



Estimated Taxes

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The IRS's general rules regarding estimated taxes are that you must make estimated tax payments for that tax year if:

1. You expect to owe at minimum \$1000 after taking out your withholding and tax credits
2. You expect your tax withholding and credits to be less than the smaller of 90% of the tax shown on that year's tax return or 100% of the prior year's return.

Typically, if you have to make estimated tax payments you will do so in 4 periodic installments to the IRS. The IRS will also allow you to make payments on a weekly, bi-weekly, or monthly basis as long as you have made sufficient payments by the end of the installment period.

In order to make it easier on those taxpayers who are required to make estimated tax payments, the IRS has set up an electronic system where you can both make and monitor the estimated payments you've already made.

To figure out how much you owe each quarter in estimated taxes you should start with your income, deductions, and other credits for the previous tax year. Then download and use the worksheet with form 1040-ES to figure out your estimated tax. You must do this for each quarter's estimated tax, and if you discover you've paid too much or too little during that quarter, you can always adjust the payments for the next quarter. However, you should always make your estimated tax payments as accurate as you can.

In the grand scheme of things, it's always better to overpay your taxes during the year rather than underpay. Overpaying means that when it comes time to file your tax return for that year, you'll get the overpayment back in the form of the always lovely Tax Refund. Underpaying means that you will end up having to make up those payments and possibly have to pay penalties and interest as well.