

EXTENSIONS — WHAT YOU NEED TO KNOW BEFORE YOU APPLY

Tax procrastinators beware ... you are not alone. Last tax season nearly 10 million taxpayers asked for an automatic four-month extension in April and more than 2.5 million taxpayers requested an additional two-month extension to file until October 15.

FILING AN EXTENSION ON OR BEFORE APRIL 15:

You may obtain an automatic four-month extension to August 15 to file by submitting Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. The form and instructions are available at the IRS website: <http://www.irs.gov/formspubs/lists/0,,id=97796,00.html>.

There are several options for filing an extension and/or paying a balance due that you may want to consider.

Mail. Mail the Form 4868 and your check for the estimated balance due if applicable. By including a check for the balance due, you avoid additional penalties and interest from the Internal Revenue Service. Be sure to check Form 4868 instructions for the correct mailing address for filing your extension.

Telephone. From March 1 through April 15, you can e-file Form 4868 by telephone. You may pay a balance due by electronic funds transfer from your checking or savings account or you may wish to mail a check. If mailing a check, make sure it is postmarked by April 15. The Internal Revenue Service will accept a postmark as proof you met the extension deadline.

Tax software. You may e-file utilizing a purchased tax software program like TaxCut, or

by going through a tax professional. The payment options are the same as for telephone e-filing. With all e-filing options, you will receive a confirmation number indicating that your return was received. Be sure to write the confirmation number down and keep it in a safe place.

Full or partial credit card payment. You may pay all or part of a balance due when you request an extension of time to file. The credit card payment options are listed on Form 4868. Please note that these services charge a nondeductible convenience fee. Or, you may wish to use Easy Pay offered through H&R Block. This balance due loan from Imperial Capital Bank gives credit-approved taxpayers a 90-day same-as-cash option for paying their taxes.

It's August 15. Still not ready to file? If you

are still not ready to file your return when the first four-month extension is up in August, you may request an additional two-month extension to October 15. To do so, file Form 2688, Application for Additional Extension of Time to File U.S. Individual Income Tax Return. The second extension is not automatic, however. The IRS will approve or disapprove the extension, depending on the reason for the additional request

// If you are not ready to file your return on April 15, you may request an extension of time to file. Always keep in mind that this is not an extension of time to pay; include a check for your "estimated" balance due with your request for an extension to avoid additional penalties and interest. //

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stated on Form 2688. That is, you may not assume the extension has been approved unless you receive notice of approval in writing from the IRS. If it's clear to the IRS that you really

have no important reason for delaying your filing a second time, the IRS will deny your request. Pure and simple. Those reasons that might pass muster with the IRS for additional time to file, however, include hardship (such as illness), a lifestyle change (moving to another city or death of a spouse) or travel outside the U.S. by you or your spouse if you file jointly.

Individuals outside the U.S. If you are residing outside of the U.S. at filing time, you have an automatic two-month extension to June 15 to file. You do not need to request this extension or submit any forms. If you need more time than this, file Form 4868 by June 15 to get an additional two-month extension to August 15. Note: You are not entitled to the automatic two-month extension if you are merely taking a vacation or are on a business trip outside the U.S.

Be careful with extension dates. If April 15 falls on a weekend, the due date of the original return will be April 16 or April 17. However, expiration dates will be June 15, August 15, or October 15 if those dates are weekdays.

WHY FILE AN EXTENSION AT ALL??

Without a valid extension, a late-filed return is subject to a 5% per month penalty on any unpaid balance. The maximum penalty is 25% when combined with the late payment penalty (see below). Late filing penalties are generally abated for:

- Death or serious illness of a taxpayer of family member.

- Unavoidable absence on the filing date.
- Destruction of a residence or business records.

Even if your late filing is not due to one of the circumstances listed above, it never hurts to ask the IRS to abate the penalty; the worse they can say is “no.”

FILING VERSUS PAYING

- An extension of time to file is not an extension of time to pay!
- When you file your extension request, you must estimate any balance due and you should generally pay in as much of the balance due as you can.
- A late payment penalty is charged of .5% per month on any unpaid balance. The maximum penalty is 25%, when combined with any late filing penalty that is charged. This can really add up.

You may qualify for an extension of time to pay. To qualify for an extension of time to pay, you must be able to establish to the satisfaction of the IRS that your assets, liabilities, income, and expenses are such that immediate payment would cause “severe loss and undue hardship.” To request a payment extension, file Form 1127, Application for Extension of Time for Payment of Tax. If a payment extension is granted, you will avoid late payment penalties, but you will still have to pay interest on the balance due.