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The Internal Revenue Service says that about 10 million taxpayers were hit with a penalty in 2016, and is offering tips to reduce or eliminate penalties in 2017 and future years.

To help raise awareness about the growing number of estimated tax penalties, the IRS has launched a new "Pay as You Go, So You Don't Owe" web page. The IRS.gov page has tips and resources designed to help taxpayers, including those involved in the sharing economy, better understand tax withholding, making estimated tax payments and avoiding an unexpected penalty.

Each year, about 10 million taxpayers are assessed the estimated tax penalty. The average penalty was about $130 in 2015, but the IRS has seen the number of taxpayers assessed this penalty increase in recent years. The number jumped about 40 percent from 7.2 million in 2010 to 10 million in 2015.

Most of those affected taxpayers can easily reduce or, in some cases, eliminate the penalty by increasing their withholding or adjusting estimated tax payments for the rest of the year. With a little planning, taxpayers can avoid the penalty altogether.

By law, the estimated tax penalty usually applies when a taxpayer pays too little of their total tax during the year. The penalty is calculated based on the interest rate charged by the IRS on unpaid tax.

**How to Avoid the Penalty**

For most people, avoiding the penalty means ensuring that at least 90 percent of their total tax liability is paid in during the year, either through income-tax withholding or by making quarterly estimated tax payments. Keep in mind



Similarly, recipients of pensions and annuities can make this change by filling out Form W-4P and giving it to their payer.

In either case, taxpayers can typically increase their withholding by claiming fewer allowances on their withholding form. If that's not enough, they can also ask employers or payers to withhold an additional flat dollar amount each pay period. For help determining the right amount to withhold, check out the Withholding Calculator on IRS.gov.

Taxpayers who receive Social Security benefits, unemployment compensation and certain other government payments can also choose to have federal tax taken out by filling out Form W-4V and giving it to their payer. But some restrictions apply. See the form and its instructions for details.

For taxpayers whose income is normally not subject to withholding, starting or increasing withholding is not an option. Instead, they can avoid the estimated tax penalty by making quarterly estimated tax payments to the IRS. In general, this includes investment income—such as interest, dividends, rents, royalties and capital gains—alimony and self-employment income. Those involved in the sharing economy may also need to make these payments.

**Tips to Make Estimated Tax Payments**

Estimated tax payments are normally due on April 15, June 15, Sept. 15 and Jan. 15 of the following year. Any time one of these deadlines falls on a weekend or holiday, taxpayers have until the next business day to make the payment. Thus, the next estimated tax payment for the fourth quarter of 2017 is due Tuesday, Jan. 16, 2018.

The fastest and easiest way to make estimated tax payments is to do so electronically using IRS Direct Pay or the Treasury Department's Electronic Federal Tax Payment

System (EFTPS). For information on other payment options, visit IRS.gov/payments.



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