Estimated Taxes Explained

- If you have a tax liability this year, you may have to make estimated tax payments during the year. The federal government and states don't want to wait until you file your next tax return to collect "their" money! The general rule is: you have to pay estimated tax if your withholding doesn't cover 90% of your tax liability.

  The exceptions are:
  1. No estimates are required if the amount due after subtracting withholding and credits will be less than $1,000. ($200 for California)
  2. In general, no estimates are required if your withholding and credits add up to at least as much as your prior year's tax.

- If you don't pay enough estimated tax, or don't pay on time, you'll have to pay a penalty. The penalty is equivalent to (nondeductible) interest on the amount you underpaid, for the period of the underpayment. The interest rate is adjusted from time to time based on market interest rates.

- Estimated tax payment due dates are April 15th, June 15th, September 15th & January 16th (of the next year). Although the payments are "quarterly" the second payment is due 2 months after the first one. Any payment that falls on a weekend or holiday is due the first non-holiday weekday after that date.

- Summit Financial Group provides the estimated payment vouchers for your convenience (Form 1040ES=Federal; Form 540ES=California).

- Estimated tax payments don't go to the same address as your return. Check the payment voucher for correct address. Enclose your check with voucher. Write the primary taxpayer's social security # on the check along with the year & what payment is for (example: 2006 2nd Q Form 1040 ES).

- Be sure to keep an accurate record of your estimated tax payments so you can claim credit for them on your next tax return. Let your tax preparer know of any estimated payments made (dollar amount & date paid).

  (Tax preparation is not provided by or affiliated with Linsco/Private Ledger)

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