



Options for Taxpayers Considering an Extension			
Situation	Options	Penalties and Interest	Advantages/Disadvantages
<b>A</b> No balance due	- Do nothing	- None	Disadvantages: - Taxpayer may miss out on a refund
<b>B</b> Balance due: at least 90% of tax liability already paid  (3 options available)	- Do nothing	- Failure to file penalty - Late payment penalty - Interest	Disadvantages: - Failure to file and late payment penalties will be assessed - Interest will be assessed on the tax AND the failure to file penalty
	- Request an extension by April 18, 2011 - File return by October 17, 2011 - Pay balance due with return	- Interest	Advantages: - Avoid late payment and failure to file penalties Disadvantage: - Interest will be assessed on any tax not paid by the original return due date
	- Request an extension by April 18, 2011 - Do not file return or pay balance due by October 17, 2011	- Failure to file penalty - Late payment penalty - Interest	Disadvantages: - Failure to file and late payment penalties will be assessed - Interest will be assessed on the tax AND the failure to file penalty
<b>C</b> Balance due: less than 90% of tax liability already paid  (4 options available)	- Request an extension by April 18, 2011 - File return by October 17, 2011 - Pay balance due with return	- Late payment penalty - Interest	Advantages: - Failure to file penalty will be avoided if taxpayer files return by the extended due date Disadvantages: - Late payment penalty will be assessed on the balance owed - Interest will be assessed on outstanding tax
	- Request an extension by April 18, 2011 and submit a payment so that at least 90% of tax liability is paid with request - File return by October 17, 2011 - Pay balance due with return	- Interest	Advantages: - Avoid late payment and failure to file penalties Disadvantage: - Interest will be assessed on any tax not paid by the original return due date
	- File return by April 18, 2011 - Request a short-term extension to pay in full (120 days maximum) or enter into an installment agreement	- Late payment penalty - Interest	Advantages: - Avoid failure to file penalties Disadvantages: - Interest will be assessed on any tax that is paid after the original return due date
	- File return by April 18, 2011 without paying balance due or making payment arrangements	- Late payment penalty - Interest	Advantages: - Failure to file penalty is avoided Disadvantages: - Late payment penalty will be assessed - Interest will be assessed on outstanding tax

**Explanation of Penalties and Interest**

Type	When Penalty Applies	Amount of Penalty
<b>A</b> Interest	- Interest is charged on unpaid tax from the original due date of the return until the date of payment (even if the taxpayer was granted an extension of time to file the return)	- The interest rate is determined every 3 months and may fluctuate as a result - Interest is compounded daily - Interest also applies to penalties
<b>B</b> Failure to file penalty*	- When a taxpayer fails to file a return by the original or extended due date, the IRS may assess a late filing penalty (also referred to as a failure to file penalty). - Interest may also apply to penalties	- The penalty is equal to 5% of the unpaid balance, per month or part of a month, up to a maximum of 25% of unpaid tax (Note: The 5% per month penalty increases to 15% per month if the failure to file is due to fraud) - For returns filed more than 60 days after the due date or extended due date the minimum penalty is equal to the lesser of \$135 or 100% of the unpaid tax
<b>C</b> Late payment penalty*	- A late payment penalty generally applies when a taxpayer fails to pay the balance of tax due by the original return due date. - Interest may also apply to penalties	- The penalty rate is 1/2 of 1% per month or part of a month, up to a maximum of 25% of the unpaid tax - The 1/2 of 1% rate increases to 1% if the tax remains unpaid 10 days after the IRS issues a notice of intent to levy - For individuals who file by the due date, the 1/2 of one percent rate decreases to one-quarter percent for any month in which an installment agreement is in effect

**\*Combined failure to file and late payment penalties**

- If both the *failure-to-file* and the *failure-to-pay* penalties apply in any month, the 5% failure-to-file penalty is reduced by the failure-to-pay penalty, so that the combined penalties do not exceed 5% per month.
- Returns filed more than 60 days after the due date or extended due date have a minimum penalty equal to the smaller of \$135 or 100% of the unpaid tax.

**Failure-to-Pay Penalties and Interest for Balances Due**

**Balance Due**

Amounts shown are for illustration only

Date Paid	\$500			\$1,000			\$1,500			\$2,000			\$2,500		
	Penalty	Interest	Total	Penalty	Interest	Total	Penalty	Interest	Total	Penalty	Interest	Total	Penalty	Interest	Total
4/30/2011	2.50	0.82	3.32	5.00	1.65	6.65	7.50	2.47	9.97	10.00	3.31	13.31	12.50	4.13	16.63
5/15/2011	2.50	1.65	4.15	5.00	3.31	8.31	7.50	4.96	12.46	10.00	6.62	16.62	12.50	8.27	20.77
5/31/2011	5.00	2.53	7.53	10.00	5.09	15.09	15.00	7.62	22.62	20.00	10.17	30.17	25.00	12.71	37.71
6/15/2011	5.00	3.37	8.37	10.00	6.76	16.76	15.00	10.13	25.13	20.00	13.51	33.51	25.00	16.88	41.88
6/30/2011	7.50	4.20	11.70	15.00	8.44	23.44	22.50	12.64	35.14	30.00	16.88	46.88	37.50	21.08	58.58
7/15/2011	7.50	5.04	12.54	15.00	10.12	25.12	22.50	15.17	37.67	30.00	20.25	50.25	37.50	25.29	62.79
7/31/2011	10.00	5.95	15.95	20.00	11.93	31.93	30.00	17.87	47.87	40.00	23.86	63.86	50.00	29.81	79.81
8/15/2011	10.00	6.80	16.80	20.00	13.63	33.63	30.00	20.42	50.42	40.00	27.25	67.25	50.00	34.05	84.05
8/31/2011	12.50	8.56	21.06	25.00	15.46	40.46	37.50	22.98	60.48	50.00	30.90	80.90	62.50	38.60	101.10
9/15/2011	12.50	8.56	21.06	25.00	17.17	42.17	37.50	25.72	63.22	50.00	34.32	84.32	62.50	42.88	105.38
9/30/2011	15.00	9.42	24.42	30.00	18.89	48.89	45.00	28.30	73.30	60.00	37.77	97.77	75.00	47.19	122.19

Taxpayers who cannot show reasonable cause for late payments of a tax liability are subject to a 0.5% penalty for each month or fraction of a month the tax liability remains outstanding, up to a maximum of 25%.

Penalty and interest shown is based on an annual rate of 4% (current for the 2nd quarter 2011 - See IR-2011-17), 3% above the fluctuating federal short term interest rate for the period. The "section 6601" late payment interest rate is updated quarterly by the IRS.

Resources

Topic 653 - IRS Notices and Bills, Penalties and Interest Charges

IRS, Collection Procedural Questions - <http://www.irs.gov/faqs/faq/0,,id=199556,00.html>

IRS, IR-2011-17, <http://www.irs.gov/newsroom/article/0,,id=236227,00.html>

[Topic 653](#)

[Collection Procedural Questions](#)

[IR-2011-17](#)