

20 REASONS FOR OBTAINING EXTENSIONS

This was posted as a blog at partners-network.com and is included here in case you want to share with your clients.

Those that know me know that I do not like extensions. However, there are valid reasons for extensions and here are eighteen of them. If you know that you will be filing for an extension, do not wait until the last minute. Do it now in a less-rushed atmosphere.

1. You did not receive some K-1s or 1099s or other documents with information that you need to report
2. You did not receive letters confirming charitable contributions that are required to be in your possession by the due date of your tax return. This includes certified appraisals for contributions of property over \$5,000
3. You have pending litigation or a tax audit and reporting certain transactions might prejudice your position or you are awaiting resolution which might affect an item on this year's return
4. You are involved in a marital separation, litigation or are a candidate for a public position that requires tax return disclosure and you want to delay this as long as possible
5. You might want to reverse a 2017 IRA conversion to a Roth IRA and would rather not file by April 17. An amended return would not be necessary if you decide to reverse the conversion by October 15, 2018
6. Circumstances may have prohibited you from assembling all your information properly. This might include a medical emergency or searching for tax basis of securities or assets that have been sold, or being on jury duty for a protracted period
7. You have a complicated situation and you feel it is best to have an extension so you or your preparer would have more (and more relaxed) time to devote to your return
8. If your tax preparer is unable to devote the necessary time to get the return ready to file on time
9. You might want to open and/or fund a SEP pension plan. By extending, you will have until October 15 to make your decision. If you have a Keogh, 401k or SIMPLE plan, the contribution for last year can be made by the extended due date, but the Keogh and 401k must have been established by the previous December 31 and the SIMPLE by September 30, 2017 (crazy and inconsistent rules for basically the same type of deductions)
10. You did not file last year's return and feel that filing this year's return before the prior year will cause extra IRS attention to you. However, irrespective of what you did not file, you should file this year's return on time which would be the extended due date. Note: I wrote about how to handle missed tax filings on Feb 20, 2012 and you can retrieve this in this blog's archives
11. Those with a 2017 installment sale might want to wait as long as possible in 2018 to consider electing out of the installment sale if your 2017 taxable income is substantially lower than what is expected for 2018 or later years
12. People with net operating or other losses that can be carried back might want to delay filing to determine if they should elect to forego that and carry it forward
13. The extension can delay elections that are made on the first-filed tax return reporting certain new transactions
14. The extension is for a gift tax return where not all the issues are clear – including generation skipping elections and spousal consents, or where basis information is not readily available or discount valuations are not completed

15. There is a high risk of audit – filing an extension might reduce the chance of an audit. Note that it will not lower the chance of a computer-generated notice questioning an item or picking up income that was not reported
16. An error is discovered on a prior year's return and additional time is needed to research and correct it, and the current year's return might be affected by the change
17. You will be out of the country during the filing period and will not have adequate time to thoroughly review your return. Note: If you are a U.S. citizen or resident and qualify under special rules for being out of the country on April 17, 2018 you will have an automatic two-month extension to file and make any payments and do not have to file for the extension. If you need additional time after that date, then you will need to file for an additional four-month extension. If you are abroad and want the extension because you expect to qualify for special tax treatment you should file Form 2350
18. You did not receive a W-2 wage statement from an employer. This can be a problem, but the IRS has Form 4852 Substitute for Form W-2 to recreate your version of your W-2
19. A suggestion to avoid filing an extension when you did not receive a K-1 that will report an insignificant amount is to estimate the amount and file on time. When you file next year's return adjust the amount for the difference in what you reported and the actual K-1 amount. If the amount is substantial I suggest waiting for the final K-1 and filing the extension
20. You ran out of time to get the return done

Comment: The extension is to delay the filing, not the payment. Payments must be timely made. A tip for those filing extensions that also have to pay estimated tax is to include the first quarter estimated payment with the extension payment. In the case where you underestimated your 2017 tax for the extension, the added first quarter payment would reduce that penalty which is greater than the penalty for the underestimated 2018 tax. Also, do not forget to also file a State extension if applicable.

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