RURAL TAX EDUCATION

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Filing Dates and Estimated Tax Payments*

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Introduction

When managing the cash flow of the farm or ranch, it is important to preserve cash as long as possible without incurring penalties or interest for late payments. The filing date of your federal income tax return is important, as payment can be a major expense that needs to be considered as part of cash-flow planning. To understand when you must file your income tax return, you must be familiar with three areas:

1. Filing deadline,
2. Estimated tax filing requirements, and
3. Estimated tax penalty.

Individual Income Tax Return

A producer filing a Form 1040, *Individual Tax Form*, with a Schedule F, *Profit or Loss From Farming*, or Form 4835, *Farm Rental Income and Expenses*, has the same filing deadline as every other taxpayer. For a *calendar year*[1] filer, the deadline is generally April 15, unless that date falls on a weekend or holiday, in which case the deadline is the next business day. For the *fiscal year*[2] filer, the deadline is the fifteenth day of the fourth month following the close of the year. The weekend/holiday rule also applies to fiscal-year filers.

Taxpayers are also entitled to extend the deadline by six months by filing Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*.

Producers may need to make payments before the deadline to file their return or file their return earlier to avoid penalties. The sections below cover these provisions and special rules for "qualified farmers." A qualified farmer

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[1] A calendar tax year is 12 consecutive months beginning January 1 and ending December 31.

[2] A fiscal tax year is 12 consecutive months ending on the last day of any month except December. A 52 to 53-week tax year is a fiscal tax year that varies from 52 to 53 weeks but does not have to end on the last day of a month.

is defined for these purposes as a taxpayer having at least two-thirds of his gross income from “farming” in the current or preceding year.

Estimated Tax Penalty

A taxpayer with a balance due of $1,000 or more when he files his income tax return may be assessed an estimated tax penalty. The penalty is computed by multiplying the current interest rate for underpayments by the amount of underpaid tax. The interest rate can fluctuate quarterly but is currently at 4%.

If the taxpayer is a resident of the United States for the entire preceding year and did not have any tax liability, he is exempt from the estimated penalty. The taxpayer is also exempt if during the year or preceding year the taxpayer was age 62 or greater and retired or became disabled during the year. However, the underpayment must be due to reasonable cause and not willful neglect.

This penalty can also be avoided by filing quarterly estimated tax payments.

Estimated Return

The deadline discussed above assumes that the taxpayer has made estimated tax payments or owes $1,000 or less after subtracting withholdings and refundable credits. For calendar year taxpayers, estimated payments are due quarterly on April 15, June 15, September 15, and January 15 unless that date falls on a weekend or holiday, when it is extended until the next business day. A farmer has the option of making an annual estimated payment on or before January 15 of the following year rather than making quarterly payments.

A farmer also has the option of not making any estimated payments if he files his final return by March 1 of the following year. If March 1 falls on a weekend or holiday, the deadline is extended until the next business day.

> **Note.** If a farmer does not make any estimated payments and cannot file his final return by the March 1 deadline, a six-month extension will not prevent him from being assessed an estimated payment penalty.

Taxpayers are not required to file a January 15 estimate if they file their final tax return on or before January 31. However, this only avoids the penalty for the fourth-quarter payment unless you qualify as farmer by meeting the two-thirds test.

Calculation. Your estimated payment should be the smaller of:

- 90% of the tax you expect to owe for the current year or
- 100% of the tax owed the prior year.

If you are not a farmer and your prior year adjusted gross income was more than $150,000, you will need to substitute 110% for 100%.

Cash Flow Planning

Based on the above information, it appears that a taxpayer, qualifying as a farmer, should not make any estimated payments and file his return and pay any tax due on or before March 1.[3] Assuming the farmer invests the tax dollars or reduces debt with the money, he can use a time value of money table to determine his savings. For example, a farmer owing $10,000 of tax and investing at 3% would save approximately $130 by filing on March 1 rather than waiting until April 15 and making estimated payments. If he received a 4% return on his investments, he would save almost $220.

There are other factors the farmer should consider. If he has investments with a brokerage company, brokers are not required to mail out the official brokerage statements reporting dividends and stock sales until March 15. Consequently, this is beyond the March 1 filing deadline. While a taxpayer can file his return and then amend it for any changes due to the brokerage statements, the additional fees paid to the tax preparer may be more than the savings from not making estimated payments.

If the farmer is a partner in a partnership, the March 1 deadline can create a problem. Partnership returns are not due until March 15, requiring the farmer to file an amended return.

The farmer has a second alternative. He can make one estimated payment by January 15 and still be exempt from the estimated tax penalty. Using a 3% interest rate, this would cause him to forego less than $40 of interest. At 5%, the foregone interest is approximately $60. This assumes a $10,000 estimated tax payment.

IRS Publications

More information on Form 1040, Form 4835, Form 4868, Schedule F, and other forms can be found on the IRS website at www.irs.gov. Enter the form name in the search box in the top right portion of the page. The search results will include the specified form and instructions for completing the form.

Additional Topics

This fact sheet was written as part of Rural Tax Education, a national effort including Cooperative Extension programs at participating land grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets, and additional information related to agricultural income tax, please see RuralTax.org.

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