

Filing an Extension

Do I Still Have to Pay My Taxes?

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Need more time to prepare your federal tax return? Maybe you're not organized or don't feel you have the time to focus on your taxes right now. Maybe it's going to take longer than expected for you to gather all of the necessary information to file. Whatever your reason, you can apply for an extension from the IRS. Before we get to who needs an extension, why and how to do it, let's start with debunking two major myths associated with filing an extension.

Misconceptions about filing an extension

There is a common misconception that extending your tax return puts you at a higher risk for an IRS audit. That is totally not true. What's more likely to cause the IRS to take a closer look at your tax return is if you rush to get it done by April 15 and then need to make a change and have to amend it.

Another misconception – that filing an extension means you can put off paying any tax liability you owe. An extension is an extension to file only; individual taxpayers still have pay by April 15. Corporate taxpayers still have to pay, if applicable, by the 15th day of the third month after their year-end. If you don't pay what you owe with your extension, you will be charged a penalty and interest.

Who would need to file an extension and why?

No matter what type of taxpayer you are (individual, corporation, partnership), there may be a need to file an extension. Reasons for needing to file one include everything from common to complicated circumstances. Some examples:

- You are waiting on brokerage and/or mortgage statements from your financial institution.
- You are a taxpayer who is invested in another business entity, perhaps an S Corporation or a partnership. If that S Corporation or partnership still needs to file its tax return, you will be waiting on your K-1. You would then need to file an extension until the necessary information for your return can be obtained from those other filing entities.
- You own a business and you want more time to make a contribution to a Simplified Employee Pension (SEP) plan. You have until the due date of your tax return to make that contribution, so in

order to hold on to your money a little longer, but still get the deduction for the contribution in the prior year, you have to push back the due date of your tax return by filing an extension.

- You did a like-kind exchange and you have to complete that before you file your return, otherwise you would need to file an extension if it's not finished.

Paying tax liability with an extension

If you are an individual taxpayer and you pay at least 90% of your liability with your extension, you can pay the remaining 10% without penalty at the time you file your return. You want to be sure to estimate your liability as accurately as possible, because if you estimate wrong and end up owing more than 10% with your tax return, you have no wiggle room and will incur the penalty and interest.

Something to watch out for at the business level – don't forget about the state you may be doing business in because it may require a payment at extension also.

Be sure to contact your accountant if you need to file an extension or think you may need to file one. No matter who files the extension, it should be done either electronically or mailed certified return receipt so that, if need be, you can prove to the IRS that you filed an extension.

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