

# Frequent Federal Tax Penalties

## Delinquency Penalties - §6651

### Failure to File Penalty - §6651(a)(1)

- 5% of the amount of tax required to be shown on the return for each month (capped at 25%)
- Computed based on NET tax due

### Failure to Pay Penalty - §6651(a)(2)

- Graduated basis
- First month is 0.5% penalty and it is increased 0.5% for each month during which the tax remains unpaid, up to a maximum 25%.
- Calculated on NET tax due

## Estimated Tax Penalty - §6654

- Applies when taxpayer owes too much money at the end of the year
- Withholding payments are considered estimated payments made equally throughout the year
- If taxpayer owes more than \$1,000 in taxes with return TP is liable for a penalty unless:
  - TP has paid in 90% of total tax due or
  - 100 percent of last years tax liability
- Penalty is computed by applying interest rate for tax underpayment.

## Accuracy Related Penalties - §6662

- 20% of the portion of the underpayment of tax attributable to one or more of following types of misconduct:
  - Negligence / Disregard of Rules Penalty
  - Substantial understatement of tax
    - Substantial if exceeds greater of 10% of tax required to be shown or \$5,000 for individuals (\$10,000 corps)
  - Substantial valuation misstatement
    - Overstatement of value must be at least 150% of actual AND tax underpayment must be at least \$5,000 for individuals (\$10,000 corps)
  - Substantial overstatement of pension liabilities
  - Substantial estate or gift tax valuation understatements

## Information Reporting Penalties - §6721

- Deals with matching of taxpayers income forms

## Interest on Underpayments - §6601 and §6631

- Interest starts on last day prescribed for payment of tax (i.e. due date of return)
- Interest rate is federal short term rate (from §1274(d)) increased by 3 percentage points (§6621(b)). Hot interest can be increased by 5 points.