Tax filing is an incredibly stressful time of year, especially for people who have complex tax filing situations. Self-employed people and other taxpayers with complex situations often can't file their personal tax returns on the early side because they have yet to receive all of the necessary tax forms or gather all of their records. Other people have extenuating personal or work circumstances that would make filing by Tax Day (April 18, 2023, for the 2022 tax filing season) too difficult.

Hence, many people request an extension to file their taxes to have peace of mind that they won't be penalized if their taxes are filed late.

Regardless of your income level, you can file for an extension online for free using IRS FreeFile. You can also mail in your extension request. **Filing an extension gives you until October 16, 2023, for the 2022 filing season.** There are also exceptional circumstances when extensions and penalty relief are automatic, usually in presidentially-declared disaster areas.

But what does it actually mean when you request this six-month extension? There are a lot of misconceptions about what an extension does, and here's how they can help your tax situation or end up not serving the purpose you had in mind.

Extensions Waive the Failure-to-File Penalty

Ultimately, requesting an extension gives you more time to FILE, not to pay.

Filing your tax returns on time, even if you can't afford to pay what you owe, will prevent a vast majority of tax-induced headaches. The failure-to-file penalty starts at 5% of your unpaid taxes for each full or partial month that your tax return has not been filed, and it maxes out at 25% of the balance. If you have a balance due of $1,000 and don't file a tax return by April 18, this penalty is $50. If you still haven't filed several months later, it tops out at $250.

By filing an extension request, this penalty is waived. It would only kick in again if you filed your tax return after October 16, 2023, for the 2022 filing season.

If you don't file an extension and your tax return is late, the IRS can waive this penalty if you have reasonable cause. Usually, this cause is extenuating circumstances like natural disasters, death in your immediate family, or needing records to complete your tax return that proved to be inaccessible. Suppose you expect to need more time to get your records in order. In that case, you're far less likely to qualify for penalty relief. You should file your extension request as soon as possible, before April 18.

Extensions Don't Stop Interest Accrual

Just because an extension gives you extra time to file doesn't mean it gives you more time to *pay*.

If you expect to owe taxes and anticipate that you won't be able to pay the balance by April 18, filing for an extension differs from going on a payment plan. Even with a valid extension request, interest will still accrue on the unpaid balance.

Interest also accrues on penalties, not just unpaid taxes. This would include the failure-to-file penalty if you neglected to request an extension and the failure-to-pay penalty if you owe taxes and haven't paid any before the deadline.

Waiting longer to file your taxes won't change this and can, in fact, worsen the situation. If you can't pay your taxes but can complete your tax return before the April deadline, it's best to file the return and then explore your payment options. The IRS offers payment plans plus administrative remedies if you're worried about collection actions.

You Could Still Owe Failure-to-Pay Penalties if You're on Extension

If you owe taxes, not paying them by the April 18 deadline results in a failure-to-pay penalty. This penalty is based on how long your overdue taxes haven't been paid, with a 25% maximum similar to the failure-to-file penalty. However, it has a more complex calculation because this depends on whether the taxes were reported on your tax return or later assessed and not included on your tax return.

By not filing your tax returns, the failure-to-pay penalty can be assessed more steeply than if you filed your returns and correctly reported the taxes you owe.

Going back to our $1,000 tax bill example, let's say it was correctly calculated and reported. The penalty is 0.5% of the unpaid taxes for each month or partial month the balance remains unpaid, so it would begin at $5. If your taxes went unpaid for an entire year, the penalty would be $60 then it maxes out at $250 (25% of the unpaid balance).

Why You Should File Your Taxes As Soon As Possible Even If You Can't Afford to Pay

Missing tax returns are usually the linchpin to major troubles with the IRS. Just filing your tax returns on time, even if you can't pay, will solve the root cause of many tax problems. If you anticipate that you won't have the time or necessary documents to file your taxes by April 18, it is probably best to request that extension for peace of mind.

However, if your primary motivation for delayed filing is because you anticipate being unable to pay, you should still file on time anyway. If you file your tax return on time and arrange a payment plan, the failure-to-pay penalty is reduced to 0.25% per month during your approved payment plan's timeframe. This has greater cost savings than requesting an extension just because you anticipate being unable to afford your tax bill in April.