

Making Estimated Payments Each Quarter

Since the U.S. uses a pay-as-you-go tax system, you must pay income taxes as you earn money. Making estimated payments throughout the year helps you avoid paying penalties.

WHAT ARE THE ESTIMATED PAYMENTS

Estimated tax payments are taxes paid to the IRS annually on earnings that are not subject to federal tax withholding. This can include self-employment, freelancer earnings, or income you've earned on the side, such as dividends, realized capital gains, prizes, and other non-wage earnings.

You may also be liable for making estimated tax payments if you are an employee if the withholding on your earnings doesn't fully cover your tax liability. The amount of money withheld on your paycheck depends on the information you provided to your employer on your Form W-4.

CALCULATION MATTERS

Generally, calculating estimated payments involves estimating your annual tax liability based on what you expect to earn. You'll annualize your tax at the end of each quarter based on a reasonable estimate of your income and deductions this year. Your tax pro can assist you, or the IRS has a worksheet to help you do the math.

TIMING OF PAYMENTS

Estimated taxes are due as income is earned, and the IRS sets quarterly deadlines for their collection. You can opt to send four payments per year following the IRS schedule, pay in smaller increments more frequently, or cover your estimated yearly liability in your first quarterly payment —make sure you're protecting your tax liability for each quarter to avoid penalties.

AND IF YOU FORGET

The IRS will charge penalties if you don't pay enough tax throughout the year. And it can charge you a penalty for late or inadequate payments even if you're due a refund.

The calculations can get complicated quickly, so it's a good idea to consult your tax professional if you have questions.

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