

MORE TIME TO POSTPONE THE INEVITABLE

By Julian Block

Excerpted from "Tax Tips For Small Businesses: Savvy Ways For Writers, Photographers, Artists And Other Freelancers To Trim Taxes To The Legal Minimum."

For most people, the deadline for filing Form 1040 for 2005 is Monday, April 17 (the 15th falls on a Saturday). But the IRS authorizes an additional day until April 18 for taxpayers in the District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New York and Vermont who file with its Andover, Mass., processing center. The agency says the reason for the extra day is that April 17 is a Mass. holiday – Patriots' Day.

Miss the deadline and you could get slapped with a substantial, nondeductible penalty. Generally, the penalty is 5 percent of the balance due (the amount that remains unpaid after subtractions for taxes previously paid through withholdings from wages during 2005 and payments of estimated payments) for each month, or portion of a month, that a 1040 is late.

The maximum penalty is 25 percent of the balance due. The IRS will waive a late-filing penalty if you can show "reasonable cause" for your tardiness. An example: destruction of your records by fire or hurricane.

What if you do not have sufficient cash on hand to settle the tab at filing time? Even if you are able to prove it, that is not reasonable cause that will relieve you of the penalty.

No problem if you need extra time to complete your return or just to avoid the late-filing penalty. Streamlined rules make it easy to obtain a six-month automatic filing extension, moving the deadline back to Monday, Oct16 (the 15th falls on a Sunday). By April 17, submit Form 4868, a simple-to-complete application for extension that you can get from the IRS, or file for an extension by phone (call toll-free 1-888-796-1074), using computer tax preparation software, or through a tax professional.

For returns for 2004 and earlier years, the automatic extension was for just four months. To get an extension for an extra two months, you had to file an additional form and provide an acceptable excuse. The IRS did not have to accept it.

Form 4868 extends only the time to turn in Form 1040, *not* the time to pay any taxes owed. While the IRS does not require payment by April 17 of the tax you estimate as due, failing to do so means you will owe nondeductible interest, which runs until payment of the tax. It makes no difference that you had a good reason for not paying on time; you will still owe interest. Moreover, you might be assessed a nondeductible late-payment penalty on the unpaid tax. When you finally file your return, be sure to enter any extension-related payment on Line 69 of Form 1040 as "amount paid with request for extension to file."

The IRS relaxes the rules for those who are unable to fully pay the balance due by April 17. Usually, it is easy to arrange for partial payments in installments by submission of Form 9465 (Installment Agreement Request), which allows you to request a monthly payment plan and specify the amounts you can pay each month and the monthly due date.