APRIL 18TH IS COMING - TAX TIME

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Yep. It's our annual ritual. Normally around April 15th of every year we send you the same message. You should confer with us here at Abo and Company with the clock approaching April 18th (we get an extra three days this year) just ticking away. We still want you to file an extension.

As you've heard us get on the case of those of you who are thinking "...I swear, I just don't want to file an extension. I'm afraid I'll be flagged as a late filer, will get hit with exorbitant penalties and, worse; increase my odds of getting audited".

Hey, when you file an extension, you're simply asking for more time to properly complete your tax forms. The IRS wants you to file "complete and accurate" returns. If you have to rush through your return, do not have all the proper support and information required, need to make estimates of figures, don't have time to adequately review and comprehend what is being filed - there is a good chance you may NOT be filing a complete and accurate return, even with the best of intentions.

We'll say it again and don't quote Abo and Company on this but we'd venture a guess that the majority of all CPAs practicing in the tax arena file an extension. Now really - if it was a concern, don't you think we'd file our own returns first?

Oh yes, one more reason we've found some individuals do not want to extend is because they are in the process of buying a new home or refinancing and their lender is requesting a copy of their tax return. Or how about getting out those financial aid applications for colleges? Most such lenders will accept a copy of an extension along with copies of documents substantiating income (W-2s, 1099s, K-1s, etc.), perhaps a "draft of the tax return" to be followed by the actual and copies of the prior year tax returns.

So, once again, here's "Abo's Top Ten" thoughts we want you to know about the different factors you may wrestle with if you don't have the money or information needed.

1. If you do not file by the deadline, you might face a failure-to-file penalty. Without a valid extension, a late filed-return is subject to a 5% per month penalty on any unpaid balance. While this cannot be more than 25% of your tax (ouch), we believe this can and should be avoided. We'll talk more on this later.

2. If you do not pay by the due date, you could face a failure-to-pay penalty. The failure-to-pay penalty is ½ of 1% of your unpaid taxes for each month the taxes are not paid after the due date (i.e. an annualized 6%). This penalty is assessed on any taxes not paid by April 18th if the outstanding amount is more than 10% of the total tax obligation. It can be up to 25% of the unpaid taxes (ouch again).

3. If you do not pay the tax balances by April 18th, interest will be due on any amount not paid. As of the date of this writing, the interest rate on underpayments remains at 3% per annum. Not all that bad by itself and certainly a lot less than the rate charged by most credit card companies (even combined with the late-to-pay penalty).

4. The failure-to-file penalty is generally more than the failure-to-pay penalty. So, if you cannot pay all the taxes you owe, you should still file your tax return and explore other payment options in the meantime. Now you know why we want you to file an extension.

5. If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of $135 or 100 percent of the unpaid tax.

6. If you file an extension and you pay at least 90% of your actual tax liability by April 18th, you will not be faced with a failure-to-pay penalty if the remaining balance is paid by the extended due date. This extended due date is now October 15th with the filing of a valid automatic extension. By having 90% of your tax liability paid in, filing an extension gives you several extra months to come up with the remaining tax dollars at a relatively low interest/penalty rate.

7. If both the failure-to-file penalty and the failure-to-pay penalty apply in any month, the 5 percent failure-to-file penalty is reduced by the failure-to-pay penalty.

8. You will not have to pay a failure-to-file or failure-to-pay penalty if you can show that you failed to file or pay on time because of reasonable cause and not because of willful neglect. Feel like depending on IRS to determine "reasonable"? Extensions until April 18 are automatic in 2022. The IRS might provide administrative relief and waive the penalties if you qualify under its First Time Penalty Abatement policy. To qualify, you must not have had any penalties in the prior three tax years. You must also have filed your current year's tax return on time and paid (or arranged payment for) any tax you might owe. As mentioned above, the IRS might waive the late-payment penalty if you can show there's a reasonable and justifiable reason for not paying on time. Administrative relief might also be provided if you received misleading advice from the IRS, but this is harder to prove and claim.

9. States can be even more problematic than the IRS. Most states will grant you an automatic extension of time to file if you obtain a federal extension. The problem often lies in that states have gotten very tough in disallowing extensions and thus imposing late filing penalties if 80% of the actual state tax liability is not paid in the form of withholdings or, estimated payments. Perhaps this is why Abo and Company sounds so annoying by asking you if you owe tax and suggesting it be paid in (even before IRS) to so avoid the possible state disallowance of an otherwise valid extension. We've found New Jersey, Pennsylvania and New York to be especially vigilant in this regard.

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With the denial of the extension and imposition of penalty and interest charges from the original due date of the return, don't be surprised when you receive a letter from the state. Still, we suggest forwarding us the assessment before so paying.

10. There are other reasons to file an extension. Sure, the main reason for filing a valid extension is to avoid the confiscatory late-filing and late-payment penalties and interest we have seen reach as high as 47.5%. Even if you expect a refund, filing a valid extension permits you to defer funding a self-employed retirement plan (not a regular IRA, Roth IRA or Coverdell Education Savings Account).). It also enables self-employed individuals to even delay opening a S.E.P. plan as late as the extended due date (let alone funding it). One strategy we often implement for our self-employed individual clients is to pay all taxes deemed due with an extension and then funding the retirement later when cash flow permits, as late as October 15th.

There's a simple way to extend this daunting deadline - File an extension, form 4868, and just make sure it's postmarked by April 18th. It's only one page - actually a half page - and doesn't even require a signature. That's it! You will then have until October 15th to get all of your documentation together, have ample time to thoroughly review and, more importantly, understand the returns and, finally, to then file them in a timely matter.

Alas, this still may not suffice for many of our clients and friends. If you owe so much tax that you still won't be able to pay them by the extended due date of October 15th, one option may be to confer with us to file the paperwork to enter into an installment agreement with the IRS. On these forms you effectively inform the government how much you can afford to pay each month. You also tell them the specific day of each month you will make this payment. The IRS will still charge interest at the prevailing federal rate as well as a reduced monthly failure-to-pay penalty (.25%) on the outstanding balance. DO NOT TAKE THIS LIGHTLY. Not making such a scheduled payment will cause the remaining outstanding balance to become immediately due.

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