



STANISLAWSKI & COMPANY, INC.

A Certified Public Accounting and Business Consulting Firm

March - April 2012

RE: The Importance of Timely Tax Return Filing

Dear Friends of Stanislawski & Company, Inc.:

Spring is upon us and now is the time to “spring into action!” The following short story may never happen to you but we want to advise you on the importance of timely tax return filing. In February 2010 a new client came to us to file his 2008 tax returns. His total 2008 California taxes were \$31,000, but he only owed \$400 when he filed his 2008 California tax return in March 2010 (one year late). He later received a notice that he owed \$7,800 for "failure to furnish information penalty" (25% penalty on the entire tax liability - not just 25% of the amount due) plus \$300 for interest, fees and late filing penalties! This penalty was assessed because he failed to respond to letters from the Franchise Tax Board (don't do that!) This is an example of how bad it can be to file late, and then complicate it by ignoring correspondence from the tax authorities. Yes, keeping and putting together records is a major inconvenience, but it's even worse if you incur penalties!

If you have already filed your tax return, then that is great news. However, you might have a friend who has not filed . . . The IRS can assess many types of penalties, as follows:

1. Estimated tax payments are used to pay the difference between the taxes you owe and your withholding (if any). Generally, $\frac{1}{4}$ of your total tax is due each quarter. If you do not pay enough by the quarterly due date, you may be charged a penalty even if you are due a refund when you file your tax return (because you did not pay it in the correct quarter). The **underpayment tax interest penalty** is approximately 3%. It is calculated from when the payment was due until it was paid.
2. If you do not file your return, or send in an extension request, by April 15th, or if you do not file before the extension request expires, there is a **failure-to-file penalty**. The penalty is usually 5% for each month or part of a month that a return is late, but not more than 25%. The penalty is based on the tax not paid by the due date (without regard to extensions). If you file your return more than 60 days after the due date, the minimum penalty is \$100 or, if less, 100% of the total tax on your return (not the balance due).
3. A **failure-to-pay penalty** of .50% of your unpaid taxes for each month, or part of a month, after the due date that the tax is not paid will be due. This penalty does not apply during the automatic six-month extension of time to file period if you paid at least 90% of your actual tax liability on or before the original due date of your return and pay the balance when you file the return. This penalty increases and decreases due to other factors.

Penalties are also stiff for trusts, partnerships and other entities that do not file on time.

The IRS will also assess a penalty for bounced checks. The penalty is either 2% of the amount of the check - unless the check is under \$1,250, in which case the penalty is the amount of the check or \$25, whichever is less.

These penalties are automatic, although sometimes they can be waived by the IRS if asked with a convincing reason.

Most of the above penalties are calculated based on taxes due. If you have a refund, you may be inclined to think you have time to get your information together. However, the IRS keeps your refund after 3 years so you will lose your refund if you don't file your returns. Plus, the statute of limitations begins to run when you file - that means, in most cases, the IRS can only audit you for 3 years from when you file. If you put off filing, you will have to keep your records even longer, and you are asking for “personal” attention from the IRS - not a good thing. Please give us a call if you or someone you know needs assistance with any tax filings. **Remember, business is great at Stanislawski & Company and we are always looking for more!**

Sincerely,

Charles G. Stanislawski, M.B.T., C.P.A.