March 18,2024

PAY ESTIMATED TAXES AVOID INTERESTS AND PENALTIES:

Is there an advantage to paying estimated taxes? Answer is big YES.

Having enough tax withheld or making quarterly estimated tax payments during the year **can help you avoid problems at tax time**. **Taxes are pay-as-you-go**. This means that you need to pay most of your tax during the year, as you receive income, rather than paying at the end of the year. Taxpayers must generally pay at least 90% of their current year taxes throughout the year through withholding, estimated tax payments, or a combination of the two. If you have the ability to increase withholding in lieu of making tax estimates, this might be a better and safer way to pay in your tax liability.
If your previous year's AGI was more than $150,000 (or $75,000 for those who are married and filing separate returns last year), you will have to pay in 110% of your previous year's taxes or 90% of the tax shown on the current years' return.to satisfy the **"safe-harbor" requirement**.
The safe harbor estimated tax has three components, which we'll outline here:
Generally, an underpayment penalty can be avoided if you use the safe harbor rule for payments described below. **The IRS will not charge you an underpayment penalty if**:

- You pay at least 90% of the tax you owe for the current year, or 100% of the tax you owed for the previous tax year, or
- You owe less than $1,000 in tax after subtracting withholdings and credits.

Estimated tax Form 1040 ES
Income tax is a pay-as-you-go system. If you're an employee, you pay federal withholding as a part of every paycheck. But if you're self-employed, or shareholder of S corporation or member of LLC you might have to make quarterly estimated tax payments toward the amount you expect to owe the IRS or you might have an underpayment penalty. These payments should include both your income from salary or wages, interest or dividends, self-employment taxes, or distributions from your S corporations or LLCs and are reported via Form 1040-ES quarterly.
Estimated tax payments for 2024 are generally due:

- April 15, 2024   June 17, 2024 Sept. 16, 2024 Jan. 15, 2025

Quarterly taxes are divided into two categories:

- Self-employment tax: This 15.3% tax is made up of both the employee and employer portions of the Medicare and Social Security taxes.[1] When you're a salaried employee, your employer will split the cost of those taxes with you. But when you're in business for yourself, you're responsible for the whole thing.

Failure to keep up with your tax payments or withholding may cause the IRS to assess a **penalty for underpayment of estimated taxes**. The amount of the penalty is determined by the balance still owed after you've filed your annual tax return. The IRS charges its 8% interest rate until the balance is paid in full.

The IRS has raised its penalty interest rate for individuals, to 8% per year. This penalty is assessed for underpayment or late payment of any estimated taxes due throughout the year, typically from people who are self-employed or entrepreneurs.
The IRS charges interest on the amount of tax you have not paid as of the day you file your annual return, and the penalty may apply even if you expect to receive a tax refund.

The interest rate can fluctuate, as the IRS sets it every quarter. The 8% rate went into effect in late 2023 and is the highest since early 2007. Just two years ago, in 2021, the rate was 5%.
Failure to keep up with your tax payments or withholding may cause the IRS to assess a penalty for underpayment of estimated taxes. The amount of the penalty is determined by the balance still owed after you've filed your annual tax return. The IRS charges its 8% interest rate until the balance is paid in full.
If you expect you may owe a penalty for underpayment of estimated taxes, you can request that the IRS waive it. Typically, the IRS will waive the penalty if you didn't make the required payment because you experienced a disaster. The tax agency will also excuse you if you became disabled and can show the underpayment was due to reasonable cause and not willful neglect.
Failure-to-pay penalty is charged for failing to pay your tax by the due date. The late payment penalty is 0.5% of the tax owed after the due date, for each month or part of a month the tax remains unpaid, up to 25%. You won't have to pay the penalty if you can show reasonable cause for the failure to pay on time.

What is the IRS interest rate?

For individuals, the rate for overpayments and underpayments will be **8% per year, compounded daily**. Here's a complete list of the new rates: 8% for overpayments (payments made in excess of the amount owed), 7% for corporations.
If you don't request an extension or miss your extended due date, the IRS charges a failure to file penalty. This tax penalty is **5% of the unpaid tax for each month** or part of a month that your return is late. However, it **caps at 25% (5 months) of your balance**.
WASHINGTON — The Internal Revenue Service today announced that interest rates will increase for the calendar quarter beginning Oct. 1, 2023. For individuals, the rate for overpayments and underpayments will be 8% per year, compounded daily. The IRS has increased the underpayment penalty to 8%, up from 3%, due to rising interest rates. Underpayments may occur when the tax is not withheld by an employer, such as for rideshare drivers and **gig workers**.Jan 5, 2024. 8% per year WASHINGTON — The Internal Revenue Service today announced interest rates will remain the same for the calendar quarter beginning April 1, 2024. For individuals, the rate for overpayments and underpayments will be 8% per year, compounded daily.