Wealth Planning Update

Federal Tax Filing & Payment Postponement: What You Need to Know

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Key Takeaways:

- As a response to the COVID-19 pandemic, the Internal Revenue Service and the Department of the Treasury postponed the due date for certain Federal income tax filings and payments from April 15, 2020 to July 15, 2020.
- Those returns with a filing and payment deadline of April 15th, 2020 are impacted; all other deadlines remain the same.
- Most states have not yet provided definitive guidance on whether they will follow the Federal COVID-19 relief allowed.

What this may mean for you:

- Coordinate with your tax professional to determine if you are impacted and if so, if you should delay filing.

The Internal Revenue Service (IRS) announced automatic extensions of the April 15, 2020 federal income tax, gift tax, and generation-skipping transfer tax deadline to taxpayers affected by the COVID-19 pandemic. IRS Notices 2020-18 and Notice 2020-20 provide that any taxpayer required to file a federal income tax return or gift &
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generation-skipping transfer tax return or to make a corresponding payment due on April 15, 2020, is granted an automatic extension to file and/or to make tax payments by July 15, 2020. These Notices supersede and provide additional guidance to IRS Notice 2020-17.

Who is impacted?
Any taxpayer (to include an individual, trust, estate, partnership, corporation, or association) who normally has an April 15, 2020 tax filing deadline is considered an “affected taxpayer” and is granted additional time to file and make federal income tax payments and gift-tax payments until July 15, 2020. The most common tax forms filed by affected taxpayers are the following: Form 1040 (Individual Income Tax), Form 709 (Gift and Generation Skipping Transfer Tax), Form 1041 (Estate and Trusts Tax), Form 1120 (Corporate Tax), Form 8960 (Net Investment Income Tax), and Form 8991 (Tax on Base Erosion Payments of Taxpayers with Substantial Gross Receipts).

Who does not qualify for relief?
All other taxpayers who have filing deadlines other than April 15th [either based on the type of taxpayer (i.e. a partnership, Private Foundation, Estate, or S-Corporation) or a taxpayer who files on a fiscal year basis], is not granted relief under this notice. Also, the filing deadline for informational returns has not been extended.

What taxes can be deferred?
Federal income tax payments payable for the 2019 tax year and 2020 estimated Federal income tax payments, both due on April 15, 2020, can be deferred (to include income taxes on self-employment income). In addition, any gift or generation skipping-transfer tax payments can be deferred until July 15, 2020. At this time, the second quarter estimated income tax payments are still due on June 15, 2020.

Although other taxes such as individual payroll taxes, and excise taxes are not deferred under this announcement, under separate legislation as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), employers can defer their remaining 2020 payroll taxes, payable half in 2021 and 2022. Self-employed individuals can defer 50% of their required Social Security payments.

How much tax liability can be deferred?
There is no limitation on the amount of tax due on April 15th that can be deferred payment until July 15th.

How does the extension affect the IRS assessment of underpayment penalties and interest?
The period beginning April 15, 2020 and ending on July 15, 2020, will be disregarded in the calculation of interest and penalties on additional taxes due and paid by July 15, 2020. Penalties and interest on unpaid tax will accrue for payments made after July 15, 2020.

Note: An affected taxpayer would still be subject to underpayment penalty and interest for failure to make the prior 2019 estimated income tax payments for the period before April 15, 2020 (applicable to federal income taxes only).

How does the extension affect my contributions to tax-deferred/tax-exempt plans?
Contributions made to 2019 Individual Retirement Accounts (IRAs), SEP IRAs, Roth IRAs, Education Savings Accounts (ESAs), Health Savings Accounts (HSAs), and Archer Medical Savings Accounts (MSAs) can be made at any time during the year or by the due date for filing your individual income tax return. Since the new due date for filing individuals’ tax returns is July 15, 2020, individuals can wait until July 15th to make a contribution to any of these plans (No further action is needed to request this extension of payment).

Is there any action I need to take to qualify for the later due date?
Taxpayers do not have to take any additional action in order to file their tax return on July 15th. However, a Federal extension will still need to be filed if they need to extend to October 15th.
What about state tax filings and payments?

This taxpayer relief only applies to Federal tax payments and filings. State filing and payment deadlines vary and are not always the same as the Federal filing and payment deadline. Please check your individual state agencies for their filing requirements. Additional information is available at: https://www.taxadmin.org/state-tax-agencies.

While many states have adjusted their filing deadline, in some cases it is not the same as the new Federal due date.

Conclusion

The Treasury and the IRS will likely continue to consider other changes as a result of the COVID-19 emergency, so other deadlines may be modified after publication. Please reach out to your tax professional to determine how these filing and payment changes impact you.

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