SBW & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Quarterly Estimated Tax Payments

The IRS requires that income tax be paid in ratably over the entire year as income is earned, rather than all at once when filing your return. Quarterly estimated tax payments are utilized when you are self-employed or have income from rentals, investments, retirement accounts, or other sources where federal income tax is not withheld. By making a payment each quarter, you ensure that your taxes are paid in throughout the year.

Individuals, including sole proprietors, partners, and S corporation shareholders, generally must make estimated tax payments if they expect to owe tax of $1,000 or more when their return is filed. Corporations generally must make estimated tax payments if they expect to owe tax of $500 or more when their return is filed. You may have to pay estimated tax for the current year if your tax was more than zero in the prior year.

If your withholding and refundable credits will cover less than 90% of your tax liability for this year, or less than 100% of your tax liability from last year, you will need to make estimated payments.

Do you have to make your estimated payments?

- If you do not make quarterly estimated payments, there are a couple consequences. First, you will have a larger amount due when you file your income tax return. Second, the IRS will impose penalties and interest on your tax due for not paying it ratably over the year. To calculate the penalties, the IRS looks at how much should have been paid in each quarter and applies a percentage (the penalty rate) to figure your penalty amount for each quarter depending on the time payment was made versus when they considered it due.
- Quarterly estimated payments are not set in stone. They can be adjusted for changes in income or if you cannot make the entire payment. If you cannot afford the entire amount of your quarterly payment, we recommend paying in what you can to try to avoid as many penalties as possible. As always, we are happy to work with you to evaluate these payments and adjust if necessary.
- Another way to reduce the interest and penalties, without making estimated payments, is to increase the federal withholding on your W-2 wages, retirement distributions, or pension and annuity payments. Depending on your particular situation and timing of income - having federal tax withheld and submitted on your behalf through your revenue source may be preferable to the quarterly payments.
- If at least 2/3 of your income is sourced from agricultural activities, you have one estimated payment due date: January 15th. If you file your tax return by March 1st, you do not need to make any estimated payments.

When are estimated tax payments due?

- April 15th
- June 15th
- September 15th
- January 15th (of the following year)

What happens if I do not pay my estimated tax payments on time?

If you have missed the deadline for one or more of your estimated tax payments, pay the amount due as soon as you can. When figuring penalties and interest, the IRS looks at how much you owed for each quarter and how long it took you to pay it. In other words, the longer you wait, the more you will owe.

What happens if I do not make any of my estimated tax payments?

If you do not make quarterly estimated payments, there are a couple consequences. First, you will have a larger amount due when you file your income tax return. Second, the IRS will impose penalties and interest on your tax due for not paying it ratably over the year. To calculate the penalties, the IRS looks at how much should have been paid in each quarter and applies a percentage (the penalty rate) to figure your penalty amount for each quarter depending on the time payment was made versus when they considered it due.