

Estimated Taxes – Getting it Right

Basic rules

The "basic" rules governing estimated tax payments are not always synonymous with "straightforward" rules. The following addresses some basic rules regarding estimated tax payments by corporations and individuals:

Individuals. For individuals (including sole proprietors, partners, self-employeds, and S corporation shareholders who expect to owe tax of more than \$1,000), estimated tax payments are due on April 15, June 15, and September 15 of 2013, and January 15 of 2014. If any due date falls on a Saturday, Sunday or legal holiday, the payment is due on the first following business day. Individuals who do not pay at least 90 percent of their taxes through withholding generally are required to estimate their income tax liability and make equal quarterly payments of the "required annual payment" liability during the year. The required annual payment is generally the lesser of:

- 90 percent of the tax ultimately shown on your return for the 2011 tax year, or 90 percent of the tax due for the year if no return is filed;
- 100 percent of the tax shown on your return for the preceding (2010) tax year if that year was not for a short period of less than 12 months; or
- The annualized income installment.

For higher-income taxpayers whose adjusted gross income (AGI) shown on your 2012 tax return exceeds \$150,000 (or \$75,000 for a married individual filing separately), the required annual payment is the lesser of 90 percent of the tax for the current year, or 110 percent of the tax shown on the return for the preceding tax year.

Corporations. For calendar-year corporations, estimated tax installments are due on April 15, June 15, September 15, and December 15. If any due date falls on a Saturday, Sunday or legal holiday, the payment is due on the first following business day. To avoid a penalty, each installment must equal at least 25 percent of the lesser of:

- 100 percent of the tax shown on the corporation's current year's tax return (or of the actual tax, if no return is filed); or
- 100 percent of the tax shown on the corporation's return for the preceding tax year provided a positive tax liability was shown and the preceding tax year consisted of 12 months.

A lower installment amount may be paid if it is shown that use of an annualized income method, or for corporations with seasonal incomes, an adjusted seasonal method, would result in a lower required installment.

Adjusting estimated tax payments

If you expect an uneven income stream for 2013 your required estimated tax payments may not necessarily be the same for each remaining period, requiring adjustment. The need for, and the extent of, adjustments to your estimated tax payments should be assessed at the end of each installment payment period.

For example, a change in your personal or business's income, deductions, credits, and exemptions may make it necessary to refigure estimated tax payments for the remainder of the year. Likewise for individuals, changes in

your exemptions, deductions, and credits may require a change in estimated tax payments. To avoid either a penalty from the IRS or overpaying the IRS interest-free, you may want to increase or decrease the amount of your remaining estimated tax payments.

Refiguring tax payments due

There are some general steps you can take to reconfigure your estimated tax payments. To change your estimated tax payments, refigure your total estimated tax payments due. Then, figure the payment due for each remaining payment period. However, be careful: if an estimated tax payment for a previous period is less than one-fourth of your amended estimated tax, you may be subject to a penalty when you file your return.

If you would like further information about changing your estimated tax payments, please contact our office.

Pursuant to US Treasury Department Regulations, you are advised that any information and advice, including any attachments and enclosures, may not be used for the purpose of (i) avoiding any tax liabilities and or penalties under the Internal Revenue Code, or (ii) promoting, marketing or recommending to any other person(s) any tax-related matters addressed herein.