

Estimated Taxes

Generally, all individuals must make quarterly estimated tax payments if they have income that is not subject to withholding. This includes individuals who are self-employed or retired or who have investment income, such as interest, dividends, and capital gains. It also includes partners and S corporation shareholders.

The law provides several safe harbors for determining the minimum estimated tax that must be paid to avoid penalties. If your 2017 adjusted gross income was more than \$150,000 (\$75,000 if you are married filing a separate return), you must pay the smaller of 90% of your expected tax for 2018 or 110%* of the tax shown on your 2017 return to avoid an estimated tax penalty. (*If your 2017 AGI was under these high-income thresholds, cover 100% of the tax shown on your 2017 tax return). Where an individual expects 2018 income to be lower than 2017 income, the individual should pay estimated taxes for 2018 in an amount equal to at least 90 percent of projected 2018 tax liability.

Planning Suggestion: Deferring a large gain from December 2018 to January 2019 may postpone all or a portion of the federal tax payment on that gain to April 15, 2020. While the gain deferral may postpone the timing of tax payment, the tax rates for 2018 should also be considered when making such decisions. Unless you are subject to AMT, it may be beneficial to pay estimated state income taxes on a 2018 gain prior to the end of 2018 in order to obtain an itemized deduction on your federal 2018 return.

Two other safe harbor exceptions are available to eliminate penalties for insufficient payments of estimated taxes. No penalty will be imposed for underpayment of estimated taxes if the unpaid tax liability for the year (after taking into account any withholding) is less than \$1,000. In addition, if your income varies throughout the year, you may use an annualized installment method to reduce or eliminate potential penalties.

The same rules apply to certain estates and trusts.

Planning Suggestion: If you have underpaid an installment of 2018 estimated taxes, increasing a later installment will not completely eliminate the underpayment penalty. However, increased withholding on year-end salary or bonus payments may be used to make up the underpayment. That is because withholding on compensation is deemed paid evenly over all quarters of the year.

Note: Voluntary withholding of income taxes from social security payments and certain other federal payments is permitted. This withholding may eliminate the need to file quarterly estimated payments for certain retired persons.