

# Understanding IRS Penalties for Failure to File and Failure to Pay: An In-Depth Analysis

Meeting the deadlines set by the Internal Revenue Service (IRS) for filing tax returns and paying any tax due is a fundamental aspect of tax compliance. Failure to adhere to these obligations can lead to the imposition of significant financial penalties. This report provides a detailed explanation of the differences and amounts associated with the IRS penalties for failure to file a tax return and failure to pay taxes. It will illustrate these penalties with an example of a \$10,000 tax liability. Furthermore, this analysis will explore the benefits of filing a tax extension, even in situations where the taxpayer cannot pay the full balance due by the original deadline, and outline the circumstances under which the IRS might consider waiving these penalties.

## II. Failure to File Penalty: Definition and Calculation

The failure to file penalty is levied by the IRS when a taxpayer who owes taxes does not submit their tax return by the stipulated due date, which includes any valid extensions that may have been granted.<sup>1</sup> This penalty is specifically applicable when there is an outstanding tax liability. If a taxpayer is due a refund, there is generally no penalty for filing late, although there are time limits within which a refund can be claimed.<sup>2</sup>

The standard penalty for failing to file on time is 5% of the unpaid taxes for each month or part of a month that the return remains overdue.<sup>1</sup> It is important to note that even if a return is only a few days late into the next month, the penalty for that entire month will be applied. This penalty can accrue for a maximum of five months, reaching a cap of 25% of the total unpaid tax.<sup>1</sup> This establishes an upper limit on the failure to file penalty.

In cases where a tax return is more than 60 days late, a minimum penalty may be imposed. For returns with a due date after December 31, 2024, this minimum penalty is the lesser of \$510 or 100% of the tax owed.<sup>1</sup> This substantial minimum penalty underscores the seriousness of significant delays in fulfilling filing obligations, potentially resulting in a penalty equal to the entire tax liability. The following table summarizes the minimum failure to file penalty for Form 1040 based on the return due date:

Return due date (without extension)	Minimum penalty
-------------------------------------	-----------------

After 12/31/2024	\$510.00
01/01/2024 to 12/31/2024	\$485.00
01/01/2023 to 12/31/2023	\$450.00
01/01/2020 to 12/31/2022	\$435.00
01/01/2018 to 12/31/2019	\$210.00
01/01/2016 to 12/31/2017	\$205.00
01/01/2009 to 12/31/2015	\$135.00

To illustrate the calculation, consider a taxpayer with a \$10,000 tax liability who files their return one month late. The failure to file penalty for this single month of delay would be \$10,000 multiplied by 5%, resulting in a penalty of \$500. This demonstrates the immediate financial impact of failing to file on time.

### III. Failure to Pay Penalty: Definition and Calculation

The failure to pay penalty is applied when a taxpayer does not pay the full amount of tax owed by the original due date, even if they have obtained a valid extension to file their return.<sup>1</sup> This penalty is distinct from the failure to file penalty and specifically addresses the act of not paying the tax due by the deadline.

The standard penalty for failing to pay on time is 0.5% of the unpaid taxes for each month or part of a month that the tax remains unpaid.<sup>1</sup> This percentage is notably lower than the failure to file penalty, suggesting that while timely payment is crucial, the IRS places a higher emphasis on ensuring that the tax return is filed. Similar to the failure to file penalty, the failure to pay penalty also has a maximum limit, which is 25% of the total unpaid tax.<sup>1</sup>

The penalty rate for failure to pay can increase to 1% per month or part of a month if the tax remains unpaid for more than 10 days after the IRS issues a notice of intent to levy the taxpayer's property.<sup>1</sup> This increase indicates that the IRS takes more stringent action and imposes higher penalties for prolonged non-payment following formal notification. Conversely, if an individual taxpayer files their return on time and enters into an approved payment plan with the IRS, the failure to pay penalty is reduced to

0.25% per month or part of a month during the period of the payment plan.<sup>1</sup> This reduction incentivizes taxpayers who are unable to pay their full tax liability by the deadline to communicate with the IRS and establish a structured plan for resolving their debt.

To illustrate the failure to pay penalty, consider the same scenario of a \$10,000 tax liability, where the payment is made one month late. The failure to pay penalty for this one-month delay would be \$10,000 multiplied by 0.5%, resulting in a penalty of \$50. Comparing this to the \$500 failure to file penalty for the same one-month delay clearly demonstrates the financial advantage of filing the return on time, even if full payment cannot be made.

It is also important to understand the interaction between the failure to file and failure to pay penalties when both apply in the same month.<sup>3</sup> In such instances, the amount of the failure to file penalty is reduced by the amount of the failure to pay penalty for that month. For example, instead of a 5% failure to file penalty, a 4.5% failure to file penalty (5% - 0.5%) and a 0.5% failure to pay penalty would be applied. This mechanism prevents the imposition of the full amount of both penalties simultaneously for the same period of non-compliance.

#### **IV. The Advantage of Filing a Tax Extension**

Filing Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, provides taxpayers with an automatic extension of time to file their tax return, typically for an additional six months beyond the original due date.<sup>2</sup> It is crucial to recognize that this extension pertains only to the filing deadline and not to the payment deadline.

A significant benefit of filing an extension, even if the taxpayer is unable to pay their full tax liability by the original deadline, is the avoidance of the potentially much higher failure to file penalty.<sup>2</sup> By submitting Form 4868 on or before the original tax deadline, the taxpayer demonstrates their intent to comply with their filing obligations, thereby preventing the accrual of the 5% per month failure to file penalty. This can result in substantial savings compared to the penalty incurred for failing to file on time. Furthermore, the additional time afforded by an extension can allow for more careful and accurate preparation of the tax return, potentially reducing the risk of errors and subsequent accuracy-related penalties.<sup>4</sup>

However, it is imperative to understand that while an extension to file is granted, the obligation to pay the tax due by the original tax deadline remains.<sup>2</sup> Filing an extension

does not provide additional time to pay. Therefore, even with an extension, if the full tax payment is not made by the original due date, the failure to pay penalty will still apply to any unpaid balance, and interest will begin to accrue on the unpaid tax from the original due date until the date of payment.<sup>1</sup>

## **V. IRS Penalty Waivers: Reasonable Cause**

The IRS recognizes that there may be circumstances beyond a taxpayer's control that prevent them from filing their return or paying their taxes on time. In such situations, the IRS may grant relief from penalties if the taxpayer can demonstrate that their failure was due to "reasonable cause" and not due to willful neglect.<sup>3</sup>

Reasonable cause is determined on a case-by-case basis, considering all the pertinent facts and circumstances.<sup>7</sup> Examples of situations that may be considered reasonable cause for failure to file or pay on time include events such as fires, natural disasters, or civil disturbances that disrupt the taxpayer's ability to meet their obligations.<sup>7</sup> Similarly, the inability to obtain necessary records despite reasonable efforts, or the death, serious illness, or unavoidable absence of the taxpayer or an immediate family member, could also qualify as reasonable cause.<sup>7</sup> Additionally, system issues experienced by the IRS or tax software providers that delay timely electronic filing or payment may be considered.<sup>7</sup>

Conversely, certain factors are generally not considered to constitute reasonable cause. These typically include reliance on a tax professional, a lack of knowledge of the tax laws, or a lack of funds alone.<sup>7</sup> While a lack of funds by itself is usually not sufficient, it may be considered in conjunction with other compelling circumstances demonstrating that the taxpayer exercised ordinary business care and prudence but was still unable to pay.<sup>7</sup>

Taxpayers who believe they have reasonable cause for failing to file or pay on time can request penalty relief from the IRS.<sup>3</sup> This can often be done by calling the toll-free number provided on the notice received from the IRS regarding the penalty. Alternatively, taxpayers can submit Form 843, Claim for Refund and Request for Abatement, in writing, providing a detailed explanation of the circumstances that prevented timely compliance and including any relevant supporting documentation.<sup>7</sup> It is important to note that even if penalties are waived due to reasonable cause, interest may still accrue on the outstanding tax liability from the original due date until the payment is made.<sup>1</sup>

## **VI. Conclusion**

In summary, the IRS imposes distinct penalties for failing to file a tax return on time and for failing to pay the tax due by the deadline. The failure to file penalty is generally more severe, calculated at 5% per month up to a maximum of 25%, with a significant minimum penalty for returns over 60 days late. The failure to pay penalty is lower, at 0.5% per month up to a maximum of 25%, with potential increases for prolonged non-payment and reductions for taxpayers on an approved payment plan.

A crucial strategy for taxpayers who anticipate difficulty in meeting the tax deadline, even if they cannot pay the full amount due, is to file for an extension using Form 4868. This action can prevent the imposition of the substantial failure to file penalty. However, it is essential to remember that an extension to file does not extend the time to pay, and the failure to pay penalty will still apply to any unpaid balance after the original due date.

Finally, the IRS provides a mechanism for penalty relief in situations where the failure to file or pay was due to reasonable cause. Taxpayers facing unforeseen circumstances that prevented them from meeting their tax obligations should explore this option by contacting the IRS and providing a thorough explanation of their situation along with supporting documentation. Understanding these penalties, the benefits of filing an extension, and the conditions for penalty waivers is vital for taxpayers to navigate their tax obligations effectively and minimize potential financial repercussions.

## **Works cited**

1. Topic no. 653, IRS notices and bills, penalties and interest charges, accessed April 7, 2025, <https://www.irs.gov/taxtopics/tc653>
2. What Is the Penalty for Filing Taxes Late? - NerdWallet, accessed April 7, 2025, <https://www.nerdwallet.com/article/taxes/penalty-for-failure-to-file-taxes>
3. Failure to file penalty | Internal Revenue Service, accessed April 7, 2025, <https://www.irs.gov/payments/failure-to-file-penalty>
4. Penalties | Internal Revenue Service - IRS, accessed April 7, 2025, <https://www.irs.gov/payments/penalties>
5. Failure to Pay Penalty | Internal Revenue Service, accessed April 7, 2025, <https://www.irs.gov/payments/failure-to-pay-penalty>
6. Penalty relief | Internal Revenue Service, accessed April 7, 2025, <https://www.irs.gov/payments/penalty-relief>
7. Penalty relief for reasonable cause | Internal Revenue Service, accessed April 7, 2025, <https://www.irs.gov/payments/penalty-relief-for-reasonable-cause>
8. Information About Your Notice, Penalty and Interest - IRS, accessed April 7, 2025, <https://www.irs.gov/pub/irs-pdf/n746.pdf>
9. Information return penalties | Internal Revenue Service, accessed April 7, 2025,

<https://www.irs.gov/payments/information-return-penalties>