

IRS extends some filing and payment deadlines as House taxwriters look at filing season issues

On the heels of an announcement this week by the Treasury Department and Internal Revenue Service that certain tax filing and payment deadlines will be extended by one month, IRS Commissioner Charles Rettig testified before the House Ways and Means Oversight Subcommittee on the current filing season and a range of other issues.

Tax filing and payment deadlines

Treasury and the IRS announced March 17 that the federal income tax filing due date for individuals for the 2020 tax year will be automatically extended from April 15, 2021, to May 17, 2021. According to a news release, the IRS intends to provide formal guidance in the coming days.

URL: <https://www.irs.gov/newsroom/tax-day-for-individuals-extended-to-may-17-treasury-irs-extend-filing-and-payment-deadline>

Individual taxpayers can also postpone federal income tax payments for the 2020 tax year due on April 15, 2021, to May 17, 2021, without penalties and interest, regardless of the amount owed. This postponement applies to individual taxpayers, including individuals who pay self-employment tax. Penalties, interest, and additions to tax will begin to accrue on any remaining unpaid balances as of May 17, 2021. Individual taxpayers will automatically avoid interest and penalties on the taxes paid by May 17.

Individual taxpayers who need additional time to file beyond the May 17 deadline can request a filing extension until October 15 by filing Form 4868 through their tax professional, tax software, or using the Free File link on IRS.gov, the Service said. Filing Form 4868 gives taxpayers until October 15 to file their 2020 tax return but does not grant an extension of time to pay taxes due. Taxpayers should pay their federal income tax due by May 17, 2021, to avoid interest and penalties.

What's not changing: This relief does not apply to estimated tax payments that are due on April 15, 2021, the IRS said. These payments are still due on April 15.

The extension also does not apply to state and local tax filing and payment deadlines (though some jurisdictions may opt to provide for a similar delay). It also does not apply to businesses or nonprofit entities.

The IRS previously announced delayed filing deadlines for victims of the February winter storms in Texas, Oklahoma and Louisiana. Taxpayers in these states have until June 15, 2021, to file various tax returns and make tax payments, and this week's announcement does not change that situation.

Pressure from the Hill: News of the postponed deadlines came amid growing pressure for a filing season extension from congressional lawmakers and outside organizations (including the American Institute of CPAs), who cited ongoing disruptions resulting from the COVID-19 pandemic, a lower-than-normal number of returns filed to date, a backlog of unanswered calls to IRS service centers from taxpayers requesting assistance with

tax return issues, and tax code changes affecting 2020 returns in the recently enacted American Rescue Plan (P.L. 117-2) that will require time for taxpayers to research and fully understand. Notably, the new law includes a new exclusion from gross income for 2020 for up to \$10,200 in unemployment insurance benefits received by certain taxpayers. (For additional details on the American Rescue Plan, see *Tax News & Views*, Vol. 22, No. 11, Mar. 10, 2021.)

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/TNV/210310_1.html

In a statement released March 17, House Ways and Means Committee Chairman Richard Neal, D-Mass., and Ways and Means Oversight Subcommittee Chairman Bill Pascrell, D-N.J., said the extension “is absolutely necessary to give Americans some needed flexibility in a time of unprecedented crisis.”

Neal and Pascrell were among the first lawmakers to call on the IRS to extend the filing and payment deadlines.

For his part, Rep. Kevin Brady, R-Texas, the ranking member of Ways and Means, characterized the Service’s decision as an adverse consequence of the new COVID relief package, which cleared Congress and was signed into law without any Republican support.

“[The] Democrats’ \$1.9 trillion bill continues to cause chaos, to the point that delaying tax filings in order to accommodate the law’s provisions may be a wise decision,” Brady said in a March 17 news release.

Rettig meets with Ways and Means panel

When IRS Commissioner Rettig appeared at a House Ways and Means Oversight Subcommittee hearing on March 18, taxwriters commended the IRS for its work during the challenging circumstances of the past year, but they also questioned Rettig about topics ranging from the agency’s backlog of unprocessed tax returns received in 2020 and its resource needs, to audit rates for wealthy individuals and the distribution of the latest round of economic impact payments.

Delayed start/Delayed finish: Rettig said that although this year’s filing season opening date of February 12 was “slightly later than in previous years,” the delay gave the IRS time to ensure its systems accurately accounted for tax law changes made in the Consolidated Appropriations Act, 2021 (P.L. 116-260), the omnibus tax-and-spending legislation that was signed into law on December 27 of last year.

He also told lawmakers that the decision to extend the filing and payment deadlines was not made because of IRS needs but in recognition of the fact that some individuals are encountering challenges gathering necessary documents and information during the pandemic.

Resource issues: In his initial questions, subcommittee Chairman Pascrell asked Rettig about a purported backlog of 24 million paper returns from the 2019 tax year that are either waiting to be processed or that have been held up during processing, adding that Democrats were committed to supporting the IRS by giving the agency the necessary resources to shrink it.

Rettig noted that the volume of telephone calls and correspondence to the IRS during the pandemic was significantly higher than anticipated when the agency's budget for taxpayer services was set and that the complexity added by the three rounds of economic impact payments meant that front-line workers were having to spend additional time helping taxpayers resolve their filing issues.

Rep. Mike Kelly, R-Pa., the subcommittee's ranking member, noted in his opening statement that while he recognized the increased workload the IRS has had during the pandemic because of the multiple rounds of taxpayer relief, he did not believe additional resources were necessarily the answer.

"[The] IRS budget was increased \$400 million for fiscal year 2021," Kelly said. "And in the last year, the IRS has received an additional \$3.1 billion in appropriations through the COVID relief bills and the Democrats' partisan bill. I know every agency would like as much funding as they can get, but it is clear to me at this stage that the challenges the IRS faces right now will not be solved with more money."

Audit rates of high-income taxpayers: Another issue of concern raised by Pascrell and other Democrats at the hearing was the audit rate for taxpayers making more than \$1 million, with Pascrell citing data showing it fell 75 percent from 2015 to 2019, to less than 2.5 percent.

Rettig told the panel that the average audit may be open for three years, making the 2019 number less relevant, but he said that for taxpayers making more than \$1 million, more than \$5 million, and more than \$10 million, the audit rate in each category open for examination is between 6 percent and 8 percent. However, he also noted that the IRS has lost 15,000 enforcement personnel since 2010, and that in 2010, the rate of audits in process for taxpayers making more than \$10 million was 23 percent.

Rettig added that an IRS report to be released March 22 will indicate that the agency needs not just a higher "body count" of enforcement agents to address issues with high-income filers but personnel who specialize in tax areas such as offshore income.

Advanceable child tax credit payments: The IRS is responsible for implementing a provision in the just-enacted American Rescue Plan that makes the child tax credit available to taxpayers in advance "periodic" payments beginning on July 1 and continuing through the rest of 2021. That provision also requires the Service to launch a new online portal that will allow taxpayers to opt out of receiving advance payments and to provide information regarding changes in income, marital status, and number of qualifying children for purposes of determining each taxpayer's maximum eligible credit.

But Rettig told the panel that this effort could be delayed as a result of the extended filing season. He explained that because the employees who will develop the portal also process income taxes and economic impact payments, he will not have "the resources to devote to that portal until filing season ends."

"We intend to do our best to get there," Rettig said, adding, "I'm hopeful that I don't have to come to the committee to say that we're unable to meet the statutory requirement."

— Storme Sixeas and Michael DeHoff
Tax Policy Group
Deloitte Tax LLP

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