Tax payment deadline extended 90 days but filing deadline remains

March 20, 2020

With the April 15 tax filing deadline less than four weeks away, the U.S. Treasury has taken action in an effort to provide relief to many Americans in the midst of the economic impacts being felt from the COVID-19 pandemic. On March 17, 2020, Treasury Secretary Steven Mnuchin announced that taxpayers can delay paying federal taxes – as much as $1 million in taxes owed for individuals and up to $10 million in taxes owed for corporations – for an additional 90 days to Wednesday, July 15, 2020. The $1 million applicable postponement payment amount for individuals is the same regardless of tax filing status. This mean that whether the return is for a single individual or for married individuals filing a joint return, the postponement payment amount remains $1 million. During the 90-day extension, the Internal Revenue Service (IRS) will not charge interest or penalties on amounts owed.

However, while the deadline to pay taxes has been extended, the deadline to file has not. Taxpayers must still file tax returns on or before Wednesday, April 15, 2020, in order to avoid penalties. In response to the Treasury announcement, the IRS issued formal guidance yesterday, providing further detail on the extension. In addition to clarifying that the extension is only applicable to federal income tax payments (including payments of tax on self-employment income), the guidance also addressed 2020 estimated tax payments, payroll taxes, and estate and gift taxes, which are aspects Mnuchin did not address in Tuesday's press release. Specifically, the guidance provides that, "affected Taxpayers subject to penalties or additions to tax despite the relief granted by this [payment extension] may [(i)] seek reasonable cause relief under Internal Revenue Code Section 6651 for a failure to pay tax or [(ii)] seek a waiver to a penalty under Internal Revenue Code Section 6654 for a failure by an individual or certain trusts and estates to pay estimated income tax, as applicable." The guidance further clarified that the relief option with respect to estimated tax payments is not available for corporate taxpayers or tax-exempt organizations.

Internal Revenue Code Section 6651

The failure to pay penalty, found in IRC Section 6651(a)(2), applies to a taxpayer who fails to pay an amount shown or required to be shown as tax on the taxpayer's return. The penalty applies to estate, gift, employment and certain excise tax returns. The penalty accrues at a rate of 0.5 percent per month on the unpaid balance for as long as it remains unpaid, up to a maximum of 25 percent of the amount due. The penalty can be avoided if the taxpayer establishes that the failure was due to reasonable cause, meaning that the taxpayer must show either that (1) the taxpayer exercised ordinary business care and prudence but nonetheless was unable to pay by the April 15 deadline or (2) that paying on the April 15 deadline would have caused undue hardship. A court would consider "all the facts and circumstances of the taxpayer's financial situation" to determine whether the taxpayer exercised ordinary business care and prudence.

Internal Revenue Code Section 6654

IRC Section 6654 imposes a penalty on any underpayment of estimated tax by an individual or by certain estates or trusts. Each tax year taxpayers are required to make four installment payments. The penalty can be avoided if the taxpayer establishes that because of casualty, disaster or other unusual circumstances, the imposition of the penalty would be against equity and good conscience.

State response

While some states have already responded to the Treasury's announcement and extended the state-level payment deadline (extensions range from 60 days to 90 days), the Ohio Department of Taxation has not issued any guidance to date. The American Institute of Certified Public Accountants is maintaining and continuously updating a state-by-state summary of actions relating to the state-level filing deadlines.