



What you need to know about filing an extension — and minimizing penalties

If you don't have everything ready to complete your 2025 federal individual income tax return by the April 15 deadline, you can request an automatic extension. Filing Form 4868, "Application for Automatic Extension of Time To File U.S. Individual Income Tax Return," by April 15 can give you breathing room to file accurately and protect you from the failure-to-file penalty (assuming you file by the extended October 15 deadline).

However, an extension applies only to filing — not to paying any tax owed. So if you expect to owe taxes, you should project and pay the amount due by April 15 to minimize interest and the failure-to-pay penalty.

How penalties work

Penalties for late filing and late payment can be costly. Separate penalties apply for failing to file and failing to pay.

The failure-to-*file* penalty is generally assessed at a rate of 5% per month (or partial month) of lateness, up to a maximum 25%, on the amount of tax due. (If a 2025 return is filed more than 60 days late, a *minimum* penalty of \$525 generally applies.) This is why, if you can't file your return by April 15, it's critical to file for an extension by that date. As long as you do, you're not considered to be filing late unless you miss the extended due date.

The failure-to-pay penalty is assessed at a lower rate than the failure-to-file penalty: 0.5% for each month (or partial month) the payment is late. For example, if on May 29 you pay tax that was due April 15, generally the failure-to-pay penalty will be 1% (0.5% times 2 months or partial months). The maximum penalty is 25%. This is why, even if you file for an extension, it's important to accurately estimate and pay any tax due as close to April 15 as possible.

If you don't file for an extension or pay taxes due by April 15, both the failure-to-file penalty and the failure-to-pay penalty may apply. In this case, the failure-to-file penalty drops to 4.5% per month (or partial month), so that the combined penalty is 5%. The maximum combined penalty for the first five months is 25%. Thereafter, the failure-to-pay penalty can continue at 0.5% per month for 45 more months (an additional 22.5%). Thus, the combined penalties can reach as much as 47.5%. As you can see, putting off filing and paying taxes for an extended period of time can be very expensive.

If you can't pay what you owe, at minimum, file for an extension to protect yourself from the failure-to-file penalty. Then pay as much as you can as soon as you can to reduce the failure-to-pay penalty. Requesting an installment agreement can reduce the failure-to-pay penalty rate on the remaining balance and help avoid other negative consequences, such as levies and liens — provided you're approved for the plan and make the required installment payments on time.

More to consider

If a failure to file is determined to be related to fraud, penalties can be significantly higher. On the other hand, penalties may be excused by the IRS if late filing or payment is due to "reasonable cause" such as a death or serious illness in the immediate family.

Also be aware that, even if you pay all taxes due by April 15, you could owe an *underpayment* penalty, which is different from a failure-to-pay penalty. It can apply if you didn't pay enough taxes during the year through withholding and estimated tax payments.

And keep in mind that interest may be applied. For taxpayers other than corporations, the interest rate is equal to the federal short-term rate (adjusted quarterly) plus three percentage points. It's assessed in addition to any applicable penalties.

If you live outside the United States and Puerto Rico or serve in the military outside these two locations, you're allowed an automatic two-month extension without filing for one. But you still must pay any tax due by April 15.

Don't wait to act

If you're not ready to file, requesting an extension and paying any tax due by April 15 can help you avoid penalties and interest, or at least reduce them. Filing an extension is relatively easy, but accurately estimating what you owe can be complicated. We can help with both and answer any questions you have about your particular situation. Contact our office today.

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