

Expanded Extensions Instructions

Extensions

If you want to extend your tax returns, there are a few things to keep in mind. First, we must get written approval from you to extend your tax returns. We cannot legally file an extension without permission. So, if we don't hear from you, an extension will not be filed. Failure to file is a huge penalty (5% per month based on tax due). Yuck.

Second, an extension to file is NOT an extension to pay. Taxes are due April 15 **(or as adjusted depending on natural disasters or Congressional whims, which are actually the same)**. Failure to pay is a smaller penalty (0.5% per month based on tax due).

Extended tax returns will be completed in May or June provided we have everything we need from you. Our turnaround time increases to **12-15 days** during the off-season to accommodate for mental breaks and vacations. Frankly, our motivation wanes slightly after April 15 but we bounce back fast.

Calculating Extension Tax Payments

There are various safe harbors to minimize underpayment penalties. For simplicity, we suggest paying 110% of your federal prior year total tax obligation. Use this simple worksheet to assist you-

Total Tax (Line 16 on 2019's Form 1040)	16,552
Total Tax x 110%	18,207
Federal Income Tax Withheld	
Bob's W-2	-6,772
Jenny's W-2	-3,231
Federal Estimated Tax Payments	
Q1	-500
Q2	0
Q3	-750
Q4	-500
Net Extension Payment Due	<u>6,454</u>

Does sending \$6.454 eliminate failure to pay penalties and interest? No. You might have an underpayment penalty assessed since quarterly estimated tax payments were lumpy and not large enough. You might also have an underpayment penalty based on the overall tax obligation and payment.

The above exercise only minimizes your pain. Most states are similar. Need more help? Please let us know.

As a quick side bar to our S Corp shareholders: Income taxes withheld on your W-2 are generally considered to have been paid evenly throughout the year even if all the federal income tax withholdings happen in Q4. This is why WCG recommends manually adjusting withholdings to at least reduce and perhaps eliminate quarterly estimated tax payments. We can chat more about this if you like.

Making Payment

Shockingly the IRS has made making an estimated tax payment super easy on their website. Use this link below to get re-directed to their payment portal (again, we will advise you separately)-

<https://www.irs.gov/payments/direct-pay>

You will need your prior year tax return so the IRS can validate your identity. Perhaps someone stole your identity and made a payment on your behalf. That would be nice.

Once validated, you will want to choose **Make a Payment > Extension > 4868 > 2020**. This is all very important, especially the year.

Each state is different- some have online payment portals like the IRS, and some are clunky. California is easy. Colorado (our home state) is clunky. You can always use a third-party payment portal. We suggest ACI Payments (formerly Official Payments) who can make state payments as well as accept credit cards (for a fee)-

<https://www.officialpayments.com>

If You Owe Taxes

If money is tight and you think an extension will give you some amnesty or delay your pain, our recommendation is to file your tax returns and then work out a payment plan with the IRS. For any amount under \$50,000 the process is done via phone or online, and the terms are generally 6% for 60 months (might be less depending on the amount). There are other devils in the details such as set up fees, automatic ACH, accruing penalty and interest, etc. However, the installment agreement with the IRS does not show on your credit report and is a quick way to get out of a bad situation.

Under no circumstances should you not file your tax returns. File on time, and then figure out the money later. As mentioned before, the failure to file penalty is huge.

Please contact us with additional questions or concerns. We are here to help!

Your tax buddies at WCG