

Filing Dates and Estimated Tax Payments*

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Introduction

The information presented here is intended for sole proprietors. Entities will have differing requirements.

Knowing the deadline to file your federal income tax return is important, as late filing can generate penalties. In addition, taxpayers should know when tax payments are due because payments can be a major expense to consider in cash flow planning. When managing the cash flow of the farm or ranch, it is important to preserve cash as long as possible. With this in mind, you must be familiar with three areas:

1. Filing deadlines,
2. Estimated tax filing requirements, and
3. Potential underpayment of estimated tax penalties

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

* This material is based upon work supported by the U.S. Department of Agriculture, under agreement number FSA21CPT0012032. Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Agriculture. In addition, any reference to specific brands or types of products or services does not constitute or imply an endorsement by the U.S. Department of Agriculture for those products or services.

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

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.

Individual 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*. Note that Form 4868 allows an extension of time to file the return, and does not extend the deadline to pay income tax owed on the return.

Underpayment of Estimated Tax Penalty

A taxpayer who files their income tax return and has a balance due of \$1,000 or more may be assessed a penalty for underpayment of estimated tax. The penalty is computed by multiplying the current interest rate for underpayments by the amount of underpaid tax. Form 2210, *Underpayment of Estimated Tax by Individuals, Estates and Trusts* or Form 2210-F, *Underpayment of Estimated Tax by Farmers and Fishermen* is used to calculate the underpayment penalty. The interest rate can fluctuate quarterly but at the time of writing was at 4%.

If the taxpayer is a resident of the United States for the entire preceding year and did not have any tax liability, they are exempt from the underpayment of estimated tax 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.

Avoiding Penalties

The penalty for underpayment of estimated tax can be avoided by paying income tax ahead. This can be accomplished through income tax withholding from non-farm income, such as W-2 wages, or by making estimated tax payments. To avoid this penalty, a taxpayer must pay ahead, through withholding or estimated tax payments an amount equal to the smaller of:

- 90% of the tax on the current year return, or
- 100% of the tax owed the prior year (110% if you are not a farmer, your prior year adjusted gross income was more than \$150,000, and you filed a joint return).

A taxpayer can also avoid a penalty for underpayment of estimated tax if they owe less than \$1,000 or had no liability on the prior year return.

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.

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. 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 mentioned below.

A qualified farmer may be able to utilize special provisions to avoid a penalty for underpayment of estimate tax. A qualified farmer is defined, for these purposes, as a taxpayer having at least two-thirds of his or her gross income from “farming” in the current or preceding year. Generally, the definition of “gross income from farming” would include gross income reported on Schedule F or Form 4835, and gain reported on Form 4797 from the sale of draft, breeding, sport, or dairy livestock. Note that gain from the sale of machinery and equipment is not considered income from farming.

Because of changes to rules associated with exchanges of personal property, trade-in of equipment to a dealer may require an agricultural producer to report a “sale” of the equipment given up, even though the item was not actually sold. This could potentially impact a producer’s ability to meet the “qualified farmer” tests.

A qualified farmer has two options to avoid underpayment of estimated tax penalties. The first is to make one estimated tax payment on or before January 15 of the following year, rather than making quarterly payments. With a January 15 estimate, a qualified farmer has until April 15 to file their return, or file an extension, to avoid late filing penalties. When filing one estimated tax payment by January 15, it must be equal to the smaller of:

- 2/3 (66.67%) of the tax on the current year return, or
- 100% of the tax owed the prior year.

A farmer also has the option of not making any estimated tax payments if they file their final return, and pay all tax owed, 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 their final return by the March 1 deadline, a six-month extension will not prevent them from being assessed a penalty for underpayment of estimated tax.

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 1³. Assuming the farmer invests the tax dollars, 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 \$160 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.

However, there are other factors the farmer should consider. If they have investments with a brokerage company, brokers are not required to mail out the official brokerage statements reporting stock sales until February 15, leaving little time to prepare, submit the return, and pay by the March 1 deadline. While a taxpayer can file their 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.

Additionally, if the farmer is a partner in a partnership or a shareholder in a subchapter S corporation, the March 1 deadline can create a problem. Partnership or subchapter S corporation returns are not due until March 15, potentially delaying the filing of a partner's or shareholder's individual return.

Alternatively, a qualified farmer can elect to make one estimated payment by January 15 to avoid the penalty for underpayment of estimated tax. 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.

With any tax payment option, carefully consider the cost of making estimated tax payments if the payments must be made with borrowed funds. When factoring in the time-value of money, in certain circumstances, it may make sense to pay a penalty for underpayment of estimated tax if the cost of borrowing funds exceeds the penalty.

Who	What	When
Any schedule F calendar year filer	filing deadline	April 15th ⁴
Any schedule F fiscal year filer	filing deadline	15th day of 4th month after close of year ⁴
Calendar year schedule F filers with \$1,000 balance due unless "qualified farmer"	estimated payments	April 15th, June 15th, September 15th & January 15th prior to filing ⁴
Qualified farmer - option '1'	estimated payment	January 15th tax year ⁴
Qualified farmer - option '2'	filing deadline and tax payment	March 1st tax year ⁴

³ 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 a farmer by meeting the two-thirds test.

⁴ Or next business day if falls on weekend or federal holiday.

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.

This information is intended for educational purposes only. You are encouraged to seek the advice of your tax or legal advisor, or other authoritative sources, regarding the application of these general tax principles to your individual circumstances. Pursuant to Treasury Department (IRS) Circular 230 Regulations, any federal tax advice contained here is not intended or written to be used, and may not be used, for the purpose of avoiding tax-related penalties or promoting, marketing or recommending to another party any tax-related matters addressed herein.

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