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How and Why to File an Income Tax Return Extension

Thomson Reuters analyst explains reasons for individuals to file an extension, deadlines for filing and making payments, and implications for living and working abroad

NEW YORK, March 13, 2013—More than ten million U.S. taxpayers (out of 140 million) got an extension to file their income tax returns last year. To help taxpayers decide if they should get an extension this year, Michael Sonnenblick, a tax analyst at Thomson Reuters, offers the below considerations.

Why file for an extension. “Basically, filing for an extension provides you with more time to prepare a complete and accurate income tax return,” Sonnenblick says. “While you should have received your Forms W-2 and 1099 by the end of January, seemingly in enough time to file by April 15, 2013, you might be waiting for other forms that are not yet available. For example, partnership information forms (K-1s) are not due to the taxpayer until the 15th day of the fourth month following the end of the partnership’s tax year. This means that partners in calendar-year partnerships may not receive their K-1s before April 15.” Additionally, a taxpayer might be waiting for financial information from outside the U.S., which may not be as readily available as information from within the U.S.

Filing for an extension will also give a professional tax preparer more time to prepare a return, review it with the taxpayer, and suggest future tax saving ideas. One concern a taxpayer might have about filing for an extension is that it might increase the risk of an IRS audit. While the IRS is understandably quiet as to what triggers an audit, many practitioners, Sonnenblick notes, feel that filing for an extension is not a problem. In fact, many attorneys and CPAs feel that filing an amended return is an audit trigger, so it is better to file latter than it is to file early and more than once.

There are a number of reasons to file for an extension, and the good news is that it is easy to do so, explains Sonnenblick. Generally, a taxpayer applies for an automatic extension using Form 4868. A paper or electronic form may be filed. A taxpayer also gets an automatic extension if paying estimated income tax on time using a credit or debit card by April 15. Filing for this extension gives a taxpayer six more months to file a return.

But Sonnenblick warns that the extension is only for filing a return, not for paying the taxes. “Your tax bill is due on April 15, 2013, and if you haven’t paid in full by then, you will owe interest, which is currently three percent, and perhaps a penalty, on the unpaid amount Sonnenblick says. Make a reasonable estimate of the taxes you owe, and return that amount with Form 4868. Even if you are short on cash, file for an extension and pay what you can.” The penalty for not filing is five percent per month (up to 25 percent) of the amount due on the return, whereas the penalty for paying late is *only* 0.5 percent of the unpaid amount per month (also up to 25 percent).

Filing for an extension does not require waiting until October 15, 2013, to file a return -- it can be filed any time during the six-month period.

There are two other extensions available for individuals—for taxpayers living abroad and for members of the military serving in a combat zone or a qualified hazardous duty area. If living abroad and working abroad, a taxpayer gets an automatic two-month extension to file income taxes, *and* no interest or penalty is charged if paid within that two-month extension period. There is no need to file Form 4868. But, if needing more than two additional months, a taxpayer can file Form 4868 to get an extra four months. The rules for the military also extend the time allowed for paying taxes, depending on when a



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taxpayer leaves the combat/hazardous area zone. A tax professional can help determine the deadlines in those cases.

Taxpayers should consult with a tax adviser before applying these or other tax strategies.

Up-to-date analyses of legislation and regulations affecting taxpayers are available for tax and accounting professionals on the industry-leading, award-winning [Thomson Reuters Checkpoint](#) research platform.

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