TAX YEAR
2023

Estimated Taxes

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Estimated Taxes

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. There are two ways to pay as you go, either by employer withholding or making estimated tax payments.

Employer withholding. If you are an employee, your employer generally withholds income tax from your pay. In addition, tax may be withheld from certain other income such as IRAs, pensions, bonuses, commissions, and gambling winnings. If all of your income will be subject to income tax withholding, you probably do not need to pay estimated tax. Events during the year may change your marital status, dependents, adjustments, deductions, or credits you expect to claim on your tax return. When this happens, you should complete a new Form W-4, *Employee's Withholding Certificate,* so that the appropriate amount of tax is withheld.

Estimated tax. Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment, interest, dividends, alimony, rents, gains from the sale of assets, prizes, and awards. You also may have to pay estimated tax if the amount of income tax being withheld from your salary, pension, or other income is not enough.

Estimated tax is used to pay not only income tax, but self-employment tax and alternative minimum tax as well. If you do not pay enough by the due date of each quarterly payment period you may be charged a penalty even if you are due a refund when you file your tax return.

Who Must Pay Estimated Tax

If you are filing as a sole proprietor, partner, S corporation shareholder, and/or a self-employed individual, you generally have to make estimated tax payments if you expect to owe tax of $1,000 or more when you file your return.

If you owed additional tax for the prior year (did not have enough withheld by employer), you may have to pay estimated tax for the current year.

General rule. In most cases, you must pay estimated tax for the current year if both of the following apply.

1) You expect to owe at least $1,000 in tax for the current year, after subtracting withholding and refundable credits, and
2) You expect your withholding and refundable credits to be less than the smaller of:
   a) 90% of the tax to be shown on your current year tax return, or
   b) 100% of the tax shown on your previous year's tax return, if your previous year's return covered all 12 months.

Note: The percentage amounts may be different if you are a farmer, fisherman, or your income is more than $150,000 ($75,000 if Married Filing Separately).

Who Does Not Have to Pay Estimated Tax

If you receive salaries and wages, you can avoid having to pay estimated tax by asking your employer to withhold more tax from your earnings. To do this, file a new Form W-4 with your employer. Line 4c on Form W-4 allows you to enter the additional amount you want your employer to withhold.

You do not have to pay estimated tax for the current year if you meet all three of the following conditions.

- You had no tax liability for the prior year,
- You were a U.S. citizen or resident for the whole year, and
- Your prior tax year covered a 12 month period.

You had no tax liability for the prior year if your total tax was zero or you did not have to file an income tax return.