Estimated taxes and potential tax penalties

Overtime is an essential part of our duties protecting and serving the public, but many of us don't know the tax implications that may follow from working overtime shifts. The Internal Revenue Service (IRS) requires taxpayers to pay as you go, which is why your employer withholds taxes from every paycheck and sends the money to the IRS. If you have income other than your salary, or if you fail to have enough taxes withheld from your paycheck, you could be subject to penalties for underpayment.

You may owe estimated taxes if you receive income that isn't subject to withholding such as:

- Interest income
- Dividends
- Gains from sales of stock or other assets
- Earnings from a business

When it comes time to file your taxes, if you have not had enough taxes withheld or by making estimated quarterly payments, you could face a tax penalty.

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Estimated Tax Payments: An overview

Are you on track for making your estimated tax payments for the 2017 tax year? Here is what you need to know.

How much do I have to pay?

Whether it's through payroll withholding, quarterly payments or a combination, the IRS requires taxpayers to pay a certain amount of income tax during the year. The total amount you're required to pay depends on your adjusted gross income (AGI) for the previous year. For 2017, your "required annual payment" is the smaller of:

> 90 percent of the tax that will be shown on your 2017 return or

> 100 percent of the tax shown on your 2016 return (110 percent if your AGI exceeded $150,000 in 2016, or $75,000 if you are married filing separately.)

When are estimated tax payments due?

For calendar year taxpayers, paying their estimated taxes in installments, payments are generally due on the 15th of April, June, September and January of the following year. Each of the four installments generally should equal at least 25 percent of your required annual payment. If you receive income unevenly (because you have a seasonal business, for example), you may be able to vary your payments and amounts and still avoid a penalty by using the "annualized income" method.

What happens if I miss a payment?

*If you do not pay your estimated tax by the due date, the IRS may assess a penalty equal to the product of the IRS interest rate on deficiencies times the amount of the underpayment. **

If you discover that you've been underestimating your taxes, you may be able to resolve the problem by requesting an increase in withholding from your spouse's paychecks for the remainder of the year. Or, if you are taking taxable distributions from an individual retirement account, 401(k), or another retirement plan, you could increase the withholding from the year-end distributions. With either alternative, the IRS will apply the withheld tax pro rata over the tax year to reduce prior underpayments of estimated tax.

**You won't owe an underpayment penalty if the tax is shown on your 2017 return—reduced by withholding taxes paid during the year—is less than $1,000.*

Always seek the advice of a certified tax preparer for your individual tax situation.

As always, you may reach me at (818) 416-6495, or at LouTurriaga@lappl.org. Stay safe!