

393 WORDS

Abstract: Many people earn money during the year but don't have any, or enough, federal tax withheld from the payments. Or they have taxable income from sources such as interest, dividends, self-employment income or capital gains. If that's the case, they may need to make estimated payments, or risk triggering a penalty at tax time.

Estimated tax payments: Who owes them and when?

If you don't have enough federal tax withheld from your paychecks and other payments, you may have to make estimated tax payments. This is the case if you have taxable income from sources such as interest, dividends, self-employment, capital gains or other income. Here are the applicable rules for paying estimated tax without triggering the penalty for underpayment.

When are the payments due?

Individuals must pay 25% of a "required annual payment" by April 15, June 15, September 15 and January 15 of the following year to avoid an underpayment penalty. If one of those dates falls on a weekend or holiday, the payment is due on the next business day.

So the third installment for 2023 is due on Friday, September 15. Payments are made using Form 1040-ES and may be made electronically or on paper.

How much should you pay?

The required annual payment for most individuals is the lower of 90% of the tax shown on the current year's return or 100% of the tax shown on the return for the previous year. However, if the adjusted gross income on your previous year's return was more than \$150,000 (\$75,000 if you're married filing separately), you must pay the lower of 90% of the tax shown on the current year's return or 110% of the tax shown on the return for the previous year.

Most people who receive the bulk of their income in the form of wages satisfy these payment requirements through the tax withheld by their employers from their paychecks. Those who make estimated tax payments generally do so in four installments. After determining the required annual payment, divide that number by four and make four equal payments by the due dates.

But you may be able to use the annualized income method to make smaller payments during part of the year. This method is useful to people whose income flow isn't uniform over the year, perhaps because the business is seasonal. For example, if your income comes exclusively from a business operated in a resort area during June, July and August, you may not have to make an estimated payment or as large a payment for the first two installments as you make for the last two.

Do you have more questions?

Contact us with questions you may have about how the estimated tax rules apply to you.

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