STEVENS GROUP
CPAs & WEALTH COACHES

ESTIMATED TAX PLANNING OPTIONS & EXPLANATIONS

Individuals with pass-through income, investment income, and other income that does not have federal withholding directly taken out (W-2 wages have federal withholding taken out) are generally required to make estimated tax payments each quarter.

The quarters are not traditional quarters, the tax payment dates are April 15, June 15, September 15, and January 15. If estimated tax payments are not made timely, the IRS will charge interest on the amount that was due each quarter. The IRS rate changes from time to time with general interest rate changes. The current rates can be found at https://www.irs.gov/payments/quarterly-interest-rates.

Calculation Options: There are multiple methods to prevent IRS interest & penalties related to estimated taxes; you can change/use whatever method provides the lowest payment each period:

Safe Harbor method: Pay quarterly tax estimates based on your prior year total tax.

- This method should be used if your income in the current year is higher than the prior year or similar to the prior year (consistent income).
- If your income in the current year is higher than the prior year and you use the safe harbor method, you may owe an additional "catch-up" payment in April, but no interest or penalties are assessed on this amount.

Annualized method (also known as the actual method): Make quarterly tax payments based on an estimation of actual tax that will be due for the current year, calculated using financial data through the prior month end. This method assumes your income remains consistent during the duration of the year, so it is essentially based on income year-to-date.

- This method should be used if income in the current year is lower than in the prior year.
- Alternatively, some clients prefer this method each quarter regardless of their income, so they know where they sit for the year.

Full year estimate: Make quarterly tax payments based on an estimate of projected income for the entire year.

- This method can be utilized if safe harbor does not make sense because income is expected to be lower than the prior year and the annualized method does not work because there is a big influx of income early in the year.
- This option is rarely used and does not protect against IRS interest and penalties. However, if the estimate is within 90% of actual tax due for the year, you will not pay interest or penalties to the IRS.

****This is a general summary of estimated tax payment requirements and methods; it is not all inclusive on the tax laws. If you want a more in-depth summary, we have separate advisory packages to dive deeper into this topic.****

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Alaska and Nevada

"Throw a dart": If none of the above methods work, you can let us know what you want to pay, and we will provide a voucher for you.

- This method is not interest & penalty proof unless you end up paying at least 90% of your actual total tax liability for the year quarterly.
- Under this method, the taxpayer determines the amount to send.

Do nothing: Some clients opt not to make quarterly estimated tax payments and pay the full amount of tax due along with interest and penalties in April.

- This method is generally NOT advisable as it basically ensured that you will be paying interest and penalties to the IRS.

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