

My CPA says
“Extend”
What does that
mean to me?

Your CPA has recommended that you extend your income tax return. Whether this is your first extension or you have extended before, this brochure will explain the process and answer your questions.

Why is extending good for me?

Extending your return allows you and your CPA more time to review your tax reporting and planning in a calm and less-pressured time frame. You may qualify for additional retirement planning opportunities, including some that may benefit the prior year. If you receive late information (such as corrected 1099s or 401(k) adjustments) or if you discover missing items after the return has been filed, an extension can spare you the hassle, expense and added attention of an amended return.

If I extend, will the IRS classify my tax return as “late”?

Filing an extended tax return is not filing late. With an extension, your return is on time as long as it is filed by August 15th. In certain situations, you can file a second extension that gives you until October 15th to file your return. As long as you have properly filed for extension and you file your return by the extended date, your tax return is considered on time.

How do I get an extension — and what do I have to do?

The August 15th extension is automatic, which means you don't have to provide a reason or wait for an approval. Your CPA can prepare Form 4868 and submit it in paper form or electronically. As long as it is filed by April 15th, the extension is granted. Your CPA can sign the extension request for you and send it in or your CPA may ask you (and your spouse, if you are filing a joint return) to sign and send it in.

If you require the second, October 15th extension, that filing is also very straightforward and can be signed by you or by your CPA; however, a reason is necessary for this extension. Generally, the IRS grants all reasonable requests for a second extension, as long as it has been requested prior to August 15th.

An extension document must be filed with the IRS by April 15th or you risk significant penalties (5% per month) and lose opportunities for various elections and tax savings.



What if I owe taxes for last year?

The extension grants you additional time to file, but not more time to pay last year's taxes. You must submit relatively complete data to your CPA well in advance of the April 15th deadline, so that he/she can estimate what you owe for last year and provide for you to pay that amount with the extension. If the estimate is low, the IRS will assess interest (currently 4% per annum, subject to change each quarter) on the remaining balance from April 15th until the date paid. If the estimate is low by more than 10% of your total tax for the year, then a penalty will also apply, at the rate of 0.5% per month or part thereof. The penalty portion can be waived if there is reasonable cause. Similar rules apply to your state income tax return and the balance due for last year.

Some clients actually choose to pay less than the estimated amount because for them, the incurred interest and penalties are more effective for their personal finances and in fact, this may be motivation for some clients to extend. However, no one should attempt such strategy without first discussing it with a CPA.

If I'm extending, can I wait to get my information to my CPA?

Your CPA still needs to have the significant items for your tax return in order to properly advise you about the balance due (if any) for last year and if applicable, about your estimated tax for next year. Ask your CPA to let you know which items must be submitted in advance of the April 15th deadline, as well as the CPA's cutoff for receiving this data.

When is my retirement plan contribution due?

Extending your tax return allows you additional time to fund certain types of retirement plans, such as SEPs and Keogh Plans. These plans allow qualified taxpayers up until the extended due date to fund their contribution for last year. Even better, qualified taxpayers can have up until the extended due date to establish an SEP for the prior year.

However, IRAs (traditional or Roth) must be funded by April 15th in order to qualify for the prior year. Coverdell (Education) IRAs must also be funded by April 15th.

Ask your CPA which of these plans you will qualify for and what they recommend.

What about my quarterly estimated tax payments for next year?

If you are subject, your first quarter estimated tax payment is still due by April 15th. For convenience, and to reduce the risk of underestimating last year's tax, your CPA may recommend that you pay the balance due for last year and your first quarter estimated tax payment, in one combined check and submit the payment with your extension form. This will create an overpayment to be reflected on your tax return when filed, which would be credited to your estimated tax for the next year.

If you owe estimated taxes for the next year, your CPA may provide you with tentative quarterly estimated tax vouchers for the rest of the year or they may provide you with them with the completed return or as they come due. If you are not certain, ask your CPA when you can expect to receive your estimated tax vouchers.

Will extending cost me more money?

The IRS does not charge a fee for filing an extension. You and your CPA will have to properly estimate your tax liability for the prior year, otherwise interest and penalties could apply. If your CPA's fee is determined by the amount of time spent on your work, extending the return could cause the time to increase. However, most CPAs have found that by extending the return, it allows the CPA and the client more time to identify missing items and to consider opportunities for last year and future years, which can save a considerable amount of taxes. In addition, the opportunities for some types of retirement funding increase by extending and that will save you money as well. Also consider that if you have to amend your return later, because estimated information is inaccurate or if you receive a corrected 1099 or W-2, the cost of amending a return will usually exceed the cost of extending.

I have a large refund coming — doesn't extending make me wait longer to get my money?

If you have a large refund coming to you and your data is complete, chances are that your CPA will endeavor to get your extended return done as soon as possible after the April 15th deadline. Electronic filing and the use of direct deposit will each help to expedite your refund. The more important question is: Why do you have such a large refund? It may be that you are withholding too much from your pay. Your CPA should advise you on how to adjust your withholding so that you receive your money year-round, rather than waiting to get a large check with your tax return. Over-withholding in order to get a large refund is very poor planning — you've given the government an interest-free loan all year!

Am I more likely to be audited if I extend?

Extending will not increase your likelihood of being audited. However, filing a return that is incomplete, has several estimates or which you have not had time to review carefully before signing, is more likely to increase your audit risk. An extension does extend the statute of limitations for inquiry of a tax return.

What about my state income tax return?

Some states will accept the Federal extension, as long as no state tax is estimated to be due for the prior year, so nothing will need to be sent to those states at this time. Some states still require an extension document be filed by April 15th, even if no tax is due. All states require an extension document be filed if tax is due for the prior year. Your CPA can advise you as to the rules which apply to those states that you file returns.

Must I now wait until August 15th (or October 15th) to file my tax return?

An extended tax return can be filed at any time up until the extended due date. If you want to get the return completed well in advance of the extended deadline to accommodate your travel or financing needs, let your CPA know so that your return can be completed accordingly.

If I'm buying a new home or refinancing, won't I need my tax return for the lender?

Most lenders will accept a copy of your extension, along with a copy of your W-2 and/or other supporting documents such as 1099s and K-1s and a copy of your prior year's tax returns, in lieu of the current year tax return. If your lender is insisting on a copy of the most recent year's completed tax return, let your CPA know so that a workable solution can be developed for everyone.

I delivered my data to my CPA on time — why should I extend?

Most CPAs do set "cutoff" deadlines for receiving their clients' tax data, with the hope of getting as many of those returns completed by the April 15th deadline. However, if your CPA has recommended that you extend, it is likely because the overall volume of data as well as possible planning opportunities for your return, or the possibility of missing data or items which are not yet complete, indicate that it is more effective to allow the extra time before filing your return.

Is there anything else I should know?

There is no reason for you to panic over the April 15th date. Your CPA is your trusted financial advisor. Be informed of your extension alternatives, and feel confident in your CPA's advice with respect to your filing requirements.

Your CPA welcomes your questions on this and any other tax and financial matters.

