How much should I pay in estimated taxes?

If you own your own business (or receive 1099-NEC income), you need to pay estimated taxes to avoid penalties. Estimated tax payments are due 4-15, 6-15, 9-15, and 1-15. If the date falls on a weekend or holiday, it is due the next business day. We recommend the following amounts depending on your filing structure:

* Schedule C (they are treated as a sole proprietorship) send in 25-30% of the net profit of your share of Schedule C business income (since you will owe both Federal income tax and self-employment taxes on that profit) or you can use 20-25% of gross income (income before any expenses are deducted)
* Partnership- send in 25-30% of the net profit of your share of income or 20-25% of gross income. For any guaranteed payments you receive, you still need to send in 30-35% since there are not deductible expenses against them and all of it will be subject to Social Security (up to applicable current year thresholds) and Medicare taxes
* S Corporation-send in at least 20-25% of the net profit (no self-employment tax is due since you have already paid it on your W2 earnings from that business). If you prefer to use gross income amounts (income before any expense deductions are taken, we recommend 15-20%
* C Corporation-send in 21% of the net profit

To determine the profit figures to use, we recommend the following schedule:

* Due 4-15, look at profits from Jan-March
* Due 6-15, look at profits from April-May
* Due 9-15, look at profits from June-August
* Due 1-15, look at profits from September-December

There are two ways to make payment:

* Vouchers are available online at <https://www.irs.gov/forms-pubs/about-form-1040-es> . Be sure to use the Social Security Number (SSN) of the first person listed on your PERSONAL 1040 tax return. Do not use the EIN of the business. Even though the taxes are based on the business, the actual liability is paid on your personal tax return and is therefore tied to the SSN. Be sure to fill out all information on the voucher and in the memo of the check be sure to include the SSN above and “20XX 1040-ES” with XX representing the tax year the payment is for. And, be sure to mail using certified mail (and keep your postmarked receipt in a safe place).
* You may also pay online at <https://www.irs.gov/payments> . If you pay by credit card, they will charge a fee. If you do electronic check, there is no fee. Be sure to again use the SSN of the first person listed on the personal tax return and be sure you apply to the correct year.

What triggers the penalty if I don’t make my estimated taxes? To avoid the penalty you must pay:

* 90% of the tax you owe for the current year. OR
* 100% (or 110%) of last year's tax bill. Pay 100% of the tax shown on your prior-year tax return before applying estimated payments, withholding, or refundable tax credits. If your adjusted gross income is more than $150,000 (or $75,000 if you're married and file a separate return from your spouse), the safe harbor is 110% of your prior-year tax.

Why do you get penalized if you don’t pay them when due?

Because the IRS wants their money sooner rather than later. If you are paid by W2, you are paying your taxes through mandatory withholding every time you get paid. Just because you receive 1099 income does not exempt your from withholding your taxes when paid. Thankfully the IRS doesn’t require you to submit it every time a client pays you, so they set up the above schedule to “meet in the middle” so to speak. They also know that taxpayers who owe a large sum of money when filing their tax return are less likely to pay all of it at that time and will have to pay overtime. And the more time it takes, the less

likely they will pay all of it. So, they instituted the penalty to “encourage” taxpayers to pay on time using the above schedule.

Reminders-we encourage you to set up a recurring reminder in your phone so you don’t miss these important deadlines.

Note these are recommendations based on tax laws in effect as of December 2021