

# Extension Valid Despite Gross Underestimate of Tax Liability

## Cross References

- *Karp*, US Court of Federal Claims, May 21, 2026

The taxpayer in this case carried forward \$511,788 of overpayments to his 2016 tax return. He submitted Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*, to the IRS in April of 2017 (before the due date of the 2016 return) and reported an estimated total tax liability of \$0 and total payments of \$511,788, with a balance due of \$0.

The taxpayer did not file his 2016 tax return until October 15, 2020. The tax return showed a tax liability of \$175,230 with an overpayment of \$336,558. The taxpayer requested the overpayment to be credited to his 2017 tax return.

The IRS notified the taxpayer that the 2016 overpayment from his 2016 tax return could not be applied to his 2017 taxes because the 2016 tax return was filed late. The IRS said the instructions to Form 4868 state that each taxpayer must provide an estimate of tax liability as accurately as possible with the information available at the time. The IRS claimed the instructions indicate that a taxpayer will not receive the automatic extension without an accurate estimate. Since the IRS invalidated the taxpayer's extension request, the due date for obtaining a refund for 2016 was April 15, 2020 (three years after the due date of the return) rather than October 15, 2020 (three years after the due date of the extended return).

The taxpayer argued that filing Form 4868 is only one of three methods to receive an automatic six-month extension. Taxpayers can also use IRS Free File, or they can pay online and note that the payment is part of an automatic extension request. Obtaining an extension by paying online requires no estimate at all if the taxpayer's liability is covered by payments or credits. Since the taxpayer's payment of \$511,788 was more than the tax liability of \$175,230, there was no balance due and no need to provide an accurate estimate of the actual tax liability.

The court agreed with the taxpayer. The government did not incur harm from an incorrect estimate when the taxpayer had the ability to avoid making an estimate at all. It would be unreasonable for the taxpayer to be penalized only because he chose an older method of payment that still includes a line requesting his estimate of total tax liability. The court stated the law disfavors setting that sort of trap for the unwary taxpayer. Although the taxpayer chose the paper Form 4868, he did not need to make more than a good-faith estimate. In submitting Form 4868, the taxpayer was aware of his substantial overpayment that was carried forward to 2016. The taxpayer therefore provided the reasonable, bona fide estimate required on his Form 4868.