

## Coast Financial Services, Inc.

### The July 15th Deadline Is Fast Approaching, and It Isn't Just for the 2019 Individual Tax Return

#### Article Highlights:

- Extensions
- Contributions to IRAs
- Estimated Tax Payments for the First Two Quarters of 2020
- Individual Refund Claims for the 2016 Tax Year
- Foreign Account Reporting Requirements

Due to the COVID-19 emergency, the IRS provided taxpayers with an automatic three-month extension to July 15 to file their 2019 tax returns and pay the 2019 tax, among other tax actions normally due on April 15. So, with July 15th fast approaching, it is important to understand that the day is more than just the deadline for filing your 2019 tax return. It is also the deadline for other things tax. Here is a rundown.

- **1040 Extension** – Those who are unable to file their 2019 individual 1040 tax return by the July 15th deadline need to file a Form 4868 extension, which will give them until October 15th to file the return. The tax liability shown on the extension should be paid with the extension form to avoid late payment penalties and interest. Penalties, interest, or additions to tax for failure to pay federal income taxes were disregarded during the April 15–to–July 15 extension-period window, but these will begin to accrue on July 16, 2020.

**CAUTION:** While the Form 4868 extension is an extension for filing, it is not an extension for paying your tax liability. The Form 4868 instructions say (and tax courts have ruled) that for an extension to be valid, a taxpayer must properly estimate their tax liability, enter that tax liability on the form, and file the extension by the due date of the return, which is July 15th this year.

The monthly penalty for not filing the 1040 tax return by the July 15th due date is 4½ percent of the tax due for late filing and ½ percent of the tax due for late payment. The maximum cumulative penalty rate is 25%; however, the ½ percent per month for late payment continues until the tax is paid.

There is also a minimum penalty for 2019 returns not filed within 60 days of the return due date, including extensions. That penalty is the lesser of \$435 or the amount due on the 2019 tax return.

Importantly, if you do not owe or if you are getting a refund, there is no penalty because the penalties are based on a percentage of the tax due—if no tax is due, then no penalty is assessed.

The IRS also charges interest on late payments and penalties. The rate is subject to quarterly adjustment and is currently at an annual rate of 5% of the amount owed, with interest accumulating daily.

- **Contributions to a Roth or Traditional IRA for the 2019 Tax Year** – July 15th is the last day for making 2019 contributions to Roth or traditional IRAs. Form 4868 does not provide an extension for making IRA contributions.
- **Individual Estimated Tax Payments for the First Two Quarters of 2020** – Normally, the first installment of estimated taxes for a tax year is due on April 15th, and the second installment comes due on June 15th. For 2020, the IRS extended these due dates to July 15th, to coincide with the other COVID-19-related extensions. Taxpayers who fail to prepay the minimum (“safe harbor”) amount may be subject to a penalty for underpayment of the estimated tax. This penalty is based on the interest on the underpayment, which is calculated using the short-term federal rate plus 3 percentage points. The penalty is computed on a quarter-by-quarter basis, so even people who

have prepaid the correct overall amount for the year may be subject to the penalty if the amounts are not paid proportionally or in a timely way. However, for 2020, penalties for failure to pay federal income taxes during the April 15–to–July 15 period will be disregarded.

Federal tax law does provide ways to avoid the underpayment penalty. For instance, if the underpayment is less than \$1,000 (referred to as the de minimis amount), no penalty is assessed. In addition, two options exist for safe-harbor prepayments:

1. The first is based on the total tax on the current year's return. There is no penalty when prepayments (including both withholding and estimated payments) equal or exceed 90% of the current year's tax.
  2. The second is based on the total tax amount (not including credits for prepayments) on the return for the preceding tax year. This is generally set at 100% of the prior year's tax liability. However, taxpayers with adjusted gross income exceeding \$150,000 (or \$75,000 for married taxpayers filing separately) must pay 110% of the prior year's tax liability to meet the safe-harbor test.
- **Individual Refund Claims for the 2016 Tax Year** – The regular three-year statute of limitations for 2016 tax returns normally would have expired on April 15th of this year. However, due to the COVID-19 emergency, the statute of limitations was extended to July 15th. Thus, no refund will be granted for 2016 returns (original or amended) filed after July 15th. An exception is if a net operating loss is being carried to 2016; in this case, the usual three-year limitation for claiming a refund won't apply as long as the statute is still open for the year when the net operating loss (NOL) occurred. However, taxpayers could risk missing out on the refundable Earned Income Tax Credit, the refundable American Opportunity Tax Credit for college tuition, and the refundable child credit for the 2016 tax year if they do not file before the statute of limitations ends. Caution: The statute does not apply to balances due for unfiled 2016 returns.
  - **Foreign Account Reporting Requirements (FBAR)** – For each United States person who has a financial interest in, signature, or other authority over any foreign financial accounts, including bank, securities, or other types of financial accounts in a foreign country, if the aggregate value of these financial accounts exceeds \$10,000 at any time during the calendar year, that person must report that relationship to the U.S. government during each calendar year. This reporting requirement is commonly referred to as FBAR, and the due date is the same as that for individual 1040 returns.

This report is submitted online to the Treasury Department's Financial Crimes Enforcement Network (FinCEN), and the FBAR's annual due date is April 15th. However, FinCEN grants an automatic extension to October 15th each year, so if you missed the April due date this year, you still have until October 15th to file the FBAR. Penalties for failing to file a FBAR are severe, and individuals should not overlook overseas family accounts on which they are named as account holders, or online foreign gambling accounts. If in doubt, call this office for further details.

If your income tax return is still pending because of missing information, please forward that information to this office as quickly as possible so that we can ensure your return meets the July 15th deadline. Keep in mind that the last week before the due date can be very hectic, and your returns may not be completed in time if you wait until the last minute. If you know that the missing information will not be available before the July 15th deadline, please let us know right away so that we can prepare an extension request (and 2020 estimated tax vouchers, if needed).

If you have not yet completed your returns, please call this office right away so that we can schedule an appointment, estimate your taxes, and/or file an extension.