

As April 15 Tax Deadline Looms, Extensions Are Better

By Robert W. Wood

Yes, it's that time of year again. Tax returns are due on April 15 to both the IRS and the California Franchise Tax Board. But instead of rushing to file your taxes, you can go on extension. It is automatic on request, and incredibly easy to do. But should you take advantage of the extra time?

Most court deadlines can't be extended, so maybe this is unfamiliar territory. It is awfully tempting to succumb to the allure of an extra six months, but there are those nagging questions. If you extend, do you *increase* your odds of audit. Conversely, maybe you actually *decrease* your audit odds, or are they the same?

We'll come back to that question. For most people, few deadlines are more dreaded than the annual rush to April 15. Oddly enough, many people do not *want* to put off that deadline, since getting past it can seem like such a watershed event every year. In fact, some people may even feel guilty if they take advantage of that tempting automatic six-month reprieve.

But cheer up, there's no shame in an extension. Millions of them are processed every year. Everyone with an April 15 deadline can automatically get *six extra months* by filing (electronically or by mail) a tiny little form. It doesn't even require a signature. It couldn't be easier.

Of course, the extension is to file your tax return, not an extension of time to pay. Thus, you still need to pay by April 15 what you expect to owe when you actually file your taxes later in the year, anytime up until Oct. 15. Some people estimate low, some estimate high. If you estimate low, you can pay penalties. But even with the payment issues you need to consider, are there good reasons to take the extension?

You bet. Perhaps the best reason to extend is that going on extension seems to encourage reflection. Many returns around April 15 are filed in haste, some carelessly. And that can bring on an audit. Extensions can allow time to gather records, consider reporting alternatives, and get professional advice.

After all, tax returns must be signed and filed under penalties of perjury. It is best to file accurately so you don't have to amend later. Amended returns often come about because people are in a rush. Filing amend tax returns isn't necessarily bad, of course. There are times when you may want or need to amend your return. But try to use amended returns sparingly.

For one thing, amended returns are much more likely to be scrutinized. File once correctly so you do not need to do it again. The IRS doesn't even have to approve the extension. It is automatic, and there is no discretion involved. You automatically get the extra six months, period. Extensions used to be four months, with two additional months only if you had a good reason.

But now, automatic extensions are for a full six months. You may not need all that time. Thus, once you extend, you can file whenever you would like between April 15 and Oct. 15. That time comes in useful in other ways too. For example, going on extension also allows for corrected Forms 1099 and K-1. You may be waiting for Forms K-1, gathering documents or seeking professional advice.

Time is on your side with an extension. There might be debatable points on your return, such as whether a litigation recovery is income, is ordinary income or capital gain. You might not be sure if your stock gains qualify for the qualified small business stock exclusion. Your issues might be California specific too. Whatever it is, take the time to get some professional advice.

Besides, even if you have all your forms ready, what if you receive a Form K-1 or 1099 *after* you file? It happens frequently, and the earlier you file your return, the greater the risk you will receive corrected forms that may make you need to amend. Going on extension makes it less likely that you will be surprised by a tardy corrected Form K-1 or 1099. You may as well file once and file correctly.

And then there are all the stories about audit risk. Some people say that going on extension increases audit risk, while some people say the opposite. There appears to be no hard evidence to prove either theory. However, it is worth stressing that there is no evidence that there is an *increased* audit risk if you go on extension. In fact, on the contrary, given all the advantages of an extension, one can argue that an extension can actually help *reduce* your audit risk.

Make no mistake, all taxpayers worry about IRS audit risk. Opinions vary, and there are many old wives' tales about what triggers an audit. However, it is unlikely that going on extension increases IRS audit risk. The IRS releases data about audit rates based on income levels and types of tax returns. The IRS does not release data about whether going on extension increases or decreases your chances.

However, I still say that extensions encourage reflection and care, and that alone reduces audit risk. So, going on extension if you need the time can just make sense. To extend, you can submit a Form 4868, ask your tax return preparer, use commercial software, or do it yourself electronically. Happy April 15 everyone.

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