

Estimated tax payments: The deadline for the first 2021 installment is coming up

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April 15 is not only the deadline for filing your 2020 tax return, it's also the deadline for the first quarterly estimated tax payment for 2021, if you're required to make one.

You may have to make estimated tax payments if you receive interest, dividends, alimony, self-employment income, capital gains, prize money or other income. If you don't pay enough tax during the year through withholding and estimated payments, you may be liable for a tax penalty on top of the tax that's ultimately due.

Four due dates

Individuals must pay 25% of their "required annual payment" by April 15, June 15, September 15, and January 15 of the following year, to avoid an underpayment penalty. If one of those dates falls on a weekend or holiday, the payment is due on the next business day.

The required annual payment for most individuals is the lower of 90% of the tax shown on the current year's return or 100% of the tax shown on the return for the previous year. However, if the adjusted gross income on your previous year's return was more than \$150,000 (more than \$75,000 if you're married filing separately), you must pay the lower of 90% of the tax shown on the current year's return or 110% of the tax shown on the return for the previous year.

Most people who receive the bulk of their income in the form of wages satisfy these payment requirements through the tax withheld by their employers from their paychecks. Those who make estimated tax payments generally do so in four installments. After determining the required annual payment, they divide that number by four and make four equal payments by the due dates.

The annualized method

But you may be able to use the annualized income method to make smaller payments. This method is useful to people whose income flow isn't uniform over the year, perhaps because they're involved in a seasonal business.

If you fail to make the required payments, you may be subject to a penalty. However, the underpayment penalty doesn't apply to you:

- If the total tax shown on your return is less than \$1,000 after subtracting withholding tax paid;
- If you had no tax liability for the preceding year, you were a U.S. citizen or resident for that entire year, and that year was 12 months;
- For the fourth (January 15) installment, if you file your return by that January 31 and pay your tax in full; or
- If you're a farmer or fisherman and pay your entire estimated tax by January 15, or pay your entire estimated tax and file your tax return by March 1

In addition, the IRS may waive the penalty if the failure was due to casualty, disaster, or other unusual circumstances and it would be inequitable to impose it. The penalty may also be waived for reasonable cause during the first two years after you retire (after reaching age 62) or become disabled.

Stay on track

Please contact us if you have questions about how to calculate estimated tax payments. We can help you stay on track so you aren't liable for underpayment penalties.

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