

**Abstract:** For many people, most or all of their federal income tax liability is covered by withholding from their paychecks. But some people 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 to help ensure they're not subject to an underpayment penalty at tax time.

### **Should you be making estimated payments?**

If your federal tax withholding isn't enough to cover your total tax liability, you may need to make estimated tax payments. This typically applies if you earn income from sources such as interest, dividends, self-employment, capital gains, or other taxable income. The following rules explain how to make these payments without incurring an underpayment penalty.

#### **How much to pay and when**

Individuals subject to estimated tax requirements generally must pay 25% of a "required annual payment" by April 15, June 15 and September 15 of the tax year 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 2025 is due on Monday, September 15. Payments are made using Form 1040-ES and may be made electronically or on paper.

#### **Who must pay**

The general rule is that you may have to pay estimated tax for 2025 if both of these conditions apply:

1. You expect to owe at least \$1,000 for 2025, after subtracting your withholding and tax credits, and
2. You expect your withholding and tax credits to be less than the smaller of:  
90% of your 2025 tax liability or 100% of your 2024 tax liability (110% if your 2024 adjusted gross income was more than \$150,000, or \$75,000 if you're married filing separately in 2025).

#### **Calculating payments**

If you do have to pay estimated taxes, calculating them requires projecting total income, deductions, credits and withholding for the year. 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 helpful to people whose income flow isn't uniform over the year, perhaps because the business is seasonal. For example, suppose your income comes exclusively from a business operated in a resort area during June, July and August. In that case, you may not have to make an estimated payment, or as large a payment, for the first two installments, and then you'll need to "catch-up" when you make the third quarter payment.

### **For more information**

If you have questions about the estimated tax rules and how they apply to you, contact us.

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