TPF TIPS – MAY, 2024
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Welcome to TPF TIPS our monthly newsletter where we apply our over 30 years of experience to cut through the noise, select what is relevant, unpack the jargon and offer clear, digestible insights to topics important to our clients.

We know your time is precious and your inbox sacred so, we strive to make these emails an easy read (5-7minutes) and plan to deliver TPF TIPS on or around the 15th of each month (subliminal plug for tax preparation).

If, for some reason; you do not wish to receive the monthly newsletter, please do not unsubscribe. Rather, please reply to the email with the word UNSUBSCRIBE in the subject line. We will make sure to remove you from the newsletter list but, keep you subscribed to our other emails regarding important financial deadlines, events and other critical updates you will want to know about.

After all, it's your money and we want you keep as much of it as you can!
So…..buckle up and let's get savvy!!!

The theme for today is:
"Don't Get Taxed by Surprise! Insights on Estimated Taxes and Avoiding Penalties.

Taxes…
For *The Pierson Firm*, taxes are what provides the most fun in life…professionally that is. Otherwise it's friends, family, travel, outings, and retail therapy!

For others, taxes are the inevitable part of life that brings a mix of dread, fear and perplexity. It's not that taxes are hard, it's just that they are, well…..taxes!

While most of us deal with taxes through paycheck withholding, self-employed individuals, freelancers, gig-economy workers and others with non-traditional income sources face a different tax foe: ***Estimated Taxes***.

This newsletter takes aim at helping you understand *estimated taxes*:
Who needs to pay them, the deadlines, and most importantly, how to avoid the penalties which continue to increase each year.

What are Estimated Taxes?

Most people don't realize the United States has a "pay as you go" or "pay as you earn" tax system. This means applicable payments for Income Tax, Social Security and Medicare must be made throughout the year as you earn income. The most common method for keeping up with payments is through an employer who typical withholds the appropriate taxes (based on one's W-4 elections) and submits those payments to the IRS.

However, for those with non-traditional income, the responsibility falls on YOU to make tax payments! *Estimated taxes are quarterly payments made by individuals and corporations, throughout the year to satisfy your tax liability by prepaying an estimate of what you will ultimate owe.*

Who Needs to Pay Estimated Taxes?

There are several scenarios for why an individual or corporation may have to pay estimated taxes. Below are examples of who typically needs to make quarterly estimated tax payments:

- **Self-Employed Individuals:** Freelancers, consultants, sole proprietors, gig economy workers, independent contractors and anyone earning income outside of a traditional employer.
- Interest, dividends, capital gains – these investment income sources may require estimated tax payments if withholding from other sources isn't enough.
- **Rental Property Owners:** Landlords and those with rental income might need to make estimated tax payments.
- **Other Income Sources:** Prizes, awards, gambling winnings, and other significant income outside of W-2 wages may trigger the need for estimated taxes. Yes, that lottery ticket and winnings from the black jack table have taxes associated with it!

General Rule of Thumb:
It's important to understand: ***estimated taxes are your responsibility*** if you expect to owe ***$1,000 or more*** in Federal Income Tax after your annual filing (considering any withholding and refundable credits.)

Calculating Estimated Taxes:

Estimating your tax liability might seem daunting, but don't worry; *The Pierson Firm* is here to help. However, if you want to go through the exercise, here's a simple breakdown:

1. Collect information on ALL your sources of income for the current year.
2. If you are self-employed or a business owner, list all your business-related expenses.
3. **Estimate Tax Liability:** Total all income sources and subtract eligible expenses.
4. Check your income total with the IRS tax bracket percentages.
5. **Tax Payment:** Multiply the total income by the tax bracket percentage.
   For example:
   Total income: $100,000
   Individual with Single Filing Status.
   The IRS tax bracket percentage is 22%.
   Estimated Tax: $22,000 (multiply $100,000 by .22)
   Divide $22,000 by four (4) to calculate quarterly estimated payments of $5,500

This is VERY simplified example for illustrative purposes only!
Final tax liability will depend on a wide range of factors…which is why we are here to help.

Don’t Miss a Deadline:
Estimated taxes are paid quarterly throughout the year on specific dates:

- **April 15th:** First quarter payment
- **June 15th:** Second quarter payment
- **September 15th:** Third quarter payment
- **January 15th of the following year:** Fourth quarter payment (typically for income earned in the previous year)

Making Payments:
The IRS offers multiple ways to make your estimated tax payments:

- **Online Payments:** Pay directly from the IRS website.
- **Electronic Funds Transfer (EFTPS):** Electronically transferring funds from a bank account.
- **By Mail:** Send a check or money order payable to the "United States Treasury". Be sure to include a Form 1040-ES voucher.
- The IRS has an automated phone system that accepts payments.

Avoiding Estimated Tax Penalties:
The government likes its money on time.
Being late, missing a payment, etcetera means you will automatically be assessed a penalty. The penalty is interest applied to the late payment amount. Interest rate applied to that payment amount equals the federal short-term interest rate plus 3%.

The short story is, ***penalties are the highest they have been in 17 years***, weighing-in at a whopping 8%...potentially higher for corporations.

Oh, and the bad news, these penalties are NOT tax deductible and the exceptions are fewer and fewer.

The good news is, there are a few ways to ways to avoid penalties:

- **Safe Harbor Provisions:** The IRS offers safe harbor provisions to help you avoid penalties. These allow you to pay a certain percentage of your prior year's tax liability or your current year's estimated tax liability to avoid penalties.

  - 100% of the prior year's tax liability (110% for high-income earners):
  Generally safe option, but only if your income remains similar to the previous year.
  - At least 90% of your current year's tax liability: This provides more flexibility for fluctuating income, but requires a more accurate estimate.

- **Pay in Equal Installments:** Spread out your estimated tax payments equally throughout the year to minimize the risk of underpayment.

Remember: *Even if you miss a deadline or underpay, you can still avoid penalties by filing your tax return on time and paying any remaining balance due. However, paying late will accrue (=ouch=) interest charges.*

Have questions? Want to learn more? Let us know; we are here to help!

We would like this newsletter to evolve beyond just information – we would like it to be a conversation. Let us hear from you! Share your questions, concerns, and topics of interest and we will do our best to accommodate.

Your feedback helps us tailor content that truly resonates with your needs and goals.

Warm regards,
Gladys

About The Pierson Firm
Conroe-based *The Pierson Firm* offers a comprehensive range of tax-related services to individuals and businesses alike; and have been doing so for over 30 years. From Tax Planning, Preparation & Representation to Business Operations, Advisory and Compliance, the firm provides personalized solutions to those around the block or around the globe. Additional company information can be found by visiting www.thepiersonfirm.com.

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