Filing an extension? Don't forget IRS tax payment

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KANSAS CITY, Mo., April 18, 2018 (GLOBE NEWSWIRE) -- The millions of taxpayers who still have not filed a tax return have an unexpected extra day to file, with the IRS moving the deadline to April 18 due to IRS system outages on the planned April 17 deadline. Even with the extra day, some of them are not going to be able to meet the deadline. If they don't file either a return or an extension by the April 18 deadline, they're going to face a monthly penalty that is 10 times more than the penalty for not paying their tax bill. Filing an extension and making sure to pay any tax owed is the best way to avoid adding unnecessary costs to tax liability.

"There's still time to avoid all penalties. Pay at least 90 percent of your 2017 tax bill and file an extension by the April 18 deadline and you're in the clear," said Kathy Pickering, vice president of regulatory affairs and executive director of The Tax Institute at H&R Block. "It may be easier said than done though. Not only is time a factor, but you have to be able to make an accurate estimate of your tax liability to make sure you pay at least 90 percent."

Filing an extension helps but doesn't exempt procrastinators from paying

The monthly penalty for not filing a tax return is 10 times greater than the penalty for failing to pay. The best way to avoid this penalty, which could quickly add up to 25 percent to their tax bill, is to file a completed tax return or apply for an extension. However, an extension doesn't apply to any payments due.

The extension to file is not an extension to pay for those taxpayers who owe the IRS money. Taxpayers must pay at least 90 percent of their 2017 tax bill by April 18 or they will face late-payment penalties and interest. Still, filing an extension will save them the larger failure-to-file penalty.

The monthly penalty for not paying in full is 0.5 percent of the unpaid balance per month with a maximum of 25 percent. The monthly penalty for not filing a tax return is 5 percent and capped at a maximum of 25 percent. For example, for someone who owes $1,000, the failure-to-pay penalty starts at just $5 per month, but the penalty for failing to file a return starts at $50 per month and thus maxes out very quickly. If the failure-to-file penalty and the failure-to-pay penalty both apply in the same month, the maximum combined penalty that month is 5 percent.

Taxpayers who cannot pay have options if they work with the IRS

"Time and making accurate estimates aren't the only obstacles to avoiding penalties. You also have to have the money available to make the payment. But if you don't, a tax professional can help you understand your payment options to minimize your penalties," said Pickering.

If a taxpayer can't pay their balance due all at once, they may qualify for one of several tax payment alternatives. For example, they can request a short-term extension to pay, make an installment agreement or even pay with a credit card. In some instances, the taxpayer may qualify for an offer-in-compromise. By working with the IRS, taxpayers may reduce or eliminate their penalties.

A tax professional can help taxpayers determine the best way to pay their tax bill in their unique situation, as well as estimate their tax liability so they can avoid failure-to-pay or underpayment penalties.

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