



# update

# educate

*CAUTION! It is important to understand 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 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 by 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, an additional extension of time can be requested from the IRS. Unlike the automatic extension, this one requires IRS approval and must be filed before the automatic extension period expires. If the IRS disapproves your request for the additional time, they generally grant a short grace period to file. This additional extension can be requested for up to two additional months.

*CAUTION! Taxpayers 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 liabilities. 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 may 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.

- **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 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, taxpayers 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** – 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 2.5% 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 up 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.

## State E-file

Virtually all states now offer e-filing in a cooperative tax filing program with the IRS. If acceptable for filing, the state return will also be e-filed.

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.

Client  
Information  
Series



# E-filing Your Tax Returns



inform

advise



## Basics of E-filing

When e-filing (electronic filing) was first introduced, only the less complicated tax returns qualified. This led to the general public's perception that e-filing was for short forms with refunds. Since then, e-filing has matured to the point that even the most complicated returns can be electronically filed. It also offers the following advantages to taxpayers:

- A refund can be received much faster.
- The risk of a check being lost or stolen is minimized.
- The IRS (and state, if applicable) no longer needs to keypunch your tax return data, avoiding input errors at the government centers.
- Proof of filing is provided.
- There is no longer the expense of mailing returns.
- If money is owed, a taxpayer can still file early and delay payment until the last minute.
- A complete paper copy of your tax return is still provided.

In short, e-filing simply replaces the paper-filed return with a return that is electronically filed. There is no sacrifice on your part in quality or service provided by this firm.

## Authorizing Transmittal

Before your return(s) can be electronically transmitted, you must first provide our firm with written authorization. You will need to sign one of two authorization forms, which will be provided to you after your return has been completed and reviewed and is ready to be filed.

- **Form 8879** – Except in unusual circumstances, Form 8879 will be used. It is used when all forms and schedules on your tax return are acceptable for electronic transmission and provides for an electronic signature (as explained below). To use Form 8879, the taxpayer must be at least 16 years of age.

- **Form 8453** – Occasionally, your return will include a form or schedule that is not acceptable for electronic filing and that particular form must be paper filed. This is usually encountered when one or more of the forms being transmitted requires an original manual signature. When this is the case, Form 8453 is used to provide the authorization. Once the acceptable forms of your return have been electronically filed, the forms that must be paper filed are mailed by your tax professional to the IRS with Form 8453 within three business days of receiving IRS acknowledgment that the return has been accepted.

## Your Electronic Signature

Paper-filed tax returns must be signed by the taxpayer or both taxpayers in the case of a joint return. When all forms and schedules of your return are electronically transmitted (see Form 8879 above), a physical signature is not possible. Instead, your Personal Identification Number (PIN) is used as your electronic signature. You and your spouse, if filing a joint return, establish your individual PIN at the time you sign the authorization for your return to be electronically transmitted. The PIN can be any randomly selected five-digit number so long as it does not begin with a zero and is only used to tie your physical signature on the authorization to the transmitted return. There is no need on your part to record or remember the number and you can use a different number each time you file.

## Options for Receiving Refunds

If you are entitled to a refund and do not have other outstanding liabilities for prior year taxes, past due child support or student loan payments, you have the following options for payment of your refund amount:

- **Direct Deposit** – The refund is generally deposited into your specified savings or checking account within seven business days after the return has been electronically transmitted.

- **Issued a Check** – If a direct deposit account is not specified, then the refund amount will be paid by a check. This is generally issued within 14 business days after e-filing is completed.

- **Applied to Subsequent Year** – Any portion of your refund can be applied to next year's estimated taxes and the balance paid to you by check or direct deposit.

## Options for Paying a Balance Due

If a balance is due on your return, the return can be electronically filed and the balance due on your tax liability can be paid using the following options:

- **Check Payment** – A payment voucher will be provided with which you can make a payment at any time up to the unextended due date of the return (generally April 15) without incurring late payment penalties.
- **Direct Debit (Electronic Withdrawal)** – You can pay by direct debit at the time the return is filed or specify any date up to and including the last day for filing returns (generally April 15) for an electronic withdrawal from your bank account.

**Example:** *Your return could be e-filed in March and you can specify that the debit be made on April 10 (or any other day on or before the return due date). You do not have to remember to do anything at a later time.*

**CAUTION!** *Taxpayers should first check with their financial institutions to verify that such payments can be made.*

In addition to your tax return balance due, direct debit can be used to make extension payments and certain estimated payments.

- **Lack of Funds** – Even if you do not have the funds available to pay what you owe, you must still file your return on time to avoid certain late filing penalties. Should this be your situation, we can file an application for an installment payment plan.

## Selecting a Bank Account

Are you hesitant about utilizing the automatic deposit or direct debit option because you are concerned about providing the IRS with your account numbers? Keep in mind, the IRS already has most of that information except for non-interest bearing accounts, provided to them from the banks via the annual filing of 1099s.

Generally, deposits and debits can be made to National and State Banks, Savings and Loan Associations, Mutual Savings Banks, and Credit Unions within the United States. Account types include savings, checking, share draft, money market accounts, etc. Refunds may not be direct deposited to credit card accounts.

**CAUTION!** *Some financial institutions do not permit the deposit of joint refunds into individual accounts.*

The following bank or financial institution account information is required to utilize the direct deposit or debit:

- (1) Bank's Nine Digit Routing Number (RTN)
- (2) Account Number
- (3) Type of Account (Checking or Savings)

## Proof of Filing

When your e-filed return has been accepted, the IRS provides your tax professional with a confirmation of filing on Form 9325 which includes the date accepted and the Declaration Control Number (DCN) assigned to your return.

## Extensions for Additional Time to File

If you need additional time to file your return, the IRS provides two forms of extensions, both of which can be filed electronically. Use Form 8878 to provide your tax professional with authorization to e-file these extensions. This form functions much like Form 8879 which authorizes the e-filing of your tax return and utilizes electronic (PIN) signatures.