

**From the desk of
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Penalties for not Filing Income Tax Returns

The failure-to-file penalty is equal to 5 percent of the additional taxes owed amount for every month (or fraction thereof) your return is late, up to a maximum of 25 percent.

The minimum penalty for failing to file a return within 60 days of the due date including extensions was the lesser of \$135 or 100 percent of the tax due on the return.

The minimum failure-file penalty to the lesser of \$205 or 100 percent of the amount of tax owed.

The penalty to file is in addition to the failure-to-pay penalty which many taxpayers confuse the extension rules which allow for additional time to file but does not extend the time to pay which is April 15.

The penalty for non-payment of taxes as of the due date of April 15 (April 18 this year) even if an extension to file is obtained a penalty of 5 percent of the amount of unpaid tax applies for each month it (or partial month) to a maximum of 25 percent of the amount owed is imposed.

If both the failure-to-file penalty and the failure-to-pay penalty apply during the same month the failure-to-file penalty is reduced by 5 percent for each month.

In addition to the penalties for non-filing, and non-payment is in addition to the penalties for underpayment of estimated taxes.

Any taxes due during the year must be paid through installments or withholding during the year.

The IRS generally will impose an underpayment penalty (often called the “estimated tax penalty”) based on rates set for each quarter.

The underpayment penalty can be avoided by paying at least 90 percent of the current year’s tax liability or 100 percent of the prior year’s tax liability (110 percent if the taxpayer’s AGI for the prior year exceeds \$150,000).

Additionally an accuracy-related penalty can apply if the IRS subsequently adjusts the tax due to an understatement of tax, substantial valuation misstatement or negligence or disregard of the tax law or regulations.

These penalties are calculated as a flat 20 percent of the net understatement of tax.

The IRS will also charge interest on late or unpaid taxes, regardless of cause.

Interest is charged on any unpaid tax from the initial due date of the return until the date of payment.

The interest rate on unpaid federal tax is determined and posted every quarter.

The current interest rate is the federal short-term interest rate plus four percent which is compounded daily.