

## When the IRS Charges Late-Payment Penalties

Clients who receive an [extension on filing taxes](#) this year won't need to pay by due date, generally April 15, but the IRS will assess late-payment penalties and interest charges if the return is filed after the due date.

The good news for filers who submit Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, by due date, generally April 15, 20XX, is they'll receive an automatic six-month extension to October 15, 20XX. This article will discuss when the IRS assesses late-payment penalties and interest charges.

**The penalty box.** The IRS doesn't require payment by April 15, 20XX, of the tax you estimate is due; nevertheless, if you underestimate the amount you send with Form 4868, the IRS will exact an interest charge from the due date on the balance due with your delayed return. Even worse, there's no deduction for interest on overdue taxes. The interest runs until you pay the tax. The IRS doesn't care if you have a good reason for not paying on time; you'll still owe interest.

In addition to collecting interest, the agency can penalize a late payment if the balance due is either more than 10 percent of the tax shown on your return or isn't paid by October 15, 20XX. Generally, the penalty is one-half of one percent of any tax (other than estimated tax) not paid by the regular due date. The IRS exacts the penalty for each month or part of a month the tax is unpaid. The penalty tops out at 25 percent. Like interest charges, penalties are nondeductible.

The IRS won't charge the penalty if you're able to show reasonable cause for not paying on time. Attach a statement to your return that fully explains the reason. Don't attach it to your 4868.

The IRS is explicit about what qualifies as a reasonable cause for the period covered by the automatic extension. You have to satisfy both of the following requirements. First, you must have paid at least 90 percent of the total tax on your 20XX return (line 24) by the regular due date through withholding, estimated tax payments or payments made with Form 4868. Second, the remaining balance must be paid with your 1040.

**Late-filing penalties.** Expect the IRS to charge a penalty if you file your return after the due date (including extensions). Usually, the penalty is five percent of the amount due for each month or part of a month your return is late. The maximum penalty is 25 percent.

A special rule kicks in when your return is more than 60 days late. The minimum

penalty is \$435 dollars (an amount that's indexed, meaning it's adjusted annually to reflect inflation) or the balance of the tax due on your return, whichever is less. This means there's no late-filing penalty when there's no balance due.

The IRS will waive the penalty if you convince it that the delay was "due to reasonable cause and not due to willful neglect." For example, you were unable to complete the return by the deadline because your residence, place of business or records were destroyed due to a fire, flood other casualty or civil disturbance, or burglary. Another acceptable excuse is the death or acute illness of an immediate family member or your own serious illness.

Attach a statement to your return that fully explains why you filed after the deadline. Don't attach it to your Form 4868.