

IRS COVID Extensions are Helpful but April 15th Deadline Still Looms for Many Taxpayers

PROFESSIONALS

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PRACTICE AREAS

Tax

As a result of IRS Notices [IR-2021-59](#) and [IR-2021-67](#), the April 15th filing deadline has been extended to May 17th for selected taxpayers – but not all. High-income taxpayers, C Corporations, and individuals who gave gifts greater than \$15,000 per recipient during calendar 2020 still have an April 15th deadline.

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The IRS notices mentioned above allow the one-month extension until May 17th for individual filers with a Federal; *Individual Income Tax Return (1040)*, *Tax Return for Seniors (1040-SR)*, *Nonresident Income Tax Return (1040-NR)*, *Self-Employment Tax Return for Puerto Rico (1040-PR)*, *U.S. Self-Employment Tax Return (1040-SS)*, or *1040(SP) (Form 1040 in Spanish)*. The IRS says the postponement also applies to the filing of all schedules, returns, and other forms that are filed as attachments to forms in the Form 1040 series or are required to be filed by the due date of the Form 1040 series. This prior sentence leaves some uncertainty with respect to other filings.

Taxpayers need to be aware that not all tax returns have been extended. That means C-Corporations ([Form 1120](#)), Gift Tax Returns ([Form 709](#)), as well as First Quarter Tax Estimates ([Form 1040-ES](#)) are still due or need to be extended by the April 15th, 2021 deadline – **NEXT THURSDAY**.

In many cases where individual taxpayers generate a material portion of their income from interest, dividends, self-employment income, or partnership investments, the tax code requires quarterly tax payments (generally the lesser of 110% of gross 2020 tax liability or 90% of projected 2021 tax liability) via quarterly vouchers ([Form 1040-ES](#)) beginning April 15th. As a result, it will generally be safest for taxpayers to file a personal extension via IRS [Form 4868](#) (*Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*) **by the regular April 15th** deadline and combine their first quarter 2021

estimate payment with any of their unpaid 2020 tax liability. This approach will provide the taxpayers with one less filing ([Form 1040-ES](#)) and added flexibility in applying the total April payment between 2020 and 2021 taxes once they have a clearer picture of their 2020 and 2021 liabilities – since they now have until October 15, 2021, to file their 2020 Form 1040 tax return.

Penalties and interest can accumulate quickly on 2020 unpaid taxes, so increasing your extension payment can be helpful in minimizing these penalties in case your final 2020 liability is higher than you currently project. There is a very expensive 5% per month late filing penalty if you fail to file your 2020 return and also fail to file an extension by May 17, 2021. This late-filing penalty is applied to the difference between 90% of the 2020 net tax obligation reduced by withholdings and estimated payments. The penalty amount caps out at 25% after five months and can be waived if the return is filed and tax liability is paid within the October 15, 2021 extension period. A .5% late payment penalty per month (6% cumulative per year) concurrently accumulates from May 17th through the ultimate payment date. Fortunately, for the taxpayer, the late-filing penalty is reduced by the amount of the late-payment penalty. Finally, a pro-rata interest charge of 3% annual rate (compounded daily) is added to the unpaid balance.

Therefore, a taxpayer with a gross 2020 liability of \$150,000 and withholdings of \$50,000 still owes \$100,000 in total. The required extension payment is only 90% of the \$150,000 liability (\$135,000) less the \$50,000 already paid, leaving an \$85,000 net liability to meet the 90% minimum required extension payment, and a total unpaid 2020 liability of \$100,000 (\$150,000-\$50,000) before any extension payment. If the taxpayer is short on funds and cannot pay in any additional funds by the May 17th extension deadline, penalties and interest of \$26,258 can accumulate by month 5 (Late-Payment: $\$100,000 \times .5\% \times 5 \text{ months} = \$2,500$, Late-Filing: $\$100,000 \times 5\% \times 5 \text{ months} = \$25,000$ reduced by $\$2,500$ late-payment penalty = $\$22,500$, plus 3% compounded interest on the $\$100,000 = \$1,258$

Due to the much higher penalties on 2020 balance shortfalls, by including 1st quarter estimate payments with your extension, penalties can be reduced by 25% or more.

The majority of states conform to Federal changes, but some do not, so check your state's rules.

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