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ESTIMATED TAXES ARE OFTEN MISUNDERSTOOD

THOUGHT LEADERSHIP PERSPECTIVES

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BUSINESS OWNERS AND CERTAIN EMPLOYEE SITUATIONS CALL FOR ESTIMATED TAXES IN ORDER TO AVOID PENALTIES.

Taxes may be the last thing on people's minds these days; however, the extended tax-filing deadline of July 15th is near. Note that the three-month extension to file federal and most state tax returns also applies to estimated tax payments.

Many business owners and self-employed professionals—such as attorneys, doctors, dentists, consultants, real estate agents, and others who are not W-2 employees, have no taxes withheld on the income they receive when they receive it. Most taxing authorities, including the U.S. government, operate on a 'pay-as-you-go' basis. This means that tax is due on any income at approximately the same time it is received. To make tax payments for that income, 'estimated taxes' are due.

OVER 10 MILLION TAXPAYERS PER YEAR PAY PENALTIES FOR UNDERPAYMENT OF TAXES.

Some situations are not as obvious. Employees who receive grants of company stock, such as restricted stock units or stock options and those who receive supplemental income from stock vesting, are two examples. While stock options exercised are taxable as wages, employers often withhold federal tax at the statutory rate of 22% required by law. With marginal federal tax brackets as high as 37%, there is often a large gap to address. In addition, taxpayers with significant income from investments held in taxable brokerage accounts may be subject to estimated tax. Why? Because interest, dividends, and capital gains from the sale of investments can generate substantial tax liabilities.

Estimated tax calculations should be updated periodically in anticipation of each quarterly due date to reflect actual income earned to date. This will allow for adjustments to be made if income is received unevenly throughout the year.

To avoid penalties, you should pay estimated tax payments on a quarterly basis according to the IRS schedule: April 15, June 15, September 15, and January 15. While the April 15 and June 15 IRS deadlines have both been extended to July 15th, the third and fourth quarter dates remain unchanged as of this writing. The majority of state and local taxing authorities have followed the IRS' July 15th extension, however there are exceptions.

WHO SHOULD MAKE ESTIMATED TAX PAYMENTS?

Typically, a taxpayer will need to pay estimated taxes if their withholding and other tax payments in total meet either of the following two criteria:

1 Less than 90% of the current year tax liability	2 Less than 110% of the prior year tax liability (100% for married taxpayers with AGI of $150,000 or less)

If one of these conditions is not met, underpayment penalties and/or late payment interest may be assessed.

Base your calculations for making estimated payments on whichever method results in the lowest payments. It may be advantageous to rotate between methods from quarter to quarter. Using Form 1040-ES can be a helpful way to calculate the amount of your estimated tax payments.

HOW CAN YOU MAKE ESTIMATED PAYMENTS?

Payments can be made in a variety of ways:

- By downloading the IRS2Go app
- Online at IRS.gov/payments through IRS Direct Pay, by credit card, or via electronic fund withdrawal
- Over the phone by using debit or credit card
- By check using an estimated tax voucher

If mailing a payment, the date postmarked is considered to be the payment date. If the payment is not mailed in sufficient time to reach the destination before the due date, it may be wise to send via registered or certified mail.

WHAT IF YOU DO NOT MAKE ESTIMATED PAYMENTS?

If you are a W-2 employee, increasing the amount of tax withheld from your paycheck is an easy way to lessen any estimated tax burden. This can be done by completing and submitting a new Form W-4 to your employer. Consider receiving your tax overpayment as a refund, applying some or all of your overpayment to next year's tax liability.

Accept that you may be underpaying your taxes and choose to pay any penalties and interest due with your tax return filing. Use IRS Form 2210 to see whether an underpayment penalty is due and be aware that the applicable interest penalty for underpayment could be as high as 6%.

IF YOU WOULD LIKE ASSISTANCE WITH ESTIMATED TAX PAYMENTS OR TAX PLANNING IN GENERAL, FAIRMAN GROUP FAMILY OFFICE IS READY TO HELP.

ABOUT FAIRMAN GROUP FAMILY OFFICE

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