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Dec. 22, 2020



It's bad enough that you have to pay a boatload of federal income tax each year. To

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withholding or quarterly installments, or a combination of the two. The quarterly due dates for the estimated tax payments—which are the same every year—are April 15, June 15, September 15 and January 15 of the following year (or the following business day if the due date falls on a weekend or holiday).

Thus, the next installment due date, for the fourth quarter of 2020, is Friday, January 15, 2021. Circle it on your calendar.

A failure to pay the required tax may result in an underpayment penalty based on the going IRS interest rates for underpayments. But you can avoid any tax problems by observing any one of the following three safe-harbor rules.

1. You pay at least 90% of the current year's tax liability. Essentially, you'll have to make a "guesstimate" of your current tax situation, which can be difficult to do.
2. You 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. Simply refer to your 2019 tax return.
3. You pay at least 90% of the current year's "annualized income." This method works well for certain individuals, such as independent contractors, who receive most of their income on a seasonal basis. It may apply if you only work during the winter holidays.

There are several ways for taxpayers to make 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 online, by phone or other mobile device. (Refer to the Form 1040-ES

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you can reduce the estimated tax you'll owe. For instance, you might postpone to next year a sale of securities that would result in a big capital gain, assuming this otherwise makes financial sense. The gain will be taxable in 2021, so it would not increase your next quarterly estimated tax payment. Consider your options.

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