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if you're self employed or retired and paying quarterly estimated tax installments. Otherwise, you could be liable for penalties.

May. 03, 2016



If you want to keep your car running smoothly, you have it tuned up on a regular basis. The same principle applies to your estimated tax liability. It's important to have your tax situation assessed and updated periodically, especially if you're self employed or retired and paying quarterly estimated tax installments. Otherwise, you could be liable for penalties.

The next quarterly due date for the 2016 tax year is June 15. That's only two months

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If you don't pay enough estimated tax during the year and the IRS computers catch up with you, you'll be assessed an underpayment penalty, plus interest. However, dire tax consequences can be avoided by using any one of these three safe harbor methods.

1. Pay at least 90% of the current year's tax liability. Essentially, you'll have to make a "guesstimate" of your current tax situation.
2. Pay at least 100% of the prior year's tax liability or 110% if your adjusted gross income (AGI) for the prior year exceeded \$150,000. This is usually the easiest method to use because you know the exact amount of last year's tax liability.
3. Pay at least 90% of the current year's "annualized income." This method works well for certain individuals, such as independent contractors, who receive the bulk of their income on a seasonal basis.

There are several ways that taxpayers can make their quarterly estimated tax payments to the IRS. For instance, you can:

- Credit an overpayment from the prior year's return to this year's estimated tax liability.
- Mail in the payment with a voucher, Form 1040-ES.
- Pay by phone or online. (Refer to the Form 1040-ES instructions.)
- Pay via electronic funds withdrawal from the prior year's e-filed return.

The IRS also helps taxpayers to figure out their estimated tax liability by including a worksheet in the Form 1040-ES instructions. But things can get a little tricky, so clients may need your guidance.

Why is the second installment of estimated taxes due so soon after the first

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Income Tax

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