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Guide · Taxes for owners  7 min read

# Years Behind on Business Tax Returns: What It Costs and How to Catch Up

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Updated November 13, 2026 · Written for owners with one or more companies and unfiled years

**The short answer**

A partnership or S corporation that files late is charged a penalty for each owner, for each month the return is late, for up to 12 months: $235 a month per owner for returns due in 2024, $245 for returns due in 2025 and $255 for returns due in 2026. It applies even when the company owes no tax. C corporations and individuals are charged 5% of the unpaid tax for each month late, up to 25%. Catching up means rebuilding each year's books from bank statements, filing the oldest year first, and asking for penalty relief where the rules allow it.

## What late filing costs

Most owners assume a company that made no money has nothing to worry about. For partnerships and S corporations that is wrong. The late-filing penalty is counted per owner and per month, and it has nothing to do with profit.

| Tax year | Return was due | Per owner, per month late | Maximum per owner (12 months) |
|---|---|---|---|
| 2023 | March 2024 | $235 | $2,820 |
| 2024 | March 2025 | $245 | $2,940 |
| 2025 | March 2026 | $255 | $3,060 |

A partnership with two owners that has not filed for 2023, 2024 or 2025 is looking at as much as $17,640 before any tax, interest or state charge. Three such companies triple it.

C corporations and individuals are treated differently: 5% of the unpaid tax for each month or part of a month the return is late, up to 25%, plus a separate charge for paying late and interest on top. The amounts above come from IRS Notice 746.

> The penalty for a partnership or S corporation stops growing after 12 months for each year. The newest unfiled year is the one still adding up every month.

## What it costs beyond the IRS

Your state. Many states charge their own annual tax or fee on each company and can pull a company's good standing after long non-filing.

Borrowing and selling. A lender or a buyer's attorney will ask for the last two or three returns for the company that owns the property. Without them the deal waits.

Deductions you never took. Depreciation on a building reduces your basis whether or not you claimed it, so skipping returns can mean paying tax later on deductions you never used.

The owners' own returns. A company's income flows to its owners. If the company return is missing, the owners' personal returns are usually wrong or missing too.

## How a catch-up works

Authorization. Each company and each owner signs IRS Form 8821 so your CPA can see what the IRS has on file.

The facts. IRS records show which returns were filed, how each company is taxed, and which penalties have already been charged. This is checked against records, not memory.

The books. Each company gets its own set of books for each year, rebuilt from bank, card and loan statements and reconciled to them.

The returns. Prepared from the finished books, oldest year first, because each year's closing balances open the next.

Relief. Penalty relief requests go in with the returns or right after.

Staying current. Monthly books from then on, so the next year never joins the pile.

## Can the penalties be removed?

Sometimes. There are three routes, and none is automatic.

First-time abatement. The IRS may waive a late-filing penalty for a taxpayer with a clean record for the three years before. It generally helps with one year, which is why the order of filing matters: file in the wrong order and the waiver can be lost.

Reasonable cause. Illness, a disaster, records destroyed, or reliance on a professional who failed you can qualify. The explanation has to cover the whole period of the delay.

Small partnerships. A domestic partnership with 10 or fewer partners can qualify for relief under Revenue Procedure 84-35 if every partner reported their share of income on a timely personal return. That makes the owners' own returns part of the plan.

No one can promise relief. Anyone who quotes you a guaranteed reduction before seeing your IRS records is guessing.

## What to gather

Formation papers and the IRS letter assigning each company's tax ID

The last return that was filed for each company and owner, with its depreciation schedule

Bank, credit card and loan statements for every account, for every unfiled year

Closing statements for any property bought or sold

Leases or a rent roll, and reports from any rental or point-of-sale software

Payroll and sales tax filings, if the company has employees or sells to the public

Every letter from the IRS or your state

## Frequently asked questions

**My company made no money. Do I still owe a penalty for not filing?**

If it is a partnership or an S corporation, yes. The late-filing penalty is charged per owner per month, up to 12 months, whether or not any tax is due. For returns due in 2026 it is $255 per owner per month.

**Should I file the most recent year first?**

Usually not. The books for each year start from the year before, and penalty relief can depend on the order returns are filed in. Most catch-ups go oldest year first, with the current year kept up alongside.

**Can I just start fresh this year and ignore the old years?**

No. The unfiled years stay open, the penalties stay on the account, and the opening balances for this year depend on the years before it.

### How long does a multi-year catch-up take?

It depends mostly on how fast statements can be produced. With records in hand, a simple rental company takes days per year; a business with daily sales, inventory and payroll takes longer.

General information based on federal law for tax year 2026, not tax advice for your situation. State rules vary.

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**Want this applied to your situation?** Book a free 30-minute call with Akanchya Acharya, CPA at acharyacpa.com/contact or email akansha@acharyacpa.com.

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