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FEDERAL TAX FILING EXTENSION “SAFE HARBOR”

Issue

The Internal Revenue Service (IRS) frequently faces challenges in administering the tax filing season. The challenges could be attributed to factors like: (1) late enactment of tax legislation; (2) delays in the release of tax forms; (3) software interruptions; and (4) staffing challenges. In addition, taxpayers and their preparers must often obtain records to properly determine their tax, many of which come from a third party that is not within their control. As a result, it can be difficult to collect the data needed for a complete and accurate return by the original due date. To cope with these obstacles, taxpayers and tax professionals often request extensions of time to file tax returns.

Many people erroneously believe that filing an extension with the IRS allows them six additional months to pay any taxes owed. However, tax professionals know that getting an extension only gives you extra time to file – not extra time to pay.

While the IRS Code provides for an automatic extension so long as you file the appropriate form by the original due date, taxpayers are required to show the full amount of “properly estimated” tax liability for the current year on the extension. If the estimated tax liability for the current year is inaccurate, there is a risk that the extension could be deemed invalid and penalties could be applied. As a result, tax professionals and individual taxpayers filing for extensions by April 15 often perform time-consuming calculations of tax owed in the current tax year on the basis of incomplete or inaccurate information. This means putting hours of work into this initial estimation during the tax “busy season” and then a second calculation, preparation, and review process later when the final tax return is ultimately filed.

Legislation

[H.R. 3566](#), The *Simplify Automatic Filing Extensions (SAFE) Act*, would allow taxpayers the ability to calculate and rely on a safe harbor of 125% of the *prior year* tax to be paid in by the original due date to avoid penalties. This would reduce burdens on practitioners and individuals preparing their own returns, minimize the processing of penalties by the IRS and simplify the work surrounding the filing of federal tax extensions.

AICPA Position

The profession supports this legislation that would minimize taxpayers’ burden and risk of penalties and would allow tax practitioners the needed flexibility to navigate an increasingly unmanageable tax busy season.

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