liability is paid before the regular due date of their return through withholding or estimated tax payments, or with the automatic extension.

Reasonable Cause – The IRS will not assess the late filing penalty or late payment penalty if you can show reasonable cause for not paying on time. To demonstrate reasonable cause, a taxpayer must show they used ordinary business care and prudence in preparing and filing their returns and nevertheless were unable to meet the due date.

To request the penalties be abated, a statement is attached to the finished tax return fully explaining the reason.

What If You Can't Pay the Balance Due?

If a taxpayer is unable to pay the balance due, the IRS offers two possible solutions: pay by credit card or establish a payment plan.

Pay by Credit Card – Taxpayers can generally pay part or all of their tax liability by using a credit card. The payment is not made through the government directly, but rather through a third party service designated by the IRS. Unlike merchants, the IRS will not pay the discount to the credit card companies. Instead, the taxpayer is charged a fee that is roughly 3% of the tax due.

Establish an Installment Payment Plan – Generally, if the amount owed does not exceed $25,000 and the taxpayer is able to pay it within a five-year period, the taxpayer will qualify for an installment agreement. The IRS charges a small fee for setting the agreement and will continue to charge interest on the unpaid balance. The late payment penalty will also apply, but will be reduced to half the regular amount if the taxpayer qualifies. To be approved for an installment plan, a taxpayer must agree to make full and timely payments, file all future tax returns on time, and pay all future tax balances when due. Any refund from future years will be applied to the outstanding balance. If a taxpayer defaults on the terms of the agreement, the IRS has the option of taking enforcement actions to collect the entire amount owed.

Who Can File an Extension?

In addition to the taxpayer, Attorneys, CPAs, and Enrolled Agents can file an extension for a taxpayer without a power of attorney. Also, anyone with a valid power of attorney, who is in a close personal or business relationship with the taxpayer, can file an extension for the taxpayer.

The purpose of this pamphlet is to provide current information on tax, financial, and business developments. It suggests general tax planning ideas that may be appropriate in certain situations. The information and opinions are generalizations and may not apply to all taxpayers; it is important that you seek appropriate advice before implementing any of the ideas suggested.

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Tips on Filing Your Tax Return

Client Information Series

Tips on Filing Your Tax Return

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Deadline for Filing Your Return

Generally, individual tax returns are due on the 15th day of the fourth month after the close of your tax year. Since virtually all individual taxpayers file on a calendar year, the due date for most individual taxpayers is April 15. That is the due date for both filing your return and paying any balance-due taxes. If the April 15 due date falls on a Saturday, Sunday or legal holiday, the due date is delayed until the next business day. Most states have the same due date, although some give additional time.

U.S. citizen and U.S. resident taxpayers who are out of the country on the April due date may qualify for an automatic two-month extension to file their return and pay any federal income tax that is due. This applies if they are living outside of the United States and Puerto Rico and their main place of business or post of duty is outside the United States and Puerto Rico, or they are in military or naval service on duty outside the United States and Puerto Rico.

The deadlines for filing and paying, if there is a tax due, is extended for 180 days after the latter of the last day a military taxpayer was in a combat zone/qualified hazardous duty area, or the last day of any continuous qualified hospitalization for injury from service in the combat zone/qualified hazardous duty area. In addition to the 180 days, the deadline is also extended by the number of days that were left for the individual to take action with the IRS when they entered a combat zone/qualified hazardous duty area.

Proof of Filing

If a paper return is being filed, it is considered filed on time if it is properly addressed, has sufficient postage and is postmarked by the due date. It may be appropriate to obtain a proof of mailing if there is a balance due on the return, since both the late filing penalty and the late payment penalty are based on the amount of the balance due. This is especially important if the amount of balance due is sizable and the returns are mailed close to the due date. If the return is sent by registered mail, the date of the registration is the postmark date. The registration is evidence that the return was delivered. If sent by certified mail and the receipt is postmarked by a postal employee, the date on the receipt is the postmark date. The postmarked certified mail receipt is evidence that the return was delivered. Note: A private postage meter date is not considered to be valid proof of mailing.

In addition to filing returns with the U.S. Postal Service, the IRS has designated several private delivery services that taxpayers can use to send their returns to the IRS. The postmark date for these services is generally the date the private delivery service records the date in its database or marks on the mailing label. The private delivery service will explain how to get written proof of this date.

Reasons for Extensions

There are valid reasons for not filing a tax return on time, and there is no stigma associated with doing so. The following are typical reasons that taxpayers file extensions:

- Waiting for a K-1 Distribution Form from a partnership or estate.
- Need additional time to fund certain self-employed retirement plans.
- Taxpayer suffered a casualty and the tax documents were lost.
- Taxpayer or spouse is ill.
- Taxpayer or spouse is deceased.

These are by no means the only valid reasons for an extension, but are shown as examples.

If You Need Additional Time

If you need additional time to file your return, the IRS provides two forms of extensions. CAUTION: It is important to note that these are extensions of time to file your return, not an extension to pay your tax liability. Even if you file for and are granted an extension of time to file, interest and late payment penalties (discussed later) will apply to any balance due on the return from the original April due date.

Automatic Four-Month Extension – The IRS provides an automatic four-month extension for those taxpayers who file the extension form by mail or electronically. No reason is needed to obtain this extension. It is automatic if the form is filed before the April due date.

Additional Time Needed – If the automatic four-month extension does not give you enough time and you have a valid reason, you can request an additional extension of time from the IRS. Unlike the automatic extension, this one requires IRS approval and must be filed before the automatic extension period expires. The IRS will return the extension form either approved or disapproved. If it is disapproved, they generally grant a short grace period to file. This additional extension can be requested for up to two additional months. CAUTION: Taxpayer should file for the automatic four-month extension first. Only in cases of undue hardship will the IRS approve a request for an additional extension when a taxpayer has not filed for the automatic extension first.

Interest on the Balance Due

Extensions do not extend the time taxpayers have to pay their tax liability. Therefore, if money is owed on a return that is filed after the original April due date, the taxpayer will be liable for interest on any unpaid balance. The interest charge continues to run until the tax is paid. Even if there is a good reason for not paying on time, the interest will still be assessed. The first extension request includes the ability to include a payment toward the estimated tax liability.

Late Penalties

In addition to interest, a taxpayer can also be liable for a late filing penalty and a late payment penalty. Having a valid extension will avoid the late filing penalty, but not the late payment penalty.